

Financial Statements

**University Health Network**

March 31, 2007

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## AUDITORS' REPORT

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To the Board of Trustees of  
**University Health Network**

We have audited the statement of financial position of **University Health Network** ["UHN"] as at March 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of UHN's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of UHN as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
May 22, 2007.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

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University Health Network

**STATEMENT OF FINANCIAL POSITION**

[in thousands of dollars]


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As at March 31

	2007 \$	2006 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	66,617	37,075
Short-term investments	2,093	46,523
Accounts receivable <i>[note 4]</i>	95,112	77,458
Inventory	10,443	7,319
Prepaid expenses	4,093	5,520
<b>Total current assets</b>	<b>178,358</b>	173,895
Loan receivable <i>[note 5]</i>	3,460	1,505
Capital assets, net <i>[note 6]</i>	1,029,624	1,017,252
Long-term investments <i>[note 7]</i>	160,957	145,168
	<b>1,372,399</b>	1,337,820
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	217,068	192,377
Current portion of long-term liabilities <i>[notes 8 and 10]</i>	12,104	11,883
<b>Total current liabilities</b>	<b>229,172</b>	204,260
Due to MaRS Development Trust <i>[note 8]</i>	93,362	94,566
Deferred contributions <i>[note 9]</i>	105,472	100,656
Long-term debt <i>[note 10]</i>	256,803	267,703
Employee future benefit liabilities <i>[note 11]</i>	18,950	17,244
Deferred capital contributions <i>[note 12]</i>	407,530	397,536
<b>Total liabilities</b>	<b>1,111,289</b>	1,081,965
Commitments and contingencies <i>[note 16]</i>		
<b>Total net assets</b>	<b>261,110</b>	255,855
	<b>1,372,399</b>	1,337,820

See accompanying notes

On behalf of the Board:



Trustee



Trustee

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**University Health Network****STATEMENT OF OPERATIONS**

[in thousands of dollars]

Year ended March 31

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	2007	2006
	\$	\$
<b>REVENUE</b>		
Ontario Ministry of Health and Long-Term Care		
Hospital programs	705,204	670,376
Specifically funded programs	40,681	39,022
Other patient services	56,835	47,697
Grants and donations for research and other purposes [notes 7[d], 9 and 15]	209,208	182,097
Ancillary services and other [note 7[b] and [c]]	138,206	130,279
Amortization of deferred capital contributions [note 12]	53,594	44,022
	<b>1,203,728</b>	<b>1,113,493</b>
<b>EXPENSES</b>		
Salaries and benefits [note 11]	677,635	625,062
Medical, surgical supplies and drugs	146,071	138,929
Specifically funded programs	41,381	39,504
Plant operations and equipment maintenance	63,289	60,467
Depreciation	91,566	74,445
Interest on long-term liabilities [notes 8 and 10]	22,275	20,611
Supplies and other	156,256	139,357
	<b>1,198,473</b>	<b>1,098,375</b>
Excess of revenue over expenses before recovery of prior year subsidiary losses	5,255	15,118
Recovery of prior year subsidiary losses [note 7[g]]	—	5,077
<b>Excess of revenue over expenses for the year</b>	<b>5,255</b>	<b>20,195</b>

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*See accompanying notes*

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University Health Network

**STATEMENT OF CHANGES IN NET ASSETS**

[in thousands of dollars]

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Year ended March 31

	<b>2007</b>		
	<b>Invested in capital assets</b>	<b>Deficit</b>	<b>Total</b>
	\$	\$	\$
	<i>[note 13[a]]</i>		
<b>Net assets, beginning of year</b>	<b>254,891</b>	<b>964</b>	<b>255,855</b>
Excess of revenue over expenses for the year	—	<b>5,255</b>	<b>5,255</b>
Net change in net assets invested in capital assets <i>[note 13[b]]</i>	<b>15,971</b>	<b>(15,971)</b>	—
<b>Net assets, end of year</b>	<b>270,862</b>	<b>(9,752)</b>	<b>261,110</b>

	<b>2006</b>		
	<b>Invested in capital assets</b>	<b>Surplus</b>	<b>Total</b>
	\$	\$	\$
	<i>[note 13[a]]</i>		
<b>Net assets, beginning of year</b>	220,089	15,571	235,660
Excess of revenue over expenses for the year	—	20,195	20,195
Net change in net assets invested in capital assets <i>[note 13[b]]</i>	34,802	<b>(34,802)</b>	—
<b>Net assets, end of year</b>	<b>254,891</b>	<b>964</b>	<b>255,855</b>

*See accompanying notes*



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**University Health Network****STATEMENT OF CASH FLOWS**

[in thousands of dollars]

Year ended March 31

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	2007	2006
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	5,255	20,195
Add (deduct) items not involving cash		
Depreciation	91,566	74,445
Amortization of deferred capital contributions	(53,594)	(44,022)
Recovery of prior year subsidiary losses	—	(5,077)
	<b>43,227</b>	<b>45,541</b>
Net change in non-cash working capital balances related to operations <i>[note 14]</i>	5,340	3,652
Net increase in deferred contributions	4,816	28,114
Net increase in employee future benefit liabilities	1,706	895
<b>Cash provided by operating activities</b>	<b>55,089</b>	<b>78,202</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(103,938)	(112,098)
Decrease (increase) in short-term investments	44,430	(18,367)
Increase in loan receivable	(1,955)	(114)
Increase in long-term investments	(15,789)	(13,702)
Proceeds on sale of subsidiary	—	3,486
<b>Cash used in investing activities</b>	<b>(77,252)</b>	<b>(140,795)</b>
<b>FINANCING ACTIVITIES</b>		
Contributions received for capital purposes	63,588	64,189
Increase (decrease) in due to MaRS Development Trust	(1,595)	6,185
Repayment of long-term debt	(10,288)	(14,174)
<b>Cash provided by financing activities</b>	<b>51,705</b>	<b>56,200</b>
<b>Net increase (decrease) in cash position during the year</b>	<b>29,542</b>	<b>(6,393)</b>
Cash and cash equivalents, beginning of year	37,075	43,468
<b>Cash and cash equivalents, end of year</b>	<b>66,617</b>	<b>37,075</b>

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*See accompanying notes*

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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

#### 1. PURPOSE 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 operates on three hospital sites. These sites are separately identified as Princess Margaret Hospital, Toronto General Hospital and Toronto Western Hospital.

As a charitable organization under the Income Tax Act (Canada) [the "Act"], UHN is exempt from income taxes. In order to maintain its status as an organization registered under the Act, it must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

##### Basis of presentation

These financial statements do not include the financial activities of the following non-controlled not-for-profit entities [note 15]:

- Toronto General and Western Hospital Foundation
- Princess Margaret Hospital Foundation
- The Arthritis and Autoimmunity Research Centre Foundation
- The Toronto Hospital Research Corporation

The investments in the following for profit-entities are accounted for by the equity method [note 7]:

- Toronto Medical Laboratories Limited Partnership ["TMLLP"]
- PRISM Partners Inc. ["PRISM"]
- Yi-En Medical System Research and Development (Shanghai) Co. Ltd. ["Shanghai Research and Development"]

##### Cash and cash equivalents

Cash and cash equivalents include cash on deposit and short-term investments that have a term of maturity of less than 90 days at date of purchase.

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**University Health Network**

**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

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March 31, 2007

**Revenue recognition**

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

Revenue from ancillary services are recognized when the goods have been sold or when the services have been rendered.

**Employee benefit plans**

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

**[a] Multi-employer plan**

Defined contribution accounting is applied for the Hospitals of Ontario Pension Plan ["HOOPP"], a multi-employer pension plan, whereby contributions are expensed when due, as UHN has insufficient information to apply defined benefit plan accounting.

**[b] OCI Pension Plan**

Certain employees of UHN have remained in a voluntary pension plan that was established for the employees of the former Ontario Cancer Institute/Princess Margaret Hospital [the "OCI Pension Plan"]. UHN accounts for the OCI Pension Plan on a defined contribution basis, whereby contributions are expensed when due.

**[c] Other defined benefit plans**

UHN has adopted the following policies for other defined 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 retirement ages of employees and expected health care costs.





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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

- Past service costs from plan amendments and the net transitional liability are amortized on a straight-line basis over the average remaining service period of employees.
- Liabilities are discounted using current interest rates on long-term bonds.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the benefit obligation is amortized over the remaining service period of the active employees.

#### **Inventory**

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

#### **Investments**

Investments in for-profit entities that are subsidiaries or joint ventures, or where there is significant influence, are accounted for by the equity method. Other investments are accounted for at amortized cost plus accrued interest.

If the fair market value of investments accounted for at cost becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to fair market 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 depreciated on a straight-line basis at annual rates based on the estimated useful lives of the assets as follows:

- Buildings and improvements 5 years to 50 years
- Equipment and furniture 2 years to 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 direct construction, development costs and net capitalized interest. Interest costs, net of related interest income, are capitalized during the construction period. No depreciation is recorded until construction is substantially complete and the assets are ready for productive use.



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**University Health Network****NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

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March 31, 2007

**Deferred capital contributions**

Capital contributions for the purpose of acquiring depreciable capital assets are deferred and amortized on the same basis, and over the same periods, as the related capital assets.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

In particular, the amount of revenue recognized from the Ontario Ministry of Health and Long-Term Care [the "MOHLTC"] requires a number of estimates. UHN has entered into the Hospital Accountability Agreement [the "HAA"] with the MOHLTC that sets out the rights and obligations of the two parties in respect of funding provided to UHN by the MOHLTC for fiscal 2007. The HAA sets out certain performance standards and obligations that establish acceptable results for UHN's performance in a number of areas.

If UHN does not meet its performance standards or obligations, the MOHLTC has the right to adjust funding received by UHN. The MOHLTC is 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 MOHLTC 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.

**Financial instruments**

The fair value of UHN's financial instruments is not significantly different from their carrying value at March 31, 2007 unless otherwise noted. UHN is subject to credit risk with respect to its accounts receivable and market and interest rate risks with respect to its investments.

**3. CHANGE IN ACCOUNTING POLICY**

UHN retroactively changed its accounting policy for wholly-owned subsidiaries from the consolidation method to the equity method. This change had no impact on the excess of revenue over expenses reported for the year ended March 31, 2006.

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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2007	2006
	\$	\$
Ontario Ministry of Health and Long-Term Care	2,337	6,971
Patient receivables	12,938	14,428
Other receivables	21,110	22,938
Toronto Medical Laboratories Limited Partnership <i>[note 7[b]]</i>	944	652
PRISM Partners Inc. <i>[note 7[c]]</i>	1,399	1,115
Toronto General and Western Hospital Foundation <i>[note 15[a]]</i>	3,750	2,933
Princess Margaret Hospital Foundation <i>[note 15[b]]</i>	14,738	8,632
AARC Foundation <i>[note 15[c]]</i>	630	—
Research related receivables	36,478	19,380
Current portion of loan receivable <i>[note 5]</i>	788	409
	<b>95,112</b>	<b>77,458</b>

#### 5. LOAN RECEIVABLE

Loan receivable consists of the following:

	2007	2006
	\$	\$
Term loans		
[a] 6.21% per annum with equal quarterly blended payments of \$71, maturing August 21, 2010 <i>[note 7[c]]</i>	893	—
[b] 6.21% per annum with equal quarterly blended payments of \$128, maturing March 31, 2010 <i>[note 7[g]]</i>	1,391	1,800
Other loans receivable	1,964	114
	<b>4,248</b>	<b>1,914</b>
Less current portion <i>[note 4]</i>	788	409
	<b>3,460</b>	<b>1,505</b>

[a] On August 21, 2006, UHN advanced a four-year term loan of \$1,000 to PRISM, a related party *[note 7[c]]*, with payments commencing on November 21, 2006. A general security interest over PRISM's personal property has been pledged as collateral against the loan.



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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

[b] As at March 31, 2006, UHN advanced a four-year term loan of \$1,800 to a third party, with payments commencing on June 30, 2006. A general security interest over the third party's personal property has been pledged as collateral against the loan. The loan is subordinated to the interest of the third party's bankers and is guaranteed by the third party's parent company.

#### 6. CAPITAL ASSETS

Capital assets consist of the following:

	2007		
	Cost \$	Accumulated depreciation \$	Net book value \$
Land	5,564	—	5,564
Buildings and improvements	1,109,023	308,463	800,560
Equipment and furniture	555,262	370,960	184,302
Construction in progress	39,198	—	39,198
	<b>1,709,047</b>	<b>679,423</b>	<b>1,029,624</b>

	2006		
	Cost \$	Accumulated depreciation \$	Net book value \$
Land	5,564	—	5,564
Buildings and improvements	1,113,055	294,684	818,371
Equipment and furniture	512,235	336,092	176,143
Construction in progress	17,174	—	17,174
	<b>1,648,028</b>	<b>630,776</b>	<b>1,017,252</b>

Buildings and improvements include \$88,329 [2006 - \$88,329] of costs and \$4,907 [2006 - \$1,963] of accumulated depreciation related to assets under capital lease obligations [note 8].



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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

#### 7. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2007	2006
	\$	\$
Cash and cash equivalents	21,662	16,252
Government bonds	84,727	83,199
Corporate bonds	51,030	42,783
Other intercorporate investments		
TMLLP	2,393	2,660
PRISM	590	274
Shanghai Research and Development	555	—
	<b>160,957</b>	<b>145,168</b>

Long-term investments represent funds held for contingency funds held in segregated trust accounts [note 7[a]], operating funds and amounts for deferred contributions that management intends to invest for periods greater than one year. Cash and cash equivalents are included in this balance to the extent that they relate to the contingency funds. The bonds have an average term to maturity of three years and four months, an average yield of 4.45% and a market value of \$157,904 [2006 - \$142,210].

#### [a] Contingency funds

Included in long-term investments are amounts held in segregated trust accounts for contingency funds established by UHN based on agreements with the MOHLTC and bondholders.

One fund, with a 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 10]. The fund will be terminated on maturity of the 5.64% Secured Bonds or earlier with the mutual agreement of the MOHLTC and UHN.

In conjunction with the bond agreement [note 10] UHN is 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.

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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

A second contingency fund of \$15,632 has been established since 2004 to ensure patient services are not reduced due to financial pressures resulting from UHN's commitments to MaRS Development Trust [the "MaRS Trust"] [note 8]. The fund will be terminated on the expiry of the 30-year term of the lease or earlier with the mutual agreement of the MOHLTC and UHN.

#### [b] Toronto Medical Laboratories Limited Partnership

UHN formed and registered TMLLP together with MDS Health Group Limited as an equal limited partner on November 10, 1995. This partnership was subsequently renewed on July 17, 2001. TMLLP was established to market and provide laboratory services to other hospitals, develop and commercialize laboratory-related innovations and technologies, and lead in research, training and development with respect to laboratory medicine, technologies and utilization. During the year, UHN recorded a pro rata share of TMLLP's earnings of \$855 [2006 - \$878] as ancillary services and other revenue, as well as charged laboratory testing services of \$2,869 [2006 - \$2,388] to TMLLP and purchased administration services of \$1,400 [2006 - \$1,400]. As at March 31, 2007, UHN reported an amount of \$944 [2006 - \$652] due from TMLLP, which is included in accounts receivable [note 4]. The following amounts represent UHN's 50% share of the assets, liabilities, equity, revenue, expenses and distributions of TMLLP as at and for the year ended March 31:

	2007	2006
	\$	\$
Assets	3,016	3,093
Liabilities	623	433
Equity	2,393	2,660
Revenue	8,303	7,848
Expenses	7,448	6,970
Distributions	1,000	1,500

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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

#### [c] PRISM Partners Inc.

PRISM, a wholly-owned for-profit subsidiary of UHN, commenced operations as a separate legal entity November 1, 2005. Prior to that date, PRISM operated as a division within UHN. PRISM is a pioneering, full service project management and consulting firm. During the year, UHN recorded PRISM's net earnings of \$228 [2006 - \$362] as ancillary services and other revenue. UHN was charged indirect project management and cost control fees of \$363 by PRISM, which were expensed, and project specific management fees of \$1,181, which were capitalized as part of construction in progress and buildings and improvements. As at March 31, 2007, UHN reported amounts owing from PRISM of \$1,399 [2006 - \$1,115], which is included in accounts receivable [note 4] and \$893 [2006 - nil], which is recorded as a loan receivable [note 5]. The following amounts represent UHN's 100% share of the assets, liabilities, equity, revenue and expenses of PRISM as at and for the year ended March 31:

	2007	2006
	\$	\$
Assets	3,384	1,256
Liabilities	2,794	982
Equity	590	274
Revenue	6,055	2,013
Expenses	5,739	1,739

#### [d] Yi-En Medical System Research and Development (Shanghai) Co. Ltd.

Shanghai Research and Development, a wholly-owned for-profit subsidiary of UHN, was incorporated on April 14, 2006 to undertake medical research and development to discover new technologies and therapies to treat major human diseases. UHN committed an investment of U.S.\$2,000. During the year, U.S.\$650 was advanced against this commitment, with the balance to be fully paid within two years. During the year, UHN recorded Shanghai Research and Development's net loss of \$153 [2006 - nil] as grants and donations for research and other purposes. The following amounts represent UHN's 100% share of the assets, liabilities, equity, revenue and expenses of Shanghai as at and for the year ended March 31:

	2007	2006
	\$	\$
Assets	562	—
Liabilities	7	—
Equity	555	—
Revenue	3	—
Expenses	156	—



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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

#### [e] Other intercorporate investments

UHN has a minority interest in a variety of early-stage research entities with no current market value for which no value has been recorded in the accounts.

#### [f] Shared Healthcare Supply Services Ltd. ["SHSS"]

Effective March 31, 2006, UHN sold its 400 shares in SHSS, a subsidiary, for a nominal amount and there was no gain or loss on the sale. During the year ended March 31, 2006, UHN was charged purchasing service fees of \$2,230 by SHSS.

#### [g] Sale of subsidiary

Effective March 31, 2006, UHN sold its shares in its wholly-owned subsidiary, Hospital Logistics Inc. ["HLI"], for total cash proceeds of \$3,486 and a loan receivable of \$1,800 [note 5]. UHN recognized a recovery of prior year losses on the sale of HLI of \$5,077. As of the date of the sale, the carrying value of HLI's assets and liabilities were \$11,444 and \$11,235, respectively.

## 8. 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 Toronto Medical Research Tower [the "TMRT"]. 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 6], and a further long-term obligation of \$11,671 representing cash received and receivable 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.

UHN has subleased 141,607 square feet of the TMRT. The sublease expires July 31, 2020 and has an annual average base rent of \$2,905.



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**University Health Network**

**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

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March 31, 2007

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

	\$
2008	1,204
2009	1,286
2010	1,374
2011	1,468
2012	1,569
Thereafter	87,665
Due to MaRS Development Trust	94,566
Less current portion	1,204
	<u>93,362</u>

**9. DEFERRED CONTRIBUTIONS**

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

	2007	2006
	\$	\$
<b>Deferred contributions, beginning of year</b>	<b>100,656</b>	72,542
Externally restricted contributions received	214,024	210,211
Less amounts recognized as revenue	(209,208)	(182,097)
<b>Deferred contributions, end of year</b>	<b>105,472</b>	100,656

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University Health Network

**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

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March 31, 2007

**10. LONG-TERM DEBT**

Long-term debt consists of the following:

	2007 \$	2006 \$
5.64% Secured Bonds, maturing December 8, 2022	261,611	271,470
Term loans		
4.991% compounded semi annually with monthly blended payments of \$64, maturing April 1, 2012	6,092	—
6.1% per annum with monthly blended payments of \$68, maturing March 1, 2007	—	6,521
	<b>267,703</b>	277,991
Less current portion	<b>10,900</b>	10,288
	<b>256,803</b>	267,703

On December 8, 1998, UHN issued \$281,000 of 5.64% Secured Bonds, Series 1 at a price of \$999.27 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 all cash receipts, book debts and monies of UHN and a floating charge on all other property and assets of UHN, other than certain excluded assets such as research grants and donations included in deferred contributions [note 9], are pledged as collateral for the Secured Bonds. Blended semi-annual payments of principal and interest of \$12,528 commenced June 8, 2005.

Repayments of the long-term debt are as follows:

	\$
2008	10,900
2009	11,528
2010	12,184
2011	12,878
2012	13,611
Thereafter	206,602
	<b>267,703</b>



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**University Health Network**

**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

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March 31, 2007

**11. EMPLOYEE BENEFIT PLANS**

UHN has a number of defined benefit plans and participates in a defined contribution 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 \$41,472 [2006 - \$38,693]. These amounts are included in salaries and benefits expense in the statement of operations. The most recent regulatory funding valuation conducted as at December 31, 2005 disclosed actuarial assets of \$22,853 million with accrued pension liabilities of \$23,419 million, resulting in a deficit of \$566 million. This funding valuation also confirmed that the Plan is fully funded on a solvency basis.

**[b] OCI Pension Plan**

Certain employees of UHN have remained in a voluntary hybrid defined benefit/defined contribution pension plan that was established for the employees of the former Ontario Cancer Institute/Princess Margaret Hospital. UHN accounts for the OCI Pension Plan on a defined contribution basis. The approximate present value of accrued pension benefits as at March 31, 2007 is \$95,273 [2006 - \$91,831]. UHN's contributions of \$70 [2006 - \$78] to the OCI Pension Plan have been recorded as salaries and benefits expense in the statement of operations.

The market value of the net assets of the OCI Pension Plan as at March 31, 2007 is \$137,835 [2006 - \$128,382].

Some members of the OCI Pension Plan elected to join HOOPP effective March 1, 1999 and January 1, 2001. On December 1, 2006, the Financial Services Commission of Ontario approved the Phase I transfer of \$56,913 to HOOPP effective April 2, 2007. The Phase II transfer of \$15,005 is currently awaiting approval. When both transfers are made, they will reduce the net assets of the OCI Pension Plan by approximately \$71,918 and accrued pension benefits by approximately \$47,193.

**[c] 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. These plans are accounted for as defined benefit plans and are not funded by UHN.

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University Health Network

**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

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March 31, 2007

Information about UHN's other defined benefit plans is as follows as at March 31:

	2007	2006
	\$	\$
Accrued benefit obligations	23,648	24,187
Unamortized net transitional liability	(2,757)	(3,309)
Unamortized actuarial loss	(1,420)	(3,052)
Unamortized past service costs	(521)	(582)
<b>Employee future benefit liabilities</b>	<b>18,950</b>	<b>17,244</b>

The net expense for these plans for the year ended March 31, 2007 is \$1,809 [2006 - \$1,383].

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

	2007	2006
	%	%
Discount rate	5.25	5.25
Rate of compensation increase	3.00	2.50

The significant actuarial assumptions adopted in measuring UHN's expenses for the year ended March 31 are as follows:

	2007	2006
	%	%
Discount rate	5.25	6.00
Rate of compensation increase	2.50	3.00

Health care costs were assumed to increase by 11% in 2004, declining by 1% per year to 6% in 2010. Dental costs were assumed to increase by 4% per year.

The accrued benefit obligations of the other defined benefit plans are measured as at March 31, and are based on an actuarial valuation as of April 1, 2004.

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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

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

	2007	2006
	\$	\$
Employer's contributions	1,088	1,190
Employees' contributions	—	—
Benefits paid	1,088	1,190

### 12. 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 as at March 31 are as follows:

	2007	2006
	\$	\$
Deferred capital contributions, beginning of year	397,536	377,369
Add contributions received for capital purposes	63,588	64,189
Less amortization of deferred capital contributions	(53,594)	(44,022)
<b>Deferred capital contributions, end of year</b>	<b>407,530</b>	<b>397,536</b>

### 13. NET ASSETS INVESTED IN CAPITAL ASSETS

[a] Net assets invested in capital assets is calculated as follows:

	2007	2006
	\$	\$
Capital assets, net [note 6]	1,029,624	1,017,252
Less amounts funded by		
Deferred capital contributions [note 12]	(407,530)	(397,536)
Due to MaRS Development Trust [note 8]	(83,529)	(86,834)
Long-term debt [note 10]	(267,703)	(277,991)
	270,862	254,891

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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

[b] The net change in net assets invested in capital assets is calculated as follows:

	2007	2006
	\$	\$
Purchase of capital assets	103,938	112,098
Amounts funded by deferred capital contributions <i>[note 12]</i>	(63,588)	(64,189)
Depreciation of capital assets	(91,566)	(74,445)
Decrease in due to MaRS Development Trust	3,305	3,142
Repayment of long-term debt	10,288	14,174
Amortization of deferred capital contributions	53,594	44,022
	<b>15,971</b>	<b>34,802</b>

#### 14. STATEMENT OF CASH FLOWS

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

	2007	2006
	\$	\$
<b>Sources (uses) of cash</b>		
Accounts receivable	(17,654)	(2,714)
Inventory and prepaid expenses	(1,697)	1,065
Accounts payable and accrued liabilities	24,691	5,301
	<b>5,340</b>	<b>3,652</b>

#### 15. RELATED PARTY TRANSACTIONS

[a] Toronto General and Western Hospital Foundation [the "TG/WH Foundation"] is an independent corporation without share capital, which has its own Board of Directors. It 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, 2007, it had net assets of \$249,124 [2006 - \$186,161]. For the year ended March 31, 2007, grants of \$23,289 [2006 - \$25,539] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2007, UHN had receivables from the TG/WH Foundation of \$3,750 [2006 - \$2,933] recorded in accounts receivable *[note 4]*.



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## University Health Network

### NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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March 31, 2007

- [b] Princess Margaret Hospital Foundation [the "PMH Foundation"] is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital and operating purposes in connection with cancer research, education and treatment. The PMH Foundation's accounts are not included in these financial statements. As at March 31, 2007, it had net assets of \$234,565 [2006 - \$220,666]. For the year ended March 31, 2007, grants of \$54,515 [2006 - \$45,582] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2007, UHN had receivables from the PMH Foundation of \$14,738 [2006 - \$8,632] recorded in accounts receivable *[note 4]*.
- [c] The Arthritis and Autoimmunity Research Centre Foundation [the "AARC Foundation"] is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital and research purposes in connection with arthritis and autoimmunity. Its accounts are not included in these financial statements. As at March 31, 2007, it had net assets of \$21,600 [2006 - \$19,569]. For the year ended March 31, 2007, an amount of \$2,827 [2006 - \$2,608] was recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2007, UHN had receivables from the AARC Foundation of \$630 [2006 - nil] recorded in accounts receivable *[note 4]*.
- [d] The Toronto Hospital Research Corporation is inactive.

### 16. COMMITMENTS AND CONTINGENCIES

- [a] UHN is subject to various claims and potential claims. Where the potential liability is determinable, 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 determinable 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, 2007.
- [c] UHN has entered into various contracts for construction and renovation. The TMRT fit-out capital expenditure commitments outstanding at March 31, 2007 are estimated at \$663 [2006 - \$20,741] *[note 8]*. Other capital expenditure commitments outstanding at March 31, 2007 are estimated at \$7,909 [2006 - \$2,273].

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**University Health Network**

**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

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March 31, 2007

[d] Effective March 31, 2006, UHN entered into an agreement with Plexxus [formerly Hospital Business Services], whose primary responsibility is to provide materials management services to its members on a cost-recovery basis. The objective is to provide these services at a lower cost as compared to the members' costs prior to entering into the agreement. Based on the agreement, Plexxus has the right to charge membership fees to its members. The maximum fees able to be charged which are set out in the agreement are as follows: \$881 in 2008 and \$3,696 in 2009. A process is established in the agreement for Plexxus to obtain the approval of the members to charge additional fees. The fees related to 2009 are subject to UHN's acceptance of membership into Phase 2 of the agreement. 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, 2007, no member was in default.

[e] The future minimum annual payments under operating leases consist of the following:

	\$
2008	6,827
2009	5,377
2010	3,970
2011	2,744
2012	1,531
Thereafter	1,080

**17. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.





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