Financial Statements

University Health Network

March 31, 2013

Ernst & Young
Quality In Everything We Do

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 balance sheets as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and 2012, and the statement of remeasurement gains and losses for the year ended March 31, 2013, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits 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, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and 2012 in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 19, 2013.

University Health Network

STATEMENTS OF FINANCIAL POSITION

[in thousands of dollars]

As at

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
ASSETS			
Current			
Cash and cash equivalents *[note 6[b]]*	**210,910**	201,661	190,903
Accounts receivable *[note 3]*	**169,422**	194,375	172,199
Inventory	**15,236**	14,031	13,408
Prepaid expenses	**8,926**	6,858	7,881
Total current assets	**404,494**	416,925	384,391
Loans receivable *[note 4]*	**1,725**	7,988	1,939
Capital assets, net *[note 5]*	**1,260,467**	1,197,740	1,177,297
Long-term investments			
Held for contingency funds *[note 6[a]]*	**52,611**	52,611	52,611
Other *[note 6[b]]*	**273,063**	242,251	197,377
	1,992,360	1,917,515	1,813,615
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities *[notes 9[d]]*	**400,293**	414,501	371,836
Current portion of long-term liabilities *[notes 7 and 9]*	**17,144**	15,836	14,956
Total current liabilities	**417,437**	430,337	386,792
Due to MaRS Development Trust *[note 7]*	**84,199**	85,989	87,664
Deferred research contributions *[note 8]*	**207,558**	179,928	157,780
Long-term debt *[note 9]*	**208,644**	202,270	216,430
Employee future benefit liabilities *[note 10[b]]*	**45,144**	43,553	41,026
Deferred capital contributions *[note 11]*	**631,872**	605,744	586,552
Total liabilities	**1,594,854**	1,547,821	1,476,244
Commitments and contingencies *[note 15]*			
Net assets			
From operations			
Internally restricted *[note 12]*	**65,505**	57,669	27,852
Unrestricted	**329,055**	312,025	309,519
	394,560	369,694	337,371
Accumulated remeasurement gains	**2,946**	—	—
Total net assets	**397,506**	369,694	337,371
	1,992,360	1,917,515	1,813,615

See accompanying notes

University Health Network

STATEMENTS OF OPERATIONS

[in thousands of dollars]

Years ended March 31

	2013 $	2012 $
REVENUE		
Ontario Ministry of Health and Long-Term Care/		
Toronto Central Local Health Integration Network		
Hospital programs	**1,043,722**	1,012,090
Specifically funded programs	**110,008**	81,919
Other patient services	**188,229**	178,786
Grants and donations for research and other purposes *[notes 8 and 14]*	**244,255**	246,081
Ancillary services and other *[note 6[c]and [d]]*	**280,666**	254,502
Amortization of deferred capital contributions *[note 11]*	**57,177**	58,679
	1,924,057	1,832,057
EXPENSES		
Compensation *[note 10]*	**1,135,688**	1,089,658
Medical, surgical supplies and drugs	**210,694**	201,758
Specifically funded programs	**110,061**	82,175
Plant operations and equipment maintenance	**87,028**	85,846
Depreciation *[note 5]*	**99,575**	100,046
Interest on long-term liabilities *[notes 7, 9[a]and [b]]*	**17,855**	18,750
Supplies and other *[notes 4[b] and 9[d]]*	**235,063**	224,058
	1,895,964	1,802,291
Excess of revenue over expenses for the year	**28,093**	29,766

See accompanying notes

University Health Network

STATEMENTS OF CHANGES IN NET ASSETS

[in thousands of dollars]

Years ended March 31

	2013			2012
	Internally restricted $	**Unrestricted** $	**Total** $	**Total** $
Balance, beginning of year	**57,669**	**312,025**	**369,694**	337,371
Adjustment related to unrealized gain on investments *[note 18]*	**—**	**(3,227)**	**(3,227)**	—
Balance, as restated, beginning of year	**57,669**	**308,798**	**366,467**	337,371
Excess of revenue over expenses for the year	**—**	**28,093**	**28,093**	29,766
Net change in unrealized gain on available for sale investments *[note 18]*	—	**—**	**—**	2,557
Interfund transfers *[note 12]*	**7,836**	**(7,836)**	**—**	—
Balance, end of year	**65,505**	**329,055**	**394,560**	369,694

See accompanying notes

University Health Network

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

[in thousands of dollars]

Year ended March 31

	2013 $
Accumulated remeasurement gains, beginning of year	—
Adjustment *[note 18]*	**3,227**
Accumulated remeasurement gains, beginning of year, restated	**3,227**
Unrealized gains (losses) attributable to:	
Interest rate swap contract	**(658)**
Portfolio investments	**377**
Accumulated remeasurement gains, end of year	**2,946**

See accompanying notes

University Health Network

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended March 31

	2013 $	2012 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**28,093**	29,766
Add (deduct) items not involving cash		
Depreciation	**99,575**	100,046
Amortization of deferred capital contributions	**(57,177)**	(58,679)
Write-off of loans receivable	**9,109**	10
	79,600	71,143
Net change in non-cash working capital balances related to operations *[note 13]*	**(11,173)**	25,711
Net increase in deferred research contributions	**27,630**	22,148
Net increase in employee future benefit liabilities	**1,591**	2,527
Cash provided by operating activities	**97,648**	121,529
INVESTING ACTIVITIES		
Advances on loan receivable	**(2,098)**	(6,932)
Repayment of loans receivable	**125**	425
Increase in other long-term investments, net	**(30,435)**	(42,243)
Cash used in investing activities	**(32,408)**	(48,750)
FINANCING ACTIVITIES		
Contributions received for capital purposes	**94,528**	105,789
Decrease in due to MaRS Development Trust	**(1,676)**	(1,568)
Advances on long-term debt	**21,729**	—
Repayment of long-term debt	**(14,161)**	(13,415)
Cash provided by financing activities	**100,420**	90,806
CAPITAL ACTIVITIES		
Purchase of capital assets	**(156,411)**	(152,827)
Cash used in capital activities	**(156,411)**	(152,827)
Net increase in cash and cash equivalents during the year	**9,249**	10,758
Cash and cash equivalents, beginning of year	**201,661**	190,903
Cash and cash equivalents, end of year	**210,910**	201,661

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

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

March 31, 2013

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 14]*:

- 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 recognized 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. Past service costs are expensed 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;
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 depreciation 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 2013.

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 profitability, 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:

	March 31, 2013 $	**March 31, 2012** $	**April 1, 2011** $
Ontario Ministry of Health and Long-Term Care/ Toronto Central Local Health Integration Network	**21,777**	33,764	16,436
Patient receivables	**17,329**	15,646	14,409
Other receivables	**29,482**	30,752	21,891
Toronto General and Western Hospital Foundation *[note 14[a]]*	**18,457**	9,640	3,818
Princess Margaret Cancer Foundation *[note 14[b]]*	**25,432**	27,068	19,962
Arthritis Research Foundation *[note 14[c]]*	**887**	1,524	1,513
Toronto Rehabilitation Institute Foundation *[note 14[d]]*	**3,726**	6,365	8,646
Research-related receivables	**52,012**	57,200	52,027
Short-term receivable	**320**	11,543	33,147
Current portion of loans receivable *[note 4]*	**—**	873	350
	169,422	194,375	172,199

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

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

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
3.93% term loan *[note 4[a]]*	**750**	750	750
Advance at bank prime minus 0.40% *[note 4[b]]*	**—**	6,932	—
7.25% term loan	**—**	—	350
Other loans receivable	**1,725**	1,850	1,850
	2,475	9,532	2,950
Less current portion included in accounts receivable *[note 3]*	**—**	873	350
Less provision for doubtful accounts *[note 4[a]]*	**750**	671	661
	1,725	7,988	1,939

[a] On January 31, 2009, UHN advanced a five-year term loan of $750 to Yi-En Medical System Research and Development (Shanghai) Co. Ltd. ["Shanghai Research and Development"], a related party with interest due on a quarterly basis commencing March 31, 2009. The principal may be repaid at any time during the loan period and the remaining balance outstanding is repayable in full on December 31, 2013. The term loan is fully provided for *[note 6[d]]*.

[b] On March 5, 2012, UHN entered into an agreement with Plexxus, a shared service organization, to advance $6,932 in respect of a refundable membership fee, with principal and interest payments commencing in fiscal 2013 and ending in fiscal 2016. An additional amount of $2,098 was advanced during the year ended March 31, 2013. Pursuant to a change in the Plexxus fee model, a resolution among the member hospitals was passed which had the effect of rendering the membership fee non-refundable. As a result, the total advance of $9,030 was written off and recorded as supplies and other expenses in the statement of operations *[note 15[d]]*.

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

5. CAPITAL ASSETS

Capital assets consist of the following:

	March 31, 2013		
	Cost $	**Accumulated depreciation** $	**Net book value** $
Land	**15,405**	**—**	**15,405**
Buildings and improvements	**1,417,027**	**521,669**	**895,358**
Equipment and furniture	**786,095**	**631,218**	**154,877**
Construction in progress	**194,827**	**—**	**194,827**
	2,413,354	**1,152,887**	**1,260,467**

	March 31, 2012		
	Cost $	**Accumulated depreciation** $	**Net book value** $
Land	15,405	—	15,405
Buildings and improvements	1,351,567	459,574	891,993
Equipment and furniture	765,607	596,335	169,272
Construction in progress	121,070	—	121,070
	2,253,649	1,055,909	1,197,740

	April 1, 2011		
	Cost $	**Accumulated depreciation** $	**Net book value** $
Land	15,405	—	15,405
Buildings and improvements	1,297,089	418,124	878,965
Equipment and furniture	756,006	552,405	203,601
Construction in progress	79,326	—	79,326
	2,147,826	970,529	1,177,297

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

Buildings and improvements include $88,329 [2012 - $88,329; 2011 - $88,329] of costs and $22,578 [2012 - $19,633; 2011 - $16,684] of accumulated depreciation related to assets under capital lease obligations *[note 7]*.

During the year, UHN wrote off buildings and improvements with a cost of nil [2012 - $1,919] and accumulated depreciation of nil [2012 - $1,161] and equipment and furniture with a cost of $281 [2012 - $13,552] and accumulated depreciation of $281 [2012 - $11,694].

6. LONG-TERM INVESTMENTS

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

	Fair value hierarchy	**March 31, 2013** $	**March 31, 2012** $	**April 1, 2011** $
Cash and cash equivalents	1	**2,826**	663	—
Short-term securities	2	**1,311**	2,466	2,701
Term deposits	2	**3,048**	—	—
Government bonds	2	**27,243**	34,568	37,199
Corporate bonds	2	**18,183**	14,914	12,711
		52,611	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 9[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 9[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.

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

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 7]*. The fund will be terminated on the expiry of the 30-year term of the lease or earlier with the mutual agreement of the MOHLTC and UHN.

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

	Fair value hierarchy	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Cash and cash equivalents	1	**141,065**	116,833	40,392
Short-term securities	2	—	5,647	86,616
Term deposits	2	**70,245**	58,863	—
Government bonds	2	**31,455**	32,047	49,188
Corporate bonds	2	**27,457**	26,661	21,181
Other *[notes 6[d] and [e]]*	1	**2,841**	2,200	—
		273,063	242,251	197,377

All investments are recorded at amortized cost except for the other investments, which are recorded at fair value.

Cash and cash equivalents are included in other long-term investments to the extent required for deferred research contributions *[note 8]*, internally restricted net assets *[note 12]* and certain long-term liabilities.

[c] During the year, UHN earned interest income of $9,435 [2012 - $7,849] which is included in ancillary services and other revenue in the statement of operations.

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

Shanghai Research and Development, a wholly owned for-profit subsidiary of UHN, was incorporated on April 14, 2006 to undertake medical research and development to discover new technologies and therapies to treat major human diseases. UHN invested U.S. $2,000 through advances totaling U.S. $1,400, that were expensed, and a loan receivable for CDN $750 *[note 4[a]]*. During the year, UHN recorded Shanghai Research and Development's net income of $188 [2012 – net income of $7] as ancillary services and other revenue.

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

The following amounts represent UHN's 100% share of the assets, liabilities, deficit, revenue and expenses of Shanghai Research and Development as at and for the year ended March 31:

	March 31, 2013 $	**March 31, 2012** $	**April 1, 2011** $
Assets	**116**	172	306
Liabilities	**167**	93	217
Long-term loan *[note 4[a]]*	**750**	750	750
Deficit	**(801)**	(671)	(661)
Revenue	**402**	358	216
Expenses	**532**	368	444

The deficit is recognized in the accounts as a provision for doubtful accounts of $750 [March 31, 2011 - $671; April 1, 2011 - $661] on the $750 term loan *[note 4[a]]* and a negative investment of $51 [March 31, 2012 and April 1, 2011 – nil] in other long-term investments.

[e] **Other investments**

UHN has interests in a variety of early-stage research entities. The fair value of shares of those entities traded on an exchange of $2,892 [March 31, 2012 - $2,200; April 1, 2011 – nil] is recorded in the accounts. The shares of other entities in which UHN has an interest have no current market value and therefore no value has been recorded in the accounts.

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

7. DUE TO MaRS DEVELOPMENT TRUST

In 2003, UHN entered into a 30-year agreement with the MaRS Trust to lease a 400,000 square foot building, the Toronto Medical Research Tower [the "TMRT"]. UHN is committed to an annual payment of $7,541, which commenced on August 1, 2005, at an implicit interest rate of 6.7%. UHN recognized an obligation of $100,000, consisting of a long-term capital lease obligation of $88,329 representing the cost of the building to the MaRS Trust *[note 5]*, 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 2013, interest paid was $5,866 [2012 - $5,973] and interest expense recorded in the statements of operations was $5,847 [2012 - $5,955].

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

	$
2014	1,790
2015	1,913
2016	2,044
2017	2,183
2018	2,333
Thereafter	75,726
Due to MaRS Development Trust	85,989
Less current portion	1,790
	84,199

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

8. 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:

	2013 $	2012 $
Deferred research contributions, beginning of year	**179,928**	157,780
Externally restricted contributions *[note 14]*	**271,885**	263,790
Amounts recognized as revenue	**(244,255)**	(241,642)
Deferred research contributions, end of year	**207,558**	179,928

9. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
5.64% Secured Bonds, Series 1 *[note 9[a]]*	**189,404**	203,173	216,197
Equity loan *[note 9[b]]*	**1,065**	1,099	1,132
Other loan *[note 9[b]]*	**11,800**	12,158	12,489
Drawing on credit facility *[note 16]*	**21,729**	—	—
	223,998	216,430	229,818
Less current portion	**15,354**	14,160	13,388
	208,644	202,270	216,430

[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 8]*, are pledged as collateral for the Secured Bonds. Blended semi-annual payments of principal and interest of $12,528 commenced June 8, 2005 *[note 6[a]]*. During the year, interest paid was $11,274 [2012 - $12,020] and interest expense recorded in the statements of operations was $11,042 [2012 - $11,801].

[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 was $966 [2012 - $994] and interest expense recorded in the statements of operations was $966 [2012 - $994].

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

	$
2014	15,354
2015	16,236
2016	17,169
2017	18,156
2018	19,200
Thereafter	137,883
	223,998

[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 $5,048 [2012 - $4,390] and is recorded in accounts payable and accrued liabilities in the statements of financial position. The change in the fair value of the interest rate swap is a loss of $659 recorded in the statement of remeasurement gains and losses [2012 – $4,390 recorded in supplies and other expenses in the statements of operations].

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

10. EMPLOYEE BENEFIT PLANS

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

[a] Multi-employer plan

Substantially all of the employees of UHN are members of HOOPP which is a multi-employer, defined benefit, final average earnings, contributory pension plan. HOOPP is accounted for as a defined contribution plan. UHN's contributions to HOOPP during the year amounted to $64,645 [2012 - $62,194]. These amounts are included in compensation expense in the statements of operations. The most recent valuation for financial reporting purposes completed by HOOPP as at December 31, 2012 disclosed net assets available for benefits of $47,414 million with pension obligations of $39,919 million, resulting in a surplus of $7,495 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:

	March 31, 2013 $	**March 31, 2012** $	**April 1, 2011** $
Accrued benefit obligations	**48,307**	48,276	41,026
Unamortized actuarial loss	**(3,163)**	(4,723)	—
Employee future benefit liabilities	**45,144**	43,553	41,026

[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:

	2013 $	**2012** $
Current service cost	**1,767**	1,488
Interest cost	**1,961**	2,181
Prior service cost	**—**	1,359
Amortization of actuarial losses	**630**	—
	4,358	5,028

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

	March 31, 2013 %	**March 31, 2012** %	**April 1, 2011** %
Discount rate	**3.92**	4.12	5.24

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

	2013 %	**2012** %
Discount rate	**4.12**	5.24

Health care costs were assumed to increase by 7.0% in 2012, 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, 2013.

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

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

	2013 $	2012 $
Employer's contributions	**2,767**	2,490
Employees' contributions	**—**	—
Benefits paid	**2,767**	2,490

11. 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:

	2013 $	2012 $
Deferred capital contributions, beginning of year	**605,744**	586,552
Contributions for capital purposes *[note 14]*	**83,305**	77,871
Amortization of deferred capital contributions	**(57,177)**	(58,679)
Deferred capital contributions, end of year	**631,872**	605,744

12. INTERNALLY RESTRICTED NET ASSETS

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

In fiscal 2013, the Board of Trustees approved a net transfer of $7,836 [2012 - $29,817] from unrestricted to internally restricted net assets. An amount of $47,700 [2012 - $37,415] 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. In fiscal 2013, $39,864 [2012 - $7,598], 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]

13. STATEMENT OF CASH FLOWS

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

	2013 $	2012 $
Sources (uses) of cash		
Accounts receivable	**12,857**	(46,923)
Prepaid expenses	**(2,068)**	1,023
Inventory	**(1,205)**	(623)
Accounts payable and accrued liabilities	**(20,757)**	72,234
	(11,173)	25,711

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

	2013 $	2012 $
Capital asset purchases funded by accounts payable, accrued liabilities or other long-term liabilities	**5,891**	(31,364)
Contributions receivable related to capital asset purchases	**(11,223)**	(26,944)

14. RELATED PARTY TRANSACTIONS

[a] The TG/WH Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital, research and academic purposes. The TG/WH Foundation's accounts are not included in these financial statements. As at March 31, 2013, it had net assets of $341,759 [March 31, 2012 - $311,398; April 1, 2011 - $297,411]. For the year ended March 31, 2013, grants of $52,894 [2012 - $49,639] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2013, UHN had receivables from the TG/WH Foundation of $18,457 [March 31, 2012 - $9,640; April 1, 2011 - $3,818] recorded in accounts receivable *[note 3]*.

[b] The PMC Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital and operating purposes in connection with cancer research, education and treatment. The PMC Foundation's accounts are not included in these financial statements. As at March 31, 2013, it had net assets of $395,966 [March 31, 2012 - $348,420; April 1, 2011 - $323,675]. For the year ended March 31, 2013, grants of $64,779 [2012 - $63,484] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2013, UHN had receivables from the PMC Foundation of $25,432 [March 31, 2012 - $27,068; April 1, 2011 - $19,962] recorded in accounts receivable *[note 3]*.

[c] The AR Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital and research purposes in connection with arthritis and autoimmunity. Its accounts are not included in these financial statements. As at March 31, 2013, it had net assets of $23,143 [March 31, 2012 - $21,253; April 1, 2011 - $21,352]. For the year ended March 31, 2013, grants of $2,092 [2012 - $2,192] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2013, UHN had receivables from the AR Foundation of $887 [March 31, 2012 - $1,524; April 1, 2011 - $1,513] recorded in accounts receivable *[note 3]*.

[d] The TRI Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital, research and academic purposes. The TRI Foundation's accounts are not included in these financial statements. As at March 31, 2013, it had net assets of $18,118 [March 31, 2012 - $26,159; April 1, 2011 - $33,026]. For the year ended March 31, 2013, grants of $10,189 [2012 - $9,150] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2013, UHN had receivables from the TRI Foundation of $3,726 [March 31, 2012 - $6,365; April 1, 2011 - $8,646] recorded in accounts receivable *[note 3]*.

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

15. 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

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

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, 2013.

[c] As at March 31, 2013, UHN's Board of Trustees had approved expenditures for construction and renovation of which $80,319 [2012 - $139,902] had not been recorded in the accounts. Contracts have been entered into with respect to costs of $36,580.

[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, 2013, no member was in default.

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

	$
2014	7,512
2015	7,002
2016	6,484
2017	6,086
2018	4,833
Thereafter	15,452

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

16. CREDIT FACILITIES

UHN has the following credit facilities:

[a] a demand, revolving operating facility of $70,000 by way of a combination of prime rate loans, bankers' acceptances and letters of credit to a maximum aggregate amount of $5,000;

[b] a demand, non-revolving amortizing credit facility of $60,000 by way of any combination of prime rate loans and bankers acceptances; 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% [March 31, 2013 - 2.45%] or bankers' acceptance rate plus 0.35% [March 31, 2013 - 1.52%]. The facilities are collateralized by all present and future acquired research equipment, together with all enhancements to a maximum value of $153,000.

As at March 31, 2013, there were drawings on the second facility listed above of $21,729 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 9]*. There were no drawings on any facilities as at March 31, 2012 and 2011.

17. 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 and its 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 only dealing 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, the Hospital 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 6 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 9[d]]*.

UHN's investments in term deposits have an average term to maturity of one year and ten months and an average yield of 2.10% and in bonds have an average term to maturity of three years and two months and an average yield of 2.56%. A 1% change in the interest rates, with all other variables held constant, would have a $1,736 impact on excess of revenues 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 $284 impact on accumulated remeasurement losses.

18. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the first financial statements that UHN has prepared in accordance with the Public Sector Handbook, which constitutes generally accepted accounting principles for government not-for-profit organizations in Canada ["GAAP"]. UHN has chosen to use the standards for government not-for-profit organizations that include Section PS 4200 to PS 4270. In preparing its opening statement of financial position as at April 1, 2011 [the "Transition Date"], UHN has applied PS 2125; *First-time Adoption by Government Organizations*.

The accounting policies that UHN has used in the preparation of its opening statement of financial position have resulted in certain adjustments to balances which were presented in the statements of financial position prepared in accordance with Part V of the CICA Handbook - Accounting ["Previous GAAP"]. These adjustments were recorded directly to UHN's net assets at the Transition Date using the transitional provisions set out in PS 2125 and are described below.

Exemption elected upon transition

CICA PS 2125 provides a number of elective exemptions related to standards in PSA Handbook. UHN has elected to use the transition exemption with respect to the recognition of cumulative actuarial losses at the Transition Date. UHN has not elected to use any other exemptions.

Reconciliations

The following table provides a reconciliation of net assets as at April 1, 2011 and the excess of revenue over expenses for the year ended March 31, 2012 as presented under previous GAAP with those computed under GAAP.

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

	Excess of revenue over expenses for the year ended March 31, 2012 $	Net assets at April 1, 2011 $
Excess of revenue over expenses and net assets – Previous GAAP	**29,623**	343,512
Change in discount rate	**120**	297
Recognition of unamortized transitional obligation	**305**	(552)
Recognition of unamortized past service gain	**(390)**	952
Recognition of current past service costs	**(517)**	—
Election to recognize cumulative actuarial losses	**625**	(6,838)
Excess of revenue over expenses and net assets - GAAP	**29,766**	337,371

Change in discount rate

Under Previous GAAP, the discount rate was based on long-term corporate bond rates. Under GAAP, the discount rate is based on the UHN's cost of borrowing, which results in a lower accrued benefit obligation.

Recognition of transitional obligation

Under Previous GAAP, a $552 transitional obligation related to employee future benefits had not been recognized in the financial statements. Transitional obligations were required to be written off when PS 3250 was initially adopted, therefore, this amount must be recognized in opening net assets at the Transition Date.

Recognition of past service gain

Under Previous GAAP, a $951 past service gain related to employee future benefits had not been recognized in the financial statements. Past service gains must be recognized in the statement of operations under PS 3250 therefore, this amount must be recognized in opening net assets at the Transition Date.

Recognition of current past service costs

Under Previous GAAP, past service costs were deferred and amortized over the average remaining service period of employees. GAAP requires that past service costs incurred during the year be expensed.

Election to recognize cumulative actuarial losses

Using an elective exemption available at the Transition Date, UHN has recognized actuarial losses related to employee future benefits in opening net assets at the Transition Date.

Adoption of accounting standards related to financial instruments

The Public Sector Accounting Board ["PSAB"] approved the following new public sector accounting standards:

PS 1201 – Financial statement presentation [replacing PS 1200, Financial statement presentation]
PS 2601 – Foreign currency translation [replacing PS 2600, Foreign currency translation]
PS 3041 – Portfolio investments [replacing PS 3040 Portfolio Investments]
PS 3450 – Financial instruments

Adoption of all of these standards must take place in the same fiscal period. In accordance with the requirements of these standards, prospective application of the recognition, derecognition and measurement policies are presented beginning April 1, 2012. Accordingly, financial statements of prior periods, including comparative information, have not been restated and no comparative information is presented for the first time presentation of the statement of remeasurement gains and losses.

Prior to April 1, 2012, portfolio investments were recorded at fair value with changes in unrealized gains and losses for certain investments being recorded in the statement of changes in net assets and other components of investment income recorded as ancillary services and other revenue in the statement of operations. The cumulative change in unrealized gains recognized in the statement of changes in net assets of $3,277 has been recorded as an adjustment to net assets and accumulated remeasurement gains as at April 1, 2012.