

Financial Statements of

**HAMILTON HEALTH SCIENCES
CORPORATION**

And Independent Auditor's Report thereon

Year ended March 31, 2023



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INDEPENDENT AUDITOR'S 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, 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 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, 2023, and its results of operations, changes in net assets, 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our auditor's report.

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

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



Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements, which explains that certain comparative information presented for the year ended March 31, 2023 has been restated.

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter – Comparative Information

As part of our audit of the financial statements for the year ended March 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended March 31, 2022. In our opinion, such adjustments are appropriate and have been properly applied.

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

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

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

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

Auditor's 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 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.



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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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

June 27, 2023

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Financial Position
(In \$000's)

March 31, 2023, with comparative information for 2022

	2023	2022
		(Restated - note 2)
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 54,329	\$ 114,534
Restricted cash and cash equivalents (note 3)	73,573	56,621
Short-term investments (note 4)	7,726	2,494
Accounts receivable (note 5)	231,278	197,725
Inventories	27,008	30,633
Prepaid expenses and deposits	12,987	13,072
	406,901	415,079
Derivative assets (note 12)	2,961	-
Portfolio investments (note 6)	70,171	77,843
Other non-current assets	24,852	21,203
Capital assets, net (note 8)	1,095,770	1,038,065
	\$ 1,600,655	\$ 1,552,190
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 422,352	\$ 341,491
Deferred revenue	6,062	11,077
Current portion of obligations under capital leases (note 10, 11)	7,939	7,850
Current portion of long-term debt (note 12)	11,657	8,114
	448,010	368,532
Obligations under capital leases (note 10, 11)	26,922	26,689
Long-term debt (note 12)	323,137	310,604
Post-retirement benefits (note 13 (b))	69,403	68,448
Other long-term liabilities	6,003	6,038
Derivative liabilities (note 12)	-	879
Deferred capital contributions (note 14)	638,434	660,395
Deferred research contributions (note 15)	70,463	61,813
Asset retirement obligations (note 16)	29,866	29,866
	1,612,238	1,533,264
Net assets (deficit):		
Unrestricted	(231,387)	(175,593)
Invested in capital assets (note 17 (a))	99,488	98,407
Board designated	112,679	89,036
	(19,220)	11,850
Accumulated remeasurement gains	7,637	7,076
Commitments and contingencies (notes 10, 11, 20)		
	\$ 1,600,655	\$ 1,552,190

See accompanying notes to financial statements.

On behalf of the Board:


Dave Lazzarato

Dave.Lazzarato | Jun 28, 2023 10:06 EDT

Director


Rob Galaski

Rob.Galaski | Jun 29, 2023 09:00 EDT

Director

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Operations
(In \$000's)

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

	2023	2022
		(Restated - note 2)
Revenue:		
Ontario Health	\$1,424,243	\$1,399,096
Ontario Health Insurance Plan	38,120	37,985
Other ministries	49,070	51,855
Patient and third-party payers	27,649	24,790
Investment income (note 7)	4,139	2,509
Amortization of deferred capital contributions (note 14)	45,425	44,472
Ancillary and other recoveries	91,878	86,239
Research (note 15)	96,980	96,306
	1,777,504	1,743,252
Expenses:		
Salaries and employee benefits	1,026,693	983,236
Medical staff remuneration	88,019	92,059
Medical and surgical supplies	92,847	80,300
Drugs	170,256	173,446
Facilities	32,717	28,028
Amortization of capital assets	78,333	72,617
Equipment and software maintenance	47,228	42,349
Other expenses	175,123	174,054
Research (note 15)	97,358	98,063
	1,808,574	1,744,152
Deficiency of revenue over expenses	\$ (31,070)	\$ (900)

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

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

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

	Unrestricted	Invested in capital assets (note 17)	Board designated	Total 2023	Total 2022 (Restated - note 2)
Net assets (deficit), beginning of year	\$ (175,593)	\$ 98,407	\$ 89,036	\$ 11,850	\$ 42,036
Adjustment on adoption of the asset retirement obligation standard (note 2)	-	-	-	-	(29,286)
Net assets (deficit), beginning of year, as restated	(175,593)	98,407	89,036	11,850	12,750
(Deficiency) excess of revenue over expenses for the year	3,620	(34,690)	-	(31,070)	(900)
Transfers to Board designated	(23,800)	-	23,800	-	-
Transfers from Board designated	157	-	(157)	-	-
Net change in invested in capital assets (note 17(b))	(35,771)	35,771	-	-	-
Net (deficit) assets, end of year	\$ (231,387)	\$ 99,488	\$ 112,679	\$ (19,220)	\$ 11,850

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

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

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

	2023	2022
Accumulated remeasurement gains, beginning of year	\$ 7,076	\$ 1,229
Unrealized gains (losses) attributable to:		
Derivatives	3,840	4,895
Portfolio investments	(4,031)	3,587
Foreign exchange	2,221	694
	2,030	9,176
Unrealized (gains) losses reclassified to deferred contributions:		
Portfolio investments	(140)	852
Foreign exchange	(81)	6
	(221)	858
Realized (gains) losses reclassified to statement of operations:		
Portfolio investments	(1,463)	(3,738)
Foreign exchange	215	(449)
	(1,248)	(4,187)
Net remeasurement gains for the year	561	5,847
Accumulated remeasurement gains, end of year	\$ 7,637	\$ 7,076

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Statement of Cash Flows
(In \$000's)

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

	2023	2022
		(Restated - note 2)
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses for the year	\$ (31,070)	\$ (900)
Items not involving cash:		
Amortization of capital assets	81,815	76,119
Amortization of deferred capital contributions	(47,125)	(46,067)
Non-pension post-retirement benefits expense	6,198	6,615
Gain on disposal of deferred capital	(2,517)	(10,875)
Loss on disposal of capital assets	5,436	13,284
Net loss (gain) on portfolio investments	752	(2,635)
	13,489	35,541
Net change in non-cash working capital balances related to operations (note 18)	46,953	71,980
(Decrease) increase in other long-term liabilities	(35)	476
Non-pension post-retirement funding contributions	(5,243)	(4,916)
Net change in deferred research contributions	8,650	(5,532)
	63,814	97,549
Capital activities:		
Purchase of capital assets	(136,893)	(173,756)
Investing activities:		
Increase in other non-current assets	(3,649)	(8,257)
Purchase of investments	(21,960)	(16,668)
Proceeds on sale of investments	20,369	22,457
(Increase) decrease in restricted cash and cash equivalents (net)	(16,952)	13,722
	(22,192)	11,254
Financing activities:		
Contributions received for capital purposes	27,681	38,680
Proceeds received on long-term debt	27,660	36,750
Repayment of long-term debt (net)	(11,584)	(6,753)
Payment of obligations under capital leases	(8,691)	(8,388)
	35,066	60,289
Net decrease in cash and cash equivalents during the year	(60,205)	(4,664)
Cash and cash equivalents, beginning of year	114,534	119,198
Cash and cash equivalents, end of year	\$ 54,329	\$ 114,534
Supplemental information:		
Interest paid	\$ 10,629	\$ 10,170
Non-cash transactions:		
Purchase of capital assets included in accounts payable and accrued liabilities	16,930	17,880
Purchase of capital assets through assumption of long-term debt	-	33,962
Purchase of capital assets through lease obligations	9,013	141

See accompanying notes to financial statements.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

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 21(a), (b), (c) and (d) respectively], or the activities of Bay Area Health Trust ("BAHT"), which is a non-controlled for-profit entity [note 21(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. 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 April 25, 2023, the Hospital entered into a further amending agreement extending the H-SAA to March 31, 2024.

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 24, additional funding has been provided to the Hospital 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.

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.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

1. Significant accounting policies (continued):

(a) Revenue recognition (continued):

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.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

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.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

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 16 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.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

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) Asset retirement obligations:

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefit will be given up; and
- A reasonable estimate of the amount can be made

The liability for asbestos removal has been recognized based on the estimated future expenses. The liability for the removal of underground fuel tanks and radiologically contaminated equipment has been recognized based on estimated future expenses and post removal care. The increase to the tangible capital assets is being amortized in accordance with the depreciation accounting policies outlined in note 1(c).

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

1. Significant accounting policies (continued):

(i) Board designated net assets:

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

(j) 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.

(k) 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.

In addition, the Hospital's implementation of Public Accounting Standard *PS 3280 – Asset Retirement Obligations* has resulted in the requirement for management to make estimates regarding the useful lives of affected tangible capital assets and the expected retirement costs, as well as the timing and duration of these retirement costs.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

2. Adoption of Public Accounting Standard PS 3280 – Asset Retirement Obligations:

On April 1, 2021, the Hospital adopted Public Accounting Standard *PS 3280 – Asset Retirement Obligations*. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings, removal of fuel storage tanks and retirement of radiologically contaminated equipment. The standard was adopted on the modified retrospective basis at the date of adoption. No discounting was applied; estimates are assumed to be current day costs.

In accordance with the provisions of this new standard, the Hospital reflected the following adjustments at April 1, 2021:

- Asbestos abatement:
 - A decrease to Opening Net Assets of \$28,978, as a result of the recognition of the liability and accompanying increase in depreciation expense for the period of time since acquisition.
 - An increase of \$29,134 to the Building and building improvements capital asset account, representing the original estimate of the obligation as of the date of acquisition, and an accompanying increase of \$28,978 to accumulated amortization, representing increased amortization had the liability originally been recognized. In fiscal 2022 additional amortization expense of \$5 was recorded in the statement of operations.
- Fuel storage tanks:
 - A decrease to Opening Net Assets of \$149, as a result of the recognition of the liability and accompanying increase in depreciation expense for the period of time since acquisition.
 - An increase of \$406 to the Building and building improvements capital asset account, representing the original estimate of the obligation as of the date of acquisition, and an accompanying increase of \$149 to accumulated amortization, representing increased amortization had the liability originally been recognized. In fiscal 2022 additional amortization expense of \$15 was recorded in the statement of operations.
- Radiologically contaminated equipment:
 - A decrease to Opening Net Assets of \$159, as a result of the recognition of the liability and accompanying increase in depreciation expense for the period of time since purchase.
 - An increase of \$326 to the Equipment capital asset account, representing the original estimate of the obligation as of the date of purchase, and an accompanying increase of \$159 to accumulated amortization, representing increased amortization had the liability originally been recognized. In fiscal 2022 additional amortization expense of \$39 was recorded in the statement of operations.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

3. 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:

	2023	2022
Internally and externally designated trusts and research operations \$	47,845	\$ 44,640
Construction facilities	24,782	11,103
Strategic Reserve Fund	932	856
Patient trust accounts	14	22
	<u>\$ 73,573</u>	<u>\$ 56,621</u>

Restricted cash and cash equivalents earn interest at an average rate of 4.94% (2022 - 1.01%).

4. 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 \$7,726 (2022 - \$2,494) as at March 31, 2023, with a cost of \$7,770 (2022 - \$2,475).

These investments are held for the following purposes:

	2023	2022
Internally and externally designated trusts and research operations \$	7,326	\$ 1,891
Strategic Reserve Fund	400	603
	<u>\$ 7,726</u>	<u>\$ 2,494</u>

These investments earn interest at an average rate of 3.94% (2022 – 2.50%).

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

5. Accounts receivable:

	2023	2022
Ministry of Health ("MOH") and Ontario Health	\$ 154,056	\$ 125,750
Ontario Health Insurance Plan	5,741	4,985
Patient	7,646	5,463
BAHT [note 21(e)]	1,171	523
Foundation, Volunteer Association, WLMH Foundation and Auxiliary [notes 21(a), (b), and (d)]	4,165	5,862
Research	36,503	28,529
Other	21,996	26,613
	\$ 231,278	\$ 197,725

6. Portfolio investments:

	2023		2022	
	Cost	Fair value	Cost	Fair value
Fixed income:				
Canadian	\$ 15,664	\$ 15,116	\$ 16,864	\$ 16,738
International	11,504	10,407	11,579	10,985
Equities:				
Canadian	17,934	21,435	18,365	24,357
International	21,514	23,213	22,050	25,763
	\$ 66,616	\$ 70,171	\$ 68,858	\$ 77,843

Fixed income investments have a weighted average term of 5.82 years (2022 - 6.04 years) to maturity and have an average yield of 3.20% (2022 - 3.21%) as at March 31, 2023.

These investments are held for the following purposes:

	2023	2022
Internally and externally designated trusts and research operations	\$ 40,918	\$ 48,713
Strategic Reserve Fund	29,253	29,130
	\$ 70,171	\$ 77,843

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

7. Investment income:

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

	2023	2022
Investment income from Research (note 15)	\$ 3,571	\$ 4,672
Investment income from operations:		
Commitments and internally and externally designated trusts	9	7
Strategic Reserve Fund	1,253	1,126
Capital Acquisition Fund	473	1,187
Hospital operations	2,404	189
	4,139	2,509
	\$ 7,710	\$ 7,181

Investment income is comprised of the following:

	2023	2022
Interest and dividend income	\$ 6,453	\$ 3,651
Net realized gains	1,463	3,738
Investments fees	(206)	(208)
	\$ 7,710	\$ 7,181

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

8. Capital assets:

Capital assets consist of the following:

March 31, 2023	Cost	Accumulated amortization	Net book value
Land	\$ 4,468	\$ –	\$ 4,468
Building and building improvements	1,162,904	438,154	724,750
Equipment	713,201	442,332	270,869
Construction-in-progress	95,683	–	95,683
	<u>\$ 1,976,256</u>	<u>\$ 880,486</u>	<u>\$ 1,095,770</u>
March 31, 2022 (Restated – note 2)	Cost	Accumulated amortization	Net book value
Land	\$ 3,434	\$ –	\$ 3,434
Building and building improvements	1,121,444	394,497	726,947
Equipment	585,758	411,084	174,674
Construction-in-progress	133,010	–	133,010
	<u>\$ 1,843,646</u>	<u>\$ 805,581</u>	<u>\$ 1,038,065</u>

Included in capital assets are assets under capital leases at a cost of \$55,113 (2022 - \$51,639) and accumulated amortization of \$9,051 (2022 - \$8,634).

Included in equipment are assets not yet being amortized at a cost of \$21,213 (2022 - \$19,446).

Included in capital assets are asset retirement obligations recorded at \$29,866 (2022 - \$29,866) and accumulated amortization of \$29,403 (2022 - \$29,346)

Capital assets with a cost of \$12,346 (2022 - \$18,735) were disposed of in fiscal 2023 at a net loss of \$2,919 (2022 - \$2,409) which is included in other expenses in the statement of operations.

During the year \$nil (2022 - \$1,393) of capital assets were donated to the Hospital.

Construction-in-progress consists primarily of revitalization of the Co-Generation Facilities and the West Lincoln Memorial Hospital Redevelopment project.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

9. Accounts payable and accrued liabilities:

	2023	2022
Accounts payable	\$ 33,395	\$ 28,552
Due to MOH and Ontario Health	173,129	134,247
Accrued liabilities:		
Salaries, wages and employee benefits	161,301	130,978
Other	54,527	47,714
	\$ 422,352	\$ 341,491

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. A portion of salaries, wages and employee benefits is expected to be long-term, but is recorded as current due to the uncertainty of the timing of payments.

10. 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 with comprehensive financing, maintenance, support, and procurement for a variety of diagnostic equipment in exchange for a blended annual service payment.

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, 2023, \$9,537 (2022 - \$2,877) 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.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

10. Managed equipment service agreement (continued):

Expected future payments under the MESA consist of the following:

	Capital lease	Turnkey financing	Operating commitments	Annual service payments
2024	\$ 4,259	\$ 3,095	\$ 6,902	\$ 16,229
2025	5,135	3,095	7,324	15,548
2026	5,395	3,095	8,071	15,797
2027	6,012	3,095	7,690	16,051
2028	6,179	3,095	8,064	16,310
Thereafter	79,418	21,667	54,811	156,466
	106,398	37,142	92,862	236,401
Less: amounts representing interest	16,540	1,119	–	17,659
	\$ 89,858	\$ 36,023	\$ 92,862	\$ 218,742

The following activity related to the MESA has been recognized in the financial statements for the year ending March 31, 2023:

	2023	2022
Equipment reserve	\$ 3,479	\$ 4,831
Turnkey reserve payments	3,168	3,262
Capital lease principal payments	1,983	901
Capital lease interest payments	629	398
Maintenance expense	5,795	5,134

Included in capital assets are MES equipment and turnkey assets at a cost of \$32,836 (2022 - \$20,140) and accumulated amortization of \$3,901 (2022 - \$1,448).

As at March 31, 2023, \$19,594 (2022 - \$12,564) relating to the MES capital lease obligation has been recognized in the financial statements, separate from the capital lease obligations disclosed in note 11 and is comprised of the following:

	2023	2022
Opening MES capital lease obligation	\$ 12,564	\$ 13,324
MES equipment additions	9,013	141
Less: capital lease principal payments	1,983	901
MES capital lease obligation	19,594	12,564
Less: current portion	1,920	1,135
	\$ 17,674	\$ 11,429

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Notes to Financial Statements
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Year ended March 31, 2023

10. Managed equipment service agreement (continued):

As at March 31, 2023, \$196 (2022 - \$3,688) relating to the MES turnkey reserve has been recognized in the financial statements as follows:

	2023	2022
Opening MES turnkey reserve	\$ 3,688	\$ 3,303
Turnkey reserve payments	3,168	3,262
Less: drawdown	6,660	2,877
	\$ 196	\$ 3,688

11. 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 0.00% (2022 – 0.10%).

The future minimum annual payments consist of the following:

	Capital leases	Operating leases
2024	\$ 6,019	\$ 1,644
2025	6,027	1,644
2026	3,221	1,644
2027	–	1,543
2028	–	1,402
Thereafter	–	5,023
Total minimum lease payments	15,267	12,900
Less: amounts representing interest	–	
Obligations under capital leases	15,267	
Less: current portion	6,019	
	\$ 9,248	

Obligations under capital leases recognized in the financial statements includes the MES capital lease obligation (note 10).

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
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Year ended March 31, 2023

12. Long-term debt:

	2023	2022
Capital loan payable by August 1, 2025 in monthly principal and interest instalments of \$58 at 5.10% per annum (a)	\$ 1,579	\$ 2,133
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of \$397 at 5.51% per annum (b)	8,497	9,605
Capital loan payable by September 17, 2029 in quarterly principal and interest instalments of \$150 at 6.13% per annum (c)	3,205	3,595
Capital loan payable by April 15, 2029 in quarterly principal and interest instalments of \$596 at 5.51% per annum (d)	12,549	14,191
Capital loan payable by October 4, 2023 in monthly principal and interest instalments of \$31 at 3.00% (e)	184	542
Capital loan payable by March 14, 2033 in monthly principal and interest instalments of \$253 at 4.00% per annum (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)	52,052	32,000
Capital loan payable by January 1, 2031 in monthly principal and interest instalments of \$292 at 6.07% per annum (i)	21,827	23,940
Capital loan payable by January 1, 2031 in monthly principal instalments of \$74 at 3.32% per annum (j)	6,963	7,852
Capital loan payable by July 16, 2031 in monthly principal and interest instalments of \$43 at 1.95% per annum (k)	4,025	4,463
	335,881	323,321
Less: current portion	11,657	8,114
Less: financing fees	891	915
Less: MES turnkey reserve (note 10)	196	3,688
	\$ 323,137	\$ 310,604

- 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, 2023, the balance in the net profit account is greater than the minimum required balance and is included in Construction facilities (note 3) in restricted cash and cash equivalents on the statement of financial position.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

12. 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, 2023. The fair value of the Swap Agreement at March 31, 2023 is (\$5) (2022 - (\$81)).

- 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, 2023 is (\$424) (2022 - (\$945)).
- 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, 2023 is (\$81) (2022 - (\$224)).
- 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, 2023 is (\$625) (2022 - (\$1,395)).
- 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.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

12. 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, 2023, the \$25,000 facility has been fully drawn, however \$245 (2022 - \$306) has not yet been spent. The loan was interest only until March 27, 2023 through 30-day Banker's Acceptances with a current rate of interest of 4.92% (2022 – 0.86%) plus 0.53% stamping fee. On March 14, 2023, the Hospital refinanced the existing \$25,000 facility and entered into a 10-year long-term financial agreement. The Hospital has a Swap Agreement in place that fixes the interest rate at 3.45%, plus stamping fees of 0.55%. The fair value of the Swap Agreement at March 31, 2023 is \$nil (\$nil).
- 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, 2023, \$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, 2023, \$175,205 (2022 - \$119,833) 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. The loan was interest only until August 1, 2022 through 30-day banker's acceptances plus 0.58% stamping fee. As of March 31, 2023, \$53,000 (2022 - \$32,000) 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, 2023 is \$3,602 (2022 - \$1,511).
- 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, 2023 is \$197 (2022 - \$23).
- 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, 2023 is \$297 (2022 - \$232).

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

12. Long-term debt (continued):

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

2024	\$	11,657
2025		12,134
2026		12,200
2027		12,453
2028		13,019
Thereafter		274,418
	\$	335,881

13. Employee future benefit plans:

(a) Multi-employer plan:

The Hospital's contributions to HOOPP during the year amounted to \$62,650 (2022 - \$62,395) and are included in salaries and employee benefits expense. The most recent actuarial valuation of HOOPP as at December 31, 2022 indicates the plan has a 17% 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, extrapolated to March 31, 2023.

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, 2023, the sick leave obligation amounted to \$1,347 (2022 - \$1,584).

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

13. Employee future benefit plans (continued):

(b) Post-retirement benefits (continued):

The post-retirement benefits as at March 31, 2023 includes the following components:

	2023	2022
Accrued benefit obligation	\$ 66,163	\$ 72,282
Unamortized actuarial gains (losses)	3,240	(3,834)
Post-retirement benefit liability	\$ 69,403	\$ 68,448
	2023	2022
Post-retirement benefit liability, beginning of year	\$ 68,448	\$ 66,749
Current service cost	2,967	3,313
Interest cost	2,687	2,413
Amortization of actuarial losses	544	889
	74,646	73,364
Non-pension post-retirement funding contributions	(5,243)	(4,916)
Post-retirement benefit liability, end of year	\$ 69,403	\$ 68,448

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

	2023	2022
Discount rate	4.50%	3.70%
Expected annual increase in dental care costs*	3.00%	3.00%
Expected annual increase in health care costs*	5.70%	5.70%

*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.

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14. 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:

	2023	2022
Balance, beginning of year	\$ 660,395	\$ 677,264
Add contributions for capital purposes:		
MOH & Ontario Health	17,859	24,062
Foundations and Volunteer Association	6,108	6,097
Other	3,714	9,914
	688,076	717,337
Less: Amortization	47,125	46,067
Disposals of related capital assets	2,517	10,875
Balance, end of year	\$ 638,434	\$ 660,395

Included in the above balance are contributions of \$17,628 (2022 - \$24,327) received but not yet utilized to purchase capital assets. Amortization is comprised of \$45,425 (2022 - \$44,472) from hospital operations and \$1,700 (2022 - \$1,595) from research operations. Included in the above additions are \$nil (2022 - \$1,393) of capital assets that were donated to the Hospital.

15. Deferred research contributions:

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

	2023	2022
Balance, beginning of year	\$ 61,813	\$ 67,345
Externally restricted contributions received	63,741	54,150
Amount recognized as revenue during the year	(55,312)	(58,824)
Net change in fair value on invested unspent deferred research balances	221	(858)
Balance, end of year	\$ 70,463	\$ 61,813

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15. Deferred research contributions (continued):

Research revenues and expenses are calculated as follows:

	2023	2022
Research revenues:		
Investment income	\$ 3,571	\$ 4,672
Amortization of deferred capital contributions	1,700	1,595
Research and other revenues	91,709	90,039
	<u>\$ 96,980</u>	<u>\$ 96,306</u>
Research expenses:		
Salaries and employee benefits	\$ 49,743	\$ 47,275
Medical staff remuneration	3,002	2,703
Medical and surgical supplies	7	38
Drugs	1,482	2,555
Facilities	1,808	1,790
Amortization of capital assets	3,482	3,502
Other research expenses	37,834	40,200
	<u>\$ 97,358</u>	<u>\$ 98,063</u>

Other research revenues of \$91,709 (2022 - \$90,039) consist of externally restricted research grants and donations recognized in income during the year of \$55,312 (2022 - \$58,824) and \$36,397 (2022 - \$31,209) from research administered accounts, internally restricted by the Hospital's Board of Directors.

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16. Asset retirement obligations:

The Hospital's asset retirement obligations consist of the following:

a) Asbestos abatement:

The Hospital owns and operates several hospital buildings that are known to have asbestos, which represents a health hazard upon demolition of the building and there is a legal obligation to remove it. Following the adoption of Public Accounting Standard *PS 3280 – Asset Retirement Obligations*, the Hospital has recognized an obligation of \$29,134 relating to the removal and post-removal care of the asbestos in these buildings. Estimates include the removal, transportation and disposal of asbestos-containing building materials.

b) Fuel storage tanks:

The Hospital has multiple underground and above ground fuel storage tanks in use. Estimated cost for the removal and decommissioning of the fuel tanks is based on the MOH costing model. Following the adoption of Public Accounting Standard *PS 3280 – Asset Retirement Obligations*, the Hospital has recognized an obligation of \$406 relating to the removal and decommissioning of the fuel tanks.

c) Radiologically contaminated equipment:

The Hospital has multiple linear accelerators in use. Estimated cost for the asset retirement obligation is based on the industry standards and is \$20 per accelerator. Following the adoption of Public Accounting Standard *PS 3280 – Asset Retirement Obligations*, the Hospital has recognized an obligation of \$326 relating to the linear accelerators.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
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17. Net assets invested in capital assets:

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

	2023	2022
Capital assets – net	\$ 1,095,770	\$ 1,038,065
Less amounts funded by:		
Deferred capital contributions spent (note 14)	620,806	636,068
Obligations under capital leases (notes 10, 11)	34,861	34,539
Long-term debt spent (note 12)	310,749	239,185
Asset retirement obligation	29,866	29,866
	\$ 99,488	\$ 98,407

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

	2023	2022
Amortization of capital assets	\$ (81,815)	\$ (76,119)
Amortization of deferred capital contributions	47,125	46,067
	(34,690)	(30,052)
Purchase of capital assets - net	139,520	192,288
Amounts funded by deferred capital contributions, net	(31,863)	(30,029)
Decrease (increase) in obligations under capital leases	(322)	8,247
Amounts funded by long-term debt	(71,564)	(144,822)
	35,771	25,684
	\$ 1,081	\$ (4,368)

18. Statement of cash flows:

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

	2023	2022
Accounts receivable	\$ (33,553)	\$ 6,244
Inventories	3,625	(5,987)
Prepaid expenses and deposits	85	(3,177)
Accounts payable and accrued liabilities	81,811	65,950
Deferred revenue	(5,015)	8,950
	\$ 46,953	\$ 71,980

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19. Operating line of credit:

As at March 31, 2023, the Hospital has available a \$100,000 (2022 - \$100,000) unsecured demand operating line of credit, of which \$nil (2022 - \$nil) was drawn. This primary facility bears interest at the prime rate less 0.80%.

As at March 31, 2023, the Hospital has available a \$40,000 (2022 - \$40,000) unsecured demand operating line of credit, of which \$nil (2022 - \$nil) was drawn. This secondary facility bears interest at the prime rate less 0.80%.

As at March 31, 2023, the prime interest rate is 6.70% (2022 – 2.70%) and the Hospital is compliant with its lending covenants.

20. 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, 2023, 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, 2023.
- 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 meetings to develop a Functional Program have commenced with submission to the MOH anticipated for late 2023.

Redevelopment of the WLMH site began in fiscal 2023. The new facility is on schedule for completion in early 2025 with occupancy planned for summer 2025. The MOH's current commitment to this project is \$240,547.

- d) The total capital expenditure commitments for the projects described in (c) above and other minor projects outstanding as at March 31, 2023 are estimated to be \$37,306 (2022 - \$68,964).
- e) As at March 31, 2023, the Hospital has outstanding letters of credit of \$2,405 (2022 - \$3,440) related to various construction and renovation projects. The Hospital also has a Guarantor Letter of Credit of \$21,827 (2022 - \$23,940) which will remain in full force until a loan related to the CoGeneration assets is fully repaid.

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20. Commitments and contingencies (continued):

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

21. 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 \$3,190 (2022 - \$4,903) during the year for capital and \$1,912 (2022 - \$4,151) for research. Included in the Hospital's assets as at March 31, 2023 is \$1,876 (2022 - \$3,360) 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. On November 1, 2022, the Hospital entered into a ten-year lease agreement with the Volunteer Association to manage the Hospital's parking operations. 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 are accounted for as externally restricted contributions. The Volunteer Association contributed \$10,942 (2022 - \$9,635) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2023 is \$2,218 (2022 - \$1,697) in accounts receivable from the Volunteer Association.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

21. Related party transactions (continued):

- 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 a board member of HHSRI, and the Vice President, Research and Medical Director, Burns of the Hospital is the CEO of HHSRI. The Hospital provides executive management, finance, and administrative services to HHSRI under a Management Services Agreement. During fiscal 2023, HHSRI paid the Hospital \$433 (2022 - \$416) for services under the Management Services Agreement and HHSRI contributed \$27,117 (2022 - \$18,090) to the Hospital for research. Included in the Hospital's assets at March 31, 2023 is \$9,629 (2022 - \$5,960) in accounts receivable from HHSRI.
- 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 \$1,017 (2022 - \$393) during the year for capital and non-capital expenses. The Auxiliary contributed \$51 (2022 - \$220) during the year for capital and non-capital expenses. Included in the Hospital's assets as at March 31, 2023 is \$71 (2022 - \$805) in accounts receivable from the WLMH Foundation.
- 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, 2023 is \$1,171 (2022 - \$523) in accounts receivable of which \$1,157 (2022 - \$515) is interest bearing at a rate of prime less 0.20%. Included in the Hospital's accounts payable is \$19 (2022 - \$135). In the current year, the Hospital earned investment income of \$28 (2022 - \$4), received a beneficiary distribution of \$nil (2022 - \$1,250), and paid \$1,613 (2022 - \$7,520) 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. In addition, in 2022 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 \$3,270 as at March 31, 2023 (2022 - \$3,381).

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
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Year ended March 31, 2023

22. 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, and derivative liabilities.

(b) Fair value measurement:

Within the fair value hierarchy, as at March 31, 2023 and 2022 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 Level 2.

(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 \$113,870 (2022 - \$73,839) of its floating rate loan facilities to a fixed interest rate (note 12). 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.

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

22. Financial instruments and risk management (continued):

(c) Risk management (continued):

(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, 2023, the total amount of cash, securities and other non-current assets denominated in a foreign currency was \$37,007 (2022 - \$33,657).

The Hospital's estimate of the effect on net assets as at March 31, 2023 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 \$370 (2022 - \$337).

(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, 2023, the Hospital's total exposure to other price risk is \$70,171 (2022 - \$77,843). The Hospital's estimate on the effect of net assets as at March 31, 2023 due to a 1% 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 \$702 (2022 - \$778). 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, 2023, the following accounts receivable were past due but not impaired:

	30 days	60 days	90 days	Over 120 days
Accounts receivable	\$ 10,983	\$ 2,872	\$ 9,737	\$ 10,193

HAMILTON HEALTH SCIENCES CORPORATION

Notes to Financial Statements
(In \$000's)

Year ended March 31, 2023

22. Financial instruments and risk management (continued):

(d) Risk management (continued):

(ii) Credit risk (continued):

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.

(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 Hospital has recorded a liability at March 31, 2023 for the estimated impact of retroactive salary increases related to the repeal of Bill 124 (note 20(g)). It remains uncertain whether the MOH will directly fund this expense. The Hospital has sufficient financial arrangements in place including operating lines of credit to settle this one-time obligation in the short-term.

The Hospital's liquidity risk has increased in the year due to the effect of operating losses on its overall liquidity. The Hospital will require sufficient and timely funding from the MOH to fulfil its obligations on a timely basis and at a reasonable cost.

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

	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	\$ 422,352	\$ —	\$ —	\$ —	\$ 422,352
Obligations under capital leases	3,970	3,969	16,929	9,993	34,861
Long-term debt	5,822	5,835	49,807	273,330	334,794
Other long-term liabilities	—	661	1,958	3,384	6,003
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 432,144	\$ 10,465	\$ 68,694	\$ 286,707	\$ 798,010

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23. 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 \$82,981 (2022 - \$86,492) and received \$83,930 (2022 - \$88,547) from the MOH. As applicable, the surplus in funding is owed to the MOH, and, as such, a payable of \$949 (2022 - \$2,055) has been included in accounts payable and accrued liabilities.

b) Diabetes Education Program:

During the year, the Diabetes Education Program incurred expenses of \$746 (2022 - \$886) and received \$874 (2022 - \$874) from Ontario Health.

	2023	2022
Revenue	\$ 874	\$ 874
Expenses:		
Salaries and benefits	733	864
General operating expenditures	13	22
Total expenses	\$ 746	\$ 886

c) Emergency Department Physician Program:

During the year, the Emergency Department Physician Program at the WLMH site incurred expenses of \$2,409 (2022 - \$2,146) and received \$2,409 (2022 - \$2,146) in funding.

	2023	2022
Revenues:		
MOH	\$ 1,820	\$ 1,601
APP premium payments	589	545
	\$ 2,409	\$ 2,146

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Year ended March 31, 2023

23. Funding agreements (continued):

c) Emergency Department Physician Program (continued):

	2023	2022
Expenses:		
Physician:		
Participating physicians' services	\$ 1,786	\$ 1,574
APP premium payments	589	545
	2,375	2,119
Administration:		
Medical director	8	6
Billing administration	26	21
	34	27
	\$ 2,409	\$ 2,146

24. Coronavirus COVID-19 pandemic:

In fiscal 2023, the Hospital continued to respond to the COVID-19 pandemic. Management continues to monitor and assess the operational and financial impacts associated with COVID-19, and believes there are no significant financial issues that compromise its ongoing operations.

The MOH 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 toward operational pressures through a broad-based funding reconciliation.

Management's estimate of MOH revenue for COVID-19 is based on the most recent guidance provided by the MOH. Since COVID-19 funding was introduced by the MOH in fiscal 2020, eligibility guidelines and reconciliation processes have become more comprehensible. Any adjustments to management's estimate of MOH revenues will be reflected in the Hospital's financial statements in the year of settlement. The majority of the COVID-19 funding programs were discontinued in, or at the conclusion of, fiscal 2023.

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Year ended March 31, 2023

24. Coronavirus COVID-19 pandemic (continued):

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

	2023	2022
Incremental COVID-19 operating expenses	\$ 18,264	\$ 49,837
Unearned funding from select hospital programs	42,320	23,542
Temporary physician funding	2,868	9,599
Temporary nurse retention funding	10,089	7,850
Less: provision for future changes to funding programs	4,292	5,154
	<u>\$ 69,249</u>	<u>\$ 85,674</u>

In addition to the above, the Hospital has also recognized \$1,594 (2022 - \$2,423) in MOH funding for COVID-19 related capital expenditures, which has been recorded as an addition to deferred capital contributions during the year.