

Financial Statements of

**EASTERN ONTARIO
REGIONAL LABORATORY
ASSOCIATION INC.**

Year ended March 31, 2023

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

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INDEPENDENT AUDITOR'S REPORT

To the Members of Eastern Ontario Regional Laboratory Association Inc.

To the Board of Governors of Trustees/Board of Directors of the Eastern Ontario Regional Laboratory Association

Opinion

We have audited the financial statements of the Eastern Ontario Regional Laboratory Association, 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 net assets for the year then ended
- the statement of cash flows 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 Eastern Ontario Regional Laboratory Association as at March 31, 2023 and its results of operations, its changes in net assets and its cash flows 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 Eastern Ontario Regional Laboratory Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 accounting standards for not-for-profit organizations, 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 Eastern Ontario Regional Laboratory Association'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 Eastern Ontario Regional Laboratory Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Eastern Ontario Regional Laboratory Association'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 Eastern Ontario Regional Laboratory Association'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 Eastern Ontario Regional Laboratory Association 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 29, 2023

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Statement of Financial Position

March 31, 2023, with comparative information for 2022

	2023	2022
Assets		
Current assets:		
Cash	\$ 14,449,156	\$ 28,753,131
Due from member hospitals (note 2)	1,902,863	1,405,068
Short-term investments (note 3)	4,677,835	-
Taxes recoverable	1,256,776	1,758,147
Other receivables	1,876,123	1,756,240
Prepaid expenses	949,314	696,069
	<u>25,112,067</u>	<u>34,368,655</u>
Due from member hospitals (note 2)	1,025,158	1,444,101
Long-term investments (note 3)	5,390,797	-
Prepaid occupancy costs (note 2)	4,700,420	4,896,320
Capital assets (note 4)	10,621,222	13,916,897
Funds held in trust (note 5)	365,320	413,215
	<u>\$ 47,214,984</u>	<u>\$ 55,039,188</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,592,585	\$ 14,378,538
Due to The Ottawa Hospital - operations (note 2)	1,758,048	7,380,010
Due to The Ottawa Hospital - capital (note 2)	2,373,777	3,153,777
Due to member hospitals (note 2)	617,628	2,778,944
Deferred revenue (note 6)	187,957	170,887
	<u>21,529,995</u>	<u>27,862,156</u>
Employee future benefits (note 7(a))	5,357,478	5,266,000
Deferred capital contributions (note 8)	957,016	2,394,780
Funds held in trust (note 5)	365,320	413,215
Total liabilities	<u>28,209,809</u>	<u>35,936,151</u>
Net assets:		
Unrestricted surplus (deficiency)	(727,663)	7,580,920
Internally restricted (note 3)	10,068,632	-
Invested in capital assets	9,664,206	11,522,117
	<u>19,005,175</u>	<u>19,103,037</u>
Contingencies (note 11)		
	<u>\$ 47,214,984</u>	<u>\$ 55,039,188</u>

See accompanying notes to financial statements.

On behalf of the Board:

Chairman



Director

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Statement of Operations

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

	2023	2022
Revenue:		
Medical laboratory services	\$ 124,043,007	\$ 118,026,747
Government of Ontario contributions	14,965,469	34,126,446
Other income	5,171,590	4,099,617
Amortization of deferred capital contributions (note 8)	1,437,764	2,463,006
	145,617,830	158,715,816
Expenses:		
Salaries and wages	73,661,698	71,555,073
Medical and scientific remuneration	25,324,326	24,284,721
Supplies	34,408,888	41,015,640
Referred out services	2,301,017	2,179,144
Amortization of capital assets	5,464,402	6,182,174
Courier and delivery	3,137,701	2,086,013
Professional services	1,221,760	1,039,776
Amortization of prepaid occupancy costs	195,900	195,900
	145,715,692	148,538,441
Excess (deficiency) of revenue over expenses	\$ (97,862)	\$ 10,177,375

See accompanying notes to financial statements.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Statement of Changes in Net Assets

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

	Unrestricted surplus (deficiency)	Internally restricted	Investment in capital assets	2023 Total	2022 Total
Balance, beginning of year	\$ 7,580,920	\$ –	\$ 11,522,117	\$19,103,037	\$8,925,662
Excess (deficiency) of revenue over expenses	(97,862)	–	–	(97,862)	10,177,375
Purchase of capital assets	(2,168,727)	–	2,168,727	–	–
Amortization of capital assets	5,464,402	–	(5,464,402)	–	–
Amortization of deferred capital contributions (note 8)	(1,437,764)	–	1,437,764	–	–
Transfer to internally restricted net assets	(10,068,632)	10,068,832	–	–	–
Balance, end of year	\$ (727,663)	\$10,068,832	\$ 9,664,206	\$19,005,175	\$19,103,037

See accompanying notes to financial statements.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Statement of Cash Flows

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

	2023	2022
Cash provided by (used for):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (97,862)	\$ 10,177,375
Items not involving cash:		
Amortization of capital assets	5,464,402	6,182,174
Amortization of deferred capital contributions	(1,437,764)	(2,463,006)
Amortization of prepaid occupancy costs	195,900	195,900
Net increase in employee future benefits liability	91,478	144,000
Change in non-cash operating working capital items:		
Decrease in due from member hospitals	(78,852)	(482,483)
Decrease in taxes recoverable	501,371	1,965,645
Decrease (increase) in other receivables	(119,883)	9,402,207
Decrease (increase) in prepaid expenses	(253,245)	297,941
Increase in accounts payable and accrued liabilities	2,214,047	3,778,075
Increase (decrease) in deferred revenue	17,070	(243,821)
Increase (decrease) in due to member hospitals	(2,161,316)	730,331
Increase (decrease) in due to The Ottawa Hospital - operations	(5,621,962)	1,197,798
	(1,286,616)	30,882,136
Investing activities:		
Purchase of marketable securities	(4,677,835)	-
Purchase of long-term investments	(5,390,797)	-
Purchase of capital assets	(2,168,727)	(3,119,318)
	(12,237,359)	(3,119,318)
Financing activities:		
Decrease in due to The Ottawa Hospital - capital	(780,000)	(780,000)
Deferred capital contributions received (returned) (note 8)	-	(3,317,642)
	(780,000)	(4,097,642)
Net increase (decrease) in cash during the year	(14,303,975)	23,665,176
Cash, beginning of year	28,753,131	5,087,955
Cash, end of year	\$ 14,449,156	\$ 28,753,131

See accompanying notes to financial statements.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements

Year ended March 31, 2023

Eastern Ontario Regional Laboratory Association Inc. ("EORLA") was incorporated on April 15, 2003, as a shared services corporation without share capital. The member hospitals voluntarily joined EORLA to foster continued and increased cooperation between members and to support the integration of laboratory service in the region. EORLA is an integrated hospital laboratory network with sixteen acute care hospital facilities having on-site laboratories configured to meet program needs while referring specialized services to regional laboratory sites.

These financial statements reflect the assets and liabilities and results of operations of EORLA. They do not include the assets, liabilities or operations of its member hospitals, which, although associated, are separately managed, and report to separate Boards of Directors. Note 2 provides details on related party transactions.

1. Significant accounting policies:

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

(a) Revenue recognition:

EORLA follows the deferral method of accounting for contributions for not-for-profit organizations.

Operating grants are recorded as revenue in the period to which they relate. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at rates corresponding with the amortization rates for the related capital assets.

Revenue derived from laboratory services are recognized when services are rendered.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

1. Significant accounting policies (continued):

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

EORLA's financial instruments are measured as follows:

Cash	Fair value
Investments	Amortized cost
Due from member hospitals	Amortized cost
Taxes recoverable	Amortized cost
Other receivables	Amortized cost
Funds held in trust	Fair value
Accounts payable and accrued liabilities	Amortized cost
Due to The Ottawa Hospital – operations	Amortized cost
Due to The Ottawa Hospital – capital	Amortized cost
Due to member hospitals	Amortized cost

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized. When the financial instrument is derecognized, the unrealized gains and losses previously recognized in the statement as remeasurement gains and losses are reversed and recognized in the statement of operations. Unrealized changes in the fair value of the financial asset of Funds held in trust is recorded in the corresponding liability.

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.

EORLA does not have any amounts to record on the statement of remeasurement gains and losses and therefore this statement has not been included in these financial statements.

(c) Prepaid occupancy costs:

Prepaid occupancy costs are amortized on a straight-line basis over 40 years.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

1. Significant accounting policies (continued):

(d) Capital assets:

Purchased capital assets, other than minor equipment, are recorded at cost. Minor equipment replacements are expensed in the year of replacement. Computer hardware and software under development and construction in progress are capitalized until placed in service, at which point they will be amortized.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When a capital asset no longer contributes to EORLA's ability to provide services, its carrying amount is written down to its residual value.

Construction in progress is not amortized until the project is complete and the assets come into use. Capital assets are amortized on a straight-line basis over their expected useful lives as follows, other than instruments purchased for performing COVID-19 tests, which are amortized over a 2-year useful life.

Computer hardware and software	5 to 10 years
Major equipment	5 to 10 years
Lab renovation	20 years

(e) Employee future benefits:

EORLA provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include life insurance and health care benefits.

EORLA accrues its obligations for employee benefit plans as the employees render the services necessary to earn the benefits. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

Adjustments arising from plan amendments, including past service costs, are recognized in the year that the plan amendments occur. Actuarial gains or losses are amortized over the average remaining service period of active employees.

The average remaining service period of active employees covered by the employee benefit plan is 12.0 years (2022 - 12.0 years).

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

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

1. Significant accounting policies (continued):

(f) Funds held in trust:

EORLA holds resources and makes disbursements on behalf of certain third-party groups. EORLA has no discretion over such transactions; hence, resources received are reported as liabilities, and subsequent distributions are reported as decreases to the liability.

(g) Use of estimates:

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and, as adjustments become necessary, they are reported in the periods in which they become known. The most significant estimates used in preparing these financial statements include the assumptions underlying the employee future benefit liability.

2. Related party transactions:

(a) The Ottawa Hospital:

The Ottawa Hospital entered into an agreement with the Ministry of Health of Ontario (previously Ministry of Health and Long-Term Care of Ontario) to construct a regional laboratory, including investment in capital equipment. The Ottawa Hospital completed the project in September 2006 at a total cost of \$25,375,812. EORLA's share of the project's total cost was \$7,833,777 and is accounted for as prepaid occupancy costs. In return for this capital investment, EORLA is permitted to occupy the premises at The Ottawa Hospital, General Campus, under the provisions set out in the related agreements. The accumulated amortization as at March 31, 2023 is \$3,133,357 (2022 - \$2,937,457).

The amount due to The Ottawa Hospital - capital, bears interest at prime and is payable on demand. The amount due to The Ottawa Hospital - operations, bears interest at a rate of 3.1% (2022 - 3.1%) with no fixed term of repayment.

(b) Other member hospitals:

EORLA is related to all member hospitals due to the composition of its Board of Directors. Unless otherwise stated, transactions occur in the normal course of operations and are recorded at fair value.

Medical laboratory services are invoiced to member hospitals at pre-established rates.

The long-term receivable from members is non-interest bearing with no fixed terms of repayment.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

3. Internally restricted net assets and investments:

The Board of Directors of EORLA internally restricted \$10,068,632 of its net assets to be used to finance the Anatomic Pathology Modernization program. These internally restricted net assets are funded by the following short-term and long-term investments:

(a) Short-term investments

Short-term investments consist of Bonds and Guaranteed Investment Certificates (GIC) totaling \$4,677,835 as at March 31, 2023 (2022 - \$Nil). All short-term investments have fixed interest rates ranging from 3.45% to 3.85% and are set to mature 365 days or less from year-end.

During the year, EORLA earned interest income of \$96,088 (2022 – \$Nil) on these short-term investments which is recognized as revenue in the statement of operations.

(b) Long-term investments

Long-term investments consist of Bonds and Guaranteed Investment Certificates (GIC) totaling \$5,390,797 as at March 31, 2023 (2022 - \$Nil). All long-term investments have fixed interest rates ranging from 2.61% to 4.1% and are set to mature more than 365 days from year-end.

During the year, EORLA earned interest income of \$82,222 (2022 - \$Nil) on these long-term investments which is recognized as revenue in the statement of operations.

4. Capital assets:

	Cost	Accumulated amortization	2023 Net book value	2022 Net book value
Computer hardware and software	\$ 19,006,580	\$ 18,472,544	\$ 534,036	\$ 1,364,989
Equipment	31,062,557	23,035,100	8,027,457	10,153,033
Lab renovation	2,445,061	699,272	1,745,789	1,865,577
Construction in progress	313,940	–	313,940	533,298
	\$ 52,828,138	\$ 42,206,916	\$ 10,621,222	\$ 13,916,897

Cost and accumulated amortization of capital assets at March 31, 2022 amounted to \$50,659,411 and \$36,742,514, respectively.

5. Funds held in trust:

Funds held in trust are held in EORLA's bank accounts and represent education funds held in trust for third parties (employees).

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

6. Deferred revenue:

	Balance, beginning of year	Funds/ interest received	Funds used	Balance, end of year
EORLA Operation Education	\$ 36,936	\$ –	\$ 16,716	\$ 20,220
Other	133,951	48,000	14,214	167,737
	\$ 170,887	\$ 48,000	\$ 30,930	\$ 187,957

7. Employee future benefits:

(a) Health and dental benefits:

EORLA offers a defined benefit plan which provides extended health care and dental insurance benefits to certain of its employees and extends this coverage to the post-retirement period. The most recent actuarial valuation of employee future benefits was completed as at March 31, 2022. As at March 31, 2023, EORLA's liability associated with the benefit plan is as follows:

	2023	2022
Accrued benefit obligation	\$ 4,328,478	\$ 4,133,027
Unamortized experience gains	1,029,000	1,132,973
Employee future benefit liability	\$ 5,357,478	\$ 5,266,000

EORLA's defined benefit plan is not funded, resulting in a plan deficit equal to the accrued benefit obligation. The significant actuarial assumptions adopted in estimating EORLA's accrued benefit obligation are as follows:

	2023	2022
Discount rate to determine accrued benefit obligation	3.89%	3.89%
Dental cost increases	3.75%	3.75%
Extended health care cost escalations	5.75%	5.75%
Expected average remaining service life of employees	12.0 years	12.0 years

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

7. Employee future benefits (continued):

(a) Health and dental benefits (continued):

The employee future benefit liability change for the year ended March 31, 2023 is \$91,478 (2022 - \$144,000). This amount is comprised of:

	2023	2022
Current service cost	\$ 269,681	\$ 237,700
Amortization experience gains	(103,973)	(64,000)
Benefit payments	(235,666)	(172,100)
Interest on accrued benefit obligation	161,436	142,400
	\$ 91,478	\$ 144,000

(b) Pension:

Substantially all of the employees of EORLA are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospitals Association. Contributions to the Plan made during the year by EORLA on behalf of its employees amounted to \$5,726,450 (2022 - \$5,757,413) and are included in the statement of operations.

In consultation with its actuaries, pension expense is based on Plan management's best estimates 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.

8. Deferred capital contributions:

	Balance, beginning of year	Contributions /returned	Amortization	Balance, end of year
eHealth - OLIS funding	\$ 1,283,203	\$ —	\$ 1,283,203	\$ —
Microscope	16,417	—	—	16,417
MOH COVID-19 capital funding	1,095,160	—	154,561	940,599
	\$ 2,394,780	\$ —	\$ 1,437,764	\$ 957,016

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

9. Bank indebtedness:

EORLA has an available line of credit of \$10,000,000 with its corporate bankers, of which no amount was drawn against at March 31, 2023 (2022 - \$Nil). This line of credit is unsecured and bears interest at prime less 0.25%.

10. Financial instruments:

EORLA is exposed to financial risks from its financial instruments:

(a) Establishing fair value:

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

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 these assets and liabilities.

Cash and funds held in trust are a Level 1 hierarchy. There have been no movements between levels during the year.

(b) Credit risk:

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and incurs a financial loss. EORLA is exposed to credit risk on its accounts receivable. Management does not believe it is exposed to any significant credit risk due to the nature of the counterparties of its receivables.

(c) Liquidity risk:

Liquidity risk is the risk that EORLA will be unable to fulfill its obligations on a timely basis or at a reasonable cost. EORLA manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

10. Financial instruments (continued):

(d) 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. Market factors include three types of risk: interest rate risk, currency risk and other price risk.

(i) Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. EORLA is exposed to this risk through its investments as disclosed in note 3.

(ii) Currency and other price risk:

EORLA believes it is not subject to significant currency or other price risk from its financial instruments as it holds insignificant amounts in foreign currencies and does not hold investments traded in an active market.

EORLA's financial risks arising from its financial instruments have not changed significantly in the year. Management believes that its financial risks are appropriately mitigated and do not pose a significant risk to its operations. There have been no significant changes in the policies, procedures and methods used to manage these risks in the year.

11. Contingencies:

(a) Legal matters and litigation

The nature of EORLA's activities are such that there may be litigation pending or in prospect at any time. With respect to claims as at March 31, 2023, management believes EORLA has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on EORLA's financial position.

(b) Healthcare Insurance Reciprocal of Canada:

A group of healthcare organizations formed the Healthcare Insurance Reciprocal of Canada ("HIROC"), of which EORLA is a member. HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to healthcare organizations in the provinces and territories where it is licensed. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the year in which they were a subscriber. No such assessments have been made to March 31, 2023.

EASTERN ONTARIO REGIONAL LABORATORY ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

11. Contingencies (continued):

(c) Employment matters:

During the normal course of operations, EORLA is involved in certain employment related negotiations and other matters and has recorded accruals based on management's estimate of potential settlement amounts where these amounts are reasonably determinable and deemed likely to occur.

12. Implementation of new accounting standard:

On April 1, 2022, EORLA 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. 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 implementation of this standard did not require EORLA to reflect any adjustments in these financial statements as EORLA does not have any significant legal obligations with respect to the retirement of its tangible capital assets.