Financial Statements

University Health Network

March 31, 2015

Building a better working world

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
University Health Network

We have audited the accompanying financial statements of **University Health Network**, which comprise the statement of financial position as at March 31, 2015, the statements of operations, changes in net assets, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **University Health Network** as at March 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 17, 2015

University Health Network

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2015 $	2014 $
ASSETS		
Current		
Cash and cash equivalents *[note 5[b]]*	**196,311**	183,279
Accounts receivable *[note 3]*	**208,463**	198,500
Inventory	**16,072**	16,010
Prepaid expenses	**16,488**	10,377
Total current assets	**437,334**	408,166
Loans receivable	**2,450**	2,825
Capital assets, net *[note 4]*	**1,273,110**	1,276,021
Long-term investments		
Held for contingency funds *[note 5[a]]*	**52,611**	52,611
Other *[note 5[b]]*	**260,431**	245,811
	2,025,936	1,985,434
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 8[d]]*	**411,434**	399,113
Current portion of long-term liabilities *[notes 6 and 8]*	**19,215**	18,150
Total current liabilities	**430,649**	417,263
Due to MaRS Development Trust *[note 6]*	**80,242**	82,285
Deferred research contributions *[note 7]*	**181,946**	169,425
Long-term debt *[note 8]*	**175,204**	192,375
Employee future benefit liabilities *[note 9[b]]*	**45,057**	46,747
Deferred capital contributions *[note 10]*	**664,479**	650,189
Total liabilities	**1,577,577**	1,558,284
Commitments and contingencies *[note 14]*		
Net assets		
From operations		
Internally restricted *[note 11]*	**78,485**	76,386
Unrestricted	**369,827**	348,987
	448,312	425,373
Accumulated remeasurement gains	**47**	1,777
Total net assets	**448,359**	427,150
	2,025,936	1,985,434

See accompanying notes

University Health Network

STATEMENT OF OPERATIONS

[in thousands of dollars]

Year ended March 31

	2015 $	2014 $
REVENUE		
Ontario Ministry of Health and Long-Term Care/		
Toronto Central Local Health Integration Network	**1,195,114**	1,183,843
Other patient services	**204,400**	194,032
Grants and donations for research and other purposes		
[notes 7 and 13]	**279,206**	251,716
Ancillary services and other *[note 5[c]]*	**281,617**	298,831
Amortization of deferred capital contributions *[note 10]*	**60,017**	56,144
	2,020,354	1,984,566
EXPENSES		
Compensation *[note 9]*	**1,275,375**	1,224,611
Medical, surgical supplies and drugs	**249,223**	230,429
Other supplies and expenses *[notes 13[a] and [b]]*	**246,200**	277,893
Plant operations and equipment maintenance	**106,315**	104,162
Amortization *[note 4]*	**103,403**	99,246
Interest on long-term liabilities *[notes 6, 8[a], 8[b] and 15]*	**16,899**	17,412
	1,997,415	1,953,753
Excess of revenue over expenses for the year	**22,939**	30,813

See accompanying notes

University Health Network

STATEMENT OF CHANGES IN NET ASSETS

[in thousands of dollars]

Year ended March 31

	2015			2014
	Internally restricted $	**Unrestricted** $	**Total** $	**Total** $
Balance, beginning of year	**76,386**	**348,987**	**425,373**	394,560
Excess of revenue over expenses for the year	**—**	**22,939**	**22,939**	30,813
Interfund transfers *[note 11]*	**2,099**	**(2,099)**	**—**	—
Balance, end of year	**78,485**	**369,827**	**448,312**	425,373

See accompanying notes

University Health Network

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

[in thousands of dollars]

Year ended March 31

	2015 $	2014 $
Accumulated remeasurement gains, beginning of year	**1,777**	2,946
Unrealized gains (losses) attributable to:		
Interest rate swap contract *[note 8[d]]*	**(3,038)**	1,903
Portfolio investments	**1,308**	(3,072)
Accumulated remeasurement gains, end of year	**47**	1,777

See accompanying notes

University Health Network

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2015 $	2014 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**22,939**	30,813
Add (deduct) items not involving cash		
Amortization	**103,403**	99,246
Amortization of deferred capital contributions	**(60,017)**	(56,144)
Write-off of loans receivable	**75**	100
	66,400	74,015
Net change in non-cash working capital balances related to operations *[note 12]*	**(8,573)**	2,032
Net increase (decrease) in deferred research contributions	**12,521**	(38,133)
Net increase (decrease) in employee future benefit liabilities	**(1,690)**	1,603
Cash provided by operating activities	**68,658**	39,517
INVESTING ACTIVITIES		
Advances on loan receivable	**—**	(1,200)
Repayment of loans receivable	**300**	—
Decrease (increase) in other long-term investments, net	**(13,312)**	24,180
Cash provided by (used in) investing activities	**(13,012)**	22,980
FINANCING ACTIVITIES		
Contributions received for capital purposes	**75,875**	64,445
Decrease in due to MaRS Development Trust	**(1,912)**	(1,791)
Repayment of long-term debt	**(16,237)**	(15,386)
Cash provided by financing activities	**57,726**	47,268
CAPITAL ACTIVITIES		
Purchase of capital assets	**(100,340)**	(137,396)
Cash used in capital activities	**(100,340)**	(137,396)
Net increase (decrease) in cash and cash equivalents during the year	**13,032**	(27,631)
Cash and cash equivalents, beginning of year	**183,279**	210,910
Cash and cash equivalents, end of year	**196,311**	183,279
Cash and cash equivalents represented by		
Cash	**196,311**	158,947
Cash equivalents	**—**	25,332
	196,311	183,279

See accompanying notes

University Health Network

NOTES TO FINANCIAL STATEMENTS

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

March 31, 2015

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 operates on four hospital sites. These sites are separately identified as Princess Margaret Cancer Centre, Toronto General Hospital, Toronto Western Hospital and Toronto Rehabilitation Institute ["Toronto Rehab"].

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

These financial statements do not include the financial activities of the following non-controlled not-for-profit entities in which UHN has an economic interest *[note 13]*:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the Public Sector Accounting Handbook which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. UHN has chosen to use the standards for government not-for-profit organizations that include Section PS 4200 to PS 4270. The financial statements have been prepared based on the significant accounting policies summarized below:

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.

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.

Revenue from ancillary services and other patient services are 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.

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, as UHN has insufficient information to apply defined benefit plan accounting.

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. 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 years. Past service costs and settlement gains (losses) are recognized when incurred.

Inventory

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

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 consist of 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.

Investments in for-profit entities that are subsidiaries or joint ventures, or where there is significant influence, are accounted for by the equity method.

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 accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

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 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.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards 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.

The amount of revenue recognized from the Ontario Ministry of Health and Long-Term Care [the “MOHLTC”] and Toronto Central Local Health Integration Network [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 fiscal year 2015.

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.

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

If UHN does not meet its performance standards or obligations, the MOHLTC and TC-LHIN have the right to adjust funding received by UHN. The MOHLTC and 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 MOHLTC 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.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2015 $	**2014** $
Ontario Ministry of Health and Long-Term Care/ Toronto Central Local Health Integration Network	**47,602**	39,632
Patient receivables	**22,240**	20,499
Other receivables	**29,547**	40,061
Toronto General and Western Hospital Foundation *[note 13[a]]*	**9,851**	11,502
Princess Margaret Cancer Foundation *[note 13[b]]*	**42,676**	35,013
Arthritis Research Foundation *[note 13[c]]*	**870**	964
Toronto Rehabilitation Institute Foundation *[note 13[d]]*	**8,251**	5,114
Research-related receivables	**47,426**	45,715
	208,463	198,500

There are no significant amounts that are past due or impaired.

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

4. CAPITAL ASSETS

Capital assets consist of the following:

	2015		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	**15,405**	**—**	**15,405**
Buildings and improvements	**1,667,294**	**639,028**	**1,028,266**
Equipment and furniture	**876,279**	**705,116**	**171,163**
Construction in progress	**58,276**	**—**	**58,276**
	2,617,254	**1,344,144**	**1,273,110**

	2014		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	15,405	—	15,405
Buildings and improvements	1,629,698	577,222	1,052,476
Equipment and furniture	830,805	674,318	156,487
Construction in progress *[note 15]*	51,653	—	51,653
	2,527,561	1,251,540	1,276,021

Buildings and improvements include $88,329 [2014 – $88,329] of costs and $28,468 [2014 – $25,523] of accumulated amortization related to assets under capital lease obligations *[note 6]*.

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

5. LONG-TERM INVESTMENTS

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

	2015 $	2014 $
Cash and cash equivalents	—	580
Short-term securities	**7,726**	2,003
Term deposits	**2,846**	7,936
Government bonds	**24,000**	24,967
Corporate bonds	**18,039**	17,125
	52,611	52,611

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

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

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

	2015 $	2014 $
Cash and cash equivalents	**168,143**	145,483
Short-term securities *[note 16]*	**2,825**	—
Term deposits *[note 16]*	**58,935**	52,454
Government bonds *[note 16]*	**18,566**	28,157
Corporate bonds	**11,208**	18,843
Other *[note 5[d]]*	**754**	874
	260,431	245,811

Investments in government and corporate bonds are recorded at fair value and represent Level 2 investments in the fair value hierarchy. 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 $7,551 [2014 – $8,434] which is included in ancillary services and other revenue in the statement of operations.

[d] **Other investments**

UHN has interests in two 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.

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

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 Toronto Medical 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 2015, interest paid amounted to $5,629 [2014 – $5,751] and interest expense recorded in the statement of operations amounted to $5,607 [2014 – $5,731].

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

	$
2016	2,044
2017	2,183
2018	2,333
2019	2,492
2020	2,662
Thereafter	70,572
Due to MaRS Development Trust	82,286
Less current portion	2,044
	80,242

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

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:

	2015 $	**2014** $
Deferred research contributions, beginning of year	**169,425**	207,558
Externally restricted contributions *[note 13]*	**291,727**	213,583
Amounts recognized as revenue	**(279,206)**	(251,716)
Deferred research contributions, end of year	**181,946**	169,425

8. LONG-TERM DEBT

Long-term debt consists of the following:

	2015 $	**2014** $
5.64% Secured Bonds, Series 1 *[note 8[a]]*	**159,456**	174,846
Equity loan *[note 8[b]]*	**988**	1,028
Other loan *[note 8[b]]*	**11,004**	11,417
Drawing on credit facility *[note 15]*	**20,927**	21,321
	192,375	208,612
Less current portion	**17,171**	16,237
	175,204	192,375

[a] 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 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 $9,653 [2014 – $10,486] and interest expense recorded in the statement of operations amounted to $9,392 [2014 – $10,240].

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

[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 MOHLTC 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 $904 [2014 – $936] and interest expense recorded in the statement of operations amounted to $904 [2014 – $936].

[c] The future minimum annual payments related to the long-term debt consist of the following:

	$
2016	17,171
2017	18,158
2018	19,201
2019	20,305
2020	21,473
Thereafter	96,067
	192,375

[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 $6,183 [2014 – $3,145] 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 $3,038 [2014 – gain of $1,903] recorded in the statement of remeasurement gains and losses.

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

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 $70,891 [2014 – $67,586]. 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, 2014 disclosed net assets available for benefits of $60,848 million with pension obligations of $46,923 million, resulting in a surplus of $13,925 million.

[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. 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:

	2015 $	**2014** $
Accrued benefit obligations	**48,181**	42,813
Unamortized actuarial gain (loss)	**(3,124)**	3,934
Employee future benefit liabilities	**45,057**	46,747

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

The net expense for these plans for the years ended March 31 is calculated as follows:

	2015 $	2014 $
Current service cost	**1,273**	1,731
Interest cost	**1,874**	1,873
Amortization of actuarial losses	**124**	611
Settlement gain on elimination of certain benefits	**(1,007)**	—
	2,264	4,215

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

	2015 %	2014 %
Discount rate	**3.48**	4.64

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

	2015 %	2014 %
Discount rate	**4.64**	3.92

Health care costs were assumed to increase by 6.4% in 2015, declining by 0.2% per year to 3.0% to 2032. Dental costs were assumed to increase by 4.0% per year.

The accrued benefit obligations of the other defined benefit plans are measured as at March 31, 2015, and are based on actuarial valuations as of January 1, 2012.

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

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

	2015 $	**2014** $
Employer's contributions	**4,075**	2,564
Employees' contributions	**—**	—
Benefits paid	**4,075**	2,564

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 as at March 31 are as follows:

	2015 $	**2014** $
Deferred capital contributions, beginning of year	**650,189**	631,872
Contributions for capital purposes *[note 13]*	**74,307**	74,461
Amortization of deferred capital contributions	**(60,017)**	(56,144)
Deferred capital contributions, end of year	**664,479**	650,189

11. INTERNALLY RESTRICTED NET ASSETS

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

In fiscal 2015, the Board of Trustees approved a net transfer of $2,099 [2014 – $10,881] from unrestricted to internally restricted net assets. An amount of $29,971 [2014 – $28,565] was transferred from unrestricted to internally restricted net assets for future capital and other special projects. In the year in which expenses are incurred with respect to these future projects, an amount is transferred from internally restricted to unrestricted net assets. An amount of $27,872 [2014 – $17,684], representing amounts previously restricted by the Board of Trustees, was transferred from internally restricted to unrestricted net assets.

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

12. STATEMENT OF CASH FLOWS

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

	2015 $	2014 $
Sources (uses) of cash		
Accounts receivable	**(11,531)**	(19,062)
Inventory	**(62)**	(774)
Prepaid expenses	**(6,111)**	(1,451)
Accounts payable and accrued liabilities	**9,131**	23,319
	(8,573)	2,032

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

	2015 $	2014 $
Changes in capital asset purchases funded by accounts payable, accrued liabilities and other long-term liabilities	**152**	(22,596)
Changes in contributions receivable related to capital asset purchases	**(1,568)**	10,016

13. RELATED PARTY TRANSACTIONS

[a] 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, 2015, the TG/WH Foundation had fund balances of $457,553 [2014 – $397,574]. For the year ended March 31, 2015, grants of $64,615 [2014 – $51,802] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2015, UHN had receivables from the TG/WH Foundation of $9,851 [2014 – $11,502] recorded in accounts receivable *[note 3]*.

During the year ended March 31, 2014, UHN transferred $6,553 to the TG/WH Foundation.

[b] 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, 2015, the PMC Foundation had fund balances of $503,123 [2014 – $458,821]. For the year ended March 31, 2015, grants of $95,476 [2014 – $62,401] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2015, UHN had receivables from the PMC Foundation of $42,676 [2014 – $35,013] recorded in accounts receivable *[note 3]*.

During the year ended March 31, 2015, UHN transferred $5,778 [2014 – $8,973] to the PMC Foundation.

[c] The AR Foundation is an independent corporation without share capital, which has its own Board of Directors. The AR Foundation provides donations to UHN for capital and research purposes in connection with arthritis and autoimmunity. The AR Foundation's accounts are not included in these financial statements. As at March 31, 2015, the AR Foundation had fund balances of $27,570 [2014 – $24,815]. For the year ended March 31, 2015, grants of $1,919 [2014 – $2,041] were recorded by UHN as grants and donations for research and other purposes, deferred research contributions or deferred capital contributions. As at March 31, 2015, UHN had receivables from the AR Foundation of $870 [2014 – $964] recorded in accounts receivable *[note 3]*.

[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, 2015, the TRI Foundation had fund balances of $20,797 [2014 – $19,152]. For the year ended March 31, 2015, grants of $3,434 [2014 – $2,898] were recorded by UHN as grants and donations for research and other purposes, deferred research contributions or deferred capital contributions. As at March 31, 2015, UHN had receivables from the TRI Foundation of $8,251 [2014 – $5,114] recorded in accounts receivable *[note 3]*.

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

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.

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

[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, 2015.

[c] As at March 31, 2015, UHN's Board of Trustees had approved expenditures for construction and renovation of which $66,744 had not been recorded in the accounts. Contracts have been entered into with respect to costs of $16,305.

[d] Effective March 31, 2006, UHN entered into an agreement with Plexxus, whose primary responsibility is to provide materials management services to its members on a cost-recovery basis and certain information technology services. 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. 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, 2015, no member was in default.

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

	$
2016	11,948
2017	10,842
2018	9,445
2019	8,824
2020	8,563
Thereafter	32,784

In addition to minimum rentals, leases for office space generally require the payment of various operating costs.

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, letters of credit to a maximum aggregate amount of $10,000 and a letter of guarantee in the amount of $2,020.

[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 foreign exchange and interest rate risk through a combination of forward rate agreements or interest rate swaps to a maximum notional risk 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 2.30% as at March 31, 2015, or bankers' acceptance rate plus 0.35%, which was 1.25% as at March 31, 2015. The facilities are collateralized by all present and future acquired research equipment, together with all enhancements to a maximum value of $210,000. During the year, interest of $996 [2014 – $1,100] was paid. Interest of $996 [2014 – $505] was recorded in the statement of operations and , in fiscal 2014, interest of $595 was added to construction in progress *[note 4]*.

As at March 31, 2015, there were drawings on the second facility listed above of $20,927 [2014 – $21,321] 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

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. 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.

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 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 change 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 two years and three months and an average yield of 2.10% and in bonds have an average term to maturity of three years and seven months and an average yield of 2.33%. A 1% change in the interest rates, with all other variables held constant, would have a $1,349 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 or currency risks] 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 $26 impact on accumulated remeasurement gains.