

University Health Network

Financial statements

March 31, 2020



Independent auditor's report

To the Board of Trustees of
University Health Network

Opinion

We have audited the financial statements of the **University Health Network** ["UHN"], which comprise the statement of financial position as at March 31, 2020 and the statement of operations, statement of changes in net assets, statement of remeasurement gains (losses) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of UHN as at March 31, 2020 and its results of operations 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. 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 UHN in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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 UHN'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 UHN or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UHN'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 UHN'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 UHN'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 UHN 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 consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with UHN to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Toronto, Canada
June 17, 2020

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



University Health Network

Statement of financial position

[in thousands of dollars]

As at March 31

	2020	2019
	\$	\$
Assets		
Current		
Cash and cash equivalents <i>[note 5[b]]</i>	181,105	168,171
Accounts receivable <i>[note 3]</i>	261,395	208,830
Inventory	27,071	20,721
Prepaid expenses	25,044	21,483
Total current assets	494,615	419,205
Loans receivable	2,372	2,722
Capital assets, net <i>[note 4]</i>	1,324,630	1,277,299
Long-term investments		
Held for contingency funds <i>[note 5[a]]</i>	52,611	52,611
Other <i>[note 5[b]]</i>	354,687	371,129
	2,228,915	2,122,966
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[notes 8[d], 13[b] and 13[c]]</i>	517,270	459,267
Current portion of long-term liabilities <i>[notes 6 and 8]</i>	25,552	24,135
Total current liabilities	542,822	483,402
Due to MaRS Development Trust <i>[note 6]</i>	67,728	70,572
Deferred research contributions <i>[note 7]</i>	252,986	234,440
Long-term debt <i>[note 8]</i>	73,359	96,067
Employee future benefit liabilities <i>[note 9[b]]</i>	52,502	50,942
Deferred capital contributions <i>[note 10]</i>	694,892	655,770
Total liabilities	1,684,289	1,591,193
Commitments and contingencies <i>[note 14]</i>		
Net assets		
From operations		
Internally restricted <i>[note 11]</i>	101,701	136,689
Unrestricted	445,861	380,288
	547,562	516,977
Accumulated remeasurement gains (losses)	(2,936)	14,796
Total net assets	544,626	531,773
	2,228,915	2,122,966

See accompanying notes

On behalf of the Board of Trustees:



Brian Porter
Chair, Board of Trustees



Barbara Stymiest
Chair, Finance and Audit Committee

University Health Network

Statement of operations

[in thousands of dollars]

Year ended March 31

	2020	2019
	\$	\$
Revenue		
Ontario Ministry of Health and Long-Term Care/Toronto Central Local Health Integration Network/Cancer Care Ontario	1,372,037	1,330,064
Other patient services	219,511	210,646
Grants and donations for research and other purposes [notes 7 and 13]	361,224	338,476
Ancillary services and other [notes 5[c] and 13[a]]	459,083	376,144
Amortization of deferred capital contributions [note 10]	67,199	65,741
	2,479,054	2,321,071
Expenses		
Compensation [note 9]	1,485,730	1,423,256
Medical, surgical supplies and drugs	374,942	337,794
Other supplies and expenses [notes 13[b] and 13[c]]	337,715	288,320
Plant operations and equipment maintenance	129,459	126,132
Amortization [note 4]	109,808	107,139
Interest on long-term liabilities [notes 6, 8[a], 8[b] and 15]	10,815	12,183
	2,448,469	2,294,824
Excess of revenue over expenses for the year	30,585	26,247

See accompanying notes

University Health Network

Statement of changes in net assets

[in thousands of dollars]

Year ended March 31

	2020		2019	
	Internally restricted	Unrestricted	Total	
	\$	\$	\$	
Balance, beginning of year	136,689	380,288	516,977	487,820
Donated land <i>[note 4]</i>	—	—	—	2,910
Excess of revenue over expenses for the year	—	30,585	30,585	26,247
Interfund transfers <i>[note 11]</i>	(34,988)	34,988	—	—
Balance, end of year	101,701	445,861	547,562	516,977

See accompanying notes

University Health Network

Statement of remeasurement gains (losses)

[in thousands of dollars]

Year ended March 31

	2020	2019
	\$	\$
Accumulated remeasurement gains (losses), beginning of year	14,796	(2,047)
Net unrealized gains (losses) attributable to		
Interest rate swap contract <i>[note 8[d]]</i>	(2,058)	(542)
Portfolio investments	(29,170)	17,385
	(31,228)	16,843
Net realized gains reclassified to statement of operations		
Portfolio investments	13,496	—
Accumulated remeasurement gains (losses), end of year	(2,936)	14,796

See accompanying notes

University Health Network

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2020	2019
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	30,585	26,247
Add (deduct) items not involving cash		
Amortization	109,808	107,139
Amortization of deferred capital contributions	(67,199)	(65,741)
Other post-employment benefit expense	4,021	3,773
	<u>77,215</u>	<u>71,418</u>
Net change in non-cash working capital balances related to operations <i>[note 12[a]]</i>	(13,431)	37,157
Net increase in deferred research contributions	18,546	25,904
Employer contributions for employee benefit plan	(2,461)	(2,301)
Cash provided by operating activities	<u>79,869</u>	<u>132,178</u>
Investing activities		
Advances (repayment) of loans receivable	350	(272)
Decrease (increase) in other long-term investments, net	768	(12,076)
Cash provided by (used in) investing activities	<u>1,118</u>	<u>(12,348)</u>
Financing activities		
Contributions received for capital purposes	110,296	54,997
Decrease in due to MaRS Development Trust	(2,662)	(2,492)
Repayment of long-term debt	(21,473)	(20,294)
Cash provided by financing activities	<u>86,161</u>	<u>32,211</u>
Capital activities		
Purchase of capital assets <i>[note 12[b]]</i>	(154,214)	(121,698)
Cash used in capital activities	<u>(154,214)</u>	<u>(121,698)</u>
Net increase in cash and cash equivalents during the year	12,934	30,343
Cash and cash equivalents, beginning of year	<u>168,171</u>	<u>137,828</u>
Cash and cash equivalents, end of year	<u>181,105</u>	<u>168,171</u>
Cash and cash equivalents represented by		
Cash	181,105	168,171
Cash equivalents	—	—
	<u>181,105</u>	<u>168,171</u>

See accompanying notes

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Notes to financial statements

[all amounts in thousands of dollars, except where noted]

March 31, 2020

1. Description of the organization

University Health Network ["UHN"] is a corporation without share capital incorporated under the *University Health Network Act, 2002*, devoted to patient care, education and research. UHN primarily fulfils its objects through the operation of four hospitals separately identified as the Princess Margaret Cancer Centre, the Toronto General Hospital, the Toronto Western Hospital and the Toronto Rehabilitation Institute.

As a charitable organization under the *Income Tax Act* (Canada), UHN is exempt from income taxes.

Under the *Health Insurance Act* (Ontario) and the regulations thereunder, UHN hospital operations are funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ontario Ministry of Health ["MOH"], the Toronto Central Local Health Integration Network ["TC LHIN"] and Cancer Care Ontario ["CCO"]. During 2019, CCO and elements of TC LHIN were transferred to Ontario Health.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards ["PSAS"] for government not-for-profit organizations as promulgated by the Chartered Professional Accountants of Canada ["CPA Canada"]. UHN has chosen to use the standards for government not-for-profit organizations that include Section PS 4200 to PS 4270. Accordingly, these financial statements have been prepared based on the significant accounting policies summarized below.

Basis of presentation

These financial statements include the assets, liabilities and results of operations of UHN for its activities at the four hospitals. These financial statements do not include the assets, liabilities or results of operations of the following non-controlled not-for-profit entities in which UHN has an economic interest [note 13]:

- Toronto General and Western Hospital Foundation ["TG/WH Foundation"]
- Princess Margaret Cancer Foundation ["PMC Foundation"]
- Toronto Rehabilitation Institute Foundation ["TRI Foundation"]
- The Toronto Hospital Research Corporation [inactive]
- de Souza Institute Foundation [inactive]

These financial statements also do not include the assets, liabilities and results of operations of The Michener Institute of Education at UHN ["Michener"], a controlled entity for which, in accordance with PSAS, UHN has chosen to disclose summarized information in a note [note 13].

Revenue recognition

UHN follows the deferral method of accounting for contributions. Contributions are recorded in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the period in which the related expenses are incurred.

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Revenue from ancillary services and other patient services is recognized when the goods have been sold or when the services have been rendered.

Investment income (loss) recorded in the statement of operations consists of interest, dividends, and realized gains and losses, net of related fees. Unrealized gains and losses are recorded in the statement of remeasurement gains and losses.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and short-term investments that have a term to maturity of approximately three months or less from the date of purchase unless they are held for investment rather than liquidity purposes, in which case they are classified as long-term investments.

Inventory

Inventory is recorded at the lower of weighted average cost and current replacement value.

Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of contribution. Capital assets are amortized on a straight-line basis at annual rates based on the estimated useful lives of the assets as follows:

Buildings and improvements	5–50 years
Equipment and furniture	2–20 years

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to UHN are accounted for as capital leases as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

Construction in progress comprises construction, development costs and interest capitalized during the construction period. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

Employee benefit plans

UHN accrues its obligations under employee benefit plans and the related costs. UHN has adopted the following policies:

Multi-employer plan

Defined contribution accounting is applied for the Healthcare of Ontario Pension Plan ["HOOPP"], a multi-employer pension plan, whereby contributions are expensed on an accrual basis.

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Other defined benefit plans

The cost of non-pension post-employment and post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation is determined by reference to UHN's cost of borrowing. Actuarial gains and losses are amortized over the average remaining service period of active employees, which is 15.6 years. Past service costs and settlement gains (losses) are recognized when incurred.

Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value; or [ii] cost or amortized cost. UHN determines the classification of its financial instruments at initial recognition.

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each valuation. The fair value hierarchy is made up of the following levels:

- Level 1 – valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data [unobservable inputs].

Investments reported at fair value comprise equity instruments that are quoted in an active market as well as investments in pooled funds, derivative contracts and any other investments where the investments are managed on a fair value basis and the fair value option is elected. Transaction costs are recognized in the statement of operations in the period during which they are incurred. Investments at fair value are remeasured at their fair value at the end of each reporting period. Any revaluation gains and losses are recognized in the statement of remeasurement gains and losses and are cumulatively reclassified to the statement of operations upon disposal or settlement.

Investments in securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest rate method, less any provision for impairment.

All investment transactions are recorded on a trade date basis.

A write-down is recognized in the statement of operations for a portfolio investment in either category when there has been a loss in the value of the investment considered as an "other than temporary" loss. Subsequent changes to the remeasurement of portfolio investments in the fair value category are reported in the statement of remeasurement gains and losses. If the loss in value of a portfolio investment subsequently reverses, the write-down to the statement of operations is not reversed until the investment is sold.

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Investments in for-profit entities that are subsidiaries or joint ventures, or where there is significant influence, are accounted for by the modified equity method. The modified equity method is a basis of accounting whereby the accounting principles of the invested entity are not modified to conform to those of UHN and inter-organizational transactions and balances are not eliminated except for gains and losses on assets remaining within UHN at the reporting date.

Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

Other financial instruments, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Accounts requiring significant estimates include accounts receivable and the collectability thereof, useful life of capital assets, accrued liabilities, deferred revenue and employee future benefits.

The amount of revenue recognized from the MOH and the TC LHIN requires a number of estimates. UHN has entered into a number of accountability agreements with the TC LHIN that set out the rights and obligations of the two parties in respect of funding provided to UHN by the TC LHIN for the year ended March 31, 2020.

These accountability agreements set out certain performance standards and obligations that establish acceptable results for UHN's performance in a number of areas, such as margin, liquidity and operating volumes.

If UHN does not meet its performance standards or obligations, the MOH and the TC LHIN have the right to adjust funding received by UHN. The MOH and the TC LHIN are not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of MOH and TC LHIN funding received during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management's best estimate of amounts that have been earned during the year.

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Notes to financial statements

[all amounts in thousands of dollars, except where noted]

March 31, 2020

3. Accounts receivable

Accounts receivable consist of the following:

	2020	2019
	\$	\$
MOH/TC LHIN/CCO <i>[note 17]</i>	59,288	27,168
Patient receivables	23,297	17,987
Other receivables	71,407	48,073
Michener <i>[note 13[a]]</i>	503	789
TG/WH Foundation <i>[note 13[b]]</i>	17,677	12,410
PMC Foundation <i>[note 13[c]]</i>	48,793	61,221
TRI Foundation <i>[note 13[d]]</i>	3,551	2,112
Research-related receivables	36,879	39,070
	261,395	208,830

As at March 31, 2020, there is a provision against doubtful accounts of \$22,953 [2019 – \$20,314].

4. Capital assets

Capital assets consist of the following:

	2020		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	18,573	—	18,573
Buildings and improvements	1,853,857	945,376	908,481
Equipment and furniture	1,101,656	894,789	206,867
Construction in progress	190,709	—	190,709
	3,164,795	1,840,165	1,324,630
	2019		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	18,423	—	18,423
Buildings and improvements	1,806,100	882,189	923,911
Equipment and furniture	1,037,952	851,015	186,937
Construction in progress	148,028	—	148,028
	3,010,503	1,733,204	1,277,299

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In 2020, UHN received donated land of nil [2019 – \$2,910].

Buildings and improvements include \$88,329 [2019 – \$88,329] of costs and \$43,193 [2019 – \$40,248] of accumulated amortization related to assets under capital lease obligations [note 6]. During the year, UHN reduced the cost and accumulated amortization by \$2,879 [2019 – \$4,170] for capital assets that were fully amortized and no longer in use.

5. Long-term investments

[a] Long-term investments held for contingency funds are recorded at amortized cost and consist of the following:

	2020	2019
	\$	\$
Short-term securities	14,127	20,110
Term deposits	5,967	2,529
Government bonds	18,722	17,294
Corporate bonds	13,795	12,678
	52,611	52,611

Long-term investments held for contingency funds are based on agreements with the MOH and bondholders.

One fund, with a restricted balance of \$25,000, is held to ensure patient services are not reduced due to financial pressures resulting from UHN's commitments to bondholders [note 8[a]]. The fund will be terminated on maturity of the 5.64% Secured Bonds or earlier with the mutual agreement of the MOH and UHN.

In connection with the bond agreement [note 8[a]], UHN is also required to hold the equivalent of one semi-annual bond payment of \$12,528 in a segregated account known as the Debt Service Reserve Account until the debt is fully paid.

Another segregated fund of \$15,083 has been established since 2004 to ensure patient services are not reduced due to financial pressures resulting from UHN's commitments to the MaRS Development Trust [the "MaRS Trust"] [note 6]. The fund will be terminated on the expiry of the 30-year term of the lease or earlier with the mutual agreement of the MOH and UHN.

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Notes to financial statements

[all amounts in thousands of dollars, except where noted]

March 31, 2020

[b] Other long-term investments consist of the following:

	2020	2019
	\$	\$
Cash and cash equivalents	283,492	222,189
Short-term securities [note 16]	11,478	2,623
Term deposits [note 16]	8,569	93,228
Government bonds [note 16]	25,218	25,800
Corporate bonds [note 16]	25,847	26,946
Other [note 5[d]]	83	343
	354,687	371,129

Investments in government and corporate bonds are reported at fair value and represent Level 2 investments in the fair value hierarchy. During the years ended March 31, 2020 and 2019, there were no transfers between levels. Short-term securities, term deposits and other investments [note 5[d]] are recorded at amortized cost.

Cash and cash equivalents are included in other long-term investments to the extent required for investments to equal the total of deferred research contributions [note 7] and internally restricted net assets [note 11].

[c] During the year, UHN earned interest income of \$11,370 [2019 – \$10,021] which is included in ancillary services and other revenue in the statement of operations.

[d] Other investments

UHN has interests in various other companies as a result of research-related transactions, the value of which is recorded as other investments. Shares of other entities received as a result of research-related transactions had no cost or have been written down to nil.

6. Due to MaRS development trust

In 2003, UHN entered into a 30-year agreement with the MaRS Trust to lease a 400,000 square foot building, the Princess Margaret Cancer Research Tower. UHN is committed to an annual payment of \$7,541, which commenced on August 1, 2005, at an implicit interest rate of 6.7%. UHN recognized an obligation of \$100,000, consisting of a long-term capital lease obligation of \$88,329 representing the cost of the building to the MaRS Trust [note 4], and a further long-term obligation of \$11,671 representing cash received from the MaRS Trust related to financing proceeds in excess of the cost of the building and leasehold inducements. The obligation has been reduced by payments made since August 1, 2005, when payments commenced. During 2020, interest paid amounted to \$4,879 [2019 – \$5,050] and interest expense recorded in the statement of operations amounted to \$4,850 [2019 – \$5,021].

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[all amounts in thousands of dollars, except where noted]

March 31, 2020

The future minimum annual payments related to the amount due to the MaRS Trust consist of the following:

	\$
2021	2,844
2022	3,039
2023	3,246
2024	3,468
2025	3,706
Thereafter	54,269
Due to MaRS Development Trust	70,572
Less current portion	2,844
	<u>67,728</u>

7. Deferred research contributions

Deferred research contributions represent unspent externally restricted grants and donations for research. The changes in the deferred research contributions balance are as follows:

	2020 \$	2019 \$
Deferred research contributions, beginning of year	234,440	208,536
Externally restricted contributions <i>[note 13]</i>	379,770	364,380
Amounts recognized as revenue	(361,224)	(338,476)
Deferred research contributions, end of year	252,986	234,440

8. Long-term debt

Long-term debt consists of the following:

	2020 \$	2019 \$
5.64% Secured Bonds, Series 1 <i>[note 8[a]]</i>	68,237	88,565
Equity loan <i>[note 8[b]]</i>	743	800
Other loan <i>[note 8[b]]</i>	8,409	9,007
Drawing on credit facility <i>[note 15]</i>	18,678	19,168
	96,067	117,540
Less current portion	22,708	21,473
	73,359	96,067

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March 31, 2020

- [a] On December 8, 1998, UHN issued \$281,000 of 5.64% Secured Bonds, Series 1 at a price of \$999 with a maturity date of December 8, 2022. The proceeds of the issue were used to fund UHN's redevelopment plan known as Project 2003. A first fixed charge on and assignment of substantially all cash receipts, book debts and monies of UHN and a floating charge on substantially all other property and assets of UHN, other than certain excluded assets such as funds held for research grants and donations included in deferred research contributions [note 7], are pledged as collateral for the Secured Bonds. Blended semi-annual payments of principal and interest of \$12,528 commenced June 8, 2005 [note 5[a]]. During the year, interest paid amounted to \$4,715 [2019 – \$5,815] and interest expense recorded in the statement of operations amounted to \$4,372 [2019 – \$5,498].
- [b] Two loans were obtained to fund the construction of the long-term care facility operated by UHN: an equity loan of \$1,300 with a maturity date of 2029, bearing interest at 6.9% and blended monthly payments of principal and interest of \$9; and a \$14,200 loan with two agreements being amortized over periods ending in 2024 and 2034, bearing interest at a rate of 7.4% and blended monthly payments of principal and interest of \$104 to 2024 and \$64 to 2034. For the \$1,300 loan, UHN has pledged certain assets as security. For the \$14,200 loan, the following have been pledged as security: a debenture on a leasehold interest on the land related to the facility, an assignment of funds payable by the MOH for funding for construction and operation of the facility, an assignment of any insurance proceeds related to the facility, and all related buildings and equipment. During the year, interest paid amounted to \$703 [2019 – \$749] and interest expense recorded in the statement of operations amounted to \$703 [2019 – \$749].
- [c] The future minimum annual payments related to the long-term debt consist of the following:

	\$
2021	22,708
2022	24,015
2023	25,397
2024	1,462
2025	1,140
Thereafter	21,345
	<u>96,067</u>

- [d] On June 29, 2011, in order to manage the exposure to changes in interest rates on the demand bank indebtedness, UHN entered into a 30-year interest rate swap contract with a notional amount of \$22,000, an effective date of June 1, 2012, and a fixed interest rate of 4.36%. The fair value of the interest rate swap is a loss of \$6,760 [2019 – \$4,702] and is recorded in accounts payable and accrued liabilities in the statement of financial position. The change in the fair value of the interest rate swap is a loss of \$2,058 [2019 – \$542] recorded in the statement of remeasurement gains and losses.

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9. Employee benefit plans

UHN has a number of defined benefit plans and participates in a multi-employer plan providing pension, other retirement and post-employment benefits to most of its employees.

[a] Multi-employer plan

Substantially all of the employees of UHN are members of HOOPP, which is a multi-employer, defined benefit, final average earnings, contributory pension plan. HOOPP is accounted for as a defined contribution plan. UHN's contributions to HOOPP during the year amounted to \$83,737 [2019 – \$80,595]. These amounts are included in compensation expense in the statement of operations. The most recent valuation for financial reporting purposes completed by HOOPP as at December 31, 2019 disclosed net assets available for benefits of \$94,102,000 with pension obligations of \$73,547,000, resulting in a surplus of \$20,555,000.

[b] Other defined benefit plans

UHN offers various non-pension post-employment and post-retirement benefit plans to its employees that provide life insurance, medical and dental benefits. In addition, UHN offers a Supplemental Executive Retirement Plan ["SERP"] to certain employees. All of these plans are accounted for as defined benefit plans and are not funded by UHN.

Information about UHN's other defined benefit plans is as follows:

	2020	2019
	\$	\$
Accrued benefit obligations	50,028	54,192
Unamortized actuarial gain (loss)	2,474	(3,250)
Employee future benefit liabilities	52,502	50,942

The Employee future benefit liabilities include \$12,300 [2019 – \$12,419] related to the SERP.

The net expense for these plans is calculated as follows:

	2020	2019
	\$	\$
Current service cost	1,558	1,380
Interest cost	1,766	1,764
Amortization of actuarial losses	697	629
	4,021	3,773

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The significant actuarial assumptions adopted in measuring UHN's accrued benefit obligations are as follows:

	2020 %	2019 %
Discount rate	<u>3.22</u>	<u>3.24</u>

The significant actuarial assumptions adopted in measuring UHN's expenses are as follows:

	2020 %	2019 %
Discount rate	<u>3.24</u>	<u>3.42</u>

Health care costs are assumed to continue to decrease by 0.2% in 2020 and continue declining by 0.2% per year to 3.5% thereafter. Dental costs are assumed to increase by 4.0% per year.

The accrued benefit obligations of the other defined benefit plans are measured as at March 31, 2020 and are based on actuarial valuations as at March 31, 2020.

Other information about UHN's defined benefit plans is as follows:

	2020 \$	2019 \$
Employer's contributions	2,461	2,301
Employees' contributions	—	—
Benefits paid	<u>2,461</u>	<u>2,301</u>

10. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

	2020 \$	2019 \$
Deferred capital contributions, beginning of year	655,770	666,514
Contributions for capital purposes <i>[note 13]</i>	106,321	54,997
Amortization of deferred capital contributions	(67,199)	(65,741)
Deferred capital contributions, end of year	<u>694,892</u>	<u>655,770</u>

As at March 31, 2020, the deferred capital contributions include funds received but not yet spent of \$25,388 [2019 – nil].

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11. Internally restricted net assets

Internally restricted net assets represent amounts set aside for future capital and other special projects.

Changes in internally restricted net assets, approved by the Board of Trustees, were as follows:

	2020	2019
	\$	\$
Balance, beginning of year	136,689	133,132
Transfers from		
Internally restricted to unrestricted net assets	(86,736)	(49,007)
Unrestricted to internally restricted net assets	51,748	52,564
Balance, end of year	101,701	136,689

12. Supplemental cash flow information

[a] The net change in non-cash working capital balances related to operations consists of the following:

	2020	2019
	\$	\$
Accounts receivable <i>[note 12[b]]</i>	(56,540)	6,159
Inventory	(6,350)	(2,402)
Prepaid expenses	(3,561)	(1,080)
Accounts payable and accrued liabilities <i>[note 12[b]]</i>	53,020	34,480
	(13,431)	37,157

[b] Other information related to cash flows is as follows:

	2020	2019
	\$	\$
Changes in capital asset purchases funded by accounts payable and accrued liabilities	2,925	1,672
Changes in contributions receivable related to capital asset purchases	(3,975)	—

13. Related parties

Controlled entity

[a] Michener is a tax-exempt charity, incorporated under the laws of Ontario. Michener is dedicated to the education of pre-eminent applied health science practitioners capable of providing transformational leadership, performance and evidence-based best practice. UHN exercises control over Michener through a governance structure.

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The business relationship between UHN and Michener is governed by service agreements pursuant to which certain senior management support is provided on a cost recovery basis. For the year ended March 31, 2020, UHN recognized \$1,763 [2019 – \$2,325] in ancillary services and other revenue in the statement of operations. As at March 31, 2020, UHN had receivables from Michener of \$503 [2019 – \$789] recorded in accounts receivable [note 3].

Similar to UHN, Michener prepares its financial statements in accordance with PSAS for government not-for-profit organizations as promulgated by CPA Canada. Michener has chosen to use the standards for government not-for-profit organizations that include Section PS 4200 to PS 4270. The summarized assets, liabilities and results of operations for Michener as at and for the year ended March 31 are as follows:

	2020	2019
	\$	\$
Financial position		
Total assets	36,359	31,605
Total liabilities	22,446	18,854
Net assets	13,913	12,751
	36,359	31,605
	2020	2019
	\$	\$
Results of operations		
Total revenue	30,077	29,968
Total expenses	28,543	28,515
	1,534	1,453
	2020	2019
	\$	\$
Cash flows provided by (used in)		
Operating activities	(836)	631
Investing activities	(269)	(217)
Financing activities	6,177	1,858
Capital activities	(6,547)	(2,291)
Net increase (decrease) in cash flows for the year	1,475	(19)

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Non-controlled entities

[b] The TG/WH Foundation is an independent corporation without share capital, which has its own Board of Directors. The TG/WH Foundation provides donations to UHN for capital, research and academic purposes. The TG/WH Foundation's accounts are not included in these financial statements. As at March 31, 2020, the TG/WH Foundation holds \$630,387 [2019 – \$640,644] in unrestricted, restricted and endowment funds. For the year ended March 31, 2020, grants of \$124,854 [2019 – \$81,840] were recorded by UHN as grants and donations for research and other purposes, deferred research contributions or deferred capital contributions. As at March 31, 2020, UHN had receivables from the TG/WH Foundation of \$17,677 [2019 – \$12,410] recorded in accounts receivable *[note 3]*.

During the year ended March 31, 2020, UHN approved transfers of \$1,211 [2019 – \$577] to the TG/WH Foundation. As at March 31, 2020, UHN had payables to TG/WH Foundation of \$1,211 [2019 – \$19,606] recorded in accounts payable and accrued liabilities.

[c] The PMC Foundation is an independent corporation without share capital, which has its own Board of Directors. The PMC Foundation provides donations to UHN for capital and operating purposes in connection with cancer research, education and treatment. The PMC Foundation's accounts are not included in these financial statements. As at March 31, 2020, the PMC Foundation holds \$607,327 [2019 – \$587,995] in unrestricted, restricted and endowment funds. For the year ended March 31, 2020, grants of \$105,781 [2019 – \$104,672] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2020, UHN had receivables from the PMC Foundation of \$48,793 [2019 – \$61,221] recorded in accounts receivable *[note 3]*.

During the year ended March 31, 2020, UHN approved transfers of \$29,783 [2019 – \$4,336] to the PMC Foundation. As at March 31, 2020, UHN had payables to PMC Foundation of \$36,456 [2019 – \$7,959] recorded in accounts payable and accrued liabilities.

[d] The TRI Foundation is an independent corporation without share capital, which has its own Board of Directors. The TRI Foundation provides donations to UHN for capital, research and academic purposes. The TRI Foundation's accounts are not included in these financial statements. As at March 31, 2020, the TRI Foundation holds \$22,009 [2019 – \$25,480] in unrestricted, restricted and endowment funds. For the year ended March 31, 2020, grants of \$10,129 [2019 – \$8,165] were recorded by UHN as grants and donations for research and other purposes, deferred research contributions or deferred capital contributions. As at March 31, 2020, UHN had receivables from the TRI Foundation of \$3,551 [2019 – \$2,112] recorded in accounts receivable *[note 3]*.

[e] The Toronto Hospital Research Corporation and the de Souza Institute Foundation are inactive.

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14. Commitments and contingencies

- [a] UHN is subject to various claims and potential claims in connection with operations. Where the potential liability is able to be estimated, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is able to be estimated or adjustments to the amount recorded are determined to be required.
- [b] UHN participates in the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the year ended March 31, 2020.
- [c] As at March 31, 2020, UHN's Board of Trustees had approved expenditures for construction and renovation of which \$167,586 had not been recorded in the accounts. Contracts have been entered into with respect to costs of \$47,340.
- [d] Effective March 31, 2006, UHN entered into an agreement with Plexxus, a not-for-profit shared services organization, whose primary responsibility is to provide materials management services to its members on a cost-recovery basis and certain information technology services. The agreement with Plexxus was renewed on April 1, 2016 with an expiry date of March 31, 2021. Written notice of 24 months must be given after the expiry date in order to terminate the agreement. Based on the agreement, Plexxus has the right to charge membership fees to its members. A process is established in the agreement for Plexxus to obtain the approval of the members to charge additional fees. If any member fails to pay their membership fees to Plexxus throughout the period covered by the agreement, UHN and the other members are responsible for lending an amount to Plexxus, based on a sharing formula, to cover these deficiencies. As at March 31, 2020, no member was in default.
- [e] Commitments related to operating leases, including various operating costs and contracted utility services are as follows:

	\$
2021	29,302
2022	27,249
2023	25,744
2024	22,382
2025	22,065
Thereafter	<u>348,341</u>

- [f] UHN has outstanding letters of credit to various organizations totaling \$661 [2019 – \$1,011].

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15. Credit facilities

UHN has the following credit facilities:

- [a] A demand, revolving operating facility up to \$100,000 by way of a combination of prime rate loans, bankers' acceptances, and letters of credit to a maximum aggregate amount of \$10,000.
- [b] A demand, revolving amortizing credit facility up to \$80,000 by way of any combination of prime rate loans, bankers' acceptances, and fixed rate operating loans; and
- [c] A treasury risk management facility to hedge interest rate risk through interest rate swaps to a maximum notional risk amount of \$15,000 with a maximum term of 31 years.

For facilities [a] and [b], interest is payable at prime rate minus 0.55%, which was 1.90% as at March 31, 2020, or bankers' acceptance rate plus 0.35%, which was 1.37% as at March 31, 2020. During the year, interest of \$890 [2019 – \$915] was paid and recorded in the statement of operations.

As at March 31, 2020, there were drawings on the second facility listed above of \$18,678 [2019 – \$19,168], which are classified as long-term as UHN has received confirmation from the lender that the lender will not require repayment in the next fiscal year *[note 8]*.

16. Financial instruments and risk management

UHN is exposed to various financial risks through its transactions in financial instruments.

Credit risk

UHN is exposed to credit risk in connection with its accounts receivable, loans receivable and short-term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

UHN manages and controls credit risk with respect to accounts receivable by dealing primarily with recognized, creditworthy third parties *[note 3]*. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from investment activities, UHN manages this risk by developing an investment policy that establishes criteria for the selection of investments that include benchmarks for the creditworthiness of entities.

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Liquidity risk

UHN is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. UHN derives a significant portion of its operating revenue from the Ontario government and other funders with no firm commitment of funding in future years. To manage liquidity risk, UHN keeps sufficient resources readily available to meet its obligations. In addition, UHN has available lines of credit that are used when sufficient cash flow is not available from operations to cover operating and capital expenditures.

Accounts payable mature within six months. The maturities of other financial liabilities are provided in the notes to the financial statements related to these liabilities.

Interest rate risk

UHN is exposed to interest rate risk with respect to its investments in fixed income investments because the fair value will fluctuate due to changes in market interest rates. In addition, UHN is exposed to interest rate risk with respect to advances on its demand credit facilities because cash flows will fluctuate because the interest rate is linked to the bank's prime rate, which changes from time to time. UHN has entered into an interest rate swap contract to fix the rate of interest on its operating line of credit [note 8[d]].

UHN's investments in term deposits have an average term to maturity of one year and four months and an average yield of 2.48%, and for bonds an average term to maturity of one year and nine months and an average yield of 2.07%. A 1% change in the interest rates, with all other variables held constant, would have a \$1,217 impact on excess of revenue over expenses for the year.

A change in the interest rate on UHN's long-term debt would have no impact on the financial statements since the debt is measured at amortized cost and has a fixed rate of interest. A change in the interest rate on the advance on the demand credit facility has no impact on excess of revenue over expenses for the year since UHN has entered into an interest rate swap contract to manage this risk.

Other price risk

UHN is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments in equity securities. UHN has limited risk since excess funds are not invested in equity securities.

A 10% change in the market prices of these investments, with all other variables held constant, would have a \$11 impact on accumulated remeasurement gains.

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17. Covid-19

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. As a result of UHN's COVID-19 response, UHN is experiencing a change in demand for its services and is working diligently to mitigate the financial impacts while carrying out its response to the impacts of COVID-19.

Management considered the impact of COVID-19 in its assessment of UHN's assets, liabilities and its ability to continue as a going concern. COVID-19 has had an impact on funding and operations and management is working with funders to ensure that UHN is still able to maintain core operations. Furthermore, UHN is tracking and reporting expenses related to the COVID-19 response and is applying for government reimbursements in order to mitigate the financial impacts. UHN has purchased COVID-19 related supplies and equipment on behalf of the Province of Ontario for flow through to various organizations. Accounts receivable balances as at March 31, 2020 include \$21,410 [note 3] due from the MOH, specifically related to COVID-19 purchases on behalf of the Province of Ontario. As COVID-19 continues to evolve, the potential implications, including global, regional or other economic impacts, are uncertain and cannot be determined at this time.