Financial statements of
Unity Health Toronto

March 31, 2020

June 16, 2020

Management's Report

To the Board of Directors of
Unity Health Toronto

The accompanying financial statements of Unity Health Toronto ("Unity Health") 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 Unity Health'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.

Unity Health 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 Unity Health. 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 Unity Health and the Board of Directors have appointed Deloitte LLP as Unity Health'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.

Deloitte LLP
Bay Adelaide East
8 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Board of Directors of
Unity Health Toronto

Opinion

We have audited the financial statements of Unity Health Toronto ("Unity Health"), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, 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 Unity Health as at March 31, 2020, 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 Unity Health 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 Unity Health'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 Unity Health or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Unity Health'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 Unity Health'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 Unity Health'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 Unity Health 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 16, 2020

Unity Health Toronto

Statement of financial position

As at March 31, 2020

(In thousands of dollars)

	Notes	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents		**102,095**	112,798
Accounts receivable	4	**47,688**	36,046
Inventories		**7,806**	6,443
Prepaid expenses and other assets		**6,330**	7,600
Residual pension assets to be transferred	10	**—**	63,850
Pension benefits - registered plan	10 (a)	**—**	104,748
Restricted cash and investments	3	**217,166**	200,593
		381,085	532,078
Long-term assets			
Restricted cash and investments	3	**109,465**	104,684
3.0 redevelopment project – long term funding receivable	6	**63,218**	83,654
Property, plant and equipment	5	**973,002**	959,638
		1,526,770	1,680,054
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**160,193**	157,396
Long-term debt	8	**3,348**	1,200
Deferred revenue		**24,605**	23,467
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
		361,420	527,216
Long-term liabilities			
Long-term debt	8	**97,978**	2,308
3.0 redevelopment project	6	**88,124**	87,076
Pension benefits – supplemental plan	10	**19,346**	26,366
Other post-employment benefits	10	**31,783**	31,174
Deferred capital contributions	11	**709,006**	689,484
Deferred research and trust contributions	7	**102,992**	99,228
Other long-term liabilities	15	**5,806**	5,432
		1,416,455	1,468,284
Contingencies and commitments	15		
Net assets		**110,315**	211,770
		1,526,770	1,680,054

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

On behalf of the Board of Directors

Colleen Johnston, Chair, Board of Directors

Colleen Johnston

Nora Aufreiter, Vice Chair, Board of Directors

Nora Aufreiter

Virginia West, Vice Chair, Board of Directors

Virginia West

Unity Health Toronto
Statement of operations
Year ended March 31, 2020
(In thousands of dollars)

	Notes	2020 $	2019 $
Revenue			
Ministry of Health/Toronto Central Local Health Integration Network (LHIN)		**903,600**	877,352
Patient revenue from other payers		**65,365**	60,252
Other income		**88,551**	89,719
Interest income		**4,730**	3,256
Grants and donations for research and other purposes	7	**87,792**	81,758
Amortization of deferred capital contributions	11	**22,071**	20,082
		1,172,109	1,132,419
Expenses			
Salaries, wages and employee benefits		**723,516**	663,155
Medical and surgical supplies		**81,808**	79,964
Drugs and medical gases		**66,723**	61,262
Other supplies and expenses		**144,785**	146,277
Bad debts		**9,392**	5,019
Interest accretion	8	**2,828**	304
Amortization of property, plant and equipment		**50,135**	51,066
Research expenses		**87,898**	82,457
Expenses associated with pension transfer to HOOPP	10 (a)	**106,479**	156,933
		1,273,564	1,246,437
Deficit for the year		**(101,455)**	(114,018)

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

(In thousands of dollars)

	Notes	Invested in property, plant and equipment $	Unrestricted $	2020 $	2019 $
Net assets, beginning of year		**272,977**	**(61,207)**	**211,770**	325,788
Deficit for the year		**(28,064)**	**(73,391)**	**(101,455)**	(114,018)
Invested in property, plant and equipment	12 (b)	**24,325**	**(24,325)**	**—**	—
Net assets, end of year		**269,238**	**(158,923)**	**110,315**	211,770

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

Unity Health Toronto

Statement of cash flows

As at March 31, 2020
(In thousands of dollars)

	Notes	2020 $	2019 $
Operating activities			
Deficit for the year		**(101,455)**	(114,018)
Items not affecting cash			
Amortization of property, plant, and equipment		**50,135**	51,066
Amortization of deferred capital contributions	11	**(22,071)**	(20,082)
Employee future benefits expense	10	**3,540**	(8,575)
Expenses associated with pension transfer to HOOPP	10(a)	**106,479**	156,933
Recognition of deferred research and trust contributions	7	**(87,792)**	(81,758)
Interest on deferred and research contributions received	7	**476**	365
Interest accretion	8	**2,664**	91
Increase in net payable for 3.0 redevelopment project	6	**1,048**	1,404
Net change in non-cash working capital balances	13	**(7,800)**	(1,167)
		(54,776)	(15,741)
Capital activity			
Purchase of property, plant and equipment		**(63,499)**	(48,429)
Financing activities			
Contributions received for capital purposes	11	**41,593**	33,615
Contributions received/(receivable) for 3.0 redevelopment project	6	**20,436**	(10,919)
Contributions received for deferred research and trust	7	**91,080**	91,944
Proceeds from Ontario Financing Authority (OFA) loan for HOOPP entry	8	**100,000**	—
Repayment of mortgage, loan and obligations under capital lease	8	**(4,846)**	(1,183)
Contributions to employee future benefits	10	**(119,711)**	(39,782)
Net change in restricted cash and investments		**(21,354)**	(29,151)
Net change in other long-term liabilities		**374**	(623)
		107,572	43,901
Net decrease in cash and cash equivalents		**(10,703)**	(20,269)
Cash and cash equivalents, beginning of year		**112,798**	133,067
Cash and cash equivalents, end of year		**102,095**	112,798
Cash and cash equivalents are comprised of			
Cash		**54,749**	30,305
Cash equivalents		**47,346**	82,493
		102,095	112,798

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

1. Nature of Unity Health

Unity Health Toronto (formerly Providence, St. Joseph's and St. Michael's Healthcare) ("Unity Health") 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). Unity Health 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, Unity Health changed its name from Providence, St. Joseph's and St. Michael's Healthcare to Unity Health Toronto.

Unity Health is a multi-site network that spans across Toronto with three 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 1,205 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, Unity Health is a hub of educational and research excellence. As responsible care providers, Unity Health strives to make the most efficient use of its resources while ensuring the delivery of the highest quality care.

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

With each of the three legacy hospitals in Unity Health founded by the Sisters of St. Joseph of Toronto (the Sisters), Unity Health comprises Canada's largest Catholic health care provider. Today, Unity Health continues the legacy of the Sisters by ensuring that care is available to all in need.

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

Unity Health 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, Unity Health is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry of Health (the "MOH") through the Hospital Service Accountability Agreement, the Long-Term Care Service Accountability Agreement, and the Multi-Sector Service Accountability Agreement with the Toronto Region/Ministry of Health.

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 MOH/TCLHIN makes a request for funds to be repaid, at which time the amounts are reclassified as amounts due to the MOH/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.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

To the extent that MOH/TCLHIN funding has been received with the stipulated requirement that Unity Health 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 MOH/TCLHIN.

Investment income earned on grants received for research and trust and unspent MOH/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 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 cash and investments

Cash and cash equivalents and restricted cash and investments include deposits held with Canadian chartered banks and 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 per unit is determined by the weighted average costing method.

Property, plant and equipment

Property, plant and equipment are initially 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. Repair 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.

Gains or losses on disposals of capital assets are included in the statement of operations in the year 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 Unity Health's employment prior to retirement age.

2. Summary of significant accounting policies (continued)

Employee benefit plans

For the period up to January 1, 2019, Unity Health 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. Effective July 1, 2019, St. Michael's Hospital RPP transferred to HOOPP.

Substantially all of Unity Health's employees formerly belonged to these plans. The RPPs provided pensions based on length of service and the best five years' average earnings. The RPPs required 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. Unity Health contributed to the RPPs in accordance with these funding valuations. Since the transfer into HOOPP, all contributions to the legacy RPPs have ceased.

Unity Health also administers three Supplementary Retirement Plans (SRP) for some employees, 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 SRP members who have joined HOOPP (on January 1, 2019 or July 1, 2019 respectively) will also have their SRP benefits paid by HOOPP.

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

Except for its participation in HOOPP, Unity Health 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.

Unity Health 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, 2020, no internally restricted net assets have been set aside by the Board of Directors (nil in 2019).

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.

2. Summary of significant accounting policies (continued)

Financial instruments

Financial instruments reported on the Statement of financial position 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
Residual pension transfer payable	Amortized cost
Pension contribution payable to HOOPP on integration	Amortized cost
3.0 redevelopment project – liability	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 MOH, 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 particular, the amount of revenue recognized from MOH and the LHIN requires some estimation. Unity Health has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to Unity Health by MOH and the LHIN. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas.

(In thousands of dollars)

2. Summary of significant accounting policies (continued)

Use of estimates (continued)

If Unity Health does not meet its performance standards or obligations, MOH and the LHIN have the right to adjust funding received. Neither MOH nor the LHIN 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 consolidated financial statements, the amount of MOH and LHIN funding recognized as revenue during a period may be increased or decreased subsequent to period end. The amount of revenue recognized in these financial statements represents management's best estimates of amounts that have been earned during the year.

3. Restricted cash and investments

Restricted cash and investments are comprised of $104,923 ($98,386 in 2019) that are restricted for research and trust activities. These amounts are held as long term restricted cash as the intended use spans greater than one year. The restricted cash and investments also include $213,725 ($199,804 in 2019) that are restricted to support capital and redevelopment projects.

Amounts held at year end have been invested in:

	2020 $	2019 $
Cash	**296,786**	280,600
Short-term investments	**29,845**	24,677
	326,631	305,277

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 Unity Health. To fund the expected costs, Unity Health transfers funds to an operating account managed by HIROC Management Limited (HML) as Unity Health's appointed agent. The cash balance of $3,937 and short-term investments balance of $4,046 (cash balance of $5,025 in 2019) are restricted for these costs.

4. Accounts receivable

Accounts receivable consist of the following:

	2020 $	2019 $
Patients and other	**36,502**	29,475
Ministry of Health/TCLHIN	**10,227**	5,983
St. Joseph's	**—**	—
Health Centre	**—**	—
Foundation	**54**	176
St. Michael's Hospital Foundation	**341**	309
Providence Healthcare Foundation	**564**	103
	47,688	36,046

(In thousands of dollars)

5. Property, plant and equipment

Property, plant and equipment consist of the following:

	2020	2019
	$	$
Cost		
Land and land improvements	**26,866**	26,866
Buildings	**787,338**	763,285
Building equipment	**65,671**	62,786
Equipment	**634,819**	618,841
Leasehold improvements	**55,472**	53,976
Construction-in-progress	**381,892**	363,382
	1,952,058	1,889,136
Accumulated Amortization		
Land improvements	**1,899**	1,833
Buildings	**340,556**	322,037
Building equipment	**45,237**	42,778
Equipment	**560,010**	534,512
Leasehold improvements	**31,354**	28,338
	979,056	929,498
	973,002	959,638

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 BCCL was granted court protection from its creditors in April 2019. Construction contracts require companies to have a surety in case the contractor defaults or goes bankrupt. The surety provides two bonds: a Performance Bond, to complete the work started and a Labour and Material Payments bond, to pay hired subcontractors. Zurich Insurance Company Ltd. (Zurich) is the surety, guaranteeing the completion of Bondfield's projects, including St. Michael's 3.0 redevelopment project.

In August 2019, Zurich notified Unity Health that it was electing to end its involvement in the Project. In response to this, Unity Health obtained a court order permitting it to exercise its remedial rights under the Project Agreement which included hiring EllisDon as its construction manager in December 2019.

The original total projected construction and renovation project costs for the redevelopment are estimated at $420,960 ($420,960 in 2019) The MOH's shareable construction and renovation project costs, including construction financing, are currently expected to be $350,550 ($350,550 in 2019). Payment is due at tower interim completion. Tower interim completion was initially expected to be completed by November 2017 but is now expected for Fall 2020. As at March 31, 2020, no payment has been made to Project Co.

(In thousands of dollars)

6. SMH 3.0 redevelopment project (continued)

It is expected that the obligation of the Project Agreement will be satisfied by funding from the MOH and funds raised by the St. Michael's Hospital Foundation. Whether recoveries through Performance Bonds established to secure the performance of the design and construction contract between Project Co., BCCL, and Unity Health are available will be determined in the on-going litigation with Zurich (see below under Contingent Liabilities section).

Asset and liability recognition

During construction, Unity Health 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. Unity Health has also accounted for the proportionate share of MOH funding as a receivable (based on the MOH funding formula) and the corresponding deferred capital contribution.

Work completed as at March 31, 2020 is valued at $334,522 ($318,405 in 2019) and has been recognized as construction-in-progress within capital assets, with a corresponding redevelopment obligation of $261,398 ($173,274 current and $88,124 long-term liabilities) ($260,350 in 2019, $173,274 current and $87,076 long-term liabilities). Unity Health has also recorded a receivable owing from the MOH in the amount of $63,218 ($83,654 in 2019) and a corresponding deferred capital contribution of $281,884 ($268,531 in 2019) in relation to the project. The MOH has previously transferred $218,666 (187,611 in 2019) for the redevelopment project. In anticipation of the payment for tower interim completion, $184,877 is held as restricted cash by Unity Health at year end. The remaining $33,789 represents amounts used for ancillary costs, Infrastructure Ontario costs and Satellite Dialysis.

Contingent assets

During 2019, Unity Health filed an indebtedness notice to Project Co.'s lender's agent with respect to losses incurred for unperformed or underperformed obligations of BCCL. 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 Unity Health related to potential recoveries at this time.

Contingent liabilities

Unity Health may be exposed to legal claims as a result of the delays in the redevelopment project, and BCCL's award 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 April 2020, Zurich commenced litigation against Project Co, BCCL, Unity Health, a former employee of Unity Health, and BCCL's former President, declaring that due to allegations of collusion between the individual defendants, the performance bond is null and void. In management's view, the outcome of this claim is not determinable at this time.

7. Deferred research and trust contributions

	2020	2019
	$	$
Balance, beginning of year	**99,228**	88,677
Contributions received/accrued	**91,080**	91,944
Interest income	**476**	365
Revenue recognized	**(87,792)**	(81,758)
Balance, end of year	**102,992**	99,228

(In thousands of dollars)

8. Long term debt

Long-term debt is comprised of:

	2020	2019
	$	$
Obligations under capital lease (Note 15(d))	**1,366**	1,567
Less: Current portion of obligations under capital lease	**220**	200
Long-term portion of obligations under capital lease	**1,146**	1,367
Mortgage payable for land	**1,000**	1,942
Less: Current portion of mortgage payable for land	**999**	1,000
Long-term portion of mortgage payable for land	**1**	942
Obligation under OFA loan	**98,960**	—
Less: Current portion of OFA loan	**2,129**	—
Long-term portion of OFA loan	**96,831**	—
Total current portion of long-term debt	**3,348**	1,200
Total long-term portion of long-term debt	**97,978**	2,308
	101,326	3,508

In 2006, the St Michael's Hospital site purchased certain land 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. Unity Health 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 $59 ($91 in 2019).

The mortgage is subject to an undertaking by Unity Health in relation to the continued use of the land and buildings acquired from the vendor. In the event of a breach of Unity Health's undertaking, Unity Health 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, 2020, Unity Health is not in breach of its undertaking.

Unity Health secured a $100,000 loan from the Ontario Financing Authority, which was executed on May 10, 2019. The loan has a contractual interest rate of 2.991% and has a term of 30 years. The proceeds of this loan were used towards a one-time payment for the entry cost of St. Michael's Hospital Pension Plan into HOOPP. Accreted interest expense for the period was $2,605 (nil in 2019).

9. Lines of credit

Unity Health has $60,000 of unsecured, revolving demand lines of credit with Canadian banks. During the year, Unity Health utilized $12,204 ($32,590 in 2019) from the lines of credit, which was fully repaid by the end of the year. Interest incurred relating to the lines of credit totaled $6 ($19 in 2019). As at March 31, 2020, Unity Health has also issued a letter of credit of $245 ($245 in 2019).

(In thousands of dollars)

10. Employee future benefits

Information about Unity Health's pension and other benefit plans is determined based on actuarial valuations for accounting purposes as at March 31, 2020, with measurement date of December 31, 2019. The details of Unity Health's pension plans and other post-employment benefits are as follows:

	Registered pension plan $	Supplementary pension plan	Other post-employment plan $	2020 Total $	2019 Total $
Reconciliation of funded status to accrued					
benefit (asset) liability					
Accrued benefit obligation	—	37,673	28,847	66,520	1,053,832
Fair value of plan assets	—	12,847	—	12,847	1,140,678
Funded status-(surplus) deficit	—	24,826	28,847	53,673	(86,846)
Unamortized actuarial gain (loss)	—	(5,383)	3,041	(2,342)	49,709
Contributions made January 1, 2020 to March 31, 2020 (January 1, 2019 to March 31, 2019)	—	(97)	(105)	(202)	(10,071)
Employee future benefits (asset) liability	—	19,346	31,783	51,129	(47,208)
Change in employee future benefits					
Employee future benefits (asset) liability beginning of period	(104,748)	26,366	31,174	(47,208)	(47,755)
Benefit expense for the period	222,506	(6,151)	1,693	218,048	40,329
Employer contributions	(117,758)	(869)	(1,084)	(119,711)	(39,782)
Employee future benefits (asset) liability, end of period	—	19,346	31,783	51,129	(47,208)
Benefits paid to beneficiaries during the period	33,188	1,937	1,114	36,239	67,412
Components of benefit expense (recovery)					
for the period					
Current service cost	3,706	176	1,104	4,986	31,657
Interest cost	13,414	1,333	855	15,602	85,301
Cost of plan amendments	—	—	4,278	4,278	—
Gain on curtailments	—	—	(1,744)	(1,744)	—
Expected return on plan assets	(15,365)	(298)	—	(15,663)	(101,038)
Amortizations of actuarial (gains) losses	(1,607)	488	(2,800)	(3,919)	(24,495)
Benefits expense before the undernoted	148	1,699	1,693	3,540	(8,575)
HOOPP merger benefits expense					
Loss due to HOOPP pricing	427,777	—	—	427,777	131,406
Settlement adjustments	—	(7,850)	—	(7,850)	(39,965)
Net funded (deficit) transitioned to HOOPP	(140,344)	—	—	(140,344)	—
Recognition of unamortized net actuarial gains/losses due to settlement	(65,075)	—	—	(65,075)	(42,537)
HOOPP merger expense	222,358	(7,850)	—	214,508	48,904
Benefit expense for the period	222,506	(6,151)	1,693	218,048	40,329

(In thousands of dollars)

10. Employee future benefits (continued)

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

	2020	2019
	%	%
St. Joseph's Health Centre plans		
Discount rate – Registered pension plan	**—**	5.45
Discount rate – Supplementary pension plan	**2.94**	3.61
Discount rate – Other post-retirement benefits	**3.61**	3.43
Expected return on plan assets	**5.45**	5.90
Age related compensation increases	**2.50**	2.50
St. Michael's Hospital plans		
Discount rate – Registered pension plan	**—**	5.45
Discount rate – Supplementary pension plan	**2.94**	3.61
Discount rate – Other post-retirement benefits	**3.61**	3.43
Expected return on plan assets	**5.45**	6.00
Range for age related compensation increases	**2.50**	2.50
Providence Healthcare plans		
Discount rate – Registered pension plan	**—**	5.45
Discount rate – Supplementary pension plan	**3.61**	3.43
Discount rate – Other post-retirement benefits	**3.61**	3.43
Expected return on plan assets	**5.45**	5.45
Range for age related compensation increases	**2.50**	2.50

The expected annual increase in medical and dental costs applicable to the post-employment benefits plan was 5.45% at December 31, 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 December 31, 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 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 December 31, 2019 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, 2020.

(a) Transfer of Registered Pension Plans into HOOPP

Unity Health 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, and July 1, 2019 for the St. Michael's Hospital Pension Plan.

St. Michael's Hospital Pension Plan incurred a measurement date deficit totalling $106,200 as at March 31, 2020, representing a one-time contribution made by Unity Health on transfer of this RPP into HOOPP. The measurement date deficit was accruing interest at a rate of 5.45% per annum until such time as it was paid to HOOPP. Unity Health secured a $100,000 loan from the Ontario Financing Authority, which was executed on May 10, 2019, to meet this payment. The proceeds of this loan were transferred to HOOPP on May 17, 2019. As at March 31, 2020, the measurement date deficit and all accrued interest have been fully paid.

(In thousands of dollars)

10. Employee future benefits (continued)

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

During the year, Unity Health incurred the following costs to enter into HOOPP:

	2020	2019
	$	$
HOOPP merger benefits expense	**210,050**	48,904
Measurement date deficit	**3,200**	103,000
Interest on Measurement Date Deficit	**1,258**	5,029
	214,508	156,933
Less: Amounts recognized in prior year		
Measurement date deficit	**(103,000)**	—
Interest on measurement date deficit	**(5,029)**	—
Total expenses related to HOOPP merger	**106,479**	156,933

The overall net cost incurred by Unity Health to enter into HOOPP in 2020 was $103,647, inclusive of the partial offset of expenses of $2,832.

The amounts recognized in prior year relating to the measurement date deficit and associated interested were previously accrued as Pension contribution payable to HOOPP on integration in the statement of financial position, separately from the Pension benefits – registered plan asset.

(b) Contributions to HOOPP multi-employer plan

Contributions to HOOPP made during the year by Unity Health on behalf of its employees who are a part of this multi-employer plan amounted to $42,758 ($10,143 in 2019) and are included in salaries, wages and employee benefits expenses. The most recent actuarial valuation of the plan as at December 31, 2019 indicates the plan is 119% (121% in 2019) 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, Unity Health does not recognize any share of the plan surplus or deficit. Unity Health records estimated liabilities for accrued employee benefits in the year they are earned.

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.

	2020	2019
	$	$
Balance, beginning of year	**689,484**	675,951
Contributions received	**41,593**	33,615
Amounts amortized into revenue	**(22,071)**	(20,082)
Balance, end of year	**709,006**	689,484

(In thousands of dollars)

12. Net assets invested in property, plant and equipment

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

	2020 $	2019 $
Property, plant and equipment	**973,002**	959,638
Less amounts funded by deferred capital contributions (net of capital funding received in advance of $6,608 ($4,390 in 2019)	**(702,398)**	(685,094)
Obligations from capital leases (Note 8)	**(1,366)**	(1,567)
	269,238	272,977

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

	2020 $	2019 $
Purchase of property, plant and equipment	**63,499**	48,429
Amounts funded by deferred capital contributions	**(39,375)**	(38,045)
Net change in capital lease obligations	**201**	183
	24,325	10,567

13. Net change in non-cash working capital balances

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

	2020 $	2019 $
Accounts receivable	**(11,642)**	5,734
Inventories	**(1,363)**	(133)
Prepaid expenses and other assets	**1,270**	329
Accounts payable and accrued liabilities	**2,797**	(5,353)
Deferred revenue	**1,138**	(1,744)
	(7,800)	(1,167)

(In thousands of dollars)

14. Related party transactions

(a) Related party transactions in the normal course of operations between Unity Health 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:

	2020	2019
	$	$
Capital donations received from the Foundations	**14,453**	4,275
Non-capital donations received from the Foundations	**15,055**	20,137
Reimbursements received from the Foundations of operating expenditures paid by Unity Health on behalf of the Foundations	**10,301**	10,313
Funding received from St. Michael's Hospital Academic Family Health Team	**12,790**	7,770
Payments to Plexxus	**11,303**	11,622

(b) *Plexxus*

Unity Health has an economic interest in and is a member of 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.

(c) *Foundations of Unity Health*

Unity Health 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 Unity Health.

At March 31, 2020, there is $959 receivable ($588 in 2019) from the Foundations representing the reimbursement of operating expenses paid by Unity Health on behalf of the Foundations.

	2020	2019
	$	$
St Joseph's Health Centre Foundation	**54**	176
St Michael's Hospital Foundation	**341**	309
Providence Healthcare Foundation	**564**	103
	959	588

(d) *Sisters of St Joseph of Toronto*

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

(In thousands of dollars)

14. Related party transactions (continued)

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

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

Unity Health received funding from the FHT, a separately incorporated organization that receives funding from the MOH. These revenues were recognized to offset certain operating expenses of Unity Health associated with the provision of clinical resources, administrative and support services to the FHT and are included in other income. Unity received $4,853 in capital funding from the FHT for construction costs related to a new FHT site.

Unity Health has a payable of nil ($122 in 2019) to the FHT relating to operational expenses.

15. Contingencies and commitments

(a) Unity Health 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 Unity Health was a member. No reassessments have been made to March 31, 2020.

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, 2020.

(b) From time to time, Unity Health 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 Unity Health. 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 Unity Health.

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

	$
2021	9,328
2022	8,786
2023	8,810
2024	8,338
2025	7,887
Thereafter	34,142
	77,291

(In thousands of dollars)

15. Contingencies and commitments (continued)

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

	$
2021	360
2022	362
2023	337
2024	287
2025	286
Thereafter	210
Total lease payments	1,842
Less: amount representing interest	476
	1,366
Less: current portion	220
	1,146

16. Risk management

Risk management

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

Market risk

Market risk includes interest rate risk and other price risks. Unity Health is not subject to significant market risk as its cash equivalents, restricted investments and long-term debt have fixed interest rates and Unity Health 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. Unity Health 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. Unity Health is exposed to credit risk with respect to its accounts receivable, cash equivalents and restricted investments.

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

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

16. Risk management (continued)

Liquidity risk

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

The maturity analysis of Unity Health'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 Unity Health's exposure to risks or policies, procedures and methods used to measure risks, aside from the risk related to pandemic response described in Note 18. Unity Health 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.

18. Pandemic response

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

As a result of the COVID-19 pandemic, Unity Health experienced a change in the demand for its services and incurred unbudgeted pandemic response expenditures. Unity Health has tracked expenditures related to its pandemic response and will apply for reimbursement of hospital-incurred expenditures once Provincial processes for such reimbursement are finalized. Unity Health has also recognized revenue from underperformance in provincial program volume funding to offset COVID-19 expenses incurred in the period, based on communications received from the MOH.

The duration and impact of the COVID-19 pandemic is unknown at this time and it is not possible to reliably estimate the impact that the severity and length of the pandemic will have on the financial results and condition of Unity Health in future periods.