Financial statements of
Niagara Health System

March 31, 2023

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Independent Auditor's Report

To the Board of Directors of
Niagara Health System

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Niagara Health System (the "Hospital"), which comprise the statement of financial position as at March 31, 2023, and the statements of operations, remeasurement losses, changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2023, and the results of its operations, its remeasurement losses, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Hospital 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 PSAS, 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 Hospital'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 Hospital or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Hospital'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 Hospital'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 Hospital 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.

We 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 30, 2023

Niagara Health System
Statement of operations
Year ended March 31, 2023
(In thousands of dollars)

	Notes	2023 $	2022 $
Revenue			
Ministry of Health (MOH) and Ontario Health (OH)			
Base allocation		**450,810**	419,150
One-time funding, specialized programs		**67,651**	87,936
Other		**14,360**	12,492
Ontario Health - Cancer Care Ontario Division (OH)		**84,271**	72,140
		617,092	591,718
Patient revenue from other payers		**42,074**	37,921
Differential and co-payments		**2,610**	1,762
Recoveries and miscellaneous		**24,239**	16,621
Amortization of grants and donations - equipment		**7,346**	6,712
		693,361	654,734
Expenses			
Compensation - salaries and wages		**338,481**	304,294
Benefit contributions for employees		**99,978**	93,691
Employee future benefits	13	**4,455**	3,896
Medical staff remuneration		**46,926**	46,841
Supplies and other expenses		**95,095**	90,810
Medical and surgical supplies		**41,014**	38,594
Drugs and medical gases		**51,950**	46,363
Bad debts		**702**	610
Interest on short-term borrowings		**—**	253
Interest on capital lease obligations		**1**	3
Amortization of equipment and software licenses		**11,606**	10,915
Equipment rentals and leases		**5,630**	5,109
		695,838	641,379
Surplus from operations before other votes and other funds		**(2,477)**	13,355
Deficit from other votes and other funds	19	**(313)**	(321)
Surplus before net capital expenditures		**(2,790)**	13,034
Net capital expenditures	20	**(2,934)**	(2,558)
(Deficit)/surplus for the year		**(5,724)**	10,476

The accompanying notes are an integral part of the financial statements.

Niagara Health System

Statement of remeasurement losses

Year ended March 31, 2023

(In thousands of dollars)

	2023	2022
	$	$
Accumulated remeasurement losses		
at beginning of year	**—**	(154)
Unrealized gains attributable to derivative	**—**	87
Amounts reclassified to the statement of operations	**—**	31
Amounts reclassified to deferred capital contibutions	**—**	36
Accumulated remeasurement losses at end of year	**—**	—

The accompanying notes are an integral part of the financial statements.

Statement of changes in net assets

Year ended March 31, 2023
(In thousands of dollars)

	Investment in land, buildings and equipment $	Endowments and trusts $	Externally restricted $	Internally restricted $	Unrestricted $	2023 $
	(Note 15)	(Note 16)	(Note 17)	(Note 18)		
Balance, beginning of year	**42,082**	**3,528**	**74**	**29,850**	**(78,440)**	**(2,906)**
Asset retirement obligation restatement due to change in accounting standards (Note 3)	**(12,516)**	**—**	**—**	**—**	**—**	**(12,516)**
	29,566	**3,528**	**74**	**29,850**	**(78,440)**	**(15,422)**
Net (deficit)/surplus for the year	**(7,209)**	**—**	**—**	**—**	**1,485**	**(5,724)**
Transfer of funds						
Additions to restricted funds	**—**	**—**	**—**	**—**	**—**	**—**
Reduction in restricted funds	**—**	**—**	**—**	**(3,620)**	**3,620**	**—**
Remeasurement loss reclassified to deferred capital contributions						**—**
Investments in capital assets	**11,432**	**—**	**—**	**—**	**(11,432)**	**—**
Reallocation of interest earned on restricted funds	**—**	**—**	**1**	**923**	**(924)**	**—**
Balance, end of year	**33,789**	**3,528**	**75**	**27,153**	**(85,691)**	**(21,146)**

	Investment in land, buildings and equipment $	Endowments and trusts $	Externally restricted $	Internally restricted $	Unrestricted $	2022 $
	(Note 15)	(Note 16)	(Note 17)	(Note 18)		
Balance, beginning of year	42,480	3,528	74	19,135	(78,563)	(13,346)
Net surplus (deficit) for the year	(6,750)	—	—	—	17,226	10,476
Transfer of funds						
Additions to restricted funds	—	—	—	10,478	(10,478)	—
Remeasurement loss reclassified to deferred capital contributions	(36)	—	—	—	—	(36)
Investments in capital assets	6,388	—	—	—	(6,388)	—
Reallocation of interest earned on restricted funds	—	—	—	237	(237)	—
Balance, end of year	42,082	3,528	74	29,850	(78,440)	(2,906)

The accompanying notes are an integral part of the financial statements.

Niagara Health System

Statement of financial position

As at March 31, 2023

(In thousands of dollars)

	Notes	2023 $	2022 $
Assets			
Current assets			
Cash		**39,179**	54,644
Short term investments	4	**31,306**	—
Receivables	5	**31,152**	60,577
Current portion of contributions receivable	6	**21,784**	23,918
Inventories		**8,767**	9,188
Prepaid expenses and other assets		**13,221**	13,720
Patient and employee trust funds		**75**	12
		145,484	162,059
Land, buildings, and equipment	7	**743,996**	743,483
Contributions receivable	6	**120,676**	124,927
Cash and investments restricted for capital	8	**151,884**	136,439
Endowments and trust funds	9	**3,528**	3,528
		1,165,568	1,170,436
Liabilities			
Current liabilities			
Short-term borrowings	10	**—**	1,650
Payables and accruals		**147,928**	121,528
Patient and employee trust accounts		**75**	12
Unearned revenues		**30,665**	59,392
Current portion of obligations under capital leases	11	**21**	123
Current portion of long-term debt	12	**4,055**	3,528
Current portion of employee future benefits	13	**3,675**	3,372
Current portion of deferred capital contributions	14	**27,448**	28,578
		213,867	218,183
Obligations under capital leases	11	**—**	21
Long-term debt	12	**184,092**	188,239
Employee future benefits	13	**34,831**	33,577
Deferred capital contributions	14	**740,708**	733,322
Asset retirement obligations	15	**13,216**	—
		1,186,714	1,173,342
Commitments and contingencies	21 and 22		
Net deficiency		**(21,146)**	(2,906)
Accumulated remeasurement losses		**—**	—
		1,165,568	1,170,436

The accompanying notes are an integral part of the financial statements.

, Chair of the Board

, Director

Niagara Health System

Statement of cash flows

Year ended March 31, 2023

(In thousands of dollars)

	Notes	2023 $	2022 $
Operating activities			
(Deficit) surplus for the year		**(5,724)**	10,476
Items not affecting cash			
Amortization of land improvements, buildings, and equipment	15	**37,304**	36,304
Amortization of deferred capital contributions	14	**(30,526)**	(29,596)
Accretion expense on asset retirement obligation	15	**396**	—
Loss on disposal of land, buildings and equipment	15	**35**	42
Change in non-cash activities			
Receivables		**29,425**	38,070
Inventories		**421**	(121)
Prepaid expenses and other assets		**499**	(1,669)
Payables and accruals		**26,399**	8,816
Employee future benefits		**1,557**	1,684
Unearned revenues		**(28,726)**	19,059
		31,060	83,065
Investing activity			
Investments (including endowments and trust funds)		**(46,751)**	(15,768)
Capital activities			
Additions to land, buildings, and equipment		**(37,699)**	(33,278)
Proceeds from sale of land, buildings, and equipment	15	**20**	29
		(37,679)	(33,249)
Financing activities			
Decrease in contributions receivable		**6,385**	6,727
(Decrease) increase in short-term borrowings		**(1,650)**	(9,506)
Decrease in obligations under capital lease		**(123)**	(121)
Decrease in long-term debt		**(3,620)**	(5,995)
Deferred capital contributions		**36,913**	29,444
		37,905	20,549
Net change in cash		**(15,465)**	54,597
Cash, beginning of year		**54,644**	47
Cash, end of year		**39,179**	54,644
Supplemental cash flow information			
Interest income received		**3,161**	568
Interest expense paid - operating		**628**	487
Interest expense paid - capital		**16,827**	16,575

The accompanying notes are an integral part of the financial statements.

1. Nature of operations

Created at the direction of the province of Ontario's Health Services Restructuring Commission in March 2000, the Niagara Health System ("NHS" or the "Hospital") is now comprised of five sites serving approximately 478,000 residents across the 12 municipalities making up the Regional Municipality of Niagara.

Sites are as follows: Niagara Falls Site, Welland Site, Fort Erie Site, Port Colborne Site, and the St. Catharines Site.

The Hospital operated 900 Acute care, Complex Continuing care, and Mental Health beds as well as 55 Addiction Treatment beds and a 115 bed licensed Long Term Care home with 90 operational beds during the year. A wide range of inpatient and outpatient clinics and services are provided across the five sites. The NHS has approximately 5,900 employees, over 600 physicians, and over 450 volunteers.

The Hospital is incorporated under the laws of Ontario as a corporation without share capital and is a registered charity under the Income Tax Act. Continued operations are dependent upon the receipt of funding from the Ministry of Health ("MOH") through Ontario Health ("OH").

2. Significant accounting policies

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

Funding

Under the Health Insurance Act and the regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the MOH and OH. These financial statements reflect agreed funding arrangements approved by the MOH and the OH with respect to the year ended March 31, 2023.

Grants and funding authorized by the MOH and OH as of the end of the fiscal year, and for which a specific purpose or use has been identified, are recognized as revenue when there is reasonable assurance that the Hospital has complied with, and will continue to comply with, all conditions necessary to earn the grant. The recognition of revenue associated with such grants requires management to make estimates and assumptions based on the best information available at the time of preparation of these financial statements. Final funding approved is subject to the funders' reconciliation process and could differ from these estimates.

Grants for which revenue has been earned but not received at the end of the fiscal year are accrued as receivable. Where a portion of a grant received relates to a future period, it is deferred and recognized in that subsequent fiscal year.

Revenue recognition

The financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenue is recorded when earned and expenses are recorded when incurred.

The Hospital follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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. Endowment contributions are recognized as direct increases in net assets.

2. Significant accounting policies (continued)

Revenue recognition (continued)

Provincial equipment and building grants received are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased. Donations received for the purpose of purchasing capital assets are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Revenue from other services is recognized when services are provided, or goods are sold.

Inventories

Inventories consist primarily of hospital supplies held for patient care and are valued at the lower of cost and replacement cost. Cost is determined on a first in, first out basis.

Land, buildings, and equipment

Land, buildings, and equipment are recorded at cost. Amortization is provided on a straight-line basis over the assets' estimated useful lives. The amortization periods are as follows:

Land improvements	3 to 20 years
Buildings	15 to 50 years
Building service equipment	5 to 25 years
Leasehold improvements	2 to 15 years
Equipment	2 to 20 years

Construction-in-progress comprises construction, development costs, and interest capitalized during the construction period. Upon completion, costs in construction-in-progress are reclassified to the appropriate capital asset account and amortization commences when the asset is operational.

Leased equipment

Equipment taken on lease with terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases", as though an asset has been purchased and a liability incurred. The assets are amortized on a straight line basis at a rate of 14% per annum commencing in the month of purchase. All other items of equipment held on lease are accounted for as operating leases.

Capital Lease obligations are recorded at the present value of the minimum lease payments. The discount rate used to determine the present value of the lease payments is the lower of the Hospital's rate of incremental borrowing or the interest rate implicit in the lease. Note 9 provides a schedule of repayments and amount of interest on the leases.

2. Significant accounting policies (continued)

Pension plan

Substantially all of the employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP") which is a multi-employer final average pay contributory pension plan. For HOOPP, the Hospital uses defined contribution plan accounting as required by Canadian public sector accounting standards. Should there be a contribution deficiency in the plan the Hospital may be required to make additional contributions the cover these deficiencies.

Past service costs arising from a plan amendment are recognized in the period of the plan amendment.

Asset Retirement Obligations

Asset retirement obligations (ARO's) are provisions for legal obligations for the retirement of the Hospital's tangible capital assets that are either in productive use or no longer in productive use.

An ARO liability is recognized when, as at the financial reporting date:

(a) there is a statutory, contractual, or legal obligation to incur retirement costs in relation to a tangible capital asset;

(b) the past transaction or event giving rise to the liability has occurred;

(c) it is expected that future economic benefits will be given up; and

(d) a reasonable estimate of the amount can be made.

Liabilities are recognized by the Hospital in the period in which an obligation arises for statutory, contractual, or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development, or normal operation of the tangible capital assets. The obligations are measured initially at management's best estimate of the present value of the estimated future cash flows required to settle the retirement obligation. For tangible capital assets that are still in productive use, there is a corresponding increase to the carrying value of the related tangible capital asset. For assets that are not recorded or are no longer in productive use, the liability is expensed in the period. In subsequent periods, the liability is accreted over time and adjusted for changes in the liability estimate, as applicable or timing of the future cash flows. The capitalized asset retirement costs are amortized on the same basis as the related asset, and accretion expense is included in the Statement of Operations.

Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits, and deluxe travel benefits. The post-retirement costs are recognized in the period in which the employees rendered their services to the Hospital.

The actuarial determination of the accrued benefit obligations were determined using the projected benefit method pro-rated on service.

Experience gains and losses in a year are combined with the unamortized balance of gains or losses from prior years. The Hospital amortizes these accrued benefit obligations into future years' expenses over the average remaining service life to retirement.

2. Significant accounting policies (continued)

Contributed services

The Hospital is dependent on the voluntary services of many individuals. Since these services are not normally purchased by the Hospital and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

Classification of financial instruments

All financial instruments reported on the statement of financial position of the Hospital are measured at amortized costs except real estate investment trusts, equity investments, money market funds which are measured at fair value.

Financial instruments measured at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write-downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect or recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations.

Use of estimates

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of useful lives for amortization of capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, payables and accruals, revenue recognition, unearned revenue, and the estimation of future employee benefits. Actual results could differ from management's best estimates as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they are known.

The revenue recognized from the MOH, OH, OH Cancer Care Ontario ("OH-CCO") and the Ministry of Long-Term Care ("MLTC") requires some estimation. The Hospital has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to the Hospital by the MOH, OH, and MLTC for the year ended March 31, 2023. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas.

If the Hospital does not meet its performance standards or obligations, the MOH, OH, and MLTC have the right to adjust funding received by the Hospital. Neither the MOH, OH, nor MLTC are required to communicate certain funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of the financial statements, the amount of the MOH/OH/MLTC funding received during a year may be increased or decreased subsequent to year end. The amount of revenue recognized in these financial statements represents management's best estimates of amounts that have been earned during the year.

(In thousands of dollars)

3. Change in Accounting Policy

Effective April 1, 2022, the Hospital adopted PS 3280, Asset Retirement Obligations. The change follows the effective implementation date for Asset Retirement Obligations in accordance with PS 3280 for fiscal years beginning on or after April 1, 2022. Comparative figures as at and for the year ended March 31, 2022 have not been restated in alignment with the Government of Ontario's decision to adopt this standard on a modified retroactive basis without restatement of prior period financial statements.

Under this method, as of April 1, 2022 the Hospital recognized:

- A liability for any existing asset retirement obligations, adjusted for accumulated accretion;
- An asset retirement cost capitalized as an increase to the carrying amount of the related tangible capital assets;
- Accumulated amortization on that capitalized cost; and
- An adjustment to the opening balance of the accumulated surplus/deficit

The impact of this treatment on balances as of April 1, 2022 is as follows:

Statement of financial position

	April 1, 2022 as previously reported $	ARO adjustments $	April 1, 2022 Restated $
Land, building, and equipment	743,483	304	743,787
Asset retirement obligations	—	12,820	12,820
Net Assets	(2,906)	(12,516)	(15,422)

4. Short-term investments

Short-term investments consist of guaranteed investment certificates (GIC's).

	2023 **$**	2022 $
GIC's, 5.71%, maturring April, 2023	**31,306**	—

(In thousands of dollars)

5. Accounts receivables

	2023	2022
	$	$
MOH, OH, OH-CCO, MLTC	**11,591**	45,334
Insurers and patients	**13,992**	13,223
Foundation	**1,617**	473
Others	**5,695**	3,497
	32,895	62,527
Allowance for doubtful receivables	**(1,743)**	(1,950)
	31,152	60,577

6. Contributions receivable

	2023	2022
	$	$
Ministry of Health	**142,460**	146,092
Other receivables - St. Catharines site	**—**	2,753
	142,460	148,845
Less: current portion of long-term accounts receivables	**21,784**	23,918
	120,676	124,927

On March 27, 2009, the Hospital entered into an agreement to design, build, finance, and property manage the St. Catharines site. Construction was completed in March 2013.

As part of the Project Funding Agreement, the Ministry has committed to fund a portion of the capital and financing cost of the site. The Hospital has recognized the unpaid MOH funding commitment for the St. Catharines site construction project as a contribution receivable with a corresponding deferred capital contribution.

The local share of the cost of the building and related finance cost will be funded through a combination of municipal, foundation and other contributions. The Hospital has contractual commitments from various area municipalities for certain amounts to be received over the term of the financing period. The capital cost contributions have been set up as a receivable with a corresponding deferred contribution for the original building cost.

In addition payment commitments for the annual life cycle capital and financing costs from the municipalities and Foundation are as follows:

	$
2024	3,405
2025	3,405
2026	2,610
2027	2,536
2028	103
2029 and thereafter	412
	12,471

Payments received are recorded as deferred contributions and recognized as income when the related expenses are incurred.

(In thousands of dollars)

7. Land, buildings, and equipment

	Cost $	Accumulated depreciation $	2023 Net book value $	2022 Net book value $
Land	**6,517**	**—**	**6,517**	6,514
Land improvements	**7,001**	**3,835**	**3,166**	3,500
Buildings	**169,585**	**105,018**	**64,567**	64,866
Leasehold improvements	**3,981**	**2,854**	**1,127**	1,409
Equipment	**240,311**	**201,198**	**39,113**	34,814
Building and building services equipment St. Catharines site	**767,638**	**195,748**	**571,890**	588,819
Construction-in-progress	**57,614**	**—**	**57,614**	43,544
	1,252,647	**508,653**	**743,994**	743,466
Equipment under capital lease	**11,534**	**11,532**	**2**	17
	1,264,181	**520,185**	**743,996**	743,483

8. Cash and investments restricted for capital

Cash and investments restricted for capital are represented by the following:

	2023 $	2022 $
Government and other bonds, 1.55% to 3.80%, maturing from June 2024 to June 2027	**5,158**	5,190
Real Estate Investments Trusts	**50**	56
Blue Chip Canadian and US equities	**2,332**	2,388
Money market fund	**1,404**	1,300
Short term investment certificates, 5.5% to 5.73% maturing from August 2023 to September 2023	**91,839**	86,145
GICs, 4.65%, maturing February 2024	**30**	30
Total investment vehicles	**100,813**	95,109
Add: Restricted construction payment treasury accounts, interest prime less 1.75% (4.95% interest rate)	**44,382**	29,926
Total investment vehicles for capital purposes	**145,195**	125,035
Other investments		
Externally restricted cash	**6,689**	926
Internally restricted cash	**—**	10,478
Total cash and investment restricted for capital	**151,884**	136,439

(In thousands of dollars)

8. Cash and investments restricted for capital (continued)

Investments are tracked to support restricted funds which have been received by the Hospital in advance of the expenditures required under the terms of each commitment. Investment income earned that is externally restricted, including unrealized gains (losses) on investments carried at fair value are recorded as deferred contributions.

	Balance, beginning of year $	Additions (transfers) during year $	Unrealized gains on investments $	Investment income $	Balance, end of year $
Restricted investment					
NHS internally restricted	**29,850**	**(3,620)**	**—**	**923**	**27,153**
Externally restricted donations and grants	**2,989**	**2,003**	**—**	**130**	**5,122**
Capital - MOH Capital, Superbuild, and Niagara Health Local Share	**103,600**	**12,936**	**(67)**	**3,140**	**119,609**
Total	**136,439**	**11,319**	**(67)**	**4,193**	**151,884**

The restricted investments represent contributions received for capital projects, equipment, and operations and funds internally restricted by the Board of Directors for capital projects and equipment.

The Hospital received capital grants under the SuperBuild Growth Fund for capital projects directed by the Health Services Restructuring Commission (HSRC). In establishing the grant, the MOH focused solely on the new construction component of HSRC directions. Use of the grant is restricted to capital initiatives that are consistent with implementing the functional program which is approved in writing by the MOH for addressing HSRC directions.

Also, the hospital received capital grants from the MOH to fund their cost-share commitment for approved capital projects. The unspent SuperBuild and MOH capital grants have been invested and the interest income has been added to the original grants.

9. Endowments and trust funds

Endowments and trust funds are represented by the following:

	2023		2022	
	Cost $	**Amortized cost $**	Cost $	Amortized cost $
Mutual funds	**367**	**367**	358	358
Cash - treasury accounts	**3,161**	**3,161**	3,170	3,170
Total cash and investments for endowments and trusts	**3,528**	**3,528**	3,528	3,528

(In thousands of dollars)

10. Short-term borrowings

As at March 31, 2023, the Hospital has a $70,000 ($70,000 in 2022) unsecured demand operating line of credit. The line of credit bears interest at prime rate minus 0.85% (primate rate minus 0.85% in 2022). As at March 31, 2023, the short-term borrowings are nil (nil in 2022) against this facility.

11. Obligations under capital leases

Future minimum payments under capital leases, by year and in aggregate, consist of the following at March 31, 2023:

	$
Fiscal year ending	
2024	21
Total minimum lease payments	21
Less: Amount representing interest at 1.2%	—
Balance of obligation	21
Current portion of obligations	21
Long-term portion of obligations	—

The debt obligation is secured by the specific equipment under capital lease.

12. Long-term debt

	2023	2022
	$	$
St. Catharines site mortgage - borrowings at an interest rate of 9.1%, payable over the next 20 years in monthly payments, which escalate based on consumer price index	**188,147**	191,767
	188,147	191,767
Less: current portion	**4,055**	3,528
Long-term debt	**184,092**	188,239

The principal repayments required in the next five fiscal years are as follows:

	$
2024	4,055
2025	4,414
2026	4,793
2027	5,206
2028	5,656
2029 and thereafter	164,023
	188,147

(In thousands of dollars)

12. Long-term debt (continued)

St. Catharines site

The Hospital entered into an alternate financing and procurement project under PIR's ReNew Ontario Infrastructure investment plan with Plenary Health Niagara LP to Design, Build, Finance and Maintain (DBFM) the health care complex in St. Catharines. The facility was substantially completed on November 26, 2012. Under the terms of the Project Agreement, payments will be made by the Hospital for principal and interest costs. Payments have comprised construction progress payments, payment at substantial completion and mortgage payments. As at March 31, 2023, $188,147 ($191,767 in 2022) of principal has been recorded as a long-term obligation for these mortgage payments and will be paid over a 30-year period with payments having commenced after the substantial completion date.

13. Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and deluxe travel benefits. These post-retirement benefits are recognized in the period in which the employees rendered their services to the Hospital.

The Hospital measures its accrued benefits obligations for accounting purposes at December 31st each year. The most recent actuarial valuation of the benefit plans was March 31, 2021. Information about the defined benefit plan is as follows:

	2023	2022
	$	$
Accrued benefit obligation, end of year	**43,368**	43,201
Less: actuarial losses	**4,863**	6,252
Accrued benefit liability, end of year	**38,505**	36,949
Current portion	**3,675**	3,372
Long-term portion	**34,831**	33,577
	38,505	36,949

Movement in the accrued benefit obligation is as follows:

	2023	2022
	$	$
Accrued benefit obligation, beginning of year	**43,201**	45,388
Accrual for service	**2,460**	2,505
Interest on accrued benefits	**1,675**	1,450
Benefits paid for the year	**(3,372)**	(3,270)
Actuarial (gain)	**(596)**	(2,872)
Actual accrued benefit obligation, end of year	**43,368**	43,201

(In thousands of dollars)

13. Employee future benefits (continued)

Included in the statement of operations is an amount of $4,455 ($3,896 in 2022) regarding employees future benefits. This amount is comprised of:

	2023 $	2022 $
Plan expense		
Current service cost	**1,987**	1,447
Interest cost	**1,675**	1,450
Amortization of actuarial loss	**794**	999
	4,455	3,896

The main actuarial assumptions employed for the valuation are as follows:

	2023	2022
Average remaining service period to full eligibility	**14 years**	14 years
Discount rate	**4.04%**	3.89%
Expected annual increase in dental care costs *	**3.00%**	3.00%
Expected annual increase in heatlh care costs *	**5.57%**	5.57%

* 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.

14. Deferred capital contributions

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2023 $	2022 $
Balance, beginning of year	**761,900**	762,052
Contribution received & interest earned during the year	**36,782**	29,444
Amortization	**(30,526)**	(29,596)
	768,156	761,900
Less: current portion of deferred contributions	**(27,448)**	(28,578)
Balance, end of year	**740,708**	733,322

15. Asset retirement obligations

Asbestos

The Hospital has a number of buildings containing asbestos requiring remediation upon decommissioning. The Canadian Environmental Protection Act (CEPA) governs the protection of the environment and human health with respect the hazardous waste such as asbestos. There are regulations specifically regarding the handling of asbestos, such as the "Prohibition of Asbestos and Products Containing Asbestos Regulations" which are published under the authority of CEPA. In addition, the Canada Occupational Health and Safety Regulations (10.26.1 Schedule, Division II – Hazardous Substances Other than Hazardous Products) outlines requirements for asbestos exposure control plans, as well as requirements on disposal of asbestos and decontamination.

(In thousands of dollars)

15. Asset retirement obligations (continued)

Petroleum storage tanks

In accordance with the Technical Standards and Safety Act and other applicable regulations, the Technical Standards & Safety Authority ("TSSA") regulates the transportation, storage, handling and use of fuels in Ontario. Regulations require underground fuel tanks to be registered with the TSSA, and establishes requirements for regular inspections, and for the abandonment and decommissioning of underground storage tanks. When an underground fuel tank is no longer in use, the removal must be performed by a qualified TSSA-registered contractor. The TSSA's regulations for underground fuel tanks clearly specify the requirements to decommission the tanks at the end of their useful lives, which would indicate that future economic benefits will be given up by the Hospital, therefore resulting in an asset retirement obligation (ARO).

The estimated liability is the present value of the estimated future cash flows required to settle the asset retirement obligations and is estimated at $ 13,216.

A reconciliation of the beginning and ending aggregate carrying amount of the liability is as follows:

	2023	2022
	$	$
Balance, beginning of year	**12,820**	—
Accretion expense	**396**	—
Balance, end of year	**13,216**	—

16. Investment in land, buildings, and equipment

Investment in land, buildings, and equipment

	2023	2022
	$	$
Investments	**116,873**	103,565
Land, buildings, and equipment	**743,996**	743,483
Contributions receivable	**142,460**	148,845
Deferred capital contributions	**(768,156)**	(761,900)
Long-term debt	**(188,147)**	(191,767)
Obligations under capital leases	**(21)**	(144)
Asset retirement obligation	**(13,216)**	—
Investments in land, buildings, and equipment	**33,789**	42,082

(In thousands of dollars)

16. Investment in land, buildings, and equipment (continued)

Changes in net assets invested in land, buildings, and equipment are calculated as follows:

	2023	2022
	$	$
Amortization of land improvements, buildings, and equipment	**(37,304)**	(36,304)
Amortization of deferred contributions	**30,526**	29,596
Loss on disposal of land, buildings, and equipment	**(166)**	(42)
Gain on deferred grants and donations	**131**	—
Accretion expense	**(396)**	—
Net deficit for the year	**(7,209)**	(6,750)
Net land, buildings, and equipment additions	**37,699**	33,278
Asset retirement obligation - opening balance adjustment capital assets	**304**	
Proceeds on sale on assets	**(20)**	(29)
Contributions receivable	**(6,385)**	(6,727)
Net increase in deferred contributions	**(36,782)**	(29,444)
Obligations under capital leases	**123**	121
Repayment of long-term debt	**3,620**	5,995
Net increase in asset retirement obligation liability	**(12,820)**	—
Increase in cash and investments	**13,177**	3,194
	(1,084)	6,388
Remeasurement loss reclassified to deferred captial contributions	**—**	(36)
Net change in investments in land, buildings, and equipment	**(8,293)**	(398)

17. Endowments and trust funds

	2023	2022
	$	$
Summary of endowments by site		
Niagara Health System	**3,528**	3,528

All of the assets restricted for endowment or trusts purposes are subject to externally imposed restrictions that the principal be maintained intact. The interest earned on the funds is restricted for expenditures that meet the stipulations of the donation.

(In thousands of dollars)

18. Externally restricted funds

	2023	2022
	$	$
Niagara Health Systems		
Opening balance	**74**	74
Interest	**1**	—
	75	74

The Hospital has $75 ($74 in 2022) in externally restricted funds. Externally restricted funds represent donations which have been restricted by the donor for a specific expenditure or type of expenditure. The Board has the discretion to spend the funds in accordance with the stipulations of the donations.

19. Internally restricted funds

	2023	2022
	$	$
Opening balance	**29,850**	19,135
Interest allocated on funds	**923**	237
Transfers into the fund	**—**	10,478
Transfers out of the fund	**(3,620)**	—
	27,153	29,850

The internally restricted net assets represent funds internally restricted by the Board of Directors for capital purposes

20. Other votes and other funds

Other votes represent funding received for specific programs/services from the Ministry of Health and Ministry of Long-Term Care, approved by a separate vote of the provincial legislature. Other fund types are funding received from other sources than the Ministry of Health and Ministry of Long-Term Care. Funding for other votes and fund types are not included in the hospital’s global funding.

(In thousands of dollars)

20. Other votes and other funds (continued)

	2023 $	2022 $
Other votes		
Revenue	**10,629**	11,680
Expenses	**10,631**	11,665
	(2)	15
Other fund types		
Endowment and trust interest income - net	**88**	21
Extended care unit and interim long-term care loss	**(399)**	(357)
	(311)	(336)
Bundled care		
Post acute revenues	**1,245**	1,187
Post acute expenses	**(1,245)**	(1,187)
	—	—
	(313)	(321)

21. Net capital expenditures

	2023 $	2022 $
Amortization of building and land improvements	**(25,490)**	(25,234)
Amortization of deferred grants	**22,975**	22,784
Donation and grant revenue	**12**	12
Donation and grant revenue - Capital mortgage interest for St. Catharines Health Complex	**16,199**	16,455
Capital mortgage interest for St. Catharines Health Complex	**(16,199)**	(16,455)
Capital revenue/(expense)	**—**	(120)
Asset retirement obligation amortization and accretion expense	**(431)**	—
	(2,934)	(2,558)

22. Commitments

Operating leases

The Hospital is committed to payments under operating leases for certain equipment and facilities in the total amount of $15,716. Annual payments are as follows:

	$
2024	4,545
2025	4,031
2026	3,419
2027	2,486
2028	1,235
	15,716

(In thousands of dollars)

22. Commitments (continued)

St. Catharines site health-care complex

The Hospital entered into financial arrangements with Plenary Health Niagara to design, build, finance, and maintain the health-care complex in St. Catharines on March 27, 2009. Over the 20-year period, payment commitments related to facilities and lifecycle maintenance are expected to be as follows:

	$
2024	9,983
2025	9,999
2026	9,996
2027	10,521
2028	11,262
2029 and thereafter	252,927
	304,688

These payments related to facilities maintenance and lifecycle costs will be indexed over the term of the agreement to provide for changes in certain operating costs. The Hospital has entered into an agreement with the MOH to share in these costs based on MOH funding policy.

See Note 4 for further details regarding the hospital complex.

23. Contingent liabilities

As at March 31, 2023, there were a number of claims outstanding, none of which exceeded the insurance coverage of the Hospital. The nature of Hospital activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims, management believes the Hospital has valid defenses and/or appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have material adverse effect on Hospital’s financial position and results of operations.

The Hospital participates in the Healthcare Insurance Reciprocal of Canada (“HIROC”), a registered Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2023.

In the normal course of business, the Hospital has entered into agreements that meet the definition of a guarantee. The Hospital’s primary guarantees are as follows:

(a) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased director’s and officers’ liability insurance to mitigate the costs of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.

23. Contingent liabilities (continued)

(b) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a results of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, if any, which stems from the unpredictability of future events and the unlimited coverage offered to the counterparties. Accruals recorded are based on management’s best estimate given the most current information available.

24. Pension plan

Substantially all of the employees of the Niagara Health System are members of the Hospitals of Ontario Pension Plan (the “Plan”), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Plan members will receive benefits, terminating on death, based on the defined benefit formula which is calculated using the best five consecutive years of earnings and number of years of contributory service in the Plan.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investments policy. The plan is currently funded at 117%. Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members.

Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $26,667 ($25,893 in 2022) and are included in the statement of operations. Pension expense is based on Plan management’s best estimates, in consultation with its actuaries, of the amount, together with contributions by employees of 6.9% of the first $65 of salary and 9.2% thereafter, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employee’s contributions.

25. Financial instruments and risk management

Establishing fair value

The carrying value of cash, receivables, long-term receivable, cash and investments restricted for capital, payables and accruals, obligations under capital leases, and bank borrowings approximates their fair value because of the relatively short period to maturity of the instruments. The fair value of long-term debt is not materially different from their carrying values as it bears interest at variable rates and has financing conditions similar to those currently available to the Hospital.

25. Financial instruments and risk management (continued)

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Hospital manages its exposure to the risks associated with financial instruments that have the potential to affect its operating and financial performance in accordance with its Risk Management Policy. The objective of the policy is to reduce the volatility in cash flow and earnings. The Board monitors compliance with the risk management policies and reviews risk management policies and procedures on an annual basis.

The Hospital has exposure to the following risks associated with its financial instruments.

Credit risk

Cash and investments restricted for capital

Credit risk associated with cash and investments restricted for capital is minimized substantially by ensuring these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. An ongoing review is performed to evaluate changes in the status of the issuers authorized for investment under the Hospital's investment policy.

Accounts receivable

Credit risk associated with accounts receivable is minimized due to the nature of the Hospital's funding from the Province of Ontario. For other accounts receivable, the Hospital maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the parties extended credit, as well as the large number of smaller customers.

The Hospital must make estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information and reasons for the accounts being past due are all considered in the determination of when to allow for past due accounts; the same factors are considered when determining whether to write off amounts charged to the allowance account against the amounts receivable.

25. Financial instruments and risk management (continued)

Credit risk (continued)

Liquidity risk

Liquidity risk is the risk that the Hospital will not be able to meet a demand for cash or fund its obligations as they come due.

Liquidity risk also includes the risk of the Hospital not being able to liquidate assets in a timely manner at a reasonable price.

The Hospital meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and financing activities and holding assets that can be readily converted into cash. The Hospital has a short-term unsecured bank financing facility in place should it be required to meet temporary fluctuations in cash requirements as well as funding arrangements in place with the MOH, OH, and MLTC as described in Note 8.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in the market interest rates. The interest rate exposure of the Hospital arises from its interest-bearing assets and its pension and other post-retirement benefit obligations. The Hospital also has short-term and long-term borrowings subject to interest rate risk. The primary objective of the Hospital with respect to its investments in fixed income investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return.

The Hospital manages the interest rate risk exposure of its fixed income investments by using a laddered portfolio with varying terms to maturity. The laddered structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations. At March 31, 2023, the Hospital had $52,554 ($38,020 in 2022) of investments exposed to interest rate risk.

The Hospital is exposed to interest rate risk since changes in interest rates may impact the Hospital's borrowing costs. Floating rate debt exposes the Hospital to fluctuations in short-term interest rates. At March 31, 2023, the Hospital had nil ($1,650 in 2022) of short-term borrowings subject to variable interest rate.

26. Related parties and shared services

Related parties

In 2023 the Hospital was associated with the following Foundations and Auxiliaries: Niagara Health Foundation, St. Catharines General Hospital Auxiliary, Greater Niagara General Hospital Auxiliary, Douglas Memorial Hospital Auxiliary, Port Colborne General Hospital Auxiliary, and Welland Hospital Auxiliary.

The Foundations and Auxiliaries are independent organizations that raise funds and hold in part resources for the benefit of the Hospital sites. All amounts received from the Foundations and Auxiliaries are deferred and recognized into income as the money is spent for its intended purpose. The Foundations and Auxiliaries contributed $4,220 during fiscal 2023 ($5,159 in 2022). Included in the Hospital's assets as at March 31, 2023, is $3,247 ($2,921 in 2022) in accounts receivable from the Foundations and Auxiliaries.

(In thousands of dollars)

26. Related parties and shared services (continued)

Shared services

The Hospital is a member of Mohawk Medbuy Corporation (“Mohawk”). Mohawk is a not-for-profit organization which provides centralized Laundry Services, Diagnostic Imaging Repository Services, Employee Assistance Program Services, Supply Chain Services, Capital Procurement Services, and Accounts Payable Services to its members and participants in Ontario. Mohawk is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act. Member hospitals share in paying the operating costs for the corporation. The Hospital’s share of operating costs in 2023 was $1,916 ($1,859 in 2022) reflected in expenses on the statement of operations. Included in the hospital’s liabilities at March 31, 2023, is $375 ($353 in 2022) in accounts payable to Mohawk.

27. Funding agreements

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

(a) OH Diabetes Funding

	2023 **$**	2022 $
Adult program		
Revenue	**470**	470
Expenses		
Salaries and benefits	**439**	439
Supplies and other expenses	**39**	35
Travel/transportation	**—**	—
	478	474
Program deficit	**(8)**	(4)

	2023 **$**	2022 $
Pediatric program		
Revenue	**38**	38
Expenses		
Salaries and benefits	**45**	45
Supplies and other expenses	**—**	—
	45	45
Program deficit	**(7)**	(7)

(In thousands of dollars)

27. Funding agreements (continued)

(b) Global Diabetes Funding

	2023 $	2022 $
Adult program		
Revenue	**1,264**	1,264
Expenses		
Salaries and benefits	**1,440**	1,311
Supplies and other expenses	**11**	13
	1,451	1,324
Program deficit	**(187)**	(60)

	2023 $	2022 $
Pediatric program		
Revenue	**153**	153
Expenses		
Salaries and benefits	**123**	126
Program surplus	**30**	27

(c) Patient Digital Identity, Authentication and Authorization Project

	2023 $	2022 $
Paymaster revenue	**6,774**	3,278
Paymaster expenses		
Planning, design and development	**2,997**	2,792
Implementation and adoption	**3,740**	486
Sustainability and scalability planning	**37**	—
	6,774	3,278
Program deficit	**—**	—

28. Pandemic response

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel corona virus (“COVID-19”) as a pandemic which resulted in a series of public health and emergency measures that have been put into place to combat the spread of the virus.

During the year ended March 31, 2023 the Hospital experienced pandemic response expenditures. The MOH/OH/MLTC continued to provide some support to offset these incremental operating costs.