Financial statements of
Unity Health Toronto

March 31, 2021

UNITY HEALTH TORONTO

Caring hearts. Leading minds.

June 15, 2021

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 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, 2021, 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, 2021, 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.

Emphasis of Matter

We draw attention to Note 19 of the financial statements, which describes Unity Health's bond issuance subsequent to March 31, 2021. Our opinion is not modified in respect of this matter.

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 15, 2021

Unity Health Toronto
Statement of financial position
As at March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents		**160,165**	102,095
Accounts receivable	4	**99,999**	47,688
Inventories		**13,654**	7,806
Prepaid expenses and other assets		**5,743**	6,330
Restricted cash and investments	3	**17,832**	17,984
		297,393	181,903
Long-term assets			
Restricted cash and investments	3	**311,194**	308,647
3.0 redevelopment project – long term funding receivable	6	**43,751**	63,218
Property, plant and equipment	5	**980,143**	973,002
		1,632,481	1,526,770
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**239,955**	160,339
Current portion of long-term debt	8	**2,364**	3,348
Deferred revenue		**30,536**	24,605
3.0 redevelopment project	6	**173,274**	173,274
		446,129	361,566
Long-term liabilities			
Long-term debt	8	**95,494**	97,978
3.0 redevelopment project	6	**23,707**	88,124
Pension benefits – supplemental plan	10	**21,183**	19,346
Other post-employment benefits	10	**30,962**	31,783
Deferred capital contributions	11	**753,857**	709,006
Deferred research and trust contributions	7	**133,515**	102,992
Other long-term liabilities	15	**8,330**	5,660
		1,513,177	1,416,455
Contingencies and commitments	15		
Net assets		**119,304**	110,315
		1,632,481	1,526,770

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

N 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, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Revenue			
Ministry of Health/Toronto Central Local Health Integration Network (LHIN)	18	**1,084,869**	903,600
Patient revenue from other payers		**41,659**	65,365
Other income		**75,575**	88,551
Interest income		**2,529**	4,730
Grants and donations for research and other purposes	7	**91,464**	87,792
Amortization of deferred capital contributions	11	**27,932**	22,071
		1,324,028	1,172,109
Expenses			
Salaries, wages and employee benefits		**832,173**	723,516
Medical and surgical supplies		**83,920**	81,808
Drugs and medical gases		**59,609**	66,723
Other supplies and expenses		**185,652**	144,796
Bad debts		**4,090**	9,392
Interest accretion	8	**3,058**	2,817
Amortization of property, plant and equipment		**55,111**	50,135
Research expenses		**91,426**	87,898
Expenses associated with pension transfer to HOOPP	10(a)	**—**	106,479
		1,315,039	1,273,564
Excess of revenue over expenses		**8,989**	(101,455)

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

Unity Health Toronto

Statement of changes in net assets

Year ended March 31, 2021
(In thousands of dollars)

	Notes	Invested in property, plant and equipment $	Internally Restricted $	Unrestricted $	2021 $	2020 $
Net assets, beginning of year		**269,238**	**—**	**(158,923)**	**110,315**	211,770
Excess of revenue over expenses		**(27,179)**	**6,200**	**29,968**	**8,989**	(101,455)
Invested in property, plant and equipment	12(b)	**(10,552)**	**—**	**10,552**	**—**	—
Net assets, end of year		**231,507**	**6,200**	**(118,403)**	**119,304**	110,315

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

Unity Health Toronto
Statement of cash flows
Year ended March 31, 2021
(In thousands of dollars)

	Notes	2021 $	2020 $
Operating activities			
Excess of revenue over expenses		**8,989**	(101,455)
Items not affecting cash			
Amortization of property, plant, and equipment		**55,111**	50,135
Amortization of deferred capital contributions	11	**(27,932)**	(22,071)
Employee future benefits expense	10	**5,178**	3,540
Expenses associated with pension transfer to HOOPP	10(a)	**—**	106,479
Recognition of deferred research and trust contributions	7	**(91,464)**	(87,792)
Interest on deferred and research contributions received	7	**168**	476
Interest accretion	8	**3,058**	2,817
(Decrease) increase in net payable for 3.0 redevelopment project	6	**(64,417)**	1,048
Net change in non-cash working capital balances	13	**27,975**	(7,866)
		(83,334)	(54,689)
Capital activity			
Purchase of property, plant and equipment	12(b)	**(62,252)**	(63,499)
Financing activities			
Contributions received for capital purposes	11	**72,783**	41,593
Contributions received for 3.0 redevelopment project	6	**19,467**	20,436
Contributions received/(receivable) for deferred research and trust	7	**121,819**	91,080
Proceeds from Ontario Financing Authority (OFA) loan for HOOPP entry	8	**—**	100,000
Repayment of mortgage, loan and obligations under capital lease	8	**(6,526)**	(4,999)
Contributions to employee future benefits	10	**(4,162)**	(119,711)
Net change in restricted cash and investments		**(2,395)**	(21,354)
Net change in other long-term liabilities		**2,670**	440
		203,656	107,485
Net increase (decrease) in cash and cash equivalents		**58,070**	(10,703)
Cash and cash equivalents, beginning of year		**102,095**	112,798
Cash and cash equivalents, end of year		**160,165**	102,095
Cash and cash equivalents are comprised of			
Cash		**152,937**	54,749
Cash equivalents		**7,228**	47,346
		160,165	102,095

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 1,343 beds and annually welcome more than 360,000 patients. The services cover the full spectrum of care, from pre-hospital through its primary 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. Ontario Health ("OH"), a Crown agency of the Government of Ontario, was established on June 6, 2019. Effective April 1, 2021, OH assumed all responsibilities of the Toronto Central Local Health Integration Network ("Toronto Central LHIN") as it relates to the Hospital. In addition, all agreements between the Hospital and the Toronto Central LHIN were transferred to OH.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Grants and funding authorized by the MOH/LHIN/OH as of the end of the fiscal year, and for which a specific purpose or use has been identified, are recognized as revenue when there is reasonable assurance that the Hospital has complied with, and will continue to comply with, all conditions necessary to earn the grant. The recognition of revenue associated with such grants requires management to make estimates and assumptions based on the best information available at the time of preparation of these financial statements. Final funding approved is subject to the funders' reconciliation process, and could differ from these estimates. Refer to Note 18 for further discussion on funding relating to COVID-19 pandemic response.

Grants for which revenue has been earned but not received at the end of the fiscal year are accrued as receivable. Where a portion of a grant received relates to a future period, it is deferred and recognized in that subsequent fiscal year unless the MOH/Toronto Central LHIN makes a request for funds to be repaid, at which time the amounts are reclassified as amounts due to the MOH/Toronto Central LHIN.

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 MOH/Toronto Central LHIN 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/Toronto Central LHIN.

Investment income earned on grants received for research and trust and unspent MOH/Toronto Central LHIN 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.

(In thousands of dollars)

2. Summary of significant accounting policies (continued)

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.

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. 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.

2. Summary of significant accounting policies (continued)

Employee benefit plans (continued)

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, 2021, $6,200 (nil in 2020) of internally restricted net assets have been set aside for the repayment of future debt by the Board of Directors.

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 are measured as follows:

Financial instrument	Measurement
Cash and cash equivalents	Amortized cost
Restricted cash and investments	Amortized cost
Accounts receivable	Amortized cost
3.0 redevelopment project – funding receivable	Amortized cost
Accounts payable and accrued liabilities	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.

(In thousands of dollars)

2. Summary of significant accounting policies (continued)

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, provisions for accounts receivable that may be doubtful, and provisions for inventory obsolescence. 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.

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 $124,749 ($104,923 in 2020) 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 $189,442 ($213,725 in 2020) that are restricted to support capital and redevelopment projects. The Board of Directors has internally restricted funds of $6,200 (nil in 2020) which are held as long term restricted cash for repayment of future debt obligations.

Amounts held at year end have been invested in:

	2021 **$**	2020 $
Cash	**307,682**	296,894
Short-term investments	**21,344**	29,737
	329,026	326,631

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 $5,635 and short-term investments balance of $3,000 (cash balance of $4,046 and short-term investments balance of $3,937 in 2020) are restricted for these costs.

(In thousands of dollars)

4. Accounts receivable

Accounts receivable consist of the following:

	2021 $	2020 $
Patients and other	**34,823**	36,502
Ministry of Health/TCLHIN	**39,712**	10,227
St. Joseph's Health Centre Foundation	**461**	54
St. Michael's Hospital Foundation	**24,893**	341
Providence Healthcare Foundation	**110**	564
	99,999	47,688

Accounts receivable from St. Michael's Hospital Foundation includes a short-term receivable of $24,218 (nil in 2020) related to the SMH 3.0 redevelopment project.

5. Property, plant and equipment

Property, plant and equipment consist of the following:

	2021 $	2020 $
Cost		
Land and land improvements	**26,866**	26,866
Buildings	**1,090,337**	787,338
Building equipment	**69,871**	65,671
Equipment	**668,958**	634,819
Leasehold improvements	**64,615**	55,472
Construction-in-progress	**93,553**	381,892
	2,014,200	1,952,058
Accumulated amortization		
Land improvements	**1,955**	1,899
Buildings	**363,142**	340,556
Building equipment	**47,595**	45,237
Equipment	**586,939**	560,010
Leasehold improvements	**34,426**	31,354
	1,034,057	979,056
	980,143	973,002

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 main components of 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 (substantially complete by April 2020), 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).

6. SMH 3.0 redevelopment project (continued)

The Project Agreement is a fixed price contract for $420,960. The MOH's share of this amount, including construction financing, is $350,550 ($350,550 in 2020).

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.

Asset and liability recognition

During construction, Unity Health has title to the building and has accounted for the Project Agreement redevelopment at the value of construction-in-progress, with an obligation owing to Project Co. Unity Health has also accounted for the proportionate share of MOH and St. Michael's Hospital Foundation funding as a receivable (based on the MOH funding formula) and the corresponding deferred capital contributions.

Work completed as at March 31, 2021 is valued at $306,959 ($334,522 in 2020) and has been recognized as construction-in-progress and capitalized assets within property, plant and equipment, with a corresponding redevelopment obligation of $196,981 ($173,274 current and $23,707 long-term liabilities) ($261,398 in 2020, $173,274 current and $88,124 long-term liabilities). Additional costs incurred to complete the work covered by the Project Agreement $30,145 (nil in 2020), are being recorded as an offset against the amount payable to Project Co.

Unity Health has recorded a long-term receivable owing from the MOH in the amount of $37,014 ($63,218 in 2020) and a corresponding deferred capital contribution of $257,874 ($281,884 in 2020) in relation to the project. The MOH has transferred $220,861 ($218,666 in 2020) for the redevelopment project.

Unity Health has also recorded a receivable owing from the St. Michael's Foundation in the amount of $30,955 ($24,218 current and $6,737 long-term receivable) (nil in 2020) and a corresponding deferred capital contribution of $68,256 ($37,109 in 2020) in relation to the project. The St. Michael's Hospital Foundation has transferred $37,301 ($37,109 in 2020) for the redevelopment project.

In anticipation of the payment for tower interim completion, $172,541 ($184,877 in 2020) is held as restricted cash by Unity Health at year end. The remaining amounts transferred were used to offset ancillary costs, Infrastructure Ontario costs, Satellite Dialysis, additional scope and equipment.

Change in estimate

Unity Health estimates the value of construction in progress for the SMH 3.0 redevelopment project based on percentage of completion of the entire project. During the fiscal year ended March 31, 2021, Unity Health revised its estimate of the percentage of completion based on the status of the redevelopment project. The impact of this change in estimate on Unity Health's Statement of Financial Position for the fiscal year ended March 31, 2021 was a reduction of assets by $65,295 (3.0 redevelopment project – long-term funding receivable - $30,376, and property, plant and equipment - $34,919), and a reduction of liabilities by $65,295 (accounts payable and accrued liabilities - $648, 3.0 redevelopment project - $34,272, and deferred capital contributions - $30,375).

(In thousands of dollars)

6. SMH 3.0 redevelopment project (continued)

Contingent assets

During 2020, Unity Health filed an indebtedness notice to Project Co's lender's agent with respect to losses incurred for unperformed or underperformed obligations of Project Co. 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.

Project Co default

Significant delays have been experienced on the redevelopment project. Under the Project Agreement, payment was due at tower interim completion. Tower interim completion was expected to occur in 2017. As at March 31, 2021, no payment has been made to Project Co due to the ongoing litigation and non-completion of the renovation and construction covered by the Project Agreement.

In April 2019 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 under the Project Agreement and a Labour and Material Payments bond, to pay hired subcontractors. Zurich Insurance Company Ltd. (Zurich) is the surety, guaranteeing the completion of Project Co and BCCL'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.

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).

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

	2021	2020
	$	$
Balance, beginning of year	**102,992**	99,228
Contributions received/accrued	**121,819**	91,080
Interest income	**168**	476
Revenue recognized	**(91,464)**	(87,792)
Balance, end of year	**133,515**	102,992

(In thousands of dollars)

8. Long term debt

	2021	2020
	$	$
Obligations under capital lease (Note 15(d))	**1,026**	1,366
Less: Current portion of obligations under capital lease	**171**	220
Long-term portion of obligations under capital lease	**855**	1,146
Mortgage payable for land	**1**	1,000
Less: Current portion of mortgage payable for land	**—**	999
Long-term portion of mortgage payable for land	**1**	1
Obligation under OFA loan	**96,831**	98,960
Less: Current portion of OFA loan	**2,193**	2,129
Long-term portion of OFA loan	**94,638**	96,831
Total current portion of long-term debt	**2,364**	3,348
Total long-term portion of long-term debt	**95,494**	97,978
	97,858	101,326

Accreted interest expense on capital leases for the period was $138 ($153 in 2020).

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. Remaining principal repayment is $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 year was nil ($59 in 2020).

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, 2021, 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 $2,920 ($2,605 in 2020).

9. Lines of credit

Unity Health has $96,000 ($96,000 in 2020) of unsecured, revolving demand lines of credit with Canadian banks. During the year, Unity Health utilized $42,498 ($12,204 in 2020) from the lines of credit, which was fully repaid by the end of the year. Interest incurred relating to the lines of credit totaled $4 ($6 in 2020). As at March 31, 2021, Unity Health has also issued a letter of credit of $245 ($245 in 2020).

(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, 2021, with measurement date of December 31, 2020. The details of Unity Health's pension plans and other post-employment benefits are as follows:

	Supplementary pension plan $	Other post-employment plan $	2021 Total $	2020 Total $
Reconciliation of funded status to accrued benefit (asset) liability				
Accrued benefit obligation	**39,604**	**32,624**	**72,228**	66,520
Fair value of plan assets	**12,854**	**—**	**12,854**	12,847
Funded status-deficit	**26,750**	**32,624**	**59,374**	53,673
Unamortized actuarial loss	**(5,070)**	**(1,270)**	**(6,340)**	(2,342)
Contributions made January 1, 2021 to March 31, 2021 (January 1, 2020 to March 31, 2020)	**(497)**	**(392)**	**(889)**	(202)
Employee future benefits liability	**21,183**	**30,962**	**52,145**	51,129
Change in employee future benefits				
Employee future benefits liability (asset) beginning of period	**19,346**	**31,783**	**51,129**	(47,208)
Benefit expense for the period	**4,279**	**899**	**5,178**	218,048
Employer contributions	**(2,442)**	**(1,720)**	**(4,162)**	(119,711)
Employee future benefits liability, end of period	**21,183**	**30,962**	**52,145**	51,129
Benefits paid to beneficiaries during the period	**1,985**	**1,433**	**3,418**	36,239
Components of benefit expense for the period				
Current service cost	**—**	**997**	**997**	4,986
Interest cost	**1,079**	**695**	**1,774**	15,602
Cost of plan amendments	**—**	**—**	**—**	4,278
Gain on curtailments	**—**	**—**	**—**	(1,744)
Actual return on plan assets	**50**	**—**	**50**	—
Expected return on plan assets	**(263)**	**—**	**(263)**	(15,663)
Actuarial loss on obligation	**2,837**	**3,518**	**6,355**	—
Amortization of actuarial losses	**—**	**(322)**	**(322)**	—
Amortization of loss vs. period loss on obligation	**576**	**(3,989)**	**(3,413)**	(3,919)
Benefits expense before the undernoted	**4,279**	**899**	**5,178**	3,540
HOOPP merger benefits expense				
Loss due to HOOPP pricing	**—**	**—**	**—**	427,777
Settlement adjustments	**—**	**—**	**—**	(7,850)
Net funded (deficit) transitioned to HOOPP	**—**	**—**	**—**	(140,344)
Recognition of unamortized net actuarial gains/losses due to settlement	**—**	**—**	**—**	(65,075)
HOOPP merger expense	**—**	**—**	**—**	214,508
Benefit expense for the period	**4,279**	**899**	**5,178**	218,048

(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:

	2021 %	2020 %
St. Joseph's Health Centre plans		
Discount rate – Supplementary pension plan	**2.44**	2.94
Discount rate – Other post-retirement benefits	**2.44**	3.61
Expected return on plan assets	**—**	5.45
Range for age related compensation increases	**1.50**	2.50
St. Michael's Hospital plans		
Discount rate – Supplementary pension plan	**2.44**	2.94
Discount rate – Other post-retirement benefits	**2.44**	3.61
Expected return on plan assets	**2.44**	5.45
Range for age related compensation increases	**1.00**	2.50
Providence Healthcare plans		
Discount rate – Supplementary pension plan	**2.44**	3.61
Discount rate – Other post-retirement benefits	**2.44**	3.61
Expected return on plan assets	**—**	5.45
Range for age related compensation increases	**1.50**	2.50

The expected return on plan assets for St. Joseph's Centre and Providence Healthcare plans at December 31, 2020 is 0% (5.45% in 2019). The expected return on plan assets for the St. Michael's Hospital plan at December 31, 2020 is 2.44% (5.45% in 2019). The expected return in 2019 was related to registered pension plans that were transferred to HOOPP in 2019.

The expected annual increase in medical and dental costs applicable to the post-employment benefits plan was 5.57% at December 31, 2020 for medical costs and 3.00% for dental costs (5.45% for medical and dental costs in 2019), changing over twenty years to a final rate of 3.57% for the plans.

The last actuarial valuations for accounting purposes for the supplementary pension plans and other post-retirement benefits plans were as of December 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 totaling nil as at March 31, 2021 ($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, 2021, the measurement date deficit and all accrued interest have been fully paid.

(In thousands of dollars)

10. Employee future benefits (continued)

(b) Contributions to HOOPP multi-employer plan

Employer contributions to HOOPP made during the year by Unity Health amounted to $50,107 ($42,758 in 2020) and are included in salaries, wages and employee benefits expenses. The most recent actuarial valuation of the plan as at December 31, 2020 indicates the plan is 119% (119% 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.

	2021	2020
	$	$
Balance, beginning of year	**709,006**	689,484
Contributions received	**72,783**	41,593
Amounts amortized into revenue	**(27,932)**	(22,071)
Balance, end of year	**753,857**	709,006

12. Net assets invested in property, plant and equipment

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

	2021	2020
	$	$
Property, plant and equipment	**980,143**	973,002
Less amounts funded by deferred capital contributions (net of capital funding received in advance of $6,247 ($6,608 in 2020)	**(747,610)**	(702,398)
Obligations from capital leases (Note 8)	**(1,026)**	(1,366)
	231,507	269,238

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

	2021	2020
	$	$
Purchase of property, plant and equipment	**62,252**	63,499
Amounts funded by deferred capital contributions	**(73,144)**	(39,375)
Net change in capital lease obligations	**340**	201
	(10,552)	24,325

(In thousands of dollars)

13. Net change in non-cash working capital balances

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

	2021	2020
	$	$
Accounts receivable	**(52,311)**	(11,642)
Inventories	**(5,848)**	(1,363)
Prepaid expenses and other assets	**587**	1,270
Accounts payable and accrued liabilities	**79,616**	2,731
Deferred revenue	**5,931**	1,138
	27,975	(7,866)

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:*

	2021	2020
	$	$
Capital donations received from the Foundations	**31,805**	14,453
Non-capital donations received from the Foundations	**24,649**	15,055
Reimbursements received from the Foundations of operating expenditures paid by Unity Health on behalf of the Foundations	**10,549**	10,301
Funding received from St. Michael's Hospital Academic Family Health Team	**8,131**	12,790
Payments to Plexxus	**14,801**	11,303

(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. On October 2, 2020 Unity Health provided a notice to Plexxus to terminate the agreement by April 1, 2022.

(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, 2021, there is $32,201 receivable ($959 in 2020) from the Foundations representing the reimbursement of operating expenses paid by Unity Health on behalf of the Foundations, and donations from St. Michael’s Hospital Foundation for SMH 3.0 redevelopment project. To date, St. Michael’s Hospital Foundation has committed $30,955 ($24,218 current and $6,737 long-term) (nil in 2020) receivable for the balance of the completed portion of SMH 3.0 redevelopment project.

Effective April 1, 2021, Providence Healthcare Foundation amalgamated with St Michael’s Hospital Foundation.

(In thousands of dollars)

14. Related party transactions (continued)

(c) Foundations of Unity Health (continued)

	2021	2020
	$	$
Current receivable		
St Joseph's Health Centre Foundation	**461**	54
St Michael's Hospital Foundation	**24,893**	341
Providence Healthcare Foundation	**110**	564
	25,464	959
Long-term receivable		
St Michael's Hospital Foundation	**6,737**	—
	32,201	959

(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.

(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 Health has a receivable of nil (nil in 2020) 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, 2021.

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, 2021.

(In thousands of dollars)

15. Contingencies and commitments (continued)

(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:

	$
2022	8,505
2023	7,502
2024	6,535
2025	5,982
2026	5,709
Thereafter	31,490
	65,723

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

	$
2022	287
2023	287
2024	286
2025	286
2026	210
Total lease payments	1,356
Less: amount representing interest	(330)
	1,026
Less: current portion	171
	855

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.

16. Risk management (continued)

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.

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 response, the Hospital experienced a change in the demand for its services and incurred unbudgeted pandemic response expenditures during the year ended March 31, 2021. The MOH/LHIN/OH have issued a series of funding announcements during the year to support the continued COVID-19 response across the hospital sector. The various funding envelopes are intended to support the continued provision of patient care during the pandemic, to reduce operating pressures resulting from surgical backlogs, delayed or cancelled procedures, and lost non-MOH revenue, and to offset the incremental operating and capital expenditures incurred to provide direct COVID-19 care, including assessments, vaccine administration, and critical care.

18. Pandemic response (continued)

The various funding envelopes are subject to a broader funding reconciliation by the MOH and is subject to a high degree of uncertainty including the adjustment and claw back of funding already recognized. The Hospital has made its best estimates and has adhered to the guidance received from the MOH to recognize the amount of funding available. The outcomes of any funding reconciliations, which may be material to the financial statements, will be adjusted in the year of notification by MOH and OH.

The duration and long-term 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 the Hospital in future periods.

19. Subsequent event

On June 1, 2021, Unity Health issued $100,000 of 3.308% Senior Unsecured Series A Debentures at par value with a maturity date of June 1 2061. Interest is payable semi-annually on December and June of each year with the principal to be repaid on June 1, 2061.