Financial Statements of

HAMILTON HEALTH SCIENCES CORPORATION

And Independent Auditors' Report thereon

Year ended March 31, 2022

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton ON L8P 4W7
Canada
Tel 905-523-8200
Fax 905-523-2222

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Hamilton Health Sciences Corporation

Opinion

We have audited the financial statements of Hamilton Health Sciences Corporation (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2022
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of remeasurement gains and losses 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 Entity as at March 31, 2022, and its results of operations, changes in net assets, its remeasurement gains and losses 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 "***Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' 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.

Auditors' Responsibility 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 auditors' 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.

- 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 auditors’ 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 auditors’ 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

June 21, 2022

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements

Year ended March 31, 2022
(All amounts are expressed in thousands of dollars)

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 114,534	$ 119,198
Restricted cash and cash equivalents (note 2)	56,621	70,343
Short-term investments (note 3)	2,494	3,216
Accounts receivable (note 4)	197,725	203,969
Inventories	30,633	24,646
Prepaid expenses and deposits	13,072	9,895
	415,079	431,267
Portfolio investments (note 5)	77,843	79,323
Other non-current assets	21,203	12,946
Capital assets, net (note 7)	1,037,544	921,316
	$1,551,669	$1,444,852
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	$ 341,491	$ 279,221
Deferred revenue	11,077	2,127
Current portion of obligations under capital leases (note 9, 10)	7,850	10,219
Current portion of long-term debt (note 11)	8,114	3,887
	368,532	295,454
Obligations under capital leases (note 9, 10)	26,689	32,567
Long-term debt (note 11)	310,604	250,872
Post-retirement benefits [note 12 (b)]	68,448	66,749
Other long-term liabilities	6,038	5,562
Derivative liabilities (note 11)	879	5,774
Deferred capital contributions (note 13)	660,395	677,264
Deferred research contributions (note 14)	61,813	67,345
	1,503,398	1,401,587
Net assets (deficit):		
Unrestricted	(175,593)	(179,737)
Invested in capital assets [note 15 (a)]	127,752	132,061
Board designated	89,036	89,712
	41,195	42,036
Accumulated remeasurement gains	7,076	1,229
Commitments and contingencies (notes 9, 10, 18)		
	$1,551,669	$1,444,852

See accompanying notes to financial statements.

On behalf of the Board:

Dave Lazzarato (Jun 22, 2022 15:14 EDT) Director

David Collie (Jun 23, 2022 08:29 EDT) Director

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Operations
(In $000's)

Year ended March 31, 2022, with comparative figures for 2021

	2022	2021
Revenue:		
Ontario Health	$1,399,096	$1,321,502
Ontario Health Insurance Plan	37,985	34,971
Other ministries	51,855	46,662
Patient and third-party payers	24,790	24,878
Investment income (note 6)	2,509	2,692
Amortization of deferred capital contributions (note 13)	44,472	39,057
Ancillary and other recoveries	86,239	77,838
Research (note 14)	96,306	96,392
	1,743,252	1,643,992
Expenses:		
Salaries and employee benefits	983,236	918,762
Medical staff remuneration	92,059	88,435
Medical and surgical supplies	80,300	73,873
Drugs	173,446	160,124
Facilities	28,028	22,699
Amortization of capital assets	72,558	59,989
Equipment and software maintenance	42,349	33,695
Other expenses	174,054	185,058
Research (note 14)	98,063	95,505
	1,744,093	1,638,140
(Deficiency) excess of revenues over expenses before designated transfer of assets	(841)	5,852
Designated transfer of assets [note 19(c)]	-	2,628
(Deficiency) excess of revenues over expenses	$ (841)	$ 3,224

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Changes in Net Assets
(In $000's)

Year ended March 31, 2022, with comparative figures for 2021

	Unrestricted	Invested in capital assets (note 15)	Board designated	Total 2022	Total 2021
Net assets (deficit), beginning of year	$ (179,737)	$ 132,061	$ 89,712	$ 42,036	$ 38,812
(Deficiency) excess of revenues over expenses for the year	29,152	(29,993)	-	(841)	3,224
Transfers from Board designated	676	-	(676)	-	-
Net change in invested in capital assets [note 15(b)]	(25,684)	25,684	-	-	-
Net assets (deficit), end of year	$ (175,593)	$ 127,752	$ 89,036	$ 41,195	$ 42,036

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Remeasurement Gains and Losses
(In $000's)

Year ended March 31, 2022, with comparative figures for 2021

	2022	2021
Accumulated remeasurement gains (losses), beginning of year	$ 1,229	$ (5,767)
Unrealized gains (losses) attributable to:		
Derivatives	4,895	1,469
Portfolio investments	3,587	12,441
Foreign exchange	694	(3,950)
	9,176	9,960
Unrealized losses reclassified to deferred contributions:		
Portfolio investments	852	504
Foreign exchange	6	122
	858	626
Realized gains reclassified to statement of operations:		
Portfolio investments	(3,738)	(3,577)
Foreign exchange	(449)	(13)
	(4,187)	(3,590)
Net remeasurement gains for the year	5,847	6,996
Accumulated remeasurement gains, end of year	$ 7,076	$ 1,229

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Cash Flows
(In $000's)

Year ended March 31, 2022 with comparative figures for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
(Deficiency) excess of revenues over expenses for the year	$ (841)	$ 3,224
Items not involving cash:		
Amortization of capital assets	76,060	63,445
Amortization of deferred capital contributions	(46,067)	(40,521)
Non-pension post-retirement benefits expense	6,615	6,490
Gain on disposal of deferred capital	(10,875)	(6,253)
Loss on disposal of capital assets	13,284	9,933
Net gain on portfolio investments	(2,635)	(3,336)
	35,541	32,982
Net change in non-cash working capital balances related to operations (note 16)	71,980	(26,836)
Increase in other long-term liabilities	476	205
Non-pension post-retirement funding contributions	(4,916)	(4,817)
Net change in deferred research contributions	(5,532)	4,636
	97,549	6,170
Capital activities:		
Purchase of capital assets	(173,756)	(96,094)
Investing activities:		
Increase in other non-current assets	(8,257)	(6,933)
Purchase of investments	(16,668)	(25,976)
Proceeds on sale of investments	22,457	43,571
Decrease (increase) in restricted cash and cash equivalents (net)	13,722	(12,376)
	11,254	(1,714)
Financing activities:		
Contributions received for capital purposes	38,680	70,650
Proceeds received on long-term debt	36,750	-
Repayment of long-term debt (net)	(6,753)	(6,936)
Payment of obligations under capital leases	(8,388)	(6,813)
	60,289	56,901
Net decrease in cash and cash equivalents during the year	(4,664)	(34,737)
Cash and cash equivalents, beginning of year	119,198	153,935
Cash and cash equivalents, end of year	$ 114,534	$ 119,198
Supplemental information:		
Interest paid	$ 10,170	$ 8,137
Non-cash transactions:		
Purchase of capital assets included in accounts payable and accrued liabilities	17,880	21,560
Purchase of capital assets through assumption of long-term debt	33,962	-
Purchase of capital assets through lease obligations	141	45,959

See accompanying notes to financial statements.

Hamilton Health Sciences Corporation (the “Hospital”) is a family of five unique hospitals and five specialized facilities, serving more than 2.3 million residents of Hamilton, Central South and Central West Ontario. The Hospital is an academic health science organization incorporated without share capital under the Corporations Act (Ontario) and is a registered charity under the Income Tax Act (Canada) and as such is exempt from income taxes.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards (“PSAS”), including standards that apply to government not-for-profit organizations.

These financial statements include the assets, liabilities and operations of the Hospital. The financial statements do not include the assets, liabilities or operations of Hamilton Health Sciences Foundation (the “Foundation”), Hamilton Health Sciences Volunteer Association (the “Volunteer Association”), Hamilton Health Sciences Research Institute (“HHSRI”), West Lincoln Memorial Hospital Foundation (the “WLMH Foundation”) and West Lincoln Memorial Auxiliary (the “Auxiliary”), which are non-controlled not-for-profit entities [notes 19(a), (b), (c) and (d) respectively], or the activities of Bay Area Health Trust (“BAHT”), which is a non-controlled for-profit entity [note 19(e)].

A summary of the significant accounting policies is as follows:

(a) Revenue recognition:

The Hospital operates under a Hospital Service Accountability Agreement (the “H-SAA”) with Ontario Health. Effective April 1, 2021 the LHIN’s health system planning and funding functions were transferred to Ontario Health. This transfer should be considered when comparing these financial statements to the prior year. The H-SAA sets out the funding provided to the Hospital together with performance standards and obligations of the Hospital that establish acceptable results for the Hospital’s performance. Effective June 21, 2021, the Hospital entered into an amending agreement extending the H-SAA to March 31, 2022. Since year end, the Hospital entered into a further amending agreement extending the H-SAA to March 31, 2023.

If the Hospital does not meet certain performance standards or obligations, Ontario Health has the right to adjust certain funding streams received by the Hospital. Given that Ontario Health is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements represents management’s estimates of amounts earned during the year. As detailed further in note 22, additional funding has been provided to hospitals in the current year to address the impacts of the Coronavirus COVID-19 pandemic (COVID-19). The continued funding, eligibility requirements and related guidance involve considerable judgment resulting in added complexity in the current year in determining management’s estimates.

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

The Hospital follows the deferral method of accounting for contributions. 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 recognized.

Capital contributions received for the purpose of acquiring amortizable capital assets are deferred and amortized on the same basis and over the same period as the related capital assets.

Grants for sponsored research and other externally restricted contributions are recorded as deferred contributions and recognized as revenue in the periods in which the related expenses are incurred. In circumstances where all contractual obligations are satisfied, excess funding may be retained by the Hospital at the completion of a research project.

Investment income is recognized as revenue when earned except where contractually obligated to accrue interest to a deferred capital project or research study.

Revenue from other services is recognized when an arrangement is in place, services are provided or goods are sold and collection is reasonably assured.

(b) Inventories:

Inventories are valued at the lower of average cost and replacement value.

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Donated capital assets are recorded at fair value at the date of donation. Amortization is provided on a straight-line basis over the estimated useful life of the related capital asset. The amortization periods are as follows:

	Estimated useful life
Building and building improvements	20 to 40 years
Equipment	5 to 20 years

Building renovations and alterations that restore original operating conditions are expensed in the year incurred. Building improvements that reduce original operating costs or increase original capacity are capitalized as building improvements. Construction-in-progress is transferred to the appropriate asset category once the particular project is complete and amortization commences when the assets are ready for use.

1. Significant accounting policies (continued):

(d) Impairment of long-lived assets:

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, it is considered impaired. An impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Hospital uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

(e) Equipment under capital leases:

Equipment leases that effectively transfer substantially all of the risks and rewards of ownership to the Hospital as lessee are capitalized at the present value of the minimum payments, excluding executor costs, under the lease with a corresponding liability for the related lease obligations. The discount rate used to determine the present value of the lease payment is the lower of the Hospital's rate of incremental borrowing or the interest rate implicit in the lease. Charges to expenses are made for amortization on the equipment and interest on the lease obligations.

(f) Employee future benefit plans:

- Multi-employer plan:

  Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer, defined benefit pension plan. In accordance with PSAS, the plan is accounted for as a defined contribution plan as there is insufficient information to apply defined benefit plan accounting.

1. Significant accounting policies (continued):

(f) Employee future benefit plans (continued):

- Post-retirement benefit obligations:

  The Hospital accrues its obligations under non-pension employee benefit plans as employees render services.

  Certain employees of the Hospital are entitled to receive other post-employment benefits. The cost of these benefits is determined using the accrued benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and health-care costs. The discount rate used to determine the accrued benefit obligation was determined using the Hospital's long-term cost of borrowing consistent with the specific rates of interest and periods committed to by the Hospital on amounts borrowed. The Hospital estimated its long-term cost of borrowing by referencing the rate of return on provincial government bonds with an additional risk premium specific to the Hospital for varying durations based on the cash flows expected from the post-retirement benefit obligations. Past service costs relating to plan amendments are expensed when incurred. Actuarial gains and losses are amortized over the remaining service periods of the employees. The average remaining service period of active employees is 14 years.

(g) 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 of portfolio investments that are unrestricted or Board designated are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. Unrealized changes in fair value of portfolio investments related to externally restricted research are recorded in deferred research contributions.

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.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and adjusted through the statement of remeasurement gains and losses.

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.

There are three levels of fair value measurement to classify and 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 fair value of interest rate swaps is based on broker quotes. Those 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.

(h) Board designated net assets:

Board designated net assets include unrestricted donations and bequests as well as certain fund surpluses designated for specific purposes by the Board of Directors.

(i) Contributed services and materials:

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and as such is not reflected in these financial statements. Contributed materials by volunteers are also not recognized in these financial statements.

(All amounts are expressed in thousands of dollars)

1. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of the 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 revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the measurement of accrued liabilities, recognition of program funding, carrying amount of capital assets and obligations related to post-retirement benefits. Actual results could differ from those estimates.

2. Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments. These items are highly liquid, subject to insignificant risk of changes in value and have a short-term maturity of three months or less, and include Canadian, US and Euro currencies.

A portion of the cash and cash equivalents are restricted for the following purposes:

	2022	2021
Internally and externally designated trusts and research operations	$ 44,640	$ 54,056
Construction facilities	11,103	15,717
Strategic Reserve Fund	856	533
Patient trust accounts	22	37
	$ 56,621	$ 70,343

Restricted cash and cash equivalents earn interest at an average rate of 1.01% (2021 - 0.79%).

(All amounts are expressed in thousands of dollars)

3. Short-term investments:

Short-term investments consist of guaranteed investment certificates, deposit notes, government and corporate bonds, and other fixed term securities with remaining maturities of less than one year.

These investments are recorded at fair value of $2,494 (2021 - $3,216) as at March 31, 2022, with a cost of $2,475 (2021 - $3,176).

These investments are held for the following purposes:

	2022	2021
Internally and externally designated trusts and research operations	$ 1,891	$ 2,915
Strategic Reserve Fund	603	301
	$ 2,494	$ 3,216

These investments earn interest at an average rate of 2.50% (2021 - 2.66%).

4. Accounts receivable:

	2022	2021
Ontario Health	$ 125,750	$ 127,330
Ontario Health Insurance Plan	4,985	4,854
Patient	5,463	8,681
BAHT [note 19(e)]	523	101
Foundation, Volunteer Association, WLMH Foundation and Auxiliary [notes 19(a), (b), and (d)]	5,862	4,805
Research	28,529	31,730
Other	26,613	26,468
	$ 197,725	$ 203,969

(All amounts are expressed in thousands of dollars)

5. Portfolio investments:

		2022		2021
	Cost	Fair value	Cost	Fair value
Fixed income:				
Canadian	$ 16,864	$ 16,738	$ 18,966	$ 19,978
International	11,579	10,985	11,985	12,265
Equities:				
Canadian	18,365	24,357	18,646	22,184
International	22,050	25,763	20,611	24,896
	$ 68,858	$ 77,843	$ 70,208	$ 79,323

Fixed income investments have a weighted average term of 6.04 years (2021 - 6.18 years) to maturity and have an average yield of 3.21% (2021 - 3.07%) as at March 31, 2022.

These investments are held for the following purposes:

	2022	2021
Internally and externally designated trusts and research operations	$ 48,713	$ 52,378
Strategic Reserve Fund	29,130	26,945
	$ 77,843	$ 79,323

6. Investment income:

Investment income is classified as follows on the statement of operations:

	2022	2021
Investment income from Research (note 14)	$ 4,672	$ 5,229
Investment income from operations:		
Commitments and internally and externally designated trusts	7	9
Strategic Reserve Fund	1,126	625
Capital Acquisition Fund	1,187	1,857
Hospital operations	189	201
	2,509	2,692
	$ 7,181	$ 7,921

(All amounts are expressed in thousands of dollars)

6. Investment income (continued):

Investment income is comprised of the following:

	2022	2021
Interest and dividend income	$ 3,651	$ 4,512
Net realized gains	3,738	3,578
Investments fees	(208)	(169)
	$ 7,181	$ 7,921

7. Capital assets:

Capital assets consist of the following:

March 31, 2022	Cost	Accumulated amortization	Net book value
Land	$ 3,434	$ -	$ 3,434
Building and building improvements	1,091,904	365,350	726,554
Equipment	585,432	410,886	174,546
Construction-in-progress	133,010	-	133,010
	$ 1,813,780	$ 776,236	$ 1,037,544

March 31, 2021	Cost	Accumulated amortization	Net book value
Land	$ 3,434	$ -	$ 3,434
Building and building improvements	1,019,251	323,808	695,443
Equipment	535,439	381,820	153,619
Construction-in-progress	68,820	-	68,820
	$ 1,626,944	$ 705,628	$ 921,316

Included in capital assets are assets under capital leases at a cost of $51,639 (2021 - $51,529) and accumulated amortization of $8,634 (2021 - $3,987).

Included in equipment are assets not yet being amortized at a cost of $19,446 (2021 - $24,455).

Capital assets with a cost of $18,735 (2021 - $41,596) were disposed of in fiscal 2022 at a net loss of $2,409 (2021 - $3,680) which is included in other expenses in the statement of operations.

During the year $1,393 (2021 - $1,243) of capital assets were donated to the Hospital.

(All amounts are expressed in thousands of dollars)

7. Capital assets (continued):

Construction-in-progress consists primarily of the Health Information System renewal project (“Project Odyssey”), revitalization of the CoGeneration Facilities, West Lincoln Memorial Hospital Redevelopment, Capital Holdback Accruals, and the MES Turnkey projects.

8. Accounts payable and accrued liabilities:

	2022	2021
Accounts payable	$ 28,552	$ 50,586
Due to Ministry of Health (“MOH”) and Ontario Health	134,247	86,731
Accrued liabilities:		
Salaries, wages and employee benefits	130,978	87,953
Other	47,714	53,951
	$ 341,491	$ 279,221

Amounts due to MOH and Ontario Health are subject to a settlement process and are either repayable to the funder or the funder may approve the funds for future use.

9. Managed equipment service agreement:

The Hospital entered into a 15-year Managed Equipment Services Agreement (“MESA”) on December 20, 2019 with Siemens Healthcare Limited (“Siemens”) to provide the Hospital, effective April 1, 2020, with comprehensive financing, maintenance, support, and procurement for a variety of diagnostic equipment in exchange for a blended annual service payment. The MESA is governed by various committees composed of representatives from the Hospital and Siemens.

As equipment is acquired under the MESA it is accounted for as a capital lease at the time of delivery. Under the MESA, a non-revolving cash facility is made available to the Hospital for the purpose of financing turnkey work required prior to the installation of equipment acquired under the MESA. The total amount available under the facility is $48,000 and is to be drawn through 15 installments based on the expected installation dates of the associated equipment. As of March 31, 2022, $2,877 (2021 - $nil) was drawn. The facility bears fixed interest at a rate of 4.10%.

Services such as procurement, maintenance, and support provided under the MESA are expensed as incurred in the statement of operations. Due to differences in the timing of activities and payments under the MESA, the Hospital may record a deferred liability or prepaid deposit asset on the statement of financial position.

Future commitments under the MESA will change over time to reflect the changing requirements of the Hospital. Future payments are based on a detailed schedule of services and equipment which is subject to review and revision on an annual basis and include an annual adjustment to reflect inflationary indexes. The extent of future payments are also impacted by variable elements associated with performance targets.

(All amounts are expressed in thousands of dollars)

9. Managed equipment service agreement (continued):

Expected future payments under the MESA consist of the following:

	Capital lease	Turnkey financing	Operating commitments	Annual service payments
2023	$ 3,018	$ 3,168	$ 5,795	$ 15,054
2024	3,996	3,168	6,755	15,100
2025	5,120	3,168	7,036	15,344
2026	5,420	3,168	8,003	15,593
2027	5,971	3,168	7,636	15,847
Thereafter	84,208	25,347	62,286	169,494
	107,733	41,187	97,511	246,432
Less: amounts representing interest	17,345	1,157	-	18,502
	$ 90,388	$ 40,030	$ 97,511	$ 227,930

The following activity related to the MESA has been recognized in the financial statements for the year ending March 31, 2022:

	2022	2021
Equipment reserve	$ 4,831	$ 6,694
Turnkey reserve payments	3,262	3,303
Capital lease principal payments	901	145
Capital lease interest payments	398	68
Maintenance expense	5,134	4,248

Included in capital assets are MES equipment and turnkey assets at a cost of $20,140 (2021 - $14,603) and accumulated amortization of $1,448 (2021 - $176).

As at March 31, 2022, $12,564 (2021 - $13,324) relating to the MES capital lease obligation has been recognized in the financial statements, separate from the capital lease obligations disclosed in note 10 and is comprised of the following:

	2022	2021
Opening MES capital lease obligation	$ 13,324	$ -
MES equipment additions	141	13,469
Less: capital lease principal payments	901	145
MES capital lease obligation	12,564	13,324
Less: current portion	1,135	2,732
	$ 11,429	$ 10,592

(All amounts are expressed in thousands of dollars)

9. Managed equipment service agreement (continued):

As at March 31, 2022, $3,688 (2021 - $3,303) relating to the MES turnkey reserve has been recognized in the financial statements as follows:

	2022	2021
Opening MES turnkey reserve	$ 3,303	$ -
Turnkey reserve payments	3,262	3,303
Less: drawdown	2,877	-
	$ 3,688	$ 3,303

10. Lease commitments:

The Hospital has entered into various arrangements (excluding MESA) for the leasing of administrative office space, cloud-based services, and computer and medical equipment. The weighted average effective interest rate of the capital leases is 0.10% (2021 - 0.23%).

The future minimum annual payments consist of the following:

	Capital leases	Operating leases
2023	$ 6,722	$ 1,644
2024	6,019	1,644
2025	6,019	1,644
2026	3,222	1,644
2027	-	1,543
Thereafter	-	6,425
Total minimum lease payments	21,982	14,544
Less: amounts representing interest	7	
Obligations under capital leases	21,975	
Less: current portion	6,715	
	$ 15,260	

Obligations under capital leases recognized in the financial statements includes the MES capital lease obligation (note 9).

(All amounts are expressed in thousands of dollars)

11. Long-term debt:

		2022		2021
Capital loan payable by August 1, 2025 in monthly principal and interest instalments of $58 at 5.10% per annum (a)	$	2,133	$	2,758
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of $397 at 5.51% per annum (b)		9,605		10,655
Capital loan payable by September 17, 2029 in quarterly principal and interest instalments of $150 at 6.13% per annum (c)		3,595		3,961
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of $596 at 5.51% per annum (d)		14,191		15,739
Capital loan payable by October 4, 2023 in monthly principal and interest instalments of $31 at 3.00% (e)		542		889
Capital loan payable by April 24, 2023, interest-only for 5 years at BA rate of interest (f)		25,000		25,000
Series A senior unsecured debentures due January 17, 2059 with semi-annual interest payments of $3,683 at 3.68% (g)		200,000		200,000
Capital loan payable by August 1, 2042 in quarterly principal and interest instalments of $546 at 3.27% per annum, interest-only until August 1, 2022 at BA rate of interest (h)		32,000		-
Capital loan payable by January 1, 2031 in monthly principal and interest instalments of $292 at 6.07% per annum (i)		23,940		-
Capital loan payable by January 1, 2031 in monthly principal instalments of $74 at 3.32% per annum (j)		7,852		-
Capital loan payable by July 16, 2031 in monthly principal and interest instalments of $43 at 1.95% per annum (k)		4,463		-
		323,321		259,002
Less: current portion		8,114		3,887
Less: financing fees		915		940
Less: MES turnkey reserve (note 9)		3,688		3,303
	$	310,604	$	250,872

a) On July 15, 2005, the Hospital entered into a $9,000, 20-year financing arrangement for the purpose of financing the construction, acquisition, and development costs of parking equipment and improvements of the parking facilities at the Hamilton General Hospital (“General”) and Juravinski Hospital (“Juravinski”) sites. On a monthly basis, the Hospital is required to deposit the net profit, as defined, from the parking operations of the General and Juravinski sites into a net profit account held at the bank. At all times, the Hospital must maintain a minimum balance in the net profit account equal to the greater of $400 or the total of the next scheduled payment of principal and interest. At March 31, 2022, the balance in the net profit account is greater than the minimum required balance and is included in Construction facilities (note 2) in restricted cash and cash equivalents on the statement of financial position.

11. Long-term debt (continued):

As security, the bank has a first ranking specific assignment of all rights, title, and interest in and to all net profit and any other revenue and income arising from the General and Juravinski parking improvements from time to time but expressly excluding payments for monthly parking permits of employees of the Hospital; and a first ranking security agreement in respect of the net profit account. Under the terms of the financing agreement, the Hospital is required to comply with certain loan covenants and at year-end the Hospital was in compliance with these covenants.

The Hospital has in place an interest rate swap agreement (“Swap Agreement”), which will expire on August 1, 2025, that fixes the interest rate at 4.65%, plus stamping fees of 0.45%. The fair value of the Swap Agreement is based on amounts quoted by the Hospital’s bank to realize favourable contracts or settle unfavourable contracts, taking into account interest rates at March 31, 2022. The fair value of the Swap Agreement at March 31, 2022 is ($81) [2021 - ($238)].

b) On September 26, 2007, the Hospital entered into a $19,500, 20-year financing arrangement for the purpose of financing construction costs related to energy retrofit contracts at the Chedoke, Juravinski, and General sites. The Hospital has a Swap Agreement in place that fixes the interest rate at 5.26%, plus stamping fees of 0.25%. The fair value of the Swap Agreement at March 31, 2022 is ($945) [2021 - ($1,801)].

c) On January 22, 2009, the Hospital entered into a $6,900, 20-year financing arrangement for the purpose of financing the related construction costs for the central utility plant upgrade at the Juravinski site. The Hospital has a Swap Agreement in place that fixes the interest rate at 4.33%, plus stamping fees of 1.80%. The fair value of the Swap Agreement at March 31, 2022 is ($224) [2021 - ($509)].

d) On September 26, 2007, the Hospital entered into an amended $25,000 financing agreement for the purpose of financing construction costs related to energy retrofit contracts at the McMaster site. In fiscal 2011, an additional $3,000 was drawn on the facility and the energy enhancement interim construction loan was then converted into a 20-year term loan. The Hospital has a Swap Agreement in place that fixes the interest rate at 5.26%, plus stamping fees of 0.25%. The fair value of the Swap Agreement at March 31, 2022 is ($1,395) [2021 - ($2,659)].

e) On September 25, 2017 the Hospital entered into a $2,043, six-year financing agreement for the purpose of financing capital acquisitions at McMaster, General, Juravinski and West Lincoln Memorial Hospital (“WLMH”) sites.

11. Long-term debt (continued):

f) On March 23, 2018, the Hospital entered into an $11,000, five-year interest only revolving capital loan for the purpose of financing capital acquisitions. On October 31, 2018 and again on January 22, 2019 an additional $7,000 was drawn on the facility. As of March 31, 2022, the $25,000 facility has been fully drawn, however $306 (2021 - $595) has not yet been spent. The loan consists of monthly renewals through 30-day Banker's Acceptances with a current rate of interest of 0.86% (2021 - 0.94%). Prior to the end of the five-year period, the Hospital and the Lender may choose to arrange for a mutually agreeable repayment schedule. However, until such time in which refinancing takes place, the loan is considered due on demand at the end of the 61-month commitment period, on April 24, 2023.

g) On January 17, 2019, the Hospital issued a $200,000 Series A senior unsecured debenture at par value for the purpose of financing capital investments. Total financing costs of $1,196 were paid out of proceeds on issuance. The debenture bears interest at 3.68%, payable semi-annually on July 17 and January 17, with the principal to be repaid in full on January 17, 2059. As at March 31, 2022, $23,800 of proceeds from the debenture have been invested with external investments managers as a Board designated Strategic Reserve Fund. As at March 31, 2022, $119,833 (2021 - $39,260) of the debenture proceeds have been spent.

h) On February 1, 2021, the Hospital entered into an agreement for a $53,000 non-revolving capital loan facility available in multiple draws for the CoGeneration Revitalization Project. On March 29, 2022 the facility was increased to $53,000 (2021 - $50,000) and the fixed interest rate was increased to 3.27% (2021 - 3.23%). The loan will be interest only until August 1, 2022 through 30-day banker's acceptances plus 0.58% stamping fee. As of March 31, 2022, $32,000 (2021 - $nil) has been drawn from the facility. The Hospital has a 20-year Swap Agreement in place that fixes the interest rate at 3.27% starting August 1, 2022. The fair value of the Swap Agreement at March 31, 2022 is $1,511 [2021 - ($567)].

i) On June 30, 2021, the Hospital assumed $25,443 in existing debt from BAHT as part of the purchase of CoGeneration assets. The loan will be repaid over 115-months at a fixed rate of 6.07% and requires that the hospital maintain a credit rating equal to the Province of Ontario and that a Guarantor Letter of Credit remain in full force until the loan is fully repaid.

j) On June 30, 2021, the Hospital assumed $8,519 in existing debt from BAHT as part of the purchase of CoGeneration assets. The loan will be repaid over 115-months and the Hospital has a Swap Agreement in place that fixes the interest rate at 2.67%, plus stamping fees of 0.65%. The fair value of the Swap Agreement at March 31, 2022 is $23 (2021 - $nil).

k) On July 16, 2021, the Hospital entered into a 10-year financing agreement for a $4,750 committed non-revolving term facility to finance expenses related to the CoGeneration facilities, and for general corporate purposes. The Hospital has a Swap Agreement in place that fixes the interest rate at 1.56%, plus stamping fees of 0.39%. The fair value of the Swap Agreement at March 31, 2022 is $232 (2021 - $nil).

(All amounts are expressed in thousands of dollars)

11. Long-term debt (continued):

The future minimum annual debt principal repayments over the next five years and thereafter are as follows:

2023	$ 8,114
2024	33,837
2025	9,105
2026	9,131
2027	9,265
Thereafter	253,869
	$ 323,321

12. Employee future benefit plans:

(a) Multi-employer plan:

The Hospital's contributions to HOOPP during the year amounted to $62,395 (2021 - $59,689) and are included in salaries and employee benefits expense. The most recent actuarial valuation of HOOPP as at December 31, 2021 indicates the plan has a 20% surplus in disclosed actuarial assets and is fully funded on a solvency basis.

(b) Post-retirement benefits:

The Hospital's non-pension post-retirement benefit plans comprise medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are between the ages of 55 and 65. The post-retirement benefit obligations are calculated based on the latest actuarial valuation performed on March 31, 2022.

The sick leave benefit plan for employees was previously amended such that the future accumulation of sick leave credits was discontinued; however, employees are entitled to cash payments on a portion of their accumulated sick bank entitlements on termination of employment. As at March 31, 2022, the sick leave obligation amounted to $1,584 (2021 - $2,165).

(All amounts are expressed in thousands of dollars)

12. Employee future benefit plans (continued):

(b) Post-retirement benefits (continued):

The post-retirement benefits as at March 31, 2022 includes the following components:

	2022	2021
Accrued benefit obligation	$ 72,282	$ 76,995
Unamortized actuarial losses	(3,834)	(10,246)
Post-retirement benefit liability	$ 68,448	$ 66,749

	2022	2021
Post-retirement benefit liability, beginning of year	$ 66,749	$ 65,076
Current service cost	3,313	3,214
Interest cost	2,413	2,387
Amortization of actuarial losses	889	889
	73,364	71,566
Non-pension post-retirement funding contributions	(4,916)	(4,817)
Post-retirement benefit liability, end of year	$ 68,448	$ 66,749

The significant actuarial assumptions utilized in measuring the Hospital's accrued benefit obligations for the non-pension post-retirement benefit plans are as follows:

	2022	2021
Discount rate	3.70%	3.10%
Expected annual increase in dental care costs*	3.00%	3.00%
Expected annual increase in health care costs*	5.70%	5.25%

*These rates are determined based on the McMaster Model of Long-Term Care Cost Trends in Canada, and are expected to converge to an ultimate rate of 3.57% in 2040.

(All amounts are expressed in thousands of dollars)

13. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

	2022	2021
Balance, beginning of year	$ 677,264	$ 652,145
Add contributions for capital purposes:		
MOH & Ontario Health	24,062	59,557
Foundations and Volunteer Association	6,097	7,881
Other	9,914	4,455
	717,337	724,038
Less: Amortization	46,067	40,521
Disposals of related capital assets	10,875	6,253
Balance, end of year	$ 660,395	$ 677,264

Included in the above balance are contributions of $24,327 (2021 - $25,158) received but not yet utilized to purchase capital assets. Amortization is comprised of $44,472 (2021 - $39,057) from hospital operations and $1,595 (2021 - $1,464) from research operations. Included in the above additions are $1,393 (2021 - $1,243) of capital assets that were donated to the Hospital.

14. Deferred research contributions:

Deferred research contributions represent unspent externally restricted grants for research. The changes in the deferred research contributions balance are as follows:

	2022	2021
Balance, beginning of year	$ 67,345	$ 62,709
Externally restricted contributions received	54,150	67,405
Amount recognized as revenue during the year	(58,824)	(62,143)
Net change in fair value on invested unspent deferred research balances	(858)	(626)
Balance, end of year	$ 61,813	$ 67,345

(All amounts are expressed in thousands of dollars)

14. Deferred research contributions (continued):

Research revenues and expenses are calculated as follows:

	2022	2021
Research revenues:		
Investment income	$ 4,672	$ 5,229
Amortization of deferred capital contributions	1,595	1,464
Research and other revenues	90,039	89,699
	$ 96,306	$ 96,392
Research expenses:		
Salaries and employee benefits	$ 47,275	$ 46,285
Medical staff remuneration	2,703	2,229
Medical and surgical supplies	38	103
Drugs	2,555	2,972
Facilities	1,790	2,068
Amortization of capital assets	3,502	3,456
Other research expenses	40,200	38,392
	$ 98,063	$ 95,505

Other research revenues of $90,039 (2021 - $89,699) consist of externally restricted research grants and donations recognized in income during the year of $58,824 (2021 - $62,143) and $31,209 (2021 - $27,556) from research administered accounts, internally restricted by the Hospital's Board of Directors.

15. Net assets invested in capital assets:

(a) Net assets invested in capital assets are calculated as follows:

	2022	2021
Capital assets – net	$ 1,037,544	$ 921,316
Less amounts funded by:		
Deferred capital contributions spent (note 13)	636,068	652,106
Obligations under capital leases (note 9, 10)	34,539	42,786
Long-term debt spent (note 11)	239,185	94,363
	$ 127,752	$ 132,061

(All amounts are expressed in thousands of dollars)

15. Net assets invested in capital assets (continued):

(b) Net change in invested in capital assets is calculated as follows:

	2022	2021
Amortization of capital assets	$ (76,060)	$ (63,445)
Amortization of deferred capital contributions	46,067	40,521
	(29,993)	(22,924)
Purchase of capital assets - net	192,288	139,275
Amounts funded by deferred capital contributions, net	(30,029)	(55,440)
Decrease (increase) in obligations under capital leases	8,247	(39,146)
Amounts funded by long-term debt	(144,822)	(28,711)
	25,684	15,978
	$ (4,309)	$ (6,946)

16. Statement of cash flows:

The net change in non-cash working capital balances related to operations consists of the following:

	2022	2021
Accounts receivable	$ 6,244	$ (71,669)
Inventories	(5,987)	(5,584)
Prepaid expenses and deposits	(3,177)	3,152
Accounts payable and accrued liabilities	65,950	46,078
Deferred revenue	8,950	1,187
	$ 71,980	$ (26,836)

17. Operating line of credit:

As at March 31, 2022, the Hospital has available a $100,000 (2021 - $100,000) unsecured demand operating line of credit, of which $nil (2021 - $nil) was drawn. This primary facility bears interest at the prime rate less 0.80%.

As at March 31, 2022, the Hospital has available a $40,000 (2021 - $40,000) unsecured demand operating line of credit, of which $nil (2021 - $nil) was drawn. This secondary facility bears interest at the prime rate less 0.75%.

As at March 31, 2022, the prime interest rate is 2.70% (2021 - 2.45%) and the Hospital is compliant with its lending covenants.

18. Commitments and contingencies:

a) The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any time. With respect to claims as at March 31, 2022, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the Hospital's financial position.

b) The Hospital participates in the Healthcare Insurance Reciprocal of Canada, a pooling of the public liability insurance risks of its hospital members. All members of the pool pay premiums that are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the year in which they were members. No losses have been assessed as at March 31, 2022.

c) The Hospital is progressing through the multi-phased framework of the Our Healthy Future ("OHF") initiative. Ontario Health has endorsed the Hospital's vision for its programs and services over the next 20 years as outlined in the OHF initiative. This long-range vision is the first in a multi-step capital planning process to renew the hospital facilities and model of care.

   During fiscal 2022, the MOH approved one-time capital planning grants of up to $8,000 to support the planned redevelopment of the Juravinski Hospital and Cancer Centre (JHCC) site.

   Planning work has progressed at an expedited pace to rebuild the WLMH site. The successful design-build team has been selected with final agreements signed on April 29, 2022. Ground breaking began on April 30, 2022 and construction is expected to begin in May 2022. The MOH's current commitment to this project is $17,274.

d) In response to COVID-19, the Hospital has committed to the deployment of the Mobile Health Unit project at the Hamilton General Hospital site. During fiscal 2021, the MOH approved a one-time capital grant of up to $12,335 towards the estimated total project costs. As at March 31, 2022, the project has been completed with total costs incurred of $7,691 (2021 - $235).

e) The total capital expenditure commitments for the projects described in (c) and (d) above and other minor projects outstanding as at March 31, 2022 are estimated to be $68,964 (2021 - $83,365).

f) As at March 31, 2022, the Hospital has outstanding letters of credit of $3,440 (2021 - $3,440) related to various construction and renovation projects. The Hospital also has a Guarantor Letter of Credit of $23,940 which will remain in full force until a loan related to the CoGeneration assets is fully repaid.

g) During the normal course of operations, the Hospital 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.

19. Related party transactions:

a) The Foundation is an independent organization that raises funds and holds resources solely for the benefit of the Hospital. The Foundation is incorporated without share capital under the laws of the Province of Ontario and is a charitable organization registered under the Income Tax Act. The Hospital is considered to be affiliated with the Foundation due to common directors on the boards. All amounts received from the Foundation are restricted in use by the Foundation and accordingly are accounted for by the Hospital as externally restricted contributions. The Foundation contributed $4,903 (2021 - $6,763) during the year for capital and $4,151 (2021 - $1,199) for research. Included in the Hospital's assets as at March 31, 2022 is $3,360 (2021 - $3,212) in accounts receivable from the Foundation.

b) The Volunteer Association is an independent organization that raises funds and holds resources for the benefit of the Hospital. In November 2011, the Hospital entered into a ten-year lease agreement with the Volunteer Association to manage the Hospital's parking operations. On May 30, 2021 an agreement was signed to extend the agreement for a one year period from November 1, 2021 to October 31, 2022. The Volunteer Association pays rent in-kind to the Hospital as an annual irrevocable gift, which is restricted for capital projects. All amounts received from the Volunteer Association are restricted and accordingly are accounted for as externally restricted contributions. The Volunteer Association contributed $9,635 (2021 - $5,507) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2022 is $1,697 (2021 - $934) in accounts receivable from the Volunteer Association.

c) HHSRI solicits, receives, manages, and distributes funds in respect of the advancement of health science research and education and the improvement of patient care in support of legislated and strategic priorities of the Hospital. HHSRI is a corporation without share capital under the laws of Canada and is a registered charity under the Income Tax Act. The Hospital is considered to be affiliated with and has significant influence over HHSRI as the Chief Executive Officer ("CEO") of the Hospital is also the CEO and a board member of HHSRI. The Hospital provides executive management, finance, and administrative services to HHSRI under a Management Services Agreement. During fiscal 2022, HHSRI paid the Hospital $416 (2021 - $394) for services under the Management Services Agreement and HHSRI contributed $18,090 (2021 - $10,920) to the Hospital for research. Included in the Hospital's assets at March 31, 2022 is $5,960 (2021 - $9,124) in accounts receivable from HHSRI. During fiscal 2022 the Hospital authorized a designated gift of $nil to HHSRI (2021- $2,628).

d) The WLMH Foundation and the Auxiliary are both independent organizations. The WLMH Foundation receives and maintains funds for charitable purposes which it donates to the Hospital for the use of operations, renovations, maintenance, and equipment. The Auxiliary raises money to assist the Hospital in the acquisition of medical equipment and to assist the programs. The WLMH Foundation contributed $393 (2021 - $922) during the year for capital and non-capital expenses. The Auxiliary contributed $220 (2021 - $707) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2022 is $805 (2021 - $655) in accounts receivable from the WLMH Foundation and $nil (2021 - $4) from the Auxiliary.

19. Related party transactions (continued):

e) BAHT is a commercial entity dedicated to developing business opportunities harnessing private sector experience, energy, and entrepreneurship to benefit the community by supporting profitable business development in the health-care sector. The beneficiaries of BAHT are the Hospital, the Foundation, and McMaster University. Transactions with BAHT are considered to be in the normal course of operations and are recorded at the exchange amount.

Included in the Hospital's assets as at March 31, 2022 is $523 (2021 - $101) in accounts receivable of which $515 (2021 - $91) is interest bearing at a rate of prime less 0.20%. Included in the Hospital's accounts payable is $135 (2021 - $13). In the current year, the Hospital earned investment income of $4 (2021 - $13), received a beneficiary distribution of $1,250 (2021 - $250), and paid $7,520 (2021 - $11,376) of non-salary expenses to BAHT.

The Hospital negotiated and executed agreements with BAHT and its lenders to purchase all CoGeneration assets operated at the Hospital sites effective June 30, 2021 for a deemed fair value of $33,962 in exchange for assuming equivalent value financing. As a result of the transaction, the operating lease related to the CoGeneration operations with BAHT was terminated and the Hospital no longer guarantees any BAHT financing (December 31, 2020 - $39,199). In addition, during the year, the Hospital entered into a 25-year promissory note receivable from BAHT in the amount of $3,479 at a rate of 1.95% paid in quarterly installments. The balance of the promissory note receivable was $3,381 as at March 31, 2022.

20. Financial instruments and risk management:

(a) Financial instruments:

The Hospital's financial instruments consist of cash and cash equivalents, restricted cash and cash equivalents, short-term investments, portfolio investments, accounts receivable, accounts payable and accrued liabilities, long-term debt, obligations under capital leases, and derivative liabilities.

(b) Fair value measurement:

Within the fair value hierarchy, as at March 31, 2022 and 2021, cash and cash equivalents, restricted cash and cash equivalents, short-term investments and portfolio investments are classified as Level 1, and derivative liabilities are classified as 2.

20. Financial instruments and risk management (continued):

(c) Risk management:

The Hospital is exposed to a variety of financial risks, including market risk, credit risk, and liquidity risk. The Hospital's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Hospital's financial performance. The Hospital is exposed to market risk with regards to its short-term investments, portfolio investments, and floating rate debt, which are regularly monitored.

(i) Market risk:

The Hospital is exposed to market risk through the fluctuation of financial instrument fair values due to changes in market prices. The significant market risks to which the Hospital is exposed are interest rate, currency, and other price risks.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument fluctuates because of changes in market interest rates. The Hospital is exposed to interest rate risk on its investments and long-term debt. Of these risks, the Hospital's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to decreases in cash flow and excess interest cost. The Hospital has effectively fixed its interest rate on the majority of its floating rate long-term debt by entering into various interest rate swaps.

The Hospital currently employs interest rate swaps to convert its variable interest rate on $73,839 of its floating rate loan facilities to a fixed interest rate (note 11). Interest rate swaps are employed in order to reduce variability in future interest cash flows. The swaps are measured at fair value until the swap is settled and the change in fair value is recorded in the statement of remeasurement gains and losses.

(b) Currency risk:

Currency risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Hospital's future cash flows or the fair value of its financial instruments. The Hospital's exposure to foreign currency exchange risk is on the cash and cash equivalents, restricted cash and cash equivalents, short-term investments, portfolio investments and other non-current assets which includes cash, securities and notes receivable denominated in US dollars and euros. As at March 31, 2022, the total amount of cash, securities and other non-current assets denominated in a foreign currency was $33,657 (2021 - $36,089).

The Hospital's estimate of the effect on net assets as at March 31, 2022 due to a 1.00% increase or decrease in the exchange rates, with all other variables held constant, would approximately amount to an increase or decrease of $337 (2021 - $361).

(All amounts are expressed in thousands of dollars)

20. Financial instruments and risk management (continued):

(c) Risk management (continued):

(i) Market risk (continued):

(c) Other price risk:

Other price risk refers to the risk the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from risks noted above). The Hospital is exposed to other price risk through its portfolio investments.

As at March 31, 2022, the Hospital's total exposure to other price risk is $77,843 (2021 - $79,323). The Hospital's estimate on the effect of net assets as at March 31, 2022 due to a 1.00% increase or decrease in the fair value of long-term investments, with all other variables held constant, would approximately amount to an increase or decrease of $778 (2021 - $793). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(ii) Credit risk:

The Hospital is exposed to credit risk in the event of non-payment by patients for uninsured services and services provided to non-resident patients. The risk is common to hospitals as they may be required to provide care for patients regardless of their ability to pay for services provided.

As at March 31, 2022, the following accounts receivable were past due but not impaired:

	30 days	60 days	90 days	Over 120 days
Accounts receivable	$ 12,596	$ 6,346	$ 3,658	$ 9,818

The Hospital is also exposed to credit risk through its portfolio investments in high quality bonds and equity securities and loans receivable. Management considers the credit risk to be low as the Hospital only places its investments with reputable and financially stable organizations and the portfolio is monitored by the Investment Committee.

(All amounts are expressed in thousands of dollars)

20. Financial instruments and risk management (continued):

(c) Risk management (continued):

(iii) Liquidity risk:

Liquidity risk results from the Hospital's potential inability to meet its obligations associated with financial liabilities as they come due. The Hospital monitors its operations and cash flows to ensure the current and future obligations will be met. The Hospital believes its current sources of liquidity are sufficient to cover its known short and long-term cash obligations.

The table below is a maturity analysis of the Hospital's financial liabilities:

	Up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	$ 341,491	$ -	$ -	$ -	$ 341,491
Obligations under capital leases	3,715	4,135	19,802	6,887	34,539
Long-term debt	3,734	4,380	61,338	249,266	318,718
Other long-term liabilities	-	686	2,271	3,081	6,038
Derivative liabilities	-	-	-	879	879
	$ 348,940	$ 9,201	$ 83,411	$ 260,113	$ 701,665

21. Funding agreements:

The Hospital entered into funding agreements with various parties which require the disclosure of the revenues and expenditures for the respective program as follows:

a) Clinical Education Program:

During the year, the Clinical Education Program incurred expenses of $86,492 (2021 - $80,661) and received $88,547 (2021 - $82,168) from the MOH. As applicable, the surplus in funding is owed to the MOH, and, as such, a payable of $2,055 (2021 - $1,507) has been included in accounts payable and accrued liabilities.

(All amounts are expressed in thousands of dollars)

21. Funding agreements (continued):

b) Diabetes Education Program:

During the year, the Diabetes Education Program incurred expenses of $886 (2021 - $1,033) and received $874 (2021 - $874) from Ontario Health.

	2022	2021
Revenue	$ 874	$ 874
Expenses:		
Salaries and benefits	864	1,014
General operating expenditures	22	19
Total expenses	$ 886	$ 1,033

c) Emergency Department Physician Program:

During the year, the Emergency Department Physician Program at the WLMH site incurred expenses of $2,146 (2021 - $2,064) and received $2,146 (2021 - $2,185) in funding. As applicable, the surplus in funding is owed to the MOH, and, as such, a payable of $nil (2021 - $121) has been included in accounts payable and accrued liabilities.

	2022	2021
Revenues:		
MOH	$ 1,601	$ 1,540
COVID-19 surge fund	-	67
APP premium payments	545	449
Medical trainee programs	-	2
OHIP and 3rd party	-	6
	$ 2,146	$ 2,064

(All amounts are expressed in thousands of dollars)

21. Funding agreements (continued):

c) Emergency Department Physician Program (continued):

		2022		2021
Expenses:				
Physician:				
Participating physicians' services	$	1,574	$	1,510
COVID-19 surge fund		–		66
APP premium payments		545		446
Non-participating physicians' services		–		10
Mentorship program		–		2
		2,119		2,034
Administration:				
Medical director		6		6
Billing administration		21		24
		27		30
	$	2,146	$	2,064

22. Coronavirus COVID-19 pandemic:

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. In response to COVID-19 and consistent with guidance provided by the MOH and other government agencies, the Hospital has implemented a number of measures to protect patients and staff from COVID-19. In addition, the Hospital has actively contributed towards the care of COVID-19 patients and the delivery of programs that protect public health.

The Hospital continues to respond to the pandemic and plans for continued operational and financial impacts during the fiscal 2023 year. Management has assessed the impact of COVID-19 and believes there are no significant financial issues that compromise its ongoing operations.

The MOH has continued a number of funding programs intended to assist hospitals with incremental operating and capital costs, and revenue impacts resulting from COVID-19. Similar to prior year, the MOH is also permitting hospitals, on a one-time basis, to redirect unearned funding from select hospital programs towards COVID-19 costs and other budgetary pressures through a broad-based funding reconciliation.

(All amounts are expressed in thousands of dollars)

22. Coronavirus COVID-19 pandemic (continued):

Management's estimate of MOH revenue for COVID-19 is based on the most recent guidance provided by the MOH and the impacts of COVID-19 on the Hospital's operations, revenues and expenses. As a result of management's estimation process, the Hospital has determined a range of reasonably possible amounts that are considered by management to be realistic, supportable and consistent with the guidance provided by the MOH. However, given the potential for future changes to funding programs that could be announced by the MOH, the Hospital has recorded a provision of $5,154 (2021 - $16,304) as an allowance offsetting Ontario Health receivables. Any adjustments to management's estimate of MOH revenues will be reflected in the Hospital's financial statements in the year of settlement.

Details of the MOH funding for COVID-19 included in Ontario Health revenue for the current year are summarized below:

	2022	2021
Incremental COVID-19 operating expenses	$ 49,837	$ 56,411
Unearned funding from select hospital programs	23,542	13,089
Temporary physician funding	9,599	6,963
Lost insurance based or non-MOH revenue resulting from COVID-19	–	16,579
Pandemic pay program	–	15,691
Less: provision for future changes to funding programs	5,154	16,304
	$ 77,824	$ 92,429

In addition to the above, the Hospital has also recognized $2,423 (2021 - $14,366) in MOH funding for COVID-19 related capital expenditures, which has been recorded as an addition to deferred capital contributions during the year.

23. Future accounting change – asset retirement obligations:

Canadian public accounting standard 3280 Asset retirement obligation provides guidance on how to account for and report liabilities for retirement of tangible capital assets. The Hospital plans to adopt this accounting standard on a modified retroactive basis, consistent with the transitional provisions in the standard, and information presented for comparative purposes will be restated. The impact of the adoption of this accounting standard on the financial statements is currently being analyzed, however this standard is expected to have a material impact on the statement of financial position in the year of adoption.