# Financial statements of
# Unity Health Toronto

March 31, 2019

June 18, 2019

## Management's Report

To the Board of Directors of
Unity Health Toronto

The accompanying financial statements of Unity Health Toronto (the "Health Network") have been prepared by, and are the responsibility of management. The financial statements have been prepared in accordance with Canadian public sector accounting standards. The accounting policies selected by management are considered to be the most appropriate to fairly represent the Health Network's financial affairs. The preparation of financial statements necessarily involves management judgement and estimates of expected outcomes of current events and transactions with appropriate consideration to materiality.

The Health Network maintains a system of internal accounting and financial controls designed to provide reasonable assurance about the reliability of financial data, to ensure adequate control over transactions, and to safeguard the assets of the Health Network. This system of internal controls includes formal written accounting and administrative policies and procedures and an organizational structure that provides an appropriate division of responsibilities and authority. Management recognizes the inherent risk in any system and believes the overall systems and controls provide reasonable assurance as to the integrity of the financial statements.

The members of the Health Network and the Board of Directors have appointed Deloitte LLP as the Health Network's external auditors. Their accompanying report is based on an examination conducted in accordance with Canadian generally accepted auditing standards.

Dr. Tim Rutledge
President and CEO

Dean Martin
Chief Financial Officer

Deloitte.

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# Independent Auditor's Report

To the Board of Directors of
Unity Health Toronto

**Opinion**

We have audited the financial statements of Unity Health Toronto (the "Health Network"), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and 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 Health Network as at March 31, 2019, and the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("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 Network 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 Health Network'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 Health Network or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Health Network'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 Health Network'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 Health Network'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 Health Network 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 18, 2019

**Unity Health Toronto**

**Statement of financial position**

As at March 31, 2019

(In thousands of dollars)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | 1 | $ | $ |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **113,189** | 127,393 |
| Accounts receivable | 4 | **35,843** | 40,307 |
| Inventories | | **6,444** | 6,310 |
| Prepaid expenses and other assets | | **7,697** | 8,009 |
| Pension benefits - registered plan | 10 | **104,748** | - |
| Residual pension assets to be transferred | 10 (a) | **63,850** | - |
| Restricted cash and investments | 3 | **198,450** | 193,738 |
| | | **530,221** | 375,757 |
| Restricted cash and investments | 3 | **106,373** | 88,001 |
| 3.0 redevelopment project - long-term funding receivable | 6 | **83,654** | 72,735 |
| Pension benefits - registered plan | | **-** | 110,540 |
| Property, plant and equipment | 5 | **959,638** | 962,275 |
| | | **1,679,886** | 1,609,308 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **152,356** | 157,197 |
| Long-term debt | 8 | **1,200** | 1,179 |
| Due to Ministry of Health and Long-Term Care/Toronto Central LHIN | | **4,902** | 4,130 |
| Deferred revenue | | **23,435** | 25,179 |
| Residual pension transfer payable | 10 (a) | **63,850** | - |
| Pension contribution payable to Healthcare of Ontario Pension Plan (HOOPP) on integration | 10 (a) | **108,029** | - |
| 3.0 redevelopment project | 6 | **173,274** | 173,274 |
| | | **527,046** | 360,959 |
| Long-term debt | 8 | **2,308** | 3,421 |
| 3.0 redevelopment project | 6 | **87,076** | 85,672 |
| Pension benefits - supplementary plan | 10 | **26,366** | 32,567 |
| Other post-employment benefits | 10 | **31,174** | 30,218 |
| Deferred capital contributions | 11 | **689,484** | 675,951 |
| Deferred research and trust contributions | 7 | **99,228** | 88,677 |
| Other long-term liabilities | 15 | **5,432** | 6,053 |
| | | **1,468,114** | 1,283,518 |
| Contingencies and commitments | 15 | **-** | - |
| | | | - |
| **Net assets** | | **211,772** | 325,790 |
| **Total liabilities and net assets** | | **1,679,886** | 1,609,308 |

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

On behalf of the Board of Directors:

Tom Woods
Chair, Board of Directors

Colleen Johnston
Vice Chair, Board of Directors

**Unity Health Toronto**

**Statement of operations**

Year ended March 31, 2019

(In thousands of dollars)

| | Notes | 2019 | Eight months ended March 31, 2018 |
|---|---|---|---|
| | 1 | **$** | $ |
| **Revenue** | | | |
| Ministry of Health and Long-term Care/Toronto Central LHIN | | | |
| Grants | | **842,461** | 544,864 |
| Other votes and programs | | **51,768** | 33,804 |
| Patient revenue from other payers | | **52,493** | 37,309 |
| Other income | | **80,560** | 50,389 |
| Interest | | **3,256** | 1,358 |
| Grants and donations for research and other purposes | 7 | **81,758** | 57,335 |
| Amortization of deferred capital contributions | 11 | **20,082** | 13,039 |
| | | **1,132,378** | 738,098 |
| **Expenses** | | | |
| Salaries, wages and employee benefits | | **621,117** | 428,528 |
| Medical and surgical supplies | | **79,592** | 48,648 |
| Drugs and medical gases | | **61,255** | 37,887 |
| Other supplies and expenses | | **135,153** | 94,935 |
| Bad debts | | **4,928** | 2,399 |
| Interest accretion | 8 | **91** | 87 |
| Other votes and programs | | **53,804** | 35,535 |
| Amortization of capital assets | | **51,066** | 32,887 |
| Research expenses | | **82,457** | 55,978 |
| Expenses associated with pension transfer to HOOPP | 10 (a) | **156,933** | - |
| | | **1,246,396** | 736,884 |
| (Deficit) surplus for the period | | **(114,018)** | 1,214 |

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

**Unity Health Toronto**

## Statement of changes in net assets

Year ended March 31, 2019
(In thousands of dollars)

| | Notes | Invested in property, plant and equipment | Unrestricted | 2019 | 2018 |
|---|---|---|---|---|---|
| | | $ | | $ | $ |
| **Net assets, beginning of period** | | **293,395** | **32,395** | **325,790** | — |
| Net assets assumed from predecessor organizations | | **—** | **—** | **—** | 324,576 |
| (Deficit)/surplus for the period | | **(30,984)** | **(83,034)** | **(114,018)** | 1,214 |
| Invested in property, plant and equipment | 12 (b) | **13,623** | **(13,623)** | **—** | — |
| **Net assets, end of period** | | **276,034** | **(64,262)** | **211,772** | 325,790 |

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

**Unity Health Toronto**
**Statement of cash flows**
As at March 31, 2019
(In thousands of dollars)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | 1 | **$** | $ |
| **Cash provided by (used in)** | | | |
| **Operating activities** | | | |
| (Deficit) surplus for the period | | **(114,018)** | 1,214 |
| Items not affecting cash | | | |
| Amortization of capital assets | | **51,066** | 32,887 |
| Amortization of deferred capital contributions | 11 | **(20,082)** | (13,039) |
| Employee future benefits expense | 10 | **(8,575)** | 2,584 |
| Expenses associated with pension transfer to HOOPP | 10 (a) | **156,933** | - |
| Recognition of deferred research and trust contributions | 7 | **(81,758)** | (57,335) |
| Interest on deferred and research contributions received | 7 | **365** | 215 |
| Interest expense on accretion of mortgage payable - land | 8 | **91** | 87 |
| Increase in net payable for 3.0 redevelopment project | 6 | **1,404** | (5,450) |
| Net change in non-cash working capital balances | 13 | **(1,171)** | 42,784 |
| **Cash (utilized)/provided by operating activities** | | **(15,745)** | 3,947 |
| **Capital activity** | | | |
| Purchase of capital assets | | **(48,429)** | (83,129) |
| **Financing activities** | | | |
| Contributions received for capital purposes | | **33,615** | 87,566 |
| Contributions (receivable)/received for 3.0 redevelopment project | 6 | **(10,919)** | 159,485 |
| Contributions received for deferred research and trust | 7 | **91,944** | 51,253 |
| Repayment of mortgage and obligations under capital lease | 8 | **(1,183)** | 1,356 |
| Contributions to employee future benefits | 10 | **(39,782)** | (30,157) |
| Contributions to restricted cash and investments | | **(23,084)** | (193,739) |
| Net change in long-term obligation | | **(621)** | 1,582 |
| | | **49,970** | 77,346 |
| Net (decrease) in cash and cash equivalents | | **(14,204)** | (1,836) |
| Cash and cash equivalents, beginning of period | | **127,393** | 129,229 |
| **Cash and cash equivalents, end of period** | | **113,189** | 127,393 |
| **Cash and cash equivalents are comprised of** | | | |
| Cash | | **72,696** | 46,114 |
| Cash equivalents | | **40,493** | 81,279 |
| | | **113,189** | 127,393 |

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

## 1. Nature of the Health Network

Unity Health Toronto (formerly Providence, St. Joseph's and St. Michael's Healthcare) (the "Health Network") was incorporated, without share capital under the Corporations Act (Ontario) on August 1, 2017, as a charitable organization and is a registered charity within the meaning of the Income Tax Act (Canada). The Health Network was formed through the integration of three legacy hospitals, Providence Healthcare, St. Joseph's Health Centre, and St. Michael's Hospital on August 1, 2017. On January 1, 2019, the Health Network changed its name from Providence, St. Joseph's and St. Michael's Healthcare to Unity Health Toronto.

The Health Network is a multi-site network that spans across Toronto with three large hospitals, one long-term care home, seven family health team locations, two withdrawal management centres, two community-based dialysis sites, one ambulatory care building, one large research and education facility and other satellite academic offices. Together, they operate 1,400 beds and annually welcome more than 360,000 patients. The services cover the full spectrum of care, from pre-hospital through its primary care providers to post-acute to rehabilitation, palliative and long-term care. Through its academic mission, the Health Network is a hub of educational and research excellence. As responsible care providers, the Health Network strives to use every dollar wisely while ensuring the delivery of the highest quality care.

The Catholic Health Corporation of Ontario (CHCO) is the sponsoring organization of the Health Network as a Catholic institution. The members of the Board of Directors of CHCO are also the members of the Health Network.

With each of the three legacy hospitals in the Health Network founded by the Sisters of St. Joseph of Toronto (the Sisters), the organization comprises Canada's largest Catholic health care provider. Today, the Health Network continues the legacy of the Sisters by ensuring that care is available to all, especially to those who face economic or social exclusion.

The comparative figures in these financial statements present the results of operations from the date of inception, August 1, 2017, to March 31, 2018.

## 2. Summary of significant accounting policies

The financial statements are prepared in accordance with Canadian public sector accounting standards including sections PS 4200 to PS 4270 pertaining to government not-for-profit organizations. The significant accounting policies are summarized below.

*Revenue recognition*

The Health Network follows the deferral method of accounting for contributions, which includes donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Under the Health Insurance Act (Ontario) and the regulations thereunder, the Health Network is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry of Health and Long-Term Care (the "MOHLTC") through the Hospital Service Accountability Agreement, the Long-Term Care Service Accountability Agreement, and the Multi-Sector Service Accountability Agreement with the Toronto Central Local Health Integration Network (the "TCLHIN").

## 2. Summary of significant accounting policies (continued)

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of a period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period, unless the MOHLTC/TCLHIN makes a request for funds to be repaid, at which time the amounts are reclassified as amounts due to the MOHLTC/TCLHIN.

Restricted contributions are recognized as revenue in the period in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding to the amortization rate for the related capital asset.

To the extent that MOHLTC/TCLHIN funding has been received with the stipulated requirement that the Health Network provides specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed, or is recorded as payable back to the MOHLTC/TCLHIN.

Investment income earned on grants received for research and trust and unspent MOHLTC/TCLHIN capital grants are recognized as an increase in deferred capital contributions and are considered restricted to these purposes. Unrestricted investment income, which consists of interest, income distributions from pooled funds and realized gains and losses, is recognized as revenue when earned.

Revenue from patient and resident revenue, from other payers, preferred accommodation and co-payment revenues, and marketed services is recognized when the goods are sold or the service is provided.

*Cash and cash equivalents and restricted investments*

Cash and cash equivalents and restricted investments include highly liquid short-term investments, such as guaranteed investment certificates. Cash equivalents and restricted investments are recorded at amortized cost. Interest is recorded on an accrual basis.

*Inventories*

Inventories consist primarily of hospital supplies held for patient care and are recorded at the lower of cost and current replacement cost. Cost is determined by the weighted average costing method.

*Property, plant and equipment*

Property, plant and equipment are recorded at cost. Contributed property, plant and equipment are recorded at fair value at the date of contribution. Expenditures for new facilities or those expenditures that substantially increase the useful lives of existing property, plant and equipment are capitalized. Renovation costs to maintain normal operating efficiency are expensed as incurred. Maintenance, repairs and minor replacements are also expensed as incurred. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets at the following rates:

| | |
|---|---|
| Land improvements | 10 to 20 years |
| Buildings | 10 to 50 years |
| Building equipment | 5 to 25 years |
| Equipment | 3 to 20 years |
| Leasehold improvements | term of lease |

Construction-in-progress consists of direct construction and development costs. No amortization is recorded until construction is substantially complete and the assets are brought into service.

## 2. Summary of significant accounting policies (continued)

Gains or losses on disposals of capital assets are included in the statement of operations in the period of disposal.

*Provision for sick leave benefits*

Certain employees are entitled to receive payment for unused sick time, calculated at current rates of pay, for time accumulated prior to 1982. A provision has been made in the accounts for this liability assuming all employees will retire from service and will receive full payment as of the year-end date. Payments are made at a reduced rate when employees leave the Health Network's employment prior to retirement age.

*Employee benefit plans*

For the period up to January 1, 2019, the Health Network administered three separate defined benefit retirement pension plans known as the Registered Pension Plans (RPP), for the three legacy organizations. Effective January 1, 2019, the Providence Healthcare and St. Joseph's Health Centre RPPs were transferred to the Healthcare of Ontario Pension Plan ("HOOPP"), a multi-employer pension plan. St. Michael's Hospital RPP will be transferring to HOOPP effective July 1, 2019.

Substantially all of the Health Network's employees belong to these plans. The RPPs provide pensions based on length of service and the best five years' average earnings. The RPPs require funding based on actuarial recommendations set out in the last funding actuarial valuations for each of the plans. The last funding valuations were performed as at January 1, 2018 for the Providence Healthcare and St. Michael's Hospital RPPs and at December 31, 2017 for the St. Joseph's Health Centre's RPP. The Health Network contributes to the RPPs in accordance with these funding valuations.

The Health Network also administers three Supplementary Retirement Plans (SRP) which provide for the benefits that cannot be paid from the various pension plans. The Income Tax Act places limitations on benefits that can be paid from a registered pension plan. These are substantially unfunded pension obligations for deferred and retired members of the plan. Active members will join HOOPP (on January 1, 2019 or July 1, 2019 respectively) and their benefits will be paid by HOOPP.

In addition to the pension plans, the Health Network administers post-employment benefit plans for full-time employees who retire from active service.

Except for its participation in HOOPP, the Health Network accrues its obligations for the various employee future benefit plans. The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of the retirement ages of employees and expected health-care costs.

Actuarial gains and losses on the accrued benefit obligation arise from changes in actuarial assumptions used to determine the accrued benefit obligation and are amortized over the average remaining service period of the active employees. Past service costs arising from plan amendments are recognized in the period the plan amendments occur.

The Health Network records its contributions made to HOOPP using defined contribution plan accounting, as it does not have sufficient information available to apply defined benefit plan accounting. Contributions made to HOOPP are expensed when due.

*Internally restricted net assets*

Internally restricted net assets include certain fund surpluses designated for specific purposes by the Board of Directors. As at March 31, 2019, no internally restricted net assets have been set aside by the Board of Directors.

## 2. Summary of significant accounting policies (continued)

*Contributed services and materials*

A substantial number of volunteers contribute a significant amount of their time each year. Due to the difficulty of determining the fair value, these contributed services are not recognized or disclosed in the financial statements and related notes. Contributed materials are recorded, when received, at fair value.

*Financial instruments*

Financial instruments reported on the Statement of financial position of the Health Network are measured as follows:

| Financial instrument | Measurement |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Restricted cash and investments | Amortized cost |
| Accounts receivable | Amortized cost |
| Residual pension assets to be transferred | Fair value |
| 3.0 redevelopment project - funding receivable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| 3.0 redevelopment project - liability | Amortized cost |
| Due to the MOHLTC/TCLHIN | Amortized cost |
| Residual pension transfer payable | Amortized cost |
| Pension contribution payable to HOOPP on integration | Amortized cost |

Financial instruments measured at amortized cost are 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. Financial instruments measured at fair value are recorded based on prices quoted in an active market.

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 of recovery. Financial assets are then written down to recoverable value with the write down being recognized in the Statement of Operations.

*Use of estimates*

The preparation of financial statements in conformity with Canadian public sector accounting standards for government not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are subject to significant measurement uncertainty. For all estimates, actual results could differ from those estimates.

Estimates and assumptions are used primarily in the determination of: the useful lives of capital assets, and the related amortization policies; percentage of completion of capital redevelopment; recognition of externally restricted contributions; employee future benefits; accrued liabilities; deferred revenue, revenue, due to/from MOHLTC, and provisions for accounts receivable that may be doubtful. Actual results could differ from management’s estimates as additional information becomes available in the future.

(In thousands of dollars)

## 3. Restricted cash and investments

Restricted cash and investments are comprised of $98,292 (2018 - $75,461) that are restricted for research and trust activities. The restricted investments also include $196,391 (2018 - $200,694) that are restricted to support capital and redevelopment projects.

Amounts held at period end have been invested in:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Cash | **280,146** | 262,606 |
| Guaranteed investment certificates | **24,677** | 19,133 |
| | **304,823** | 281,739 |

Effective January 1, 2015, two of the legacy hospitals entered into an agreement with Healthcare Insurance Reciprocal of Canada (HIROC) whereby the costs of investigating and defending any litigation claims are borne by the Health Network. To fund the expected costs, the Health Network transfers funds to an operating account managed by HIROC Management Limited (HML) as the Health Network’s appointed agent. The cash balance of $2,061 and GIC balance of $5,025 (2018 - cash balance of $6,044) are restricted for these costs.

## 4. Accounts receivable

Accounts receivable consist of the following:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Patients and other | **29,272** | 33,027 |
| Ministry of Health and Long-term Care/Toronto Central LHIN | **5,983** | 6,645 |
| St. Joseph's Health Centre Foundation | **176** | 426 |
| St. Michael's Hospital Foundation | **309** | 131 |
| Providence Healthcare Foundation | **103** | 78 |
| | **35,843** | 40,307 |

(In thousands of dollars)

## 5. Property, plant and equipment

Property, plant and equipment consist of the following:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Cost | | |
| Land and land improvements | **26,866** | 26,866 |
| Buildings | **763,285** | 755,303 |
| Building equipment | **62,788** | 59,396 |
| Equipment | **618,841** | 602,862 |
| Leasehold improvements | **53,976** | 53,115 |
| Construction-in-progress | **363,382** | 344,341 |
| | **1,889,138** | 1,841,883 |
| Accumulated amortization | | |
| Land improvements | **1,833** | 1,767 |
| Buildings | **321,928** | 304,787 |
| Building equipment | **42,780** | 40,524 |
| Equipment | **534,508** | 507,011 |
| Leasehold improvements | **28,451** | 25,519 |
| | **929,500** | 879,608 |
| | **959,638** | 962,275 |

## 6. SMH 3.0 redevelopment project

In 2015, the St. Michael's Hospital site entered into a Project Agreement with the special purpose entity 2442931 Ontario Inc. (Project Co.) to design, construct and finance the St. Michael's 3.0 redevelopment project. The redevelopment project includes the construction of a new 17-storey patient care tower at the corner of Queen and Victoria streets, a renovated Emergency Department and significant upgrades to improve the existing hospital space including the demolition and redevelopment of the Shuter Wing. The sole shareholder of Project Co. is the third party construction company Bondfield Construction Company Ltd. (BCCL).

Significant delays have been experienced on the redevelopment project, and the third party construction company applied for court protection from creditors in March 2019.

The total projected construction and renovation project costs for the redevelopment are estimated at $420,960 (2018 - $380,881) The MOHLTC's shareable construction and renovation project costs, including construction financing, are currently expected to be $350,550 (2018 - $319,039). Payment is due at the completion of phases I and II. Phase I was initially expected to be completed by August 2017, but is now expected for fall 2019. As at March 31, 2019, no payment has been made.

It is expected that the obligation of the project agreement will be satisfied by funding from the MOHLTC, fundraising through the St. Michael's Hospital Foundation, as well as recoveries through performance bonds established to secure the performance of the design and construction contract between Project Co., BCCL, and the Health Network.

(In thousands of dollars)

## 6. SMH 3.0 redevelopment project (continued)

*Asset and Liability Recognition*

During construction, the Health Network has title to the building and has accounted for this redevelopment at the value of construction-in-progress, which corresponds to the obligation owing to the third party construction company. The Health Network has also accounted for the proportionate share of MOHLTC funding as a receivable (based on the MOHLTC funding formula) and the corresponding deferred capital contribution.

Work completed as at March 31, 2019 is valued at $318,405 (2018 - $304,163) and has been recognized as construction-in-progress within capital assets, with a corresponding redevelopment obligation of $260,350 ($173,274 current and $87,076 long-term liabilities) (2018 - $258,946, $173,274 current and $85,672 long-term liabilities). The Health Network has also recorded a receivable owing from the MOHLTC in the amount of $83,654 (2018 - $72,735) and a corresponding deferred capital contribution of $268,531 (2018 - $257,612) in relation to the project. The MOHLTC has previously transferred $184,878 in anticipation of the payment for completion of Phase I of the project, this amount is held as restricted cash by the Health Network at year end.

*Contingent assets*

During 2019, the Health Network filed an indebtedness notice to Project Co.'s lender's agent with respect to losses incurred for unperformed or underperformed obligations of the third party construction company. The recovery of these losses remains uncertain and is not considered measurable at this time. No asset has been recognized in the financial statements of the Health Network related to potential recoveries at this time.

*Contingent liabilities*

The Health Network may be exposed to legal claims as a result of the delays in the redevelopment project, and BCCL's application for court protection from creditors. The nature, amount, and likely outcome of any such claims is uncertain and is not considered estimable at this time. Accordingly, no provision for loss has been made in these financial statements. In management's view, these claims should not have a material adverse effect on the financial position of the Health Network.

## 7. Deferred research and trust contributions

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of period | **88,677** | 94,544 |
| Contributions received/accrued | **91,944** | 51,253 |
| Interest Income | **365** | 215 |
| Revenue recognized | **(81,758)** | (57,335) |
| Balance, end of period | **99,228** | 88,677 |

(In thousands of dollars)

## 8. Long term debt

Long-term debt is comprised of:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Obligations under capital lease | **1,566** | 1,749 |
| Less: Current portion of obligations under capital lease | **200** | 179 |
| Long-term portion of obligations under capital lease | **1,366** | 1,570 |
| Mortgage payable for land | **1,942** | 2,851 |
| Less: Current portion of mortgage payable for land | **1,000** | 1,000 |
| Long-term portion of mortgage payable for land | **942** | 1,851 |
| Total current portion of long-term debt | **1,200** | 1,179 |
| Total long-term portion of long-term debt | **2,308** | 3,421 |
| | **3,508** | 4,600 |

In 2006, St Michael's Hospital purchased certain lands and buildings from the Sisters for $20,000. An initial payment of $6,000 was made for the acquisition and the remaining $14,000 is being financed by a vendor take-back (VTB) mortgage, interest free over a term of 40 years. Principal repayments are $1,000 every year for 13 years commencing on June 1, 2007, $999 in June 2020 and $1 in February 2046. The Health Network determined the fair value of the VTB mortgage was $10,080, using a discount rate of 4.5%. The carrying value will be accreted over the term of the mortgage and will be reflected as interest expense. Accreted interest expense for the period was $91 (2018 – $87).

The mortgage is subject to an undertaking by the Health Network in relation to the continued use of the lands and buildings acquired from the vendor. In the event of a breach of the Health Network's undertaking, the Health Network may be required to pay the balance owing on the mortgage and $21,000 within 60 days, subject to the outcome of a dispute resolution process. As at March 31, 2019, the Health Network is not in breach of its undertaking.

## 9. Lines of credit

The Health Network has $25,000 of unsecured, revolving demand lines of credit with Canadian banks. During the period, the Health Network utilized $32,590 (2018 - $30,925) from the lines of credit, which was fully repaid by the end of the period. Interest incurred relating to the lines of credit totaled $19 (2018 - $10). As at March 31, 2019, the Health Network has issued a letter of credit of $245 (2018 - $245).

(In thousands of dollars)

## 10. Employee future benefits

Information about the Health Network's pension and other benefit plans is determined based on actuarial valuations for accounting purposes as at March 31, 2019, with measurement date of December 31, 2018. The details of the Health Network's pension plans and other post-employment benefits are as follows:

| | | | | 2019 | 2018 |
|---|---|---|---|---|---|
| | Registered pension plan | Supplementary pension plan | Other post-employment plan | Total | Total |
| | $ | $ | $ | $ | $ |
| Reconciliation of funded status to accrued benefit (asset) liability | | | | | |
| Accrued benefit obligation | 983,320 | 43,882 | 26,630 | 1,053,832 | 1,633,620 |
| Fair value of plan assets | 1,127,278 | 13,400 | — | 1,140,678 | 1,924,668 |
| Funded status - (surplus) deficit | (143,958) | 30,482 | 26,630 | (86,846) | (291,048) |
| Unamortized actuarial gain (loss) | 48,963 | (3,933) | 4,679 | 49,709 | 255,292 |
| Contributions made January 1, 2019 to March 31, 2019 (January 1, 2018 to March 31, 2018) | (9,753) | (183) | (135) | (10,071) | (11,999) |
| Employee future benefits (asset) liability | (104,748) | 26,366 | 31,174 | (47,208) | (47,755) |
| Change in employee future benefits | | | | | |
| Employee future benefits (asset) liability beginning of period | (110,540) | 32,567 | 30,218 | (47,755) | (20,182) |
| Benefit expense for the period | 43,473 | (5,168) | 2,024 | 40,329 | 2,584 |
| Employer contributions | (37,681) | (1,033) | (1,068) | (39,782) | (30,157) |
| Employee future benefits (asset) liability, end of period | (104,748) | 26,366 | 31,174 | (47,208) | (47,755) |
| Benefits paid to beneficiaries during the period | 64,862 | 1,475 | 1,075 | 67,412 | 30,685 |
| Components of benefit expense (recovery) for the period | | | | | |
| Current service cost | 29,268 | 1,147 | 1,242 | 31,657 | 16,268 |
| Interest cost | 82,601 | 1,817 | 883 | 85,301 | 38,604 |
| Expected return on plan assets | (100,746) | (292) | — | (101,038) | (43,704) |
| Amortizations of actuarial (gains) losses | (25,308) | 914 | (101) | (24,495) | (8,584) |
| Benefits expense before the undernoted | (14,185) | 3,586 | 2,024 | (8,575) | 2,584 |
| HOOPP merger benefits expense | | | | | |
| Loss due to HOOPP pricing | 131,406 | — | — | 131,406 | — |
| Settlement adjustments | (33,028) | (6,937) | — | (39,965) | — |
| Recognition of unamortized net actuarial gains/losses due to settlement | (40,720) | (1,817) | — | (42,537) | — |
| HOOPP merger benefits expense | 57,658 | (8,754) | — | 48,904 | — |
| Benefit expense for the period | 43,473 | (5,168) | 2,024 | 40,329 | 2,584 |

(In thousands of dollars)

## 10. Employee future benefits (continued)

The significant actuarial assumptions adopted in measuring the Health Network's accrued benefit obligations for the defined benefit plans are as follows:

| | **2019** | 2018 |
|---|---|---|
| | **%** | % |
| St Joseph's Health Centre plans | | |
| Discount rate - Registered pension plan | **5.45** | 5.95 |
| Discount rate - Supplementary pension plan | **3.61** | 3.55 |
| Discount rate - Other post-retirement benefits | **3.43** | 3.55 |
| Expected return on plan assets | **5.90** | 5.95 |
| Age related compensation increases | **2.50** | 2.00 |
| St Michael's Hospital plans | | |
| Discount rate - Registered pension plan | **5.45** | 6.00 |
| Discount rate - Supplementary pension plan | **3.61** | 6.00 |
| Discount rate - Other post-retirement benefits | **3.43** | 6.00 |
| Expected return on plan assets | **6.00** | 6.00 |
| Range for age related compensation increases | **2.50** | 2.50 |
| Providence Healthcare plans | | |
| Discount rate - Registered pension plan | **5.45** | 5.45 |
| Discount rate - Supplementary pension plan | **3.43** | 3.50 |
| Discount rate - Other post-retirement benefits | **3.43** | 3.30 |
| Expected return on plan assets | **5.45** | 5.45 |
| Range for age related compensation increases | **2.50** | 3.20 - 3.50 |

The expected annual increase in medical and dental costs applicable to the post-employment benefits plan was 6.00% at the end of 2019, decreasing over twelve years to an ultimate rate of 4.5% for the Providence Healthcare Post Retirement Benefits plans, and 6% at the end of 2019 decreasing to 4% per annum in and after 2040 for the St Michael's Hospital and St Joseph's Health Centre Post Retirement Benefits plans.

The last actuarial valuations for accounting purposes for the registered and supplementary pension plans were January 1, 2018 for the Providence Healthcare and St. Michael's Hospital Pension Plans, and December 31, 2017 for the St. Joseph's Health Centre; valuations for other post-retirement benefits plan were January 1, 2017 for Providence Healthcare and St Michael's Hospital; and December 31, 2018 for St Joseph's Health Centre. The information disclosed above is based on an extrapolation of the results of the full accounting valuations to March 31, 2019.

*(a) Transfer of Registered Pension Plans into HOOPP*

The Health Network entered into an agreement with HOOPP to merge its three standalone Pension Plans. The transaction was effective January 1, 2019 for the Providence Healthcare Pension Plan and St Joseph's Health Centre Pension Plan. The effective date of transfer for the St Michael's Hospital Pension Plan is July 1, 2019.

(In thousands of dollars)

## 10. Employee future benefits (continued)

At March 31, 2019 the following amounts representing net residual plan assets remain to be transferred from the applicable pension plans, and have been reflected in the Statement of financial position as both an asset and a liability:

| | Due to HOOPP | Due to Employees | Total |
|---|---|---|---|
| | $ | $ | $ |
| St. Joseph's Health Centre RPP | 42,669 | 3,787 | **46,456** |
| Providence Healthcare RPP | 14,561 | 2,833 | **17,394** |
| | 57,230 | 6,620 | **63,850** |

St. Michael's Hospital Pension Plan has incurred a measurement date deficit of $103,000 as at May 8, 2018, representing an additional one-time contribution to be made by the Health Network on transfer of this RPP into HOOPP. The amount is incurring interest at a rate of 5.45% per annum. As at March 31, 2019, the total liability representing the deficit contribution and interest payable is $108,029. The Health Network has secured a $100,000 loan from the Ontario Financing Authority, executed on May 10, 2019, to meet this payment. The proceeds of this loan were transferred to HOOPP on May 17, 2019.

During the period, the Health Network incurred the following costs to enter into HOOPP:

| | 2019 |
|---|---|
| | $ |
| HOOPP Merger Benefits Expense | **48,904** |
| Measurement Date Deficit | **103,000** |
| Interest on Measurement Date Deficit | **5,029** |
| | **156,933** |

The overall net cost incurred by the Health Network to enter into HOOPP was $119,182, inclusive of the partial offset of expenses of $37,751.

*(b) Contributions to HOOPP multi-employer plan*

Contributions to HOOPP made during the year by the Health Network on behalf of its employees who are a part of this multi-employer plan amounted to $10,143 ($2,380 in 2018) and are included in salaries, wages and employee benefits expenses. The most recent actuarial valuation of the plan as at December 31, 2018 indicates the plan is 121% (122% in 2018) funded. Because the plan is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of the participating members and employees in HOOPP and should be dealt with according to the rules of the plan. As a result, the Health Network does not recognize any share of the plan surplus or deficit. The Health Network records estimated liabilities for accrued employee benefits in the year they are earned.

(In thousands of dollars)

## 11. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received, which were specified for the purchase of property, plant and equipment. The amortization of these contributions is recorded as revenue in the statement of operations.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Balance, beginning of period | 675,951 | 601,424 |
| Contributions received, including transfer from capital grants received in advance | 33,615 | 87,566 |
| Amounts amortized into revenue | (20,082) | (13,039) |
| Balance, end of period | 689,484 | 675,951 |

## 12. Net assets invested in property, plant and equipment

(a) Net assets invested in property, plant and equipment is comprised of the following:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Property, plant and equipment | 959,638 | 962,275 |
| Less amounts funded by deferred capital contributions (net of capital funding received in advance of $6,416 (2018 - $8,820) | (682,037) | (667,131) |
| Obligations from capital leases | (1,567) | (1,749) |
| | 276,034 | 293,395 |

(b) The net investment in property, plant and equipment is calculated as follows:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Purchase of property, plant and equipment | 48,429 | 83,129 |
| Amounts funded by deferred capital contributions | (34,989) | (82,791) |
| Net change in capital lease obligations | 183 | (1,356) |
| | 13,623 | (1,018) |

(In thousands of dollars)

## 13. Net change in non-cash working capital balances

The changes in non-cash working capital items are as follows:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Accounts receivable | **4,464** | 10,637 |
| Inventories | **(134)** | 149 |
| Prepaid expenses and other assets | **312** | 8,816 |
| Accounts payable and accrued liabilities | **(4,841)** | 22,986 |
| Due to Ministry of Health and Long-term Care/Toronto Central LHIN | **772** | 2,438 |
| Deferred revenue | **(1,744)** | (2,242) |
| | **(1,171)** | 42,784 |

## 14. Related party transactions

(a) Related party transactions in the normal course of operations between the Health Network and various related parties measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, were as follows:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Capital donations received from the Foundations | **4,275** | 40,293 |
| Non-capital donations received from the Foundations | **20,137** | 8,954 |
| Reimbursements received from the Foundations of operating expenditures paid by Health Network on behalf of the Foundations | **10,313** | 6,362 |
| Funding received from St Michael's Hospital Family Health Team | **7,770** | 6,109 |
| Payments to Plexxus | **2,148** | 1,369 |

(b) Plexxus

The Health Network has an economic interest in Plexxus. The objectives of Plexxus are to improve service levels and maximize non-clinical efficiencies, resulting in savings for members that will be reinvested in direct patient care.

(In thousands of dollars)

## 14. Related party transactions (continued)

(c) Providence Healthcare Foundation, St Joseph's Health Centre Foundation and St Michael's Hospital Foundation (the Foundations)

The Health Network has an economic interest in the Foundations which were established to raise and manage funds for the benefit of the legacy organizations. The Foundations are incorporated as public foundations under the Canada Corporations Act. The net assets and results of operations of the Foundations are not included in the financial statements of the Health Network.

At March 31, 2019, there is $588 receivable (2018 - $635) from the Foundations representing the reimbursement of operating expenses paid by the Health Network on behalf of the Foundations.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| St Joseph's Health Centre Foundation | **176** | 426 |
| St Michael's Hospital Foundation | **309** | 131 |
| Providence Healthcare Foundation | **103** | 78 |
| | **588** | 635 |

(d) Sisters of St Joseph of Toronto

On incorporation of the Health Network, a lease agreement was established with the owners, the Sisters of St. Joseph of Toronto, for the land and buildings at Providence Healthcare and St Joseph's Health Centre. The lease requires a monthly nominal payment of one dollar, and expires on December 29, 2036. The Health Network is responsible for all occupancy costs including leasehold improvements.

(e) St. Michael's Hospital Academic Family Health Team

The Health Network does not exercise significant influence or control over the St. Michael's Hospital Academic Family Health Team (FHT).

The Health Network received funding from the FHT, a separately incorporated organization that receives funding from the MOHLTC. These revenues were recognized to offset certain operating expenses of the Health Network associated with the provision of clinical resources, administrative and support services to the FHT and are included in sales and other revenue.

The Health Network has a payable of $122 (2018 - $197) to the FHT relating to operational expenses.

(f) St. Michael's Hospital Pension Plan

During the period, the Health Network charged the Fund of St. Michael's Hospital Pension Plan $nil (2018 - $349) for administrative and management services.

(In thousands of dollars)

## 15. Contingencies and commitments

(a) The Health Network is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its members. All members of the pool pay annual deposit premiums, which are actuarially determined and are expensed in the current year. These premiums are subject to further assessment for experience gains and losses, by the pool, for the years in which the Health Network was a member. No reassessments have been made to March 31, 2019.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses. Each subscriber who has an excess of premiums plus investment income over the obligation for their allocation of claims reserves and expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as at March 31, 2019.

(b) From time to time, the Health Network is named in lawsuits related to its activities. It is not possible to determine the merits of these claims or to estimate the possible financial liability, if any, to the Health Network. Accordingly, no provision for loss has been made in these financial statements, but in management's view, these claims should not have a material adverse effect on the financial position of the Health Network.

(c) Future minimum operating lease payments are as follows:

| | $ |
|---|---|
| 2020 | 8,173 |
| 2021 | 7,056 |
| 2022 | 7,122 |
| 2023 | 7,026 |
| 2024 | 6,453 |
| Thereafter | 30,726 |
| | 66,556 |

(In thousands of dollars)

## 15. Contingencies and commitments (continued)

(d) Future minimum annual lease payments required under capital lease arrangements are as follows:

| | $ |
|---|---|
| 2020 | 362 |
| 2021 | 362 |
| 2022 | 362 |
| 2023 | 336 |
| 2024 | 287 |
| Thereafter | 496 |
| Total lease payments | 2,205 |
| Less: amounts representing interest | 639 |
| | 1,566 |
| Less: current portion | 200 |
| | 1,366 |

## 16. Risk management

*Risk management*

The Health Network is exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. The Health Network's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Health Network's financial performance.

*Market risk*

Market risk includes interest rate risk and other price risks. The Health Network is not subject to significant market risk as its cash equivalents, restricted investments and long-term debt have fixed interest rates and the Health Network intends to carry them until maturity. The cash equivalents and restricted investments are carried at amortized cost. As such their valuation does not change with changes in the fair value of the underlying cash equivalents and restricted investments unless the change in fair value is indicative of impairment. The long-term debt is carried at amortized cost. The Health Network could be exposed to market risk if it were required to liquidate its cash equivalents and restricted investments, or settle its long-term debt before they mature.

*Credit risk*

Credit risk is the risk a counterparty may default on its contractual obligations resulting in financial loss. The Health Network is exposed to credit risk with respect to its accounts receivable, cash equivalents and restricted investments.

The Health Network's investment policy operates within the constraints of the investment guidelines and is monitored by management on a monthly basis.

The Health Network is exposed to credit risk with respect to its accounts receivable in the event of non-payment by patients for non-insured services and services provided to non-resident patients. The risk is common to hospitals as they are required to provide care for patients

## 16. Risk management (continued)

regardless of their ability to pay for services. The Health Network assesses this risk on a continuous basis and provides for any amounts that are not collectible in the allowance for doubtful accounts. The Health Network expects to collect all accounts receivable within one year except those which have been provided for.

*Liquidity risk*

Liquidity risk results from the Health Network's potential inability to meet its obligations associated with financial liabilities as they come due. To manage liquidity risk, the Hospital monitors its operations and cash flows to ensure sufficient resources exist to meet its obligations. The Health Network's investments are restricted to include only those investments that are highly liquid and can easily be converted into cash.

The maturity analysis of the Health Network's long-term debt is described in note 8. The majority of trade accounts payable and accrued liabilities are generally paid within 45 days of receipt of an invoice.

There have been no significant changes from the previous year in the Health Network's exposure to risks or policies, procedures and methods used to measure risks. The Health Network believes its current sources of liquidity are sufficient to cover its known short-term obligations.

## 17. Comparative figures

Certain comparative numbers have been reclassified to conform to the current year presentation.