# University Health Network

**Financial statements**
**March 31, 2018**

Building a better
working world

# Independent auditors' report

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

We have audited the accompanying financial statements of **University Health Network**, which comprise the statement of financial position as at March 31, 2018, the statements of operations, changes in net assets, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **University Health Network** as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 12, 2018

**University Health Network**

# Statement of financial position

[in thousands of dollars]

As at March 31

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents *[note 5[b]]* | **137,828** | 157,902 |
| Accounts receivable *[note 3]* | **214,989** | 230,060 |
| Inventory | **18,319** | 16,882 |
| Prepaid expenses | **20,403** | 19,298 |
| **Total current assets** | **391,539** | 424,142 |
| Loans receivable | **2,450** | 2,450 |
| Capital assets, net *[note 4]* | **1,258,158** | 1,256,707 |
| Long-term investments | | |
| Held for contingency funds *[note 5[a]]* | **52,611** | 52,611 |
| Other *[note 5[b]]* | **341,668** | 326,963 |
| | **2,046,426** | 2,062,873 |
| **Liabilities and net assets** | | |
| **Current** | | |
| Accounts payable and accrued liabilities *[notes 8[d], 13[b] and 13[c]]* | **422,573** | 435,218 |
| Current portion of long-term liabilities *[notes 6 and 8]* | **22,786** | 21,545 |
| **Total current liabilities** | **445,359** | 456,763 |
| Due to MaRS Development Trust *[note 6]* | **73,234** | 75,727 |
| Deferred research contributions *[note 7]* | **208,536** | 204,151 |
| Long-term debt *[note 8]* | **117,540** | 137,834 |
| Employee future benefit liabilities *[note 9[b]]* | **49,470** | 47,778 |
| Deferred capital contributions *[note 10]* | **666,514** | 670,082 |
| **Total liabilities** | **1,560,653** | 1,592,335 |
| Commitments and contingencies *[note 14]* | | |
| **Net assets** | | |
| From operations | | |
| Internally restricted *[note 11]* | **133,132** | 122,812 |
| Unrestricted | **354,688** | 348,634 |
| | **487,820** | 471,446 |
| Accumulated remeasurement losses | **(2,047)** | (908) |
| **Total net assets** | **485,773** | 470,538 |
| | **2,046,426** | 2,062,873 |

*See accompanying notes*

On behalf of the Board of Trustees:

Brian Porter
Chair, Board of Trustees

Barbara Stymiest
Chair, Finance and Audit Committee

**University Health Network**

## Statement of operations

[in thousands of dollars]

Year ended March 31

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Revenue** | | |
| Ontario Ministry of Health and Long-Term Care/ Toronto Central Local Health Integration Network/ Cancer Care Ontario | **1,269,539** | 1,235,922 |
| Other patient services | **212,064** | 207,365 |
| Grants and donations for research and other purposes *[notes 7 and 13]* | **323,266** | 315,991 |
| Ancillary services and other *[notes 5[c] and 13[a]]* | **345,804** | 346,975 |
| Amortization of deferred capital contributions *[note 10]* | **64,706** | 61,680 |
| | **2,215,379** | 2,167,933 |
| **Expenses** | | |
| Compensation *[note 9]* | **1,369,596** | 1,341,186 |
| Medical, surgical supplies and drugs | **307,974** | 284,678 |
| Other supplies and expenses *[notes 13[b] and 13[c]]* | **277,512** | 285,736 |
| Plant operations and equipment maintenance | **121,990** | 115,783 |
| Amortization *[note 4]* | **108,487** | 105,015 |
| Interest on long-term liabilities *[notes 6, 8[a], 8[b] and 15]* | **13,446** | 14,663 |
| | **2,199,005** | 2,147,061 |
| **Excess of revenue over expenses for the year** | **16,374** | 20,872 |

*See accompanying notes*

**University Health Network**

# Statement of changes in net assets

[in thousands of dollars]

Year ended March 31

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | **Internally restricted** | **Unrestricted** | **Total** | **Total** |
| | $ | $ | $ | $ |
| **Balance, beginning of year** | **122,812** | **348,634** | **471,446** | 450,574 |
| Excess of revenue over expenses for the year | **—** | **16,374** | **16,374** | 20,872 |
| Interfund transfers *[note 11]* | **10,320** | **(10,320)** | **—** | — |
| **Balance, end of year** | **133,132** | **354,688** | **487,820** | 471,446 |

*See accompanying notes*

**University Health Network**

# Statement of remeasurement gains and losses

[in thousands of dollars]

Year ended March 31

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **Accumulated remeasurement losses, beginning of year** | **(908)** | (609) |
| Unrealized gains (losses) attributable to: | | |
| Interest rate swap contract *[note 8[d]]* | **1,280** | 1,520 |
| Portfolio investments | **(2,419)** | (1,819) |
| **Accumulated remeasurement losses, end of year** | **(2,047)** | (908) |

*See accompanying notes*

**University Health Network**

# Statement of cash flows

[in thousands of dollars]

Year ended March 31

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Operating activities** | | |
| Excess of revenue over expenses for the year | **16,374** | 20,872 |
| Add (deduct) items not involving cash | | |
| Amortization | **108,487** | 105,015 |
| Amortization of deferred capital contributions | **(64,706)** | (61,680) |
| Other post-employment benefit expense | **3,754** | 3,862 |
| | **63,909** | 68,069 |
| Net change in non-cash working capital balances related to operations *[note 12[a]]* | **(3,837)** | 2,935 |
| Net increase in deferred research contributions | **4,385** | 26,692 |
| Employer contributions for employee benefit plan | **(2,062)** | (2,384) |
| **Cash provided by operating activities** | **62,395** | 95,312 |
| **Investing activities** | | |
| Increase in other long-term investments, net | **(17,124)** | (20,867) |
| **Cash used in investing activities** | **(17,124)** | (20,867) |
| **Financing activities** | | |
| Contributions received for capital purposes | **61,138** | 62,672 |
| Decrease in due to MaRS Development Trust | **(2,332)** | (2,184) |
| Repayment of long-term debt | **(19,213)** | (18,157) |
| **Cash provided by financing activities** | **39,593** | 42,331 |
| **Capital activities** | | |
| Purchase of capital assets *[note 12[b]]* | **(104,938)** | (105,800) |
| **Cash used in capital activities** | **(104,938)** | (105,800) |
| **Net increase (decrease) in cash and cash equivalents during the year** | **(20,074)** | 10,976 |
| Cash and cash equivalents, beginning of year | **157,902** | 146,926 |
| **Cash and cash equivalents, end of year** | **137,828** | 157,902 |
| Cash and cash equivalents represented by | | |
| Cash | **137,828** | 157,902 |
| Cash equivalents | **—** | — |
| | **137,828** | 157,902 |

*See accompanying notes*

# Notes to financial statements

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

March 31, 2018

## 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.

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, the Hospital is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ontario Ministry of Health and Long-Term Care [the "MOHLTC"], the Toronto Central Local Health Integration Network [the "TC LHIN"] and Cancer Care Ontario [the "CCO"].

## 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.

### Basis of presentation

These financial statements include the assets, liabilities and activities of UHN in which it operates on the four hospital sites.  These financial statements do not include the assets, liabilities or operations of the following non-controlled not-for-profit entities in which UHN has an economic interest *[note 13]*:

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

These financial statements also do not include the Michener Institute of Education at UHN ["Michener"], a controlled entity integrated on January 1, 2016. UHN has chosen the accounting policy option to note disclose the required information for Michener *[note 13].*

### Revenue recognition

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

# Notes to financial statements

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

March 31, 2018

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.

**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 to 50 years |
| Equipment and furniture | 2 to 20 years |

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

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

**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-employment and post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation is determined by reference to UHN's cost of borrowing. Actuarial gains and losses are amortized over the average remaining service period of active employees, which is 15.2 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 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.

# Notes to financial statements

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

March 31, 2018

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

**Use of estimates**

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

The amount of revenue recognized from the MOHLTC and the TC LHIN requires a number of estimates. UHN has entered into a number of accountability agreements with the TC LHIN that set out the rights and obligations of the two parties in respect of funding provided to UHN by the TC LHIN for fiscal year 2018.

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 MOHLTC and the TC LHIN have the right to adjust funding received by UHN. The MOHLTC and the TC LHIN are not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of 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.

**Change in accounting policy**

During the year, UHN adopted the new accounting standards PS 2200, related party disclosures, and PS 3420 inter-entity transactions. These new standards are effective for fiscal years beginning on or after April 1, 2017. PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The change in accounting policy was applied on a retroactive basis and did not have any impact on the financial statements.

# Notes to financial statements

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

March 31, 2018

## 3. Accounts receivable

Accounts receivable consist of the following:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| MOHLTC / TC LHIN / CCO | **46,976** | 46,490 |
| Patient receivables | **21,140** | 23,089 |
| Other receivables | **40,921** | 45,262 |
| Michener *[note 13[a]]* | **1,529** | 307 |
| TG/WH Foundation *[note 13[b]]* | **11,945** | 13,346 |
| PMC Foundation *[note 13[c]]* | **51,796** | 51,810 |
| TRI Foundation *[note 13[d]]* | **4,172** | 4,943 |
| Research-related receivables | **36,510** | 44,813 |
| | **214,989** | 230,060 |

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

## 4. Capital assets

Capital assets consist of the following:

| | 2018 | | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated amortization**<br>$ | **Net book value**<br>$ |
| Land | **15,405** | **—** | **15,405** |
| Buildings and improvements | **1,774,548** | **819,513** | **955,035** |
| Equipment and furniture | **1,010,339** | **810,722** | **199,617** |
| Construction in progress | **88,101** | **—** | **88,101** |
| | **2,888,393** | **1,630,235** | **1,258,158** |

| | 2017 | | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated amortization**<br>$ | **Net book value**<br>$ |
| Land | 15,405 | — | 15,405 |
| Buildings and improvements | 1,721,418 | 760,250 | 961,168 |
| Equipment and furniture | 974,795 | 775,735 | 199,060 |
| Construction in progress | 81,074 | — | 81,074 |
| | 2,792,692 | 1,535,985 | 1,256,707 |

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

Buildings and improvements include $88,329 [2017 – $88,329] of costs and $37,303 [2017 – $34,358] of accumulated amortization related to assets under capital lease obligations *[note 6].* During the year, UHN reduced the cost and accumulated amortization by $14,237 [2017 – $7,764] for capital assets that were fully amortized.

## 5. Long-term investments

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Short-term securities | **7,126** | 12,797 |
| Term deposits | **885** | — |
| Government bonds | **23,114** | 21,287 |
| Corporate bonds | **21,486** | 18,527 |
| | **52,611** | 52,611 |

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

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

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

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

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Cash and cash equivalents | **204,160** | 222,316 |
| Short-term securities *[note 16]* | **2,274** | 3,740 |
| Term deposits *[note 16]* | **68,887** | 56,111 |
| Government bonds *[note 16]* | **26,538** | 19,937 |
| Corporate bonds *[note 16]* | **39,734** | 24,733 |
| Other *[note 5[d]]* | **75** | 126 |
| | **341,668** | 326,963 |

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

Investments in government and corporate bonds are reported at fair value and represent Level 2 investments in the fair value hierarchy. During the years ended March 31, 2018 and 2017, there were no transfers between levels. Short-term securities, term deposits and other investments *[note 5[d]]* are recorded at amortized cost.

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

[c] During the year, UHN earned interest income of $7,201 [2017 – $6,053] which is included in ancillary services and other revenue in the statement of operations.

[d] Other investments

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

## 6. Due to MaRS development trust

In 2003, UHN entered into a 30-year agreement with the MaRS Trust to lease a 400,000 square foot building, the Princess Margaret Cancer Research Tower. UHN is committed to an annual payment of $7,541, which commenced on August 1, 2005, at an implicit interest rate of 6.7%. UHN recognized an obligation of $100,000, consisting of a long-term capital lease obligation of $88,329 representing the cost of the building to the MaRS Trust *[note 4]*, and a further long-term obligation of $11,671 representing cash received from the MaRS Trust related to financing proceeds in excess of the cost of the building and leasehold inducements. The obligation has been reduced by payments made since August 1, 2005, when payments commenced. During 2018, interest paid amounted to $5,209 [2017 – $5,358] and interest expense recorded in the statement of operations amounted to $5,183 [2017 – $5,334].

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

| | $ |
|---|---|
| 2019 | 2,492 |
| 2020 | 2,662 |
| 2021 | 2,844 |
| 2022 | 3,039 |
| 2023 | 3,246 |
| Thereafter | 61,443 |
| Due to MaRS Development Trust | 75,726 |
| Less current portion | 2,492 |
| | 73,234 |

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

## 7. Deferred research contributions

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Deferred research contributions, beginning of year** | **204,151** | 177,459 |
| Externally restricted contributions *[note 13]* | **327,651** | 342,683 |
| Amounts recognized as revenue | **(323,266)** | (315,991) |
| **Deferred research contributions, end of year** | **208,536** | 204,151 |

## 8. Long-term debt

Long-term debt consists of the following:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| 5.64% Secured Bonds, Series 1 *[note 8[a]]* | **107,783** | 125,981 |
| Equity loan *[note 8[b]]* | **852** | 901 |
| Other loan *[note 8[b]]* | **9,563** | 10,080 |
| Drawing on credit facility *[note 15]* | **19,636** | 20,085 |
| | **137,834** | 157,047 |
| Less current portion | **20,294** | 19,213 |
| | **117,540** | 137,834 |

[a] On December 8, 1998, UHN issued $281,000 of 5.64% Secured Bonds, Series 1 at a price of $999.27 with a maturity date of December 8, 2022. The proceeds of the issue were used to fund UHN's redevelopment plan known as Project 2003. A first fixed charge on and assignment of substantially all cash receipts, book debts and monies of UHN and a floating charge on substantially all other property and assets of UHN, other than certain excluded assets such as funds held for research grants and donations included in deferred research contributions *[note 7]*, are pledged as collateral for the Secured Bonds. Blended semi-annual payments of principal and interest of $12,528 commenced June 8, 2005 *[note 5[a]]*. During the year, interest paid amounted to $6,856 [2017 – $7,841] and interest expense recorded in the statement of operations amounted to $6,535 [2017 – $7,540].

[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

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

related to the facility, an assignment of funds payable by the MOHLTC for funding for construction and operation of the facility, an assignment of any insurance proceeds related to the facility, and all related buildings and equipment. During the year, interest paid amounted to $792 [2017 – $832] and interest expense recorded in the statement of operations amounted to $792 [2017 – $832].

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

| | $ |
|---|---|
| 2019 | 20,294 |
| 2020 | 21,473 |
| 2021 | 22,708 |
| 2022 | 24,015 |
| 2023 | 25,397 |
| Thereafter | 23,947 |
| | 137,834 |

[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 $4,158 [2017 – $5,438] 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 $1,280 [2017 – gain of $1,520] recorded in the statement of remeasurement gains and losses.

## 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 $77,742 [2017 – $77,994]. 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, 2017 disclosed net assets available for benefits of $77,755,000 with pension obligations of $59,602,000, resulting in a surplus of $18,153,000.

# Notes to financial statements

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

March 31, 2018

[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:

| | **2018** | **2017** |
|---|---|---|
| | $ | $ |
| Accrued benefit obligations | **52,376** | 47,990 |
| Unamortized actuarial loss | **(2,906)** | (212) |
| **Employee future benefit liabilities** | **49,470** | 47,778 |

The Employee future benefit liabilities include $12,664 [2017 - $12,467] related to the SERP.

The net expense for these plans is calculated as follows:

| | **2018** | **2017** |
|---|---|---|
| | $ | $ |
| Current service cost | **1,468** | 1,489 |
| Interest cost | **1,799** | 1,683 |
| Amortization of actuarial losses | **487** | 690 |
| | **3,754** | 3,862 |

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

| | **2018** | **2017** |
|---|---|---|
| | % | % |
| Discount rate | **3.42** | 3.87 |

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

| | **2018** | **2017** |
|---|---|---|
| | % | % |
| Discount rate | **3.87** | 3.41 |

Health care costs were assumed to decrease by 0.2% in 2018 and continue declining by 0.2% per year to 3.0% to 2037. Dental costs were assumed to increase by 4.0% per year.

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

The accrued benefit obligations of the other defined benefit plans are measured as at March 31, 2018, and are based on actuarial valuations as at March 31, 2018.

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

| | **2018**<br>$ | **2017**<br>$ |
|---|---|---|
| Employer's contributions | **2,062** | 2,384 |
| Employees' contributions | **—** | — |
| Benefits paid | **2,062** | 2,384 |

### 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:

| | **2018**<br>$ | **2017**<br>$ |
|---|---|---|
| **Deferred capital contributions, beginning of year** | **670,082** | 669,090 |
| Contributions for capital purposes *[note 13]* | **61,138** | 62,672 |
| Amortization of deferred capital contributions | **(64,706)** | (61,680) |
| **Deferred capital contributions, end of year** | **666,514** | 670,082 |

### 11. Internally restricted net assets

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

In fiscal 2018, the Board of Trustees approved a net transfer of $10,320 from unrestricted to internally restricted net assets [2017 – $7,644 from internally restricted to unrestricted]. An amount of $66,760 [2017 – $62,216] was transferred from unrestricted to internally restricted net assets for future capital and other special projects. In the year in which expenses are incurred with respect to these future projects, an amount is transferred from internally restricted to unrestricted net assets. An amount of $56,440 [2017 – $69,860], representing amounts previously restricted by the Board of Trustees, was transferred from internally restricted to unrestricted net assets.

# Notes to financial statements

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

March 31, 2018

## 12. Statement of cash flows

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| Accounts receivable | **15,071** | (24,217) |
| Inventory | **(1,437)** | 17 |
| Prepaid expenses | **(1,105)** | (1,526) |
| Accounts payable and accrued liabilities *[note 12[b]]* | **(16,366)** | 28,661 |
| | **(3,837)** | 2,935 |

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Changes in capital asset purchases funded by accounts payable and accrued liabilities | **5,000** | (1,186) |

## 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.

The business relationship between UHN and Michener is governed by a service agreement pursuant to which certain senior management support is provided on a cost recovery basis. For the year ended March 31, 2018, UHN recognized $2,291 [2017 – $917] in other revenue in the statement of operations. As at March 31, 2018, UHN had receivables from Michener of $1,529 [2017 – $307] recorded in accounts receivable *[note 3].*

# Notes to financial statements

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

March 31, 2018

Michener prepares its financial statements in accordance with the Public Sector Accounting Handbook which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. The summarized assets, liabilities and results of operations for Michener as at and for the year ended March 31, are as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Financial position: | | |
| Total assets | **31,021** | 29,038 |
| Total liabilities | **20,024** | 18,343 |
| Net assets | **10,997** | 10,695 |
| | **31,021** | 29,038 |

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Results of operations: | | |
| Total revenue | **26,750** | 26,600 |
| Total expenses | **26,037** | 26,127 |
| | **713** | 473 |

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Cash flows provided by (used in): | | |
| Operating activities | **3,328** | (159) |
| Investing activities | **(333)** | 1,121 |
| Financing activities | **606** | 488 |
| Capital activities | **(357)** | (200) |
| Net increase in cash flows for the year | **3,244** | 1,250 |

**Non-controlled entities**

[b] The TG/WH Foundation is an independent corporation without share capital, which has its own Board of Directors. The TG/WH Foundation provides donations to UHN for capital, research and academic purposes. The TG/WH Foundation's accounts are not included in these financial statements. As at March 31, 2018, the TG/WH Foundation had fund balances of $567,210 [2017 – $541,178]. For the year ended March 31, 2018, grants of $76,858 [2017 – $76,777] were recorded by UHN as grants and donations for research and other purposes, deferred research contributions or deferred capital contributions. As at March 31, 2018, UHN had receivables from the TG/WH Foundation of $11,945 [2017 – $13,346] recorded in accounts receivable *[note 3].*

During the year ended March 31, 2018, UHN approved transfers of $594 [2017 – $23,635] to the TG/WH Foundation. Of the approved transfers in 2018 and 2017, $19,029 [2017 – $20,853] is 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, 2018, the PMC Foundation had fund balances of $561,870 [2017 – $537,259]. For the year ended March 31, 2018, grants of $106,563 [2017 – $102,460] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2018, UHN had receivables from the PMC Foundation of $51,796 [2017 – $51,810] recorded in accounts receivable *[note 3]*.

During the year ended March 31, 2018, UHN approved transfers of $1,962 [2017 – nil] to the PMC Foundation and paid royalty payments of $614 [2017 – $260]. As of March 31, 2018, approved transfers of $7,048 [2017 – $5,086] are recorded in accounts payable and accrued liabilities.

[d] The TRI Foundation is an independent corporation without share capital, which has its own Board of Directors. The TRI Foundation provides donations to UHN for capital, research and academic purposes. The TRI Foundation's accounts are not included in these financial statements. As at March 31, 2018, the TRI Foundation had fund balances of $28,462 [2017 – $20,422]. For the year ended March 31, 2018, grants of $6,338 [2017 – $5,683] were recorded by UHN as grants and donations for research and other purposes, deferred research contributions or deferred capital contributions. As at March 31, 2018, UHN had receivables from the TRI Foundation of $4,172 [2017 – $4,943] recorded in accounts receivable *[note 3]*.

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

## 14. Commitments and contingencies

[a] UHN is subject to various claims and potential claims in connection with operations. Where the potential liability is able to be estimated, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

[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, 2018.

[c] As at March 31, 2018, UHN's Board of Trustees had approved expenditures for construction and renovation of which $113,296 had not been recorded in the accounts. Contracts have been entered into with respect to costs of $56,832.

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

[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 agreement with Plexxus has been renewed on April 1, 2016 for a period of five years. 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, 2018, no member was in default.

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

| | $ |
|---|---|
| 2019 | 21,514 |
| 2020 | 24,658 |
| 2021 | 23,922 |
| 2022 | 22,750 |
| 2023 | 21,468 |
| Thereafter | 275,915 |

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

[f] The Company has outstanding letters of credit to various organizations totalling $1,011 [2017 – $1,839].

## 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 foreign exchange risk and interest rate risk through a combination of forward rate agreements or 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 2.90% as at March 31, 2018, or bankers' acceptance rate plus 0.35%, which was 1.92% as at March 31, 2018. The facilities are collateralized by all present and future acquired research equipment, together with all enhancements to a maximum value of $210,000. During the year, interest of $936 [2017 – $957] was paid and recorded in the statement of operations.

As at March 31, 2018, there were drawings on the second facility listed above of $19,636 [2017 – $20,085] which are classified as long-term as UHN has received confirmation from the lender that the lender will not require repayment in the next fiscal year *[note 8]*.

## 16. Financial instruments and risk management

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

### Credit risk

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

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

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

### Liquidity risk

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

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

### Interest rate risk

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

UHN's investments in term deposits have an average term to maturity of two years and eight months and an average yield of 2.18%, and for bonds an average term to maturity of two years and one month and an average yield of 1.98%. A 1% change in the interest rates, with all other variables held constant, would have a $1,875 impact on excess of revenue over expenses for the year.

# Notes to financial statements

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

**Other price risk**

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

A 10% change in the market prices of these investments, with all other variables held constant, would have a $44 impact on accumulated remeasurement gains.