Financial statements of
Mackenzie Health

March 31, 2023

Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Mackenzie Health

Opinion

We have audited the financial statements of Mackenzie Health (the "Hospital"), which comprise the statement of financial position as at March 31, 2023, and the statements of operations, changes in net assets, remeasurement gains and losses 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, 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 ("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 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 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
June 12, 2023

Mackenzie Health

Statement of operations

Year ended March 31, 2023

(Stated in thousands of dollars)

	Notes	2023 $	2022 $
Revenue			
Province of Ontario funding	20	**682,991**	534,616
Patient services		**44,364**	34,616
Amortization of deferred capital contributions	15	**31,080**	31,517
Interest		**6,828**	549
Parking revenues		**7,329**	5,021
Other miscellaneous revenues		**2,175**	28,596
		774,767	634,915
Expenses			
Salaries and benefits		**435,969**	374,422
Supplies and other expenses		**179,168**	182,073
Interest expense	9	**20,141**	9,378
Amortization of equipment	15	**44,881**	51,237
		680,159	617,110
Excess of revenue over expenses before the undernoted		**94,608**	17,805
Amortization of deferred capital contributions - building	15	**28,632**	54,213
Amortization of building	15	**(29,436)**	(55,270)
		(804)	(1,057)
Excess of revenue over expenses - from operations		**93,804**	16,748
One-Time Working Capital Funds		**—**	16,212
Excess of revenue over expenses		**93,804**	32,960

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

Mackenzie Health

Statement of changes in net assets

Year ended March 31, 2023

(Stated in thousands of dollars)

	Invested in property and equipment $	Unrestricted $	2023 Total $	2022 Total $
Balance, beginning of year	**142,685**	**(106,159)**	**36,526**	3,566
(Deficiency) excess of revenue over expenses	**(14,653)**	**108,457**	**93,804**	32,960
Net change in investment in property and equipment	**(37,003)**	**37,003**	**—**	—
Balance, end of year	**91,029**	**39,301**	**130,330**	36,526

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

Mackenzie Health

Statement of remeasurement gains and losses

Year ended March 31, 2023

(Stated in thousands of dollars)

	Notes	2023 $	2022 $
Accumulated remeasurement (losses) beginning of year		**(693)**	(13,335)
Unrealized gains attributable to			
Interest rate swap	7	**6,783**	12,642
Accumulated remeasurement gains (losses), end of year		**6,090**	(693)

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

Mackenzie Health

Statement of financial position

As at March 31, 2023

(Stated in thousands of dollars)

	Notes	2023 $	2022 $
Assets			
Current assets			
Cash		**249,530**	214,944
Short-term investments	4	**100,000**	—
Accounts receivable	5	**36,886**	33,656
Inventories		**5,732**	6,627
Prepaid expenses		**9,947**	7,576
Current portion of long-term receivable	6	**6,028**	5,935
		408,123	268,738
Long-term receivable			
Long-term receivable	6	**275,370**	287,616
Interest rate swap	7	**6,090**	—
Restricted funds for strategic initiatives		**3,585**	3,483
Restricted funds for development	13	**239,762**	265,443
Property and equipment	8	**1,163,676**	1,210,421
		2,096,606	2,035,701
Liabilities			
Current liabilities			
Due to the Province of Ontario		**17,076**	12,882
Accounts payable and accrued liabilities		**164,661**	132,288
Current portion of long-term payable	6	**6,028**	5,935
Current portion of long-term debt	9	**11,903**	11,565
Current portion of obligations under capital leases		**7,674**	7,734
		207,342	170,404
Long-term liabilities			
Long-term debt	9	**164,802**	176,705
Obligations under capital leases	10	**36,849**	41,500
Long-term payable	6	**275,370**	287,616
Interest rate swap	7	**—**	693
Employee future benefits	11	**14,340**	13,734
Other long-term liabilities		**15,540**	7,520
Deferred revenue	12	**135,185**	186,722
Asset retirement obligations	13	**1,293**	—
		643,379	714,490
Deferred contributions related to property and equipment	14	**1,109,465**	1,114,974
Net assets		**130,330**	36,526
Accumulated remeasurement gains (losses)		**6,090**	(693)
		2,096,606	2,035,701

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

Approved by the Board of Directors

Fay Lim-Lambie ____________ Chair, Board of Directors

Dev Chopra ____________ Treasurer, Board of Directors

Mackenzie Health
Statement of cash flows
Year ended March 31, 2023
(Stated in thousands of dollars)

	2023 $	2022 $
Operating activities		
Excess of revenue over expenses	**93,804**	32,960
Items not involving cash		
Amortization of property and equipment	**74,317**	106,507
Amortization of capital contributions	**(59,712)**	(85,730)
Change in employee future benefits liability	**606**	925
Change in other long-term liabilities	**8,020**	1,402
Change in asset retirement obligations	**48**	—
Changes in non-cash working capital items related to operations		
Accounts receivable	**(3,230)**	32,682
Inventories	**895**	489
Prepaid expenses	**(2,371)**	(2,675)
Accounts payable and accrued liabilities	**32,373**	(734)
Due to the Province of Ontario	**4,194**	(11,584)
Deferred revenue	**(51,537)**	73,732
	3,603	115,014
Net cash from operating activities	**97,407**	147,974
Capital activity		
Purchase of capital assets	**(26,327)**	(47,762)
Investing activity		
Purchase of short-term investments	**(100,000)**	—
Financing activities		
Long-term receivable	**12,153**	5,718
Long-term liability	**(12,153)**	(5,718)
Repayment of long-term debt	**(11,565)**	(37,618)
Obligations under capital leases - net	**(4,711)**	(7,128)
Restricted funds for development	**25,681**	(24,362)
Capital contribution from Mackenzie Health Foundation	**33,915**	27,643
Capital contribution from the Regional Municipality of York	**16,350**	12,359
Capital contribution from Province of Ontario	**3,938**	33,411
	63,608	4,305
Increase in cash, during year	**34,688**	104,517
Cash, beginning of year	**218,427**	113,910
Cash, end of year	**253,115**	218,427
Cash consists of		
Cash	**249,530**	214,944
Restricted funds for strategic initiatives	**3,585**	3,483
	253,115	218,427
Supplementary disclosure of cash flow information		
Interest paid	**20,141**	9,378

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

1. Organization

(a) Incorporation

Mackenzie Health (the "Hospital"), was incorporated in the Province of Ontario as a Public Hospital. The Hospital is principally involved in providing health-care services to York Region. The Hospital is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

(b) Operations and Long-Term Care Facility

Operations are financed by the Ministry of Health ("MoH") and Ontario Health ("OH") and by patient fees. Ontario Health ("OH"), a Crown agency of the Government of Ontario, was established on June 6, 2019. Effective April 1, 2021, OH assumed all responsibilities of the CLHIN as it relates to the Hospital. In addition, all agreements between the Hospital and the CLHIN were transferred to OH.

The day to day operation of the Long-Term Care facility is managed by Universal Care Inc. under a management agreement with the Hospital.

2. Summary of significant accounting policies

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

(a) Revenue recognition

The Hospital follows the deferral method of accounting for contributions, which include donations and government grants.

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by OH and the MoH. Operating grants are recorded as revenue in the period to which they relate. Grants and funding authorized by the MOH/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. Refer to Note 20 for further discussion on funding relating to COVID-19 pandemic response.

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.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Contributions restricted for the purchase of property and equipment are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related property and equipment. Interest earned on the restricted cash-development is being treated as additional funding and therefore has been deferred and will be recognized as revenue on the same basis as other capital contributions.

2. Summary of significant accounting policies (continued)

(a) Revenue recognition (continued)

Patient services revenue primarily from the Ontario Health Insurance Plan (OHIP), preferred accommodation and marketed services is recognized when the service is provided.

(b) Property and equipment

Purchased property and equipment is recorded at cost. Contributed property and equipment is recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expenses. Betterments, which extend the estimated life of an asset, are capitalized. When the property or equipment no longer contributes to the Hospital’s ability to provide services, its carrying amount is written down to its residual value.

Property and equipment is amortized on a straight-line basis using the annual rates disclosed in Note 8.

(c) Equipment under capital leases

Equipment under leases that effectively transfer substantially all of the benefits and risks of ownership to the Hospital as lessee are recorded as property and equipment at the present value of the minimum payments under the leases with a corresponding liability for the related lease obligations. Equipment under capital leases are amortized over the estimated useful life at the same rates used for similar equipment.

(d) Donations and donated services

Donations of property and equipment are recorded as deferred revenue and credited to revenue at the same rate as the amortization of the asset that was purchased by the donation. Donations of non-amortizable assets are accounted for at their appraised value with the amount of the donation being credited to the net assets account. Donations for operational items are credited to revenue in the year received.

Certain services of the Hospital are voluntarily provided by the community. Since these services are not normally purchased by the Hospital and because of the difficulties in determining their fair value, these donated services are not recognized in these financial statements.

(e) Vacation pay

Vacation pay is accrued for all employees as entitlement to these payments is earned.

(f) 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.

2. Summary of significant accounting policies (continued)

(f) Asset retirement obligations (continued)

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.

(g) Employee future benefits

The Hospital offers non-pension post-employment benefits to most employees, including life insurance benefits, dental benefits and extended health-care coverage. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the employee future benefits.

The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected discount rates and cost increases.

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

(h) Inventories

Inventories are valued at the lower of cost and net replacement value, with cost determined on an average cost basis.

(i) Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Accounts requiring significant estimates include accounts receivable, accrued liabilities, asset retirement obligations, deferred revenue and employee future benefits.

The revenue recognized from the MoH and OH 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. 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 have the right to adjust funding received by the Hospital. Neither the MoH nor OH 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 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.

(Stated in thousands of dollars)

2. Summary of significant accounting policies (continued)

(j) Financial instruments

The Hospital's interest rate swap is recorded at fair value. The Hospital's other financial instruments consist of cash, restricted funds for development, accounts receivable, long-term receivables, accounts payable and accrued liabilities, amounts due to the Province of Ontario, long-term payables and long-term debt, and are measured at amortized cost.

Financial assets and financial liabilities are initially recognized at fair value when the Hospital becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured as noted above.

Changes in fair value for financial assets and liabilities which are measured at fair value are recognized in the statement of remeasurement gains and losses until they are realized.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement gains and losses and recognized in the Statement of Operations. On sale, the amount held in accumulated remeasurement gains and losses associated with that instrument is removed from net assets and recognized in the Statement of Operations.

Financial assets measured at amortized cost are assessed at each reporting date for indications of impairment. If such impairment exists, the asset is written down and the resulting impairment loss is recognized in the Statement of Operations.

3. Change in accounting policy

Effective April 1, 2022, the Hospital adopted PS 3280, Asset Retirement Obligations (ARO's). The change follows the effective implementation date for ARO's 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;

Since the assets to which the ARO's apply had been fully amortized prior to April 1, 2022, but remain in productive use, no accumulated amortization has been recognized on the capitalized cost as at April 1, 2022 nor were there any adjustments to opening accumulated surplus.

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

	March 31, 2022 As previously reported $	ARO adjustments $	April 1, 2022 Restated $
Statement of financial position			
Tangible capital assets	1,210,421	1,245	1,211,666
Asset retirement obligations	—	1,245	1,245

(Stated in thousands of dollars)

4. Short-term investments

Short-term investments consist of the following:

	2023 $	2022 $
Cash and cash equivalents held in broker account	**100,000**	—

Investments with maturity dates ranging from April 4, 2023, to October 3, 2023, and interest rates between 4.96% and 5.22% (n/a in 2022) are reinvested periodically to meet investment policy targets.

5. Accounts receivable

The accounts receivable balance is comprised of the following:

	2023 $	2022 $
Province of Ontario	**12,475**	16,311
Patients	**10,139**	7,264
Mackenzie Health Foundation	**2,564**	41
Harmonized Sales Tax rebate	**2,181**	3,094
Other	**10,989**	8,062
	38,347	34,772
Allowance for doubtful accounts	**(1,461)**	(1,115)
	36,886	33,656

6. Cortellucci Vaughan Hospital

The Hospital, in conjunction with the MoH, has undertaken a major capital redevelopment project to build and operate a new hospital and expand to a two-hospital integrated service. The Cortellucci Vaughan Hospital was substantially completed on August 26, 2020 and the final completion certificate was issued on January 28, 2021. The new hospital partially opened on February 7, 2021 to provide capacity in response to demand from the COVID-19 pandemic. At that time, the capital cost of the building totaling $872,776 was transferred from projects in process to building and land improvements.

On October 25, 2016, the Hospital entered into a project agreement with Plenary Health (PH) to design, build, finance and maintain (for a 30-year term) the Cortellucci Vaughan Hospital.

(Stated in thousands of dollars)

6. Cortellucci Vaughan Hospital (continued)

The balance of the amount due to PH of $281,397 ($293,551 in 2022) related to the construction of the building is reported as a long-term payable and bears interest of 3.8% and is funded by the MoH. The receivable related to the project is $281,397. The payments over the next 5 years and thereafter are as follows:

	Debt	Interest	Operating costs	Life cycle
	$	$	$	$
2024	6,028	12,569	7,796	641
2025	6,257	12,340	7,932	612
2026	6,494	12,102	8,070	3,565
2027	6,741	11,855	8,211	3,115
2028	6,997	11,599	8,355	3,519
Thereafter	248,880	166,816	230,710	114,506
	281,397	227,280	271,073	125,959
Current	6,028	12,569	7,796	641
Long Term	275,370	214,712	263,277	125,318
Total	281,397	227,280	271,073	125,959

The debt, operating and maintenance services are repayable in blended average monthly installments of $2,710 and matures on June 2050. Part of the agreement with PH requires that it provide certain operating and maintenance services. The total cost of these services is projected to be $291,017 over the term of the agreement. In addition, the Hospital is committed to making total payments of approximately $126,864 related to life cycle maintenance over the term of the agreement. These payments are to be substantially funded by the MoH and will be included in revenue from the MoH.

At March 31, 2023 components of the redevelopment, including certain equipment remained in progress and are reflected as projects-in-Progress. These assets will be transferred to the appropriate capital asset categories when they are put into service.

The Hospital entered into a ground lease agreement for 99 years and possible extension term of up to 49 years with the City of Vaughan for the land required for the construction and operation of the Mackenzie Vaughan Hospital. The lease commenced in April 2015 and provides for a basic rent payment of $2.00 over the term of the agreement including the extension, if applicable.

7. Interest rate swap

The Hospital has entered into interest rate swap agreements that fix the long-term interest rate associated with loan agreements. Under this agreement, the Hospital pays interest on the notional principal at a fixed rate and receives interest on the same notional principal at a variable rate based on Bankers' Acceptance rates. There is no exposure to loss on the notional principal amounts since the amounts are netted by agreement, however, as interest rates fluctuate, the exposure to interest expense rises and falls.

Under the agreement, the Hospital pays a fixed rate of 2.97% and 2.675% on notional principal. As at March 31, 2023 the notional principals of the agreements were $99,148 and $77,557 and the notional principal will be reduced in a systematic manner until the contract matures on July 31, 2035.

As at March 31, 2023, the fair value of the interest rate swaps is a receivable of $6,090 (liability of $693 in 2022). The change in fair value during the year of $6,783 ($12,642 in 2022) is recorded in the Statement of Remeasurement Gains and Losses.

(Stated in thousands of dollars)

8. Property and equipment

	Amortization rates %	Cost $	Accumulated amortization $	2023 Net book value $	2022 Net book value $
Building and land improvements	2.5 - 10	**1,115,773**	**168,459**	**947,314**	960,289
Building, long-term care facility	3	**12,868**	**7,371**	**5,497**	5,842
Major equipment	5 - 20	**474,958**	**296,102**	**178,856**	220,414
Major Equipment, long-term care facility	5 - 20	**971**	**701**	**270**	317
Parking Lot	5	**4,525**	**4,502**	**23**	38
Land, at cost		**1,099**	**—**	**1,099**	1,099
Projects-in-progress					
Cortellucci Vaughan Hospital (Note 6)		**23,781**	**—**	**23,781**	9,361
Mackenzie Richmond Hill Hospital		**6,836**	**—**	**6,836**	13,061
		1,640,811	**477,135**	**1,163,676**	1,210,421

Included in major equipment are assets under capital leases at a cost of $72,206 ($69,963 in 2022) and accumulated amortization of $27,235 ($19,492 in 2022).

9. Loan and banking facilities

On September 25, 2017 the Hospital entered into an agreement for two non-revolving financing facilities of $115,000 and $90,000. The term of the agreement is 15 years with repayments commencing October 2021. As at March 31, 2023, the principal balance owing on these facilities was $99,148 ($105,628 in 2022) and $77,557 ($82,642 in 2022). The purpose of the facilities was to finance the Hospital's share of expenses in connection with the development and construction of the Cortellucci Vaughan Hospital Project as well as the purchase of related fixtures, furniture and equipment.

	2023 $	2022 $
Current portion of loan	**11,903**	11,565
Long term portion of loan	**164,802**	176,705
	176,705	188,270

Principal repayments due in each of the next five years is as follows:

	Total $
2024	11,903
2025	12,254
2026	12,614
2027	12,984
2028	13,365
2029 and thereafter	113,585
	176,705

Included in total interest expense of $20,141 ($9,378 in 2022) is $5,227 ($5,582 in 2022) related to the $115,000 and $90,000 financing facilities for the Cortellucci Vaughan Hospital Project.

(Stated in thousands of dollars)

10. Lease commitments

The future minimum annual lease payments under capital lease for computer and medical equipment and minimum future annual operating leases for property are as follows:

	Capital Leases $	Operating Leases $
2024	9,893	1,809
2025	9,450	1,359
2026	8,704	1,112
2027	8,076	865
2028	7,512	721
2029 and thereafter	8,493	553
Total minimum lease payments	52,129	6,419
Less: amount representing interest at weighted average	7,605	
Total obligations under capital lease	44,524	
Less: Current portion of obligations under capital leases	7,674	
	36,849	

Effective April 1, 2016, the Hospital entered into a Managed Equipment Services agreement (the "agreement") with Philips Healthcare, a Division of Philips Electronics Limited ("Philips") to provide the Hospital with access to technology, equipment and infrastructure for a variety of medical equipment for a period of 18 years. Under the terms of the agreement, Philips provides services related to the procurement, installation, and commissioning of capital assets in accordance with an Equipment Investment Plan as well as the maintenance, training and on-site technical support services for the equipment acquired as part of the agreement. Equipment investments are accounted for as capital leases. Implementation, maintenance, training and support service costs are expensed as incurred and are included in the statement of operations and changes in fund balance.

Annual services payments for the following 5 years consist of the following:

	Capital expenditures $	Operating commitments $	service payments $
2024	1,175	7,036	8,211
2025	2,142	8,238	10,380
2026	2,557	8,190	10,747
2027	3,076	8,438	11,514
2028	3,249	8,188	11,437
	12,199	40,090	52,289
Less: amount representing interest	2,732		
	9,467		

(Stated in thousands of dollars)

11. Employee future benefits

The Hospital provides certain retirement and post-employment benefits to most of its employees.

The Hospital's non-pension post-retirement benefit plans are comprised of medical, dental and life insurance coverage for certain groups of employees who have retired from the Hospital and are based on the age and service requirements of the plan.

Information about the Hospital's employee future benefits in aggregate is as follows:

	2023	2022
	$	$
Accrued benefit obligation, beginnning of year	**7,752**	10,680
Current service cost	**1,075**	1,279
Actuarial experience losses (gains)	**(766)**	(4,127)
Interest cost	**323**	300
Benefit payments	**(202)**	(381)
Accrued benefit obligation, end of year	**8,181**	7,752
Unamortized actuarial experience gains (losses)	**6,158**	5,982
Accrued benefit liability, end of year	**14,339**	13,734

The expense for the year of $808 ($1,307 in 2022) is comprised as follows:

	2023	2022
	$	$
Current service cost	**1,075**	1,280
Interest cost	**323**	300
Amortization of actuarial experience gains	**(590)**	(272)
	808	1,307

The most recent full actuarial valuation was completed as at March 31, 2023.

The significant actuarial assumptions adopted in measuring the Hospital's accrued obligations are as follows:

Discount rate	3.70%
Dental cost increases	4.50%
Extended health-care increases	4.50%

12. Deferred revenue

Deferred revenue represents unspent externally restricted grants and donations for various purposes and includes the following:

	2023	2022
	$	$
MoH	**131,521**	183,520
Other	**3,664**	3,202
	135,185	186,722

(Stated in thousands of dollars)

13. 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.

The estimated liability is the present value of the estimated future cash flows required to settle the asset retirement obligations is $1,293.

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

	2023 **$**	2022 $
Balance, beginning of year	**1,245**	1,245
Changes during the year		
Accretion expense	**48**	—
Balance, end of year	**1,293**	1,245

14. Deferred contributions related to property and equipment

Deferred capital contributions related to property and equipment represent the unamortized and unspent amounts received for the purchase of property and equipment as follows:

	2023 **$**	2022 $
Balance, beginning of year	**1,114,974**	1,127,291
Add: Capital Contributions received from the Foundation	**33,916**	27,643
Add: Capital Contributions received from the Regional Muncipality of York	**16,350**	12,359
Add: Capital Contributions received from the Province of Ontario	**3,937**	33,411
Less: amounts amortized to revenue	**(59,712)**	(85,730)
Balance, end of year	**1,109,465**	1,114,974

	2023 **$**	2022 $
Restricted cash-development	**239,762**	265,443
Umamortized contributions used for the purchase of property and equipment	**869,703**	849,531
	1,109,465	1,114,974

(Stated in thousands of dollars)

15. Investment in property and equipment

(a) Invested in property and equipment

	2023 $	2022 $
Property and equipment	**1,163,676**	1,210,421
Amounts funded by		
Capital leases	**(36,849)**	(41,500)
Long term loan	**(164,802)**	(176,705)
Unamortized capital contributions	**(869,703)**	(849,531)
Asset retirement obligation	**(1,293)**	—
	91,029	142,685

(b) Changes in net assets invested in property and equipment

	2023 $	2022 $
Balance, beginning of year	**142,685**	129,219
Amortization of deferred capital contributions		
Property and equipment	**31,080**	31,517
Building	**28,632**	54,213
	59,712	85,730
Amortization of		
Property and equipment	**(44,881)**	(51,237)
Building	**(29,436)**	(55,270)
	(74,317)	(106,507)
Accretion expense on ARO	**(48)**	—
Purchase of property and equipment (net)	**26,327**	47,762
Amounts funded by		
Capital Leases	**4,651**	5,546
Deferred contributions	**(54,203)**	(73,413)
Long term loan	**11,903**	29,986
Redevelopment funds	**(25,681)**	24,362
Proceeds from disposals of property and equipment	**—**	—
	(37,003)	34,243
Balance, end of year	**91,029**	142,685

16. Pension plan

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer defined benefit average pay, contributory pension plan. Contributions to the plan made during the year by the Hospital on behalf of its employees amounted to $22,251 ($20,015 in 2022) and are included in salaries and benefits in the statement of operations. The most recent actuarial valuation as at December 31, 2022 indicated the plan is 117% funded.

17. Commitments and contingent liabilities

The Hospital and others have been named as defendants in various claims. Based on the opinion of legal counsel as to the realistic estimates of the merits of these actions and the Hospital's potential liability, management believes any liability resulting from these actions would be adequately covered by existing liability insurance.

On July 1, 1987, a group of health-care organizations (subscribers) formed Healthcare Insurance Reciprocal of Canada (HIROC). HIROC is registered as a reciprocal pursuant to provincial insurance acts, which permit persons to exchange reciprocal contracts of indemnity insurance with other persons. HIROC facilitates the provision of liability insurance coverage to health-care organizations in the Provinces of Ontario, Manitoba, Saskatchewan and Newfoundland and Labrador. 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.

18. Related entities

(a) The Hospital has an economic interest in the Mackenzie Health Hospital Foundation (the Foundation"). During the 2022/2023 fiscal year, the Foundation granted $33,915 ($27,643 in 2022) to the Hospital to fund property and equipment and development projects.

(b) The Mackenzie Innovation Institute (Mi2) is an entity established in 2015 for the purpose of supporting healthcare innovation at Mackenzie Health and across the healthcare industry, in general. There are service agreements between Mi2 and Mackenzie Health in the amount of $82($194 in 2022).

On July 13, 2022, the Members of Mi2 approved by special resolution a voluntary dissolution of Mi2.

19. Financial instruments

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 using the last bid price;

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

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.

(Stated in thousands of dollars)

19. Financial instruments (continued)

Fair value hierarchy (continued)

The following table presents the financial instruments recorded at fair value in the Statement of financial position, classified using the fair value hierarchy described above:

	Level 1 $	**Level 2 $**	**Level 3 $**	**2023 Total $**
Interest rate swap	**—**	**—**	**6,090**	**6,090**

	Level 1 $	Level 2 $	Level 3 $	2022 Total $
Interest rate swap	—	—	(693)	(693)

Financial risks

The Hospital, through its exposure to financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk and credit risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Hospital is exposed to this risk through its long-term loan. The Hospital mitigates interest rate risk on its long-term loan through a derivative financial instrument that exchanges the variable rate inherent in the demand loan for a fixed rate (see Note 7). Therefore, fluctuations in market interest rates would not impact future cash flows and operations related to the long-term loan.

Credit risk

The Hospital's principal financial assets are cash and accounts receivable, all of which are subject to credit risk. The carrying amount of financial assets on the balance sheet represents the Hospital's maximum exposure to credit risk. The Hospital's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the balance sheet are net of allowance for doubtful accounts estimated by management based on previous experience and its assessment of the current economic environment.

20. COVID-19 pandemic

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 continued to provide support to offset these incremental operating costs.