

Financial Statements of

**ROYAL OTTAWA HEALTH
CARE GROUP**

And Independent Auditor's Report thereon

Year ended March 31, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of Royal Ottawa Health Care Group

Opinion

We have audited the financial statements of the Royal Ottawa Health Care Group (the Entity), which comprise:

- the statement of financial position as at March 31, 2023
- the statement of operations for the year then ended
- the statement of changes in fund balances for the year then ended
- the statement of cash flows for the year then ended
- the statement of rereasurement losses for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2023, and its results of operations, its changes in fund balances, its cash flows, and its rereasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditor’s Responsibilities for the Audit of the Financial Statements***” section of our auditor’s report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 22, 2023

ROYAL OTTAWA HEALTH CARE GROUP

Financial Statements

Year ended March 31, 2023

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ROYAL OTTAWA HEALTH CARE GROUP

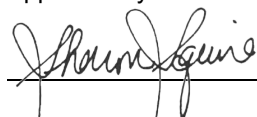
Statement of Financial Position


March 31, 2023, with comparative information for 2022

| | 2023 | 2022 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 14,899,951 | \$ 15,899,264 |
| Short-term investments (note 4(a)) | 42,170,376 | 40,283,762 |
| Accounts receivable (note 5) | 7,025,324 | 3,535,386 |
| Receivable from Provinces and Territories | 5,904,876 | 4,961,889 |
| Due from related entities (note 6) | 2,472,261 | 2,738,822 |
| Inventories | 468,802 | 479,814 |
| Prepaid expenses | 3,875,223 | 3,890,376 |
| | <u>76,816,813</u> | <u>71,789,313</u> |
| Restricted investments - building reserves (note 4(b)) | 15,504,970 | 15,277,446 |
| Capital assets (note 7) | 140,205,993 | 143,478,824 |
| | <u>\$ 232,527,776</u> | <u>\$ 230,545,583</u> |
| Liabilities and Fund Balances | | |
| Current liabilities: | | |
| Payable to the Province of Ontario | \$ 39,270,173 | \$ 32,037,995 |
| Accounts payable and accrued liabilities | 32,075,416 | 28,507,010 |
| Due to related entities (note 6) | — | 168,523 |
| Advance payments for designated projects | 1,110,965 | 1,365,229 |
| Current portion of deferred revenue | 1,791,035 | 2,004,666 |
| Scheduled cash repayments of loans (note 8) | 568,124 | 537,539 |
| Current portion of capital lease obligation (note 8) | 10,911,292 | 10,223,165 |
| Current liabilities before callable debt | 85,727,005 | 74,844,127 |
| Callable debt (note 8) | 1,476,911 | 2,045,035 |
| | <u>87,203,916</u> | <u>76,889,162</u> |
| Long-term debt (note 8) | 40,900,206 | 51,932,185 |
| Deferred revenue | 14,302,541 | 13,906,565 |
| Deferred capital asset contributions (note 9) | 68,954,790 | 61,240,281 |
| Employee future benefits (note 13) | 8,482,400 | 8,088,000 |
| Due to external parties - vested benefits | 8,326 | 126,422 |
| | <u>132,648,263</u> | <u>135,293,453</u> |
| | 219,852,179 | 212,182,615 |
| Fund balances: | | |
| Internally restricted | 2,360,203 | 2,067,653 |
| Unrestricted | 11,967,945 | 16,986,672 |
| | <u>14,328,148</u> | <u>19,054,325</u> |
| Accumulated remeasurement losses | (1,652,551) | (691,357) |
| | 12,675,597 | 18,362,968 |
| Commitments, contingencies and guarantees (note 14) | | |
| | <u>\$ 232,527,776</u> | <u>\$ 230,545,583</u> |

See accompanying notes to financial statements.

Approved by the Board:


Director


Director

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Operations

Year ended March 31, 2023, with comparative information for 2022

| | Operations Fund | Non- Operations Fund | 2023 | 2022 |
|--|-----------------------|----------------------------|-----------------------|---------------------|
| Revenue: | | | | |
| Funding from the Province of Ontario: | | | | |
| Ministry of Health/Ministry of LTC (note 16) | \$ 155,782,018 | \$ 3,887,156 | \$ 159,669,174 | \$ 151,113,834 |
| Ministry of Children and Youth Services | 1,201,597 | – | 1,201,597 | 1,107,649 |
| Ministry of the Solicitor General | 17,221,193 | – | 17,221,193 | 16,628,875 |
| Department of Veterans Affairs | 8,030,784 | – | 8,030,784 | 7,454,342 |
| Patient revenues | 3,339,058 | – | 3,339,058 | 3,135,351 |
| Differential revenues | 126,176 | – | 126,176 | 139,757 |
| Amortization of deferred contributions - major equipment | 1,677,032 | – | 1,677,032 | 2,187,731 |
| Amortization of deferred contributions - land, buildings, services | 205,523 | 5,048,116 | 5,253,639 | 5,190,196 |
| Recoveries and other revenue | 7,186,973 | – | 7,186,973 | 8,291,277 |
| Investment income | 1,361,500 | – | 1,361,500 | 1,397,843 |
| | <u>196,131,854</u> | <u>8,935,272</u> | <u>205,067,126</u> | <u>196,646,855</u> |
| Expenses: | | | | |
| Salaries and wages | 106,991,654 | – | 106,991,654 | 101,366,791 |
| Employee benefits | 30,751,230 | – | 30,751,230 | 28,336,623 |
| Medical staff remuneration | 12,237,901 | – | 12,237,901 | 11,919,409 |
| Medical and surgical supplies | 702,327 | – | 702,327 | 770,027 |
| Drugs | 1,894,690 | – | 1,894,690 | 1,890,966 |
| Contracts and other expenses (note 12) | 43,317,597 | – | 43,317,597 | 37,825,009 |
| Amortization of equipment | 3,983,174 | – | 3,983,174 | 4,258,066 |
| Amortization of buildings and land improvements | 475,721 | 5,414,611 | 5,890,332 | 5,849,240 |
| Mortgage interest | 137,241 | 3,887,157 | 4,024,398 | 4,671,846 |
| | <u>200,491,535</u> | <u>9,301,768</u> | <u>209,793,303</u> | <u>196,887,977</u> |
| Deficiency of revenue over expenses | \$ (4,359,681) | \$ (366,496) | \$ (4,726,177) | \$ (241,122) |

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Changes in Fund Balances

Year ended March 31, 2023, with comparative information for 2022

| | Operations | | Non-Operations | | 2023 Total | 2022 Total |
|--|--------------------------|---------------|----------------|------|---------------|---------------|
| | Internally restricted | Unrestricted | Unrestricted | | | |
| Fund balance, beginning of year | \$ 2,067,653 | \$ 16,986,672 | \$ - | \$ - | \$ 19,054,325 | \$ 19,295,447 |
| Deficiency of revenue over expenses | - | (4,359,681) | (366,496) | | (4,726,177) | (241,122) |
| Transfer of ancillary revenue for local share of ROMHC Redevelopment Project | 292,550 | (659,046) | 366,496 | | - | - |
| Fund balance, end of year | \$ 2,360,203 | \$ 11,967,945 | \$ - | \$ - | \$ 14,328,148 | \$ 19,054,325 |

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Cash Flows

Year ended March 31, 2023, with comparative information for 2022

| | 2023 | 2022 |
|--|----------------|---------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Deficiency of revenue over expenses | \$ (4,726,177) | \$ (241,122) |
| Items not affecting cash: | | |
| Amortization of deferred capital asset contributions | (6,930,671) | (7,377,927) |
| Amortization of capital assets | 9,873,506 | 10,107,306 |
| Decrease in due to external parties - vested benefits | (118,096) | (34,593) |
| Increase in employee future benefits | 394,400 | 463,000 |
| Changes in non-cash operating working capital items (note 11(a)) | 6,419,943 | 18,818,199 |
| | 4,912,905 | 21,734,863 |
| Financing activities: | | |
| Increase in deferred capital asset contributions | 14,645,180 | 11,482,990 |
| Principal repayments on long-term debt | (10,760,702) | (10,240,013) |
| | 3,884,478 | 1,242,977 |
| Investing activities: | | |
| Purchase of capital assets | (6,600,675) | (4,232,359) |
| Net acquisitions on short-term investments | (2,657,019) | (12,185,212) |
| Net disposals (acquisitions) on restricted investments | (539,002) | 888,101 |
| | (9,796,696) | (15,529,470) |
| Increase (decrease) in cash | (999,313) | 7,448,370 |
| Cash, beginning of year | 15,899,264 | 8,450,894 |
| Cash, end of year | \$ 14,899,951 | \$ 15,899,264 |

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Remeasurement Losses

Year ended March 31, 2023, with comparative information for 2022

| | 2023 | 2022 |
|---|----------------|--------------|
| Accumulated remeasurement gains (losses), beginning of year | \$ (691,357) | \$ 891,548 |
| Change in cumulative gains (losses) in the year: | | |
| Realized gain (loss) on investments | (375,147) | 339,341 |
| Unrealized loss on investments | (706,736) | (2,149,290) |
| Derivatives (note 8(e)(ii)) | 120,689 | 227,044 |
| Net remeasurement losses for year | (961,194) | (1,582,905) |
| Accumulated remeasurement losses, end of year | \$ (1,652,551) | \$ (691,357) |

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements

Year ended March 31, 2023

1. Nature of entity:

Royal Ottawa Health Care Group (the "Group") was incorporated under the Corporations Act of Ontario. The Group is a not-for-profit organization under the Income Tax Act (Canada) and as such is exempt from income taxes. The Group is comprised of the Royal Ottawa Mental Health Center ("ROMHC"), Brockville Mental Health Center ("BMHC"), and Royal Ottawa Place, a long-term care facility.

The financial statements do not include the assets, liabilities or operations of Royal Ottawa Foundation for Mental Health, University of Ottawa Institute of Mental Health Research, Royal Ottawa Volunteer Association, NCE-IKTP Youth Mental Health, Friends of Royal Ottawa Foundation, Inc., Atlas Institute for Veterans and Families or Healthcare Food Services Inc. Each of these entities shares a relationship with the Group as disclosed in note 6.

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations and include the following significant accounting policies:

(a) Basis of presentation:

The Group follows the deferral method of accounting for contributions for government not-for-profit organizations which includes provincial government allocations, other contributions and grants.

(b) Revenue recognition and fund accounting:

The accounts of the Group are classified for reporting purposes into funds in accordance with activities or objectives specified by the external parties or in accordance with the directives issued by the Board of Trustees. For financial reporting purposes, the fund balances have been classified into two funds consisting of the following:

- (i) The Operations Fund includes the day-to-day transactions in regard to the operations of the Group. Unless otherwise specified, any interest earned is included in the Operations Fund.
- (ii) The Non-Operations Fund includes transactions of a capital nature related to the funding and financing of the cost of construction and the life cycle costs of the ROH Redevelopment Project.

The Group receives the majority of its funding from the Ministry of Health/Local Health Integration Network, the Ministry of the Solicitor General and the Ministry of Children and Youth Services (the "Ministries").

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

2. Significant accounting policies (continued):

(b) Revenue recognition and fund accounting (continued):

Annual provincial allocations are determined by the Ministries and are recorded as revenue in the year to which they relate. The Group is responsible for any incurred deficit. The final amount of operating revenue recorded cannot be determined until the Ministries have reviewed the Group's financial and statistical returns for the year. Any adjustments arising from the Ministries' review are recorded in the period in which the adjustment is made. The total receivable balance from the Ministries in respect of the Group's operations comprises the remaining balance of the agreed allocation and outstanding amounts, if any, from earlier years.

Other contributions and grants are received primarily for capital, research and development and other purposes. Contributions received for capital purposes are credited to deferred capital asset contributions and amortized on the same basis as the related asset. Grants received for research and development and other purposes are deferred and offset against related costs as incurred.

Patient revenues, differential revenues and other revenue are recognized when the goods are sold or the service is provided.

Investment income is recorded in the statement of operations when earned.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

2. Significant accounting policies (continued):

(c) Financial instruments (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost. The related interest rate swaps are recorded at fair value.

Canadian public sector accounting standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 - Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

The Group uses derivative financial instruments to manage interest rate risk. The only derivative products used are interest rate swaps (see notes 8 and 15 for further details). Derivative instruments are recorded on the statement of financial position as assets or liabilities and are measured at fair value. Derivatives with positive fair value are reported as assets and derivatives with negative fair value are reported as liabilities.

The Group uses hedge interest rate swaps to hedge variability in forecasted cash flows. Changes in the fair value of the swap are included directly in the statement of remeasurement gains and losses.

The periodic exchanges of payments on interest rate swaps designated as hedges of debt are recorded as an adjustment to interest expenses of the hedged item in the same period.

The fair values of over-the-counter derivatives are based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis, or are determined by using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Counterparty credit risk and liquidity valuation adjustments are recorded, as appropriate.

The Group presents investments that are available to fund ongoing operations and settle current liabilities as short-term investments. Investments that relate to building reserves are presented as long-term investments.

(d) Inventories:

Inventories are comprised of pharmaceutical, medical and office supplies and are valued at the lower of cost, determined on a weighted average basis, and net realizable value.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

2. Significant accounting policies (continued):

(e) Capital assets:

Purchased capital assets are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets. When a capital asset no longer contributes to the Group's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis, over the estimated useful service lives, as follows:

| Asset | Useful life |
|-----------------------------------|----------------|
| Buildings | 40 to 50 years |
| Buildings – capital lease | 40 to 50 years |
| Leasehold improvements | 10 to 20 years |
| Furniture, equipment and software | 5 to 10 years |
| Medical equipment | 10 to 15 years |
| Land improvements | 10 to 25 years |

Construction-in-progress is amortized in the period that the assets are put into use.

(f) Employee future benefits:

The Group is an employer member of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer, defined benefit pension plan. The Group has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

The Group provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include life insurance and health care benefits, retirement gratuity, sick leave and worker's compensation.

The Group accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension, compensated absences and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2023, and the next required valuation will be as of March 31, 2026.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

2. Significant accounting policies (continued):

(f) Employee future benefits (continued):

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 14 years (2022 - 14 years). The other retirement benefits plan does not have any active members.

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

The costs of multi-employer defined contribution pension plan benefits, such as the Healthcare of Ontario Pension Plan ("HOOPP"), are the employer's contributions due to the plan in the period.

(g) Contributed services:

A large number of volunteers contribute a significant amount of time to the Group each year. Because of the difficulty in determining the fair value of these services, contributed services are not recognized in the financial statements.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Significant areas requiring the use of management's estimates include actuarial assumptions with respect to employee future benefits, pay equity accruals, and the accrued liability for the expected impact of salary increases related to the repeal of Bill 124. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period they become known.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

3. Change in accounting policies:

On April 1, 2022, the Group adopted Public Accounting Standard PS 3280 – *Asset Retirement Obligations*. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in certain Hospital facilities and remediation associated with underground fuel tanks owned by certain Hospitals. The standard was adopted on the modified retrospective basis at the date of adoption. Under the modified retrospective method, the discount rate and assumptions used on initial recognition are those as of the date of adoption of the standard. The Group performed an analysis and did not recognize an asset retirement obligation as at March 31, 2023.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

4. Investments:

(a) Short-term investments:

| | 2023 | | 2022 | |
|---|---------------|-------------------------|---------------|-------------------------|
| | Cost | Carrying and fair value | Cost | Carrying and fair value |
| Cash, marketable securities and other short term | \$ 1,561,716 | \$ 1,561,716 | \$ 1,789,615 | \$ 1,789,615 |
| Government of Canada bonds, 1.60% to 3.55% (2022 - 1.60% to 2.90%) maturing March 2025 to December 2051 (2022 - June 2024 to December 2051) | 3,685,525 | 3,492,559 | 3,368,930 | 3,204,691 |
| Provincial bonds, 1.65% to 5.85% (2022 - 1.65% to 5.85%) maturing June 2023 to December 2051 (2022 - June 2022 to December 2051) | 15,468,913 | 14,295,594 | 15,172,122 | 14,346,837 |
| Canadian bond funds | 7,836,709 | 7,258,225 | 6,471,629 | 6,045,919 |
| Canadian equities | 7,040,573 | 7,688,294 | 6,329,108 | 7,517,180 |
| U.S. equities | 4,223,540 | 4,716,367 | 4,242,326 | 4,641,708 |
| International equities | 2,989,150 | 3,157,621 | 2,775,377 | 2,737,812 |
| | \$ 42,806,126 | \$ 42,170,376 | \$ 40,149,107 | \$ 40,283,762 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

4. Investments (continued):

(b) Restricted investments - building reserves:

| | Cost | 2023 Carrying and fair value | Cost | 2022 Carrying and fair value |
|---|---------------------|------------------------------------|---------------------|------------------------------------|
| <i>Sinking fund trust investments:</i> | | | | |
| Cash, marketable securities and other short term | \$ 104,209 | \$ 104,209 | \$ 131,981 | \$ 131,981 |
| Government of Canada bonds, 1.60% to 3.55% (2022 - 1.60% to 2.90%) maturing March 2025 to December 2051 (2022 - June 2024 to December 2051) | 261,779 | 246,749 | 248,932 | 235,711 |
| Provincial bonds, 1.65% to 5.85% (2022 - 1.65% to 5.85%) maturing June 2023 to December 2051 (2022 - June 2022 to December 2051) | 1,091,228 | 998,477 | 1,131,947 | 1,064,018 |
| Canadian bond funds | 549,912 | 505,602 | 471,188 | 437,267 |
| Canadian equities | 511,605 | 575,501 | 491,189 | 605,040 |
| US equities | 280,309 | 329,470 | 296,985 | 342,159 |
| International equities | 233,963 | 252,789 | 212,599 | 210,139 |
| | \$ 3,033,005 | \$ 3,012,797 | \$ 2,984,821 | \$ 3,026,315 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

4. Investments (continued):

(b) Restricted investments - building reserves (continued):

| | Cost | 2023 Carrying and fair value | Cost | 2022 Carrying and fair value |
|--|----------------------|------------------------------------|----------------------|------------------------------------|
| <i>Life cycle reserve investments:</i> | | | | |
| Cash, marketable securities and other short term | \$ 457,101 | \$ 457,101 | \$ 586,820 | \$ 586,820 |
| Government of Canada bonds, 1.60% to 2.55% (2022 - 1.60% to 2.55%) maturing March 2025 to December 2031 (2022 - March 2025 to December 2031) | 1,337,265 | 1,255,000 | 1,319,216 | 1,263,039 |
| Provincial bonds, 1.65% to 3.75% (2022 - 1.65% to 3.50%) maturing June 2023 to June 2032 (2022 - June 2022 to December 2031) | 7,520,221 | 7,001,062 | 7,560,008 | 7,169,656 |
| Canadian corporate bonds, 2.62% to 6.00% (2022 - 2.62% to 4.93%) maturing April 2024 to May 2035 (2022 - April 2024 to May 2035) | 3,014,526 | 2,722,122 | 2,569,873 | 2,372,350 |
| | <u>\$ 12,329,113</u> | <u>\$ 11,435,285</u> | <u>\$ 12,035,917</u> | <u>\$ 11,391,865</u> |
| <i>Facility reserve investments:</i> | | | | |
| Cash | \$ 1,056,888 | \$ 1,056,888 | \$ 859,266 | \$ 859,266 |
| Total building reserves - investments | \$ 16,419,006 | \$ 15,504,970 | \$ 15,880,004 | \$ 15,277,446 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

4. Investments (continued):

(b) Restricted investments - building reserves (continued):

(i) Building reserves - investments:

The market value of the bonds fluctuates with changes in market interest rates. There is no significant concentration of investments in any one issuer or industry sector and the Group invests only in liquid securities.

(ii) Sinking fund trust:

The Group is required to fund a portion of the cost of the Royal Ottawa Mental Health Centre ("ROMHC") Redevelopment Project which will be met through various revenue streams as well as a \$15,000,000 capital campaign which was undertaken by the Royal Ottawa Foundation for Mental Health. At March 31, 2023, the balance of the fund was \$3,012,797 (2022 - \$3,026,315).

(iii) Life cycle reserve:

The ROH Redevelopment Project agreements include a life cycle plan which recognizes that over time various capital parts of the new facility will need to be restored or replaced. The purpose of the account is to pay for certain capital costs regarding the new facility. At March 31, 2023, the balance of the fund was \$11,435,285 (2022 - \$11,391,865).

(iv) Facility reserve:

The ROH Redevelopment Project agreements include provision for modification to tenant space which recognizes that over time the facility space requirements will change. The purpose of the account is to pay for the Group's special initiatives in the facility. At March 31, 2023, the balance of the fund was \$1,056,888 (2022 - \$859,266).

(c) Fair value:

The Group's investments are classified as Level 1 financial instruments based on the fair value hierarchy.

5. Accounts receivable:

| | 2023 | 2022 |
|---------------------------------|---------------------|---------------------|
| Accounts receivable | \$ 7,873,949 | \$ 4,369,467 |
| Allowance for doubtful accounts | (848,625) | (834,081) |
| | <u>\$ 7,025,324</u> | <u>\$ 3,535,386</u> |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

6. Related entities:

(a) Royal Ottawa Foundation for Mental Health:

The Group has an economic interest in the Royal Ottawa Foundation for Mental Health (the "Foundation"). The Foundation was established to raise, receive, maintain and manage funds to be distributed towards various programs and capital projects of the Group. The Group has a balance receivable from the Foundation in the amount of \$1,196,840 (2022 - \$2,055,486) relating to inter-entity charges. The balance is non-interest-bearing, has no fixed terms of repayment and is repayable on demand.

(b) University of Ottawa Institute of Mental Health Research:

The Group has control over the University of Ottawa Institute of Mental Health Research (the "Institute") through its ability to elect the majority of voting board members. The Institute carries on and promotes scientific research for the benefit of the general public. The Group has a balance payable to the Institute in the amount of \$Nil (2022 - \$346,810). The balance is non-interest-bearing, has no fixed terms of repayment and is repayable on demand. The Group also has a balance receivable from the Institute of \$280,725 (2022 - \$178,287) relating to accrued payroll liabilities.

The Institute's assets, liabilities, revenue and expenses are as follows for the years ended March 31:

| | 2023 | 2022 |
|-----------------------------------|---------------|---------------|
| Assets | | |
| Other assets | \$ 13,623,683 | \$ 12,375,517 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Other liabilities | \$ 9,684,743 | \$ 8,618,558 |
| Net assets | 3,938,940 | 3,756,959 |
| | \$ 13,623,683 | \$ 12,375,517 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

6. Related entities (continued):

(b) University of Ottawa Institute of Mental Health Research (continued):

| | 2023 | 2022 |
|---------------------------------|--------------|--------------|
| Revenue | \$ 5,454,379 | \$ 5,382,530 |
| Expenses | 5,099,624 | 4,702,301 |
| Excess of revenue over expenses | \$ 354,755 | \$ 680,229 |

(c) Royal Ottawa Volunteer Association:

The Group has an economic interest in the Royal Ottawa Volunteer Association (the "Association"). The Association assists the Group in improving the health, rehabilitation and well-being of patients by providing funding to the Group. The Group has a balance receivable from the Association in the amount of \$1,692 (2022 - \$13,614).

(d) Frayme:

The Group has an economic interest in Frayme. Frayme's purpose is to transform youth mental health systems in Canada and around the world by establishing a platform to address urgent priorities, influencing internal services and policies, filling the gaps between research and the need for dissemination and clinical implementation and identifying gaps in research. The Group incurs some expenses on behalf of Frayme, for which Frayme reimburses the Group. The Group also provides certain administrative support services to Frayme at no charge. The Group has a balance receivable from Frayme of \$437,086 (2022 - \$177,904) relating to this reimbursement of expenses. The balance is non-interest-bearing, has no fixed terms of repayment and is repayable on demand.

(e) Friends of Royal Ottawa Foundation, Inc.

The purpose of the Friends of Royal Ottawa Foundation, Inc., ("Friends") is to further educational, scientific, and charitable purposes pursuant to the provisions of the Delaware General Corporation Law (the "DGCK") and other applicable laws.

The Group has an economic interest in Friends. Friends was established to raise, receive, maintain and manage funds to be distributed towards various programs and capital projects of the Group. There are no amounts owing to or receivable from the Group (2022 - \$Nil).

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

6. Related entities (continued):

(f) Atlas Institute for Veterans and Families:

The Group has control over Atlas Institute for Veterans and Families (“Atlas”) through its ability to elect the majority of voting board members. Atlas’ objective is to increase the Canadian expertise, knowledge creation and transfer of knowledge on the subject of Canadian military and Veteran mental health. The Group has a balance receivable from Atlas in the amount of \$555,918 (2022 - \$491,818). The balance is non-interest-bearing, has no fixed terms of repayment and is repayable on demand.

Atlas’ assets, liabilities, revenue and expenses are as follows for the years ended March 31:

| | 2023 | 2022 |
|---------------------------------------|--------------|--------------|
| Assets | | |
| Total assets | \$ 2,085,377 | \$ 1,943,989 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Due to Royal Ottawa Health Care Group | \$ 555,918 | \$ 491,818 |
| Other liabilities | 1,429,302 | 1,419,670 |
| | 1,985,220 | 1,911,488 |
| Net assets | 100,157 | 32,501 |
| | \$ 2,085,377 | \$ 1,943,989 |
| Revenue and Expenses | | |
| | 2023 | 2022 |
| Revenue | \$ 9,164,221 | \$ 8,968,552 |
| Expenses | 9,096,565 | 8,952,814 |
| Excess of revenue over expenses | \$ 67,656 | \$ 15,738 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

6. Related entities (continued):

(g) Ottawa Hospitals Food Association (formerly Healthcare Food Services Inc.):

The Group was a founding member of Healthcare Food Services Inc. ("HFS"). HFS was established to provide food services, respectively to member hospitals on a cost of service basis.

On May 13, 2019, the Board of Directors of HFS finalized the sale of substantially all of the assets of HFS to a third party purchaser. As unanimously agreed-upon by the member hospitals and the Board of Directors of HFS, the net proceeds of the HFS sale will be distributed to each of the member hospital's respective Foundations. Effective the date of sale, HFS changed its operating name to Ottawa Hospitals Food Association ("OHFA").

On November 8, 2019, The Board Directors of OHFA approved a motion to distribute \$10,000,000 to the member hospital Foundation's based on their share. The Royal Ottawa Foundation for Mental Health's share of the distribution is 13.87%, and the Foundation received a donation of \$1,386,699 in March 2020.

At March 31, 2023, the Group had an economic interest of 13.87% in OHFA (2022 - 13.87% in HFS) of total net assets of \$ 1,935 (2022 - \$380,101).

7. Capital assets:

| | Cost | Accumulated amortization | 2023 Net book value | 2022 Net book value |
|-----------------------------------|-----------------------|--------------------------|------------------------|------------------------|
| Land | \$ 786,626 | \$ - | \$ 786,626 | \$ 786,626 |
| Buildings | 26,332,270 | 9,902,051 | 16,430,219 | 13,774,838 |
| Buildings - capital lease | 157,750,427 | 63,330,238 | 94,420,189 | 98,303,795 |
| Leasehold Improvements | 28,610,173 | 12,982,084 | 15,628,089 | 15,983,334 |
| Furniture, equipment and software | 40,232,196 | 30,070,218 | 10,161,978 | 11,630,106 |
| Medical equipment | 13,620,572 | 11,148,143 | 2,472,429 | 2,612,488 |
| Land improvements | 1,582,301 | 1,275,838 | 306,463 | 387,637 |
| | <u>\$ 268,914,565</u> | <u>\$ 128,708,572</u> | <u>\$ 140,205,993</u> | <u>\$ 143,478,824</u> |

The Group disposed of assets with a cost of \$Nil (2022 - \$4,324) and accumulated amortization of \$Nil (2022 - \$4,324).

At March 31, 2022, cost and accumulated amortization amounted to \$262,313,890 and \$118,835,066, respectively.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

8. Long-term debt:

| | 2023 | 2022 |
|--|----------------------|----------------------|
| (a) Callable bank loan, unsecured, maturing May 1, 2024. The balance is repayable in monthly installments of \$29,259 including principal and interest at the bank's public sector rate plus 0.29%. | \$ 395,861 | \$ 715,539 |
| Callable bank loan, unsecured, maturing May 1, 2029. The balance is repayable in monthly installments of \$26,406 including principal and interest at the bank's public sector rate plus 0.29%. | 1,649,174 | 1,867,035 |
| Total loans | 2,045,035 | 2,582,574 |
| Capital lease obligation related to the Royal Ottawa Hospital Redevelopment Project. The obligation will be amortized over 248 months to June 2027, at an interest rate of 6.33%, with monthly principal and interest payments of \$1,163,990. | 51,708,733 | 61,931,896 |
| Fair value of interest rate swaps (note 8(e)) | 102,765 | 223,454 |
| | 53,856,533 | 64,737,924 |
| Less: | | |
| Scheduled cash repayments of loans | 568,124 | 537,539 |
| Current portion of capital lease obligation | 10,911,292 | 10,223,165 |
| Callable debt | 1,476,911 | 2,045,035 |
| | 12,956,327 | 12,805,739 |
| | \$ 40,900,206 | \$ 51,932,185 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

8. Long-term debt (continued):

- (b) The Group has access to a \$500,000 commercial letter of credit. At March 31, 2023, there were no standby letters of credit issued (2022 - \$Nil).
- (c) The Group has access to a \$5,000,000 operating loan at a rate of prime less 0.85% per annum. At March 31, 2023 \$Nil (2022 - \$Nil) is outstanding.
- (d) Canadian public sector accounting standards require that loans that the lender can require to be repaid on demand be classified as current liabilities.

Management does not believe that the demand features of the callable debt will be exercised in the current period. Assuming payment of the callable debt is not demanded; regular principal payments required on all long-term debt for the next five fiscal years and thereafter are due as follows:

| | Loans | Capital lease | Total |
|---------------------|--------------|---------------|---------------|
| 2024 | \$ 568,124 | \$ 10,911,292 | \$ 11,479,416 |
| 2025 | 301,754 | 11,645,921 | 11,947,675 |
| 2026 | 257,616 | 12,430,206 | 12,687,822 |
| 2027 | 272,419 | 13,267,511 | 13,539,930 |
| 2028 | 288,072 | 3,453,803 | 3,741,875 |
| 2029 and thereafter | 357,050 | — | 357,050 |
| | \$ 2,045,035 | \$ 51,708,733 | \$ 53,753,768 |

(e) Interest rate derivative agreements:

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency.

The Group incurred \$8,475,667 in construction loans at an interest rate of prime less 0.5% related to the financing of construction of the Royal Ottawa Place, which opened in June 2004. During 2004/05, the Group purchased two interest rate swaps in order to eliminate exposure to interest rate fluctuation on long-term debt. The annualized payments including principal, interest and spread are \$667,991.

(i) Notional amounts:

The notional amount of the interest rate swaps at March 31, 2023 is \$2,045,035 (2022 - \$2,582,574).

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

8. Long-term debt (continued):

(e) Interest rate derivative agreements (continued):

(ii) Fair value:

The interest rate swaps have unrealized accumulated losses of \$102,765 (2022 - \$223,454) which are recorded in long-term debt as at March 31, 2023. The fair market value of the loans as at March 31, 2023, excluding the interest rate swaps impact, is \$2,045,035 (2022 - \$2,582,574) and the fair value of the capital lease obligation is \$52,501,027 (2022 - \$65,824,696). The current year impact of the change in fair value of the interest rate swap is an increase in accumulated remeasurement gains of \$120,689 (2022 - \$227,044). The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

9. Deferred capital asset contributions:

| | 2023 | 2022 |
|---|---------------|---------------|
| Balance, beginning of year | \$ 61,240,281 | \$ 57,135,218 |
| Contributions for specified capital projects received during the year | 14,645,180 | 11,482,990 |
| Amount recognized as revenue during the year | (6,930,671) | (7,377,927) |
| Balance, end of year | \$ 68,954,790 | \$ 61,240,281 |

10. Investment in capital assets:

The Group has \$17,394,670 (2022 - \$17,500,619) invested in capital assets, included in the unrestricted fund balance, calculated as follows:

| | 2023 | 2022 |
|---|----------------|----------------|
| Capital assets | \$ 140,205,993 | \$ 143,478,824 |
| Amounts financed by: | | |
| Long-term debt (note 8) | (53,856,533) | (64,737,924) |
| Deferred contributions related to capital assets (note 9) | (68,954,790) | (61,240,281) |
| | \$ 17,394,670 | \$ 17,500,619 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

11. Statement of cash flows:

(a) Changes in non-cash operating working capital:

| | 2023 | 2022 |
|---|----------------|----------------|
| Accounts receivable | \$ (3,489,938) | \$ (1,723,581) |
| Receivable from Provinces and Territories | (942,987) | 11,757,832 |
| Due from related entities | 266,561 | (1,680,603) |
| Due to related entities | (168,523) | 100,725 |
| Inventories | 11,012 | 66,741 |
| Prepaid expenses | 15,153 | (752,956) |
| Payable to the Province of Ontario | 7,232,178 | 12,078,627 |
| Accounts payable and accrued liabilities | 3,568,406 | 670,357 |
| Advance payments for designated projects | (254,264) | 185,300 |
| Current portion of deferred revenue | (213,631) | (520,258) |
| Deferred revenue | 395,976 | (1,363,985) |
| | \$ 6,419,943 | \$ 18,818,199 |

(b) Supplementary information:

| | 2023 | 2022 |
|-------------------------------|--------------|--------------|
| Interest paid during the year | \$ 4,024,398 | \$ 4,674,026 |

12. Contracts and other expenses:

| | 2023 | 2022 |
|--|---------------|---------------|
| Office supplies and rentals | \$ 4,735,236 | \$ 4,167,555 |
| Staff development and travel | 1,126,542 | 873,962 |
| Food, housekeeping and facility services | 18,669,193 | 17,911,209 |
| Data communication and software | 3,047,931 | 2,689,880 |
| Professional fees and services | 6,528,688 | 4,778,413 |
| Other supplies and expenses | 9,210,007 | 7,403,990 |
| | \$ 43,317,597 | \$ 37,825,009 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

13. Employee future benefits:

- (a) The Group has defined benefit plans that provide pension and other post-retirement benefits to most of its employees. The most recent actuarial valuation of employee future benefits for funding purposes was completed as at March 31, 2023 with the accounting valuation based on an extrapolation. The liabilities associated with these plans as at March 31 are as follows:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Pensions - other (note 13(c)) | \$ 54,800 | \$ 60,300 |
| Other employee future benefits (note 13(f)) | 8,427,600 | 8,027,700 |
| | <u>\$ 8,482,400</u> | <u>\$ 8,088,000</u> |

- (b) Healthcare of Ontario Pension Plan:

Substantially all full time employees of the Group are eligible to be members of the Healthcare of Ontario Pension Plan (the "Plan"). This Plan is a multi-employer, defined benefit pension plan. Employer contributions to the Plan during the year amounted to \$8,415,881 (2022 - \$8,415,633). These amounts are included in employee benefits expense in the statement of operations.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent triennial actuarial valuation of the Plan as at December 31, 2022 indicates the Plan is fully funded.

- (c) Pensions - other:

The Group's accrued benefit obligation under supplementary retirement income programs for certain employees is unfunded. The actuarially determined expense for the year is \$100 (2022 - \$2,400), based on an extrapolation of a valuation as at April 1, 2022. Benefits paid during the year amounted to \$5,500 (2022 - \$5,500).

- (d) Other employee future benefits:

The Group provides extended healthcare, dental benefits and nominal life insurance benefits for certain of its retired employees and provides for the vesting of sick leave for those employees with greater than five years of service. These benefits are not funded.

The actuarially determined expense for these other employee future benefits during the year was \$1,023,000 (2022 - \$1,057,100), based on a valuations as of March 31, 2023. Benefits paid during the year amounted to \$623,100 (2022 - \$590,900).

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

13. Employee future benefits (continued):

- (e) The significant actuarial assumptions adopted in measuring the Group's accrued benefit obligations under other pension plans and employee future benefits are as follows:

| | 2023 | 2022 |
|---|-------|-------|
| Discount rate for calculation of the pension expense | 3.70% | 3.00% |
| Discount rate to determine accrued benefit obligation | 4.50% | 3.70% |
| Salary rate increases | 3.00% | 2.00% |
| Dental cost increases | 5.00% | 3.00% |
| Extended healthcare cost increases | 5.60% | 5.37% |

- (f) Information about the Group's employee future benefits other than pension at March 31 is as follows:

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Accrued benefit obligation | \$ 9,986,400 | \$ 9,214,500 |
| Unamortized actuarial losses | (1,558,800) | (1,186,800) |
| Employee future benefit liability | \$ 8,427,600 | \$ 8,027,700 |

- (g) The employee future benefit liability change is comprised of:

| | 2023 | 2022 |
|--|-------------------|-------------------|
| Current service costs | \$ 501,000 | \$ 528,600 |
| Interest on accrued benefit obligation | 347,800 | 298,700 |
| Amortization of net experience losses | 174,200 | 229,800 |
| Benefit payments made by the Group | (623,100) | (590,900) |
| | \$ 399,900 | \$ 466,200 |

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

14. Commitments, contingencies and guarantees:

- (a) In the normal course of operations, the Group provides indemnification agreements with various counterparties in transactions such as service agreements, software licenses, leases, and purchases of goods. Under these agreements, the Group agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Group in relation to the agreement. The nature of the indemnification agreements prevents the Group from making a reasonable estimate of the maximum potential amount that the Group would be required to pay such counterparties.
- (b) The Group has committed to continue to purchase food products through an agreed upon supply agreement with OHFA for three years ending May 2022.
- (c) The Group outsourced its hotel and facility services to EllisDon (formerly "THICC") in November 2006. The Group must offer employment to those EllisDon staff currently providing service to the Group, on terms and conditions no less favourable than those they experienced with EllisDon if the employees return to the Group.

(d) Commitments:

The Group has a number of operating leases for computer hardware, software, automobiles, office space and office equipment. Future minimum lease payments for these leases for the next five years and thereafter are as follows:

| | | |
|------------|----|-----------|
| 2024 | \$ | 2,382,705 |
| 2025 | | 2,130,107 |
| 2026 | | 2,085,438 |
| 2027 | | 1,451,407 |
| 2028 | | 231,999 |
| Thereafter | | 909,962 |
| | \$ | 9,191,618 |

- (e) The Group is a party to various claims related to its operations. It is not possible to estimate the possible financial liability, if any, to the Group. The majority of claims are covered under the Group's insurance policy. No provision has been made for loss in these financial statements, but in management's opinion, these claims will not have a material adverse effect on its financial position or results of operations.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

14. Commitments, contingencies and guarantees (continued):

(f) The Group is a member of the Healthcare Insurance Reciprocal of Canada (“HIROC”), which is a pooling of the liability insurance risks of its members. Members of the pool pay annual premiums that are actuarially determined. HIROC members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members and these losses could be material. No reassessments have been made to March 31, 2023.

(g) Bill 124:

On November 29, 2022, the Ontario Superior Court rendered a decision to declare the Protecting a Sustainable Public Sector for Future Generations Act, 2019, known as Bill 124, to be void and of no effect. On December 29, 2022, The Province of Ontario appealed the Superior Court’s decision, but the Government has not sought a stay of decision. This ruling has triggered reopener provisions that required renewed negotiations with certain labour groups on compensation for the years that were previously capped by the legislation. The Hospital has recorded liabilities based on subsequent settlement amounts and management’s estimate of potential settlement amounts.

The Group’s past practice is to align wage increases for the Non Union and Management employees with those provided to OPSEU. The Group has not included an accrual for increases related to this group of employees in the financial statements as the Group has not met the accounting standards requirements necessary to record the amount as a contingent liability.

15. Financial risks and concentration of risk:

The Group is subject to the following risks from its financial instruments.

(a) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors.

The Group monitors market risk by adhering to a Board-approved investment policy.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

15. Financial risks and concentration of risk (continued):

(b) Market risk (continued):

(i) Interest rate and other price risks:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at March 31, 2023, a 1% change to the market interest rate with all other variables held constant would have an estimated effect of \$1,752,944 (2022 - \$1,795,175) on the value of the bond portfolio.

Financial assets and financial liabilities with variable interest rates expose the Group to cash flow interest rate risk. The Group is exposed to this risk through to its interest bearing investments. The Group's investments, including interest-bearing securities, are disclosed in note 4.

The Group mitigates interest rate risk on its long-term debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the demand loans and term debt for a fixed rate (see note 8(e)). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the long-term debt.

At March 31, 2023, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Group's equities of approximately \$1,741,490 (2022 - \$1,425,300).

(ii) Currency risk:

Foreign currency exposure arises from the Group's holdings of foreign cash balances, equities and bonds. The Group monitors foreign cash balances and adjusts these to meet operating requirements. The Group's exposure to investments denominated in foreign currencies is \$8,456,247 (2022 - \$7,931,818).

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

15. Financial risks and concentration of risk (continued):

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Group is exposed to this risk relating to its cash, investments, receivables and due from/to amounts. The Group holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation.

Accounts receivable are ultimately due from the Ministries. The Group's statement of investment policy, which is reviewed annually, defines permitted investments and provides guidelines and restrictions on acceptable investments which minimize credit risk. The Group measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Group's historical experience regarding collections.

An amount of \$848,625 (2022 - \$834,081) has been provided for an impairment allowance. The maximum exposure to credit risk of the Group at March 31, 2023 is the carrying value of these assets. The maximum exposure to investment credit risk is outlined in note 4.

(c) Liquidity risk:

Liquidity risk is the risk that the Institute will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Group mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near-term if unexpected cash outflows arise. Accounts payable are all current and the terms of the long-term debt are disclosed in note 8. Derivative financial liabilities mature as described in note 8.

These risks have increased in 2023 due to market fluctuations in interest rates, liquidity, and market prices. Aside from the changes in interest and market risk, and the accruals related to Bill 124, there have been no changes from the prior year in the Groups' risk exposures from its financial instruments or the policies, procedures and methods used to manage these risks.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2023

16. Ministry of Health (“MOH”) and Ministry of Long-Term Care (“MOLTC”) pandemic and other funding:

In connection with the ongoing coronavirus pandemic (“COVID-19”), and other events, the MOH and MOLTC has announced a number of funding programs intended to assist hospitals with incremental operating and capital costs and revenue decreases resulting from COVID-19 and other related events. In addition to these funding programs, the MOH is also permitting hospitals to redirect unused funding from certain programs towards COVID-19 costs, revenue losses and other budgetary pressures through a broad-based funding reconciliation.

While the MOH has provided guidance with respect to the maximum amount of funding potentially available to the Group, as well as criteria for eligibility and revenue recognition, this guidance continues to evolve and is subject to revision and clarification subsequent to the time of approval of these financial statements. The MOH has also indicated that all funding related to COVID-19 is subject to review and reconciliation, with the potential for adjustments during the subsequent fiscal year.

Management’s estimate of MOH and MOLTC revenue for COVID-19 is based on the most recent guidance provided by MOH and MOLTC and the impacts of COVID-19 on the Group’s operations, revenues and expenses. Management has analyzed the requirements and has provided an estimate for the supportable amounts based on the current available information.

Details of the MOH and MOLTC funding for COVID-19 recognized as revenue in the current year are summarized below:

| | 2023 | 2022 |
|---|--------------|--------------|
| Ministry of Health: | | |
| Funding for incremental COVID-19 operating expenses | \$ 894,000 | \$ 1,297,568 |
| Funding for Nurses Retention Incentive | 795,426 | 1,054,741 |
| Funding for Temporary PSW Wage Enhancement | – | 84,343 |
| | \$ 1,689,426 | \$ 2,436,652 |
| | 2023 | 2022 |
| Ministry of Long-Term Care: | | |
| Funding for incremental COVID-19 operating expenses | \$ 253,190 | \$ 652,198 |
| Funding for Temporary PSW Wage Enhancement | – | 203,544 |
| | \$ 253,190 | \$ 855,742 |