

University Health Network

Financial statements

March 31, 2022



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, 2022 and the statement of operations, statement of changes in net assets, statement of remeasurement gains 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, 2022 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.

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.

Ernst & Young LLP

Toronto, Canada
June 22, 2022

Chartered Professional Accountants
Licensed Public Accountants



University Health Network

Statement of financial position

[expressed in thousands of dollars]

As at March 31

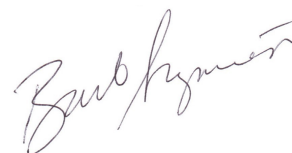
	2022	2021
	\$	\$
Assets		
Current		
Cash and cash equivalents <i>[note 5[b]]</i>	556,835	272,519
Accounts receivable <i>[note 3]</i>	353,037	441,247
Inventory	24,583	26,235
Prepaid expenses	33,515	29,222
Total current assets	967,970	769,223
Loans receivable	1,250	2,050
Capital assets, net <i>[note 4]</i>	1,474,057	1,367,252
Long-term investments		
Held for contingency funds <i>[note 5[a]]</i>	52,611	52,611
Other <i>[note 5[b]]</i>	575,848	519,151
	3,071,736	2,710,287
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[notes 8[e], 13[b] and 13[c], 17]</i>	1,113,354	874,689
Current portion of long-term liabilities <i>[notes 6 and 8]</i>	28,643	27,054
Total current liabilities	1,141,997	901,743
Due to MaRS Development Trust <i>[note 6]</i>	61,443	64,689
Deferred research contributions <i>[note 7]</i>	419,564	354,566
Long-term debt <i>[note 8]</i>	108,447	49,344
Employee future benefit liabilities <i>[note 9[b]]</i>	53,069	53,154
Deferred capital contributions <i>[note 10]</i>	691,367	700,437
Total liabilities	2,475,887	2,123,933
Commitments and contingencies <i>[note 14]</i>		
Net assets		
From operations		
Internally restricted <i>[note 11]</i>	156,284	164,585
Unrestricted	438,114	421,035
	594,398	585,620
Accumulated remeasurement gains	1,451	734
Total net assets	595,849	586,354
	3,071,736	2,710,287

See accompanying notes

On behalf of the Board of Trustees:



Chair, Board of Trustees



Chair, Finance and Audit Committee

University Health Network

Statement of operations

[expressed in thousands of dollars]

Year ended March 31

	2022	2021
	\$	\$
Revenue		
Ontario Ministry of Health and Ontario Health	1,729,680	1,688,069
Other patient services	225,349	197,641
Grants and donations for research and other purposes <i>[notes 7 and 13]</i>	342,698	313,821
Ancillary services and other <i>[notes 5[c] and 13[a]]</i>	454,389	413,356
Amortization of deferred capital contributions <i>[note 10]</i>	66,336	66,069
	2,818,452	2,678,956
Expenses		
Compensation <i>[note 9]</i>	1,640,611	1,550,508
Medical, surgical supplies and drugs	465,969	403,101
Other supplies and expenses <i>[notes 13[b] and 13[c]]</i>	405,185	392,605
Plant operations and equipment maintenance	154,918	166,567
Amortization <i>[note 4]</i>	119,584	118,751
Interest on long-term liabilities <i>[notes 6, 8[a], 8[b], 8[c] and 15]</i>	23,407	9,366
	2,809,674	2,640,898
Excess of revenue over expenses for the year	8,778	38,058

See accompanying notes

University Health Network

Statement of changes in net assets

[expressed in thousands of dollars]

Year ended March 31

	2022			2021
	Internally restricted	Unrestricted	Total	Total
	\$	\$	\$	\$
Balance, beginning of year	164,585	421,035	585,620	547,562
Excess of revenue over expenses for the year	—	8,778	8,778	38,058
Interfund transfers <i>[note 11]</i>	(8,301)	8,301	—	—
Balance, end of year	156,284	438,114	594,398	585,620

See accompanying notes

University Health Network

Statement of remeasurement gains

[expressed in thousands of dollars]

Year ended March 31

	2022	2021
	\$	\$
Accumulated remeasurement gains (losses), beginning of year	734	(2,936)
Net unrealized gains (losses) attributable to:		
Interest rate swap contract <i>[note 8[e]]</i>	1,518	2,740
Portfolio investments	(801)	930
Accumulated remeasurement gains, end of year	1,451	734

See accompanying notes

University Health Network

Statement of cash flows

[expressed in thousands of dollars]

Year ended March 31

	2022	2021
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	8,778	38,058
Add (deduct) items not involving cash		
Amortization	119,584	118,751
Amortization of deferred capital contributions	(66,336)	(66,069)
Other post-employment benefit expense	1,481	2,954
	<u>63,507</u>	<u>93,694</u>
Net change in non-cash working capital balances related to operations <i>[note 12[a]]</i>	326,653	179,401
Net increase in deferred research contributions	64,998	101,580
Employer contributions for employee benefit plan	(1,566)	(2,302)
Cash provided by operating activities	<u>453,592</u>	<u>372,373</u>
Investing activities		
Advances of loans receivable	800	322
Increase in other long-term investments, net	(57,498)	(163,534)
Cash used in investing activities	<u>(56,698)</u>	<u>(163,212)</u>
Financing activities		
Contributions received for capital purposes <i>[note 12[b]]</i>	57,266	73,697
Decrease in due to MaRS Development Trust	(3,039)	(2,844)
Advances of long-term debt	84,500	—
Repayment of long-term debt	(24,015)	(22,708)
Cash provided by financing activities	<u>114,712</u>	<u>48,145</u>
Capital activities		
Purchase of capital assets <i>[note 12[b]]</i>	(227,290)	(165,892)
Cash used in capital activities	<u>(227,290)</u>	<u>(165,892)</u>
Net increase in cash and cash equivalents during the year	284,316	91,414
Cash and cash equivalents, beginning of year	<u>272,519</u>	<u>181,105</u>
Cash and cash equivalents, end of year	<u>556,835</u>	<u>272,519</u>
Cash and cash equivalents represented by		
Cash	556,835	272,519
Cash equivalents	—	—
	<u>556,835</u>	<u>272,519</u>

See accompanying notes

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Notes to financial statements

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

March 31, 2022

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"], and 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 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]:

- UHN Foundation, formerly the Toronto General and Western Hospital Foundation ["TG/WH Foundation"] and Toronto Rehabilitation Institute Foundation ["TRI Foundation"], now collectively the "UHN Foundation";
- Princess Margaret Cancer Foundation ["PMC Foundation"];
- The Toronto Hospital Research Corporation [inactive]; and
- de Souza Institute Foundation [inactive].

Letters Patent of Amalgamation of the TG/WH Foundation and the TRI Foundation were approved by the Minister of Government and Consumer Services of Ontario with an effective date April 1, 2021. On that date, the assets, liabilities, rights and obligations of the TG/WH Foundation and the TRI Foundation were transferred into the new entity, which operates under the name UHN Foundation.

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].

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

March 31, 2022

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 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.

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
Other equipment and systems	5–15 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.

Assets under development comprises construction, development costs and interest capitalized during the construction period. Other equipment and systems includes hardware, software, development and other associated costs. No amortization is recorded until the assets are ready for productive use.

When a capital asset no longer has any long-term service potential to UHN, the excess of the carrying value over any residual value is recognized as an expense in the statement of operations.

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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.

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 healthcare 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 16 years [2021 – 16 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 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.

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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 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 as 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 Ontario Health requires a number of estimates. UHN has entered into a number of accountability agreements with the MOH and Ontario Health that set out the rights and obligations of the two parties in respect of funding provided to UHN by the MOH and Ontario Health for the year ended March 31, 2022.

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 Ontario Health have the right to adjust funding received by UHN. The MOH and Ontario Health 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 Ontario Health 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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March 31, 2022

Contributed services and materials

Volunteers contribute numerous hours to assist UHN in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, they are not reflected in the financial statements. Contributed materials are also not recognized in the financial statements.

Future changes in accounting policies

Effective for the fiscal year beginning on April 1, 2022, UHN will be required to follow the *Public Sector Accounting ["PSA"] Handbook* Section PS 3280 Asset Retirement Obligations. UHN will adopt the new standards in its fiscal 2023 financial statements.

3. Accounts receivable

Accounts receivable consist of the following:

	2022 \$	2021 \$
Ministry of Health and Ontario Health [note 17]	149,766	274,682
Patient receivables	21,467	16,144
Other receivables	81,377	63,959
Michener [note 13[a]]	885	915
UHN Foundation [note 13[b]]	27,871	16,559
PMC Foundation [note 13[c]]	37,862	36,721
Research-related receivables	33,809	32,267
	<u>353,037</u>	<u>441,247</u>

As at March 31, 2022, there is a provision against doubtful accounts of \$35,144 [2021 – \$31,505].

4. Capital assets

Capital assets consist of the following:

	2022		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	18,573	—	18,573
Buildings and improvements	2,059,299	1,079,687	979,612
Equipment and furniture	1,196,542	997,429	199,113
Other equipment and systems	64,796	—	64,796
Assets under development	211,963	—	211,963
	<u>3,551,173</u>	<u>2,077,116</u>	<u>1,474,057</u>

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

March 31, 2022

	2021		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	18,573	—	18,573
Buildings and improvements	1,973,665	1,012,473	961,192
Equipment and furniture	1,142,054	945,122	196,932
Other equipment and systems	13,379	—	13,379
Assets under development	177,176	—	177,176
	3,324,847	1,957,595	1,367,252

Buildings and improvements include \$88,329 [2021 – \$88,329] of costs and \$49,083 [2021 – \$46,138] of accumulated amortization related to assets under capital lease obligations [note 6]. During the year, UHN reduced the cost and accumulated amortization by \$63 [2021 – \$1,321] 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:

	2022	2021
	\$	\$
Short-term securities	10,734	14,211
Term deposits	23,850	10,982
Government bonds	8,857	18,784
Corporate bonds	9,170	8,634
	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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[all amounts are expressed in thousands of dollars, except where noted]

March 31, 2022

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

	2022	2021
	\$	\$
Cash and cash equivalents	569,646	445,619
Short-term securities [note 16]	1,924	41,508
Term deposits [note 16]	3,084	6,605
Government bonds [note 16]	467	17,720
Corporate bonds [note 16]	440	7,174
Other [note 5[d]]	287	525
	575,848	519,151

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 \$4,966 [2021 – \$6,320], 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.

[e] The following table presents the investments measured at fair value [notes 5[a] and 5[b]] classified according to the fair value hierarchy described above:

	2022			
	Level 1	Level 2	Level 3	Total assets at fair value
	\$	\$	\$	\$
Short-term securities	12,658	—	—	12,658
Term deposits	26,934	—	—	26,934
Government bonds	—	9,324	—	9,324
Corporate bonds	—	9,610	—	9,610
Other	—	—	287	287
	39,592	18,934	287	58,813
Cash				569,646
Total investments				628,459

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March 31, 2022

	2021			Total assets at fair value
	Level 1	Level 2	Level 3	
	\$	\$	\$	
Short-term securities	55,719	—	—	55,719
Term deposits	17,587	—	—	17,587
Government bonds	—	36,504	—	36,504
Corporate bonds	—	15,808	—	15,808
Other	—	—	525	525
	73,306	52,312	525	126,143
Cash				445,619
Total investments				571,762

During the years ended March 31, 2022 and 2021, there were no transfers of assets between Level 1, Level 2 and Level 3.

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 2021, interest paid amounted to \$4,503 [2021 – \$4,697] and interest expense recorded in the statement of operations amounted to \$4,469 [2021 – \$4,666].

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

	\$
2023	3,246
2024	3,468
2025	3,706
2026	3,959
2027	4,229
Thereafter	46,081
Due to MaRS Development Trust	64,689
Less current portion	3,246
	61,443

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

March 31, 2022

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:

	2022 \$	2021 \$
Deferred research contributions, beginning of year	354,566	252,986
Externally restricted contributions <i>[note 13]</i>	407,696	415,401
Amounts recognized as revenue	(342,698)	(313,821)
Deferred research contributions, end of year	419,564	354,566

8. Long-term debt

Long-term debt consists of the following:

	2022 \$	2021 \$
5.64% Secured Bonds, Series 1 <i>[note 8[a]]</i>	24,022	46,745
Equity loan <i>[note 8[b]]</i>	619	683
Other loan <i>[note 8[b]]</i>	7,070	7,765
Obligation under Ontario Financing Authority loan <i>[note 8[c]]</i>	84,500	—
Drawing on credit facility <i>[note 15]</i>	17,633	18,166
	133,844	73,359
Less current portion	25,397	24,015
	108,447	49,344

[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 \$2,322 [2021 – \$3,551] and interest expense recorded in the statement of operations amounted to \$1,931 [2021 – \$3,180].

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- [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 \$599 [2021 – \$652] and interest expense recorded in the statement of operations amounted to \$599 [2021 – \$652].
- [c] On June 16, 2021, UHN secured a \$250,000 loan from the Ontario Financing Authority ["OFA"], to finance Synapse project – a multi-year initiative of a new health information system. UHN established two facilities for the loan: Facility 1 and Facility 2. Facility 1 is a non-revolving loan facility comprising the advances made during the advance period up to the full facility amount. Principal amount plus the capitalized interest on the principal amount will be repaid on or before September 30, 2023 through Facility 2. Facility 1 is priced at the three-month Ontario Treasury Bill Rate plus 3.2 basis points. Facility 2 is a 40-year term loan and is priced at 2.758% plus 3.2 basis points compounded semi-annually and payable to the lender semi-annually commencing six months after the Facility 2 advance date. During the year, interest and loan set-up fees paid amounted to \$15,564 [2021 – nil] and interest and loan set-up fees expense recorded in the statement of operations amounted to \$15,564 [2021 – nil].
- [d] The future minimum annual payments related to the long-term debt consist of the following:

	\$
2023	25,397
2024	1,462
2025	1,140
2026	1,122
2027	1,187
Thereafter	103,536
	<u>133,844</u>

- [e] 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 \$2,502 [2021 – \$4,020] 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 gain of \$1,518 [2021 – \$2,740] recorded in the statement of remeasurement gains.

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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 \$87,208 [2021 – \$84,312]. 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, 2021 disclosed net assets available for benefits of \$114,414,000 with pension obligations of \$85,902,000, resulting in a surplus of \$28,510,000.

[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:

	2022	2021
	\$	\$
Accrued benefit obligations	46,356	48,997
Unamortized actuarial gain	6,713	4,157
Employee future benefit liabilities	53,069	53,154

The Employee future benefit liabilities include \$11,597 [2021 – \$11,817] related to the SERP.

The net expense for these plans is calculated as follows:

	2022	2021
	\$	\$
Current service cost	1,442	1,185
Interest cost	1,512	1,585
Amortization of actuarial losses	(1,473)	184
	1,481	2,954

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

	2022 %	2021 %
Discount rate	3.70	3.10

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

	2022 %	2021 %
Discount rate	3.10	3.22

Healthcare costs are assumed to continue to decrease by 0.2% in 2022 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, 2022 and are based on actuarial valuations as at March 31, 2021.

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

	2022 \$	2021 \$
Employer's contributions	1,566	2,302
Benefits paid	1,566	2,302

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:

	2022 \$	2021 \$
Deferred capital contributions, beginning of year	700,437	694,892
Contributions for capital purposes <i>[note 13]</i>	57,266	71,614
Amortization of deferred capital contributions	(66,336)	(66,069)
Deferred capital contributions, end of year	691,367	700,437

As at March 31, 2022, the deferred capital contributions include funds received but not yet spent of \$25,388 [2021 – \$25,388].

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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:

	2022 \$	2021 \$
Balance, beginning of year	164,585	101,701
Transfers from		
Internally restricted to unrestricted net assets	(83,202)	(52,657)
Unrestricted to internally restricted net assets	74,901	115,541
Balance, end of year	156,284	164,585

12. Supplemental cash flow information

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

	2022 \$	2021 \$
Accounts receivable <i>[note 12[b]]</i>	88,210	(181,935)
Inventory	1,652	836
Prepaid expenses	(4,293)	(4,178)
Accounts payable and accrued liabilities <i>[note 12[b]]</i>	241,084	364,678
	326,653	179,401

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

	2022 \$	2021 \$
Changes in capital asset purchases funded by accounts payable and accrued liabilities	(901)	(4,519)
Changes in contributions receivable related to capital asset purchases	—	(2,083)

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, 2022, UHN recognized \$2,726 [2021 – \$1,961] in ancillary services and other revenue in the statement of operations. As at March 31, 2022, UHN had receivables from Michener of \$885 [2021 – \$915] 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:

	2022	2021
	\$	\$
Financial position		
Total assets	40,474	38,483
Total liabilities	23,545	22,366
Net assets	16,929	16,117
	40,474	38,483
	2022	2021
	\$	\$
Results of operations		
Total revenue	31,844	30,160
Total expenses	30,496	28,699
	1,348	1,461
	2022	2021
	\$	\$
Cash flows provided by (used in)		
Operating activities	2,489	3,005
Investing activities	(410)	(457)
Financing activities	2,213	596
Capital activities	(2,967)	(1,201)
Net increase in cash during the year	1,325	1,943

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Non-controlled entities

[b] The UHN Foundation is an independent corporation without share capital, which has its own Board of Directors. The UHN Foundation provides donations to UHN for capital, research and academic purposes. The UHN Foundation's accounts are not included in these financial statements. As at March 31, 2022, the UHN Foundation holds \$931,527 [2021 – \$836,152] in unrestricted, restricted and endowment funds. For the year ended March 31, 2022, grants of \$105,076 [2021 – \$102,610] were recorded by UHN as grants and donations for research and other purposes, deferred research contributions or deferred capital contributions. As at March 31, 2022, UHN had receivables from the UHN Foundation of \$27,871 [2021 – \$16,559] recorded in accounts receivable [note 3].

During the year ended March 31, 2022, UHN approved transfers of \$64,257 [2021 – \$59,359] to the UHN Foundation. As at March 31, 2022, UHN had payables to the UHN Foundation of \$67,999 [2021 – \$53,437] 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, 2022, the PMC Foundation holds \$790,688 [2021 – \$714,285] in unrestricted, restricted and endowment funds. For the year ended March 31, 2022, grants of \$113,988 [2021 – \$113,037] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. Effective October 22, 2019, PMC Foundation entered into a lease agreement with UHN for office space that expires on December 31, 2035.

During the year ended March 31, 2022, UHN approved transfers of \$2,119 [2021 – \$10,506] to the PMC Foundation. As at March 31, 2022, UHN had receivables from the PMC Foundation of \$37,862 [2021 – \$36,721] recorded in accounts receivable [note 3]. As at March 31, 2022, UHN had payables to the PMC Foundation of \$8,873 [2021 – \$16,873] recorded in accounts payable and accrued liabilities.

[d] 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.

[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, 2022.

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- [c] As at March 31, 2022, UHN's Board of Trustees had approved expenditures for construction and renovation of which \$151,903 [2021 – \$144,232] had not been recorded in the accounts. Contracts have been entered into with respect to costs of \$60,665 [2021 – \$58,841].
- [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, 2022, no member was in default. On April 30, 2021, UHN provided Plexxus with notice of intent to terminate the agreement effective April 30, 2023.
- [e] Commitments related to operating leases, including various operating costs and contracted utility services are as follows:

	\$
2023	28,554
2024	27,331
2025	25,377
2026	25,590
2027	25,717
Thereafter	<u>395,270</u>

- [f] UHN has outstanding letters of credit to various organizations totalling \$517 [2021 – \$682].

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 2.15% as at March 31, 2022, or bankers' acceptance rate plus 0.35%, which was 1.29% as at March 31, 2022. During the year, interest of \$844 [2021 – \$868] was paid and recorded in the statement of operations.

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As at March 31, 2022, there were drawings on the second facility listed above of \$17,633 [2021 – \$18,166], 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 and 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.

The maximum exposure to credit risk relating to investments is outlined in note 5. 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. UHN's investment policy specifies that no investments rated below investment grade by any of the rating agencies will be held, unless the original rating is likely to be restored within a reasonable period of time.

There have been no significant changes to credit risk exposure from 2021.

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[e]].

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UHN's investments in term deposits have an average term to maturity of seven months and an average yield of 1.40%, and for bonds an average term to maturity of six months and an average yield of 2.01%. A 1% change in the interest rates, with all other variables held constant, would have a \$573 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.

There have been no significant changes to interest rate risk exposure from 2021.

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.

Since all other variables are held constant in assessing other price risk sensitivity, it is possible to extrapolate a 10% absolute change in the fair value to any absolute percentage change in fair value. As at March 31, 2022, the impact on accumulated remeasurement gains of a 10% absolute change in the fair value of the investments that are exposed to other price risk would be \$456 [2021 – \$56]

17. COVID-19

The MOH and Ontario Health are supporting Ontario hospitals through the COVID-19 pandemic with a series of funding envelopes. The various funding envelopes are subject to a broader funding reconciliation and are subjected to a degree of uncertainty. UHN has made its best estimates based on the guidance received to recognize the amount of funding available, and the outcomes of any funding reconciliations, which may be material to the financial statements, will be adjusted in the year of notification by the MOH and Ontario Health.

Operating under a Memorandum of Understanding with the MOH and Ontario Health, UHN purchased COVID-19-related supplies and equipment for flow through to various organizations. As at March 31, 2022, UHN had payables to the MOH of \$109,600 [2021 – receivables of \$112,702], specifically related to COVID-19 purchases on behalf of the Province of Ontario [note 3].

18. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2022 financial statements.