Financial Statements

# University Health Network

March 31, 2012

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 statement of financial position as at March 31, 2012 and the statements of operations and changes in unrestricted net assets, changes in net assets 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 generally accepted accounting principles, 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, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 20, 2012.

**University Health Network**

# STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

| | 2012 $ | 2011 $ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **201,661** | 190,903 |
| Accounts receivable *[note 3]* | **194,375** | 172,199 |
| Inventory | **14,031** | 13,408 |
| Prepaid expenses | **6,858** | 7,881 |
| **Total current assets** | **416,925** | 384,391 |
| Loans receivable *[note 4]* | **7,988** | 1,939 |
| Capital assets, net *[note 5]* | **1,197,740** | 1,177,297 |
| Long-term investments *[note 6]* | **294,862** | 249,988 |
| | **1,917,515** | 1,813,615 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current** | | |
| Accounts payable and accrued liabilities *[notes 9 and 10[b]]* | **414,501** | 371,836 |
| Current portion of long-term liabilities *[notes 7 and 9]* | **15,836** | 14,956 |
| **Total current liabilities** | **430,337** | 386,792 |
| Due to MaRS Development Trust *[note 7]* | **85,989** | 87,664 |
| Deferred research contributions *[note 8]* | **179,928** | 157,780 |
| Long-term debt *[note 9]* | **202,270** | 216,430 |
| Employee future benefit liabilities *[note 10[c]]* | **37,555** | 34,885 |
| Deferred capital contributions *[note 11]* | **605,744** | 586,552 |
| **Total liabilities** | **1,541,823** | 1,470,103 |
| Commitments and contingencies *[note 15]* | | |
| **Net assets** | | |
| Internally restricted *[note 12]* | **57,669** | 27,852 |
| Unrestricted | **318,023** | 315,660 |
| **Total net assets** | **375,692** | 343,512 |
| | **1,917,515** | 1,813,615 |

*See accompanying notes*

**University Health Network**

# STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

[in thousands of dollars]

Year ended March 31

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **REVENUE** | | |
| Ontario Ministry of Health and Long-Term Care/ | | |
| Toronto Central Local Health Integration Network | | |
| Hospital programs | **997,090** | 964,260 |
| Specifically funded programs | **81,919** | 78,988 |
| Other patient services | **178,786** | 161,557 |
| Grants and donations for research and other purposes *[notes 8 and 14]* | **246,081** | 239,455 |
| Ancillary services and other *[note 6]* | **254,502** | 223,341 |
| Amortization of deferred capital contributions *[note 11]* | **73,679** | 73,188 |
| | **1,832,057** | 1,740,789 |
| **EXPENSES** | | |
| Compensation *[note 10]* | **1,089,801** | 1,047,828 |
| Medical, surgical supplies and drugs | **201,758** | 196,534 |
| Specifically funded programs | **82,175** | 79,496 |
| Plant operations and equipment maintenance | **85,846** | 84,103 |
| Depreciation *[note 5]* | **100,046** | 97,070 |
| Interest on long-term liabilities *[notes 7 and 9]* | **18,750** | 19,596 |
| Supplies and other *[note 9]* | **224,058** | 192,768 |
| | **1,802,434** | 1,717,395 |
| **Excess of revenue over expenses for the year** | **29,623** | 23,394 |
| Net change in unrealized gain on available for sale investments *[note 6[a]]* | **2,557** | 670 |
| Transfer to internally restricted net assets *[note 12]* | **(29,817)** | (10,270) |
| Net change in unrestricted net assets | **2,363** | 13,794 |
| Unrestricted net assets, beginning of year | **315,660** | 301,866 |
| **Unrestricted net assets, end of year** | **318,023** | 315,660 |

*See accompanying notes*

**University Health Network**

# STATEMENT OF CHANGES IN NET ASSETS

[in thousands of dollars]

Year ended March 31

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | **Internally restricted** $ | **Unrestricted** $ | **Total** $ | **Total** $ |
| **Balance, beginning of year** | **27,852** | **315,660** | **343,512** | 319,448 |
| Excess of revenue over expenses for the year | **—** | **29,623** | **29,623** | 23,394 |
| Net change in unrealized gain on available for sale investments *[note 6[a]]* | **—** | **2,557** | **2,557** | 670 |
| Interfund transfers *[note 12]* | **29,817** | **(29,817)** | **—** | — |
| **Balance, end of year** | **57,669** | **318,023** | **375,692** | 343,512 |

*See accompanying notes*

## University Health Network

# STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Excess of revenue over expenses for the year | **29,623** | 23,394 |
| Add (deduct) items not involving cash | | |
| Depreciation | **100,046** | 97,070 |
| Amortization of deferred capital contributions | **(73,679)** | (73,188) |
| Provision for doubtful accounts *[note 4]* | **10** | 228 |
| | **56,000** | 47,504 |
| Net change in non-cash working capital balances related to operations *[note 13]* | **25,785** | 15,024 |
| Net increase (decrease) in deferred research contributions | **22,148** | (1,292) |
| Net increase in employee future benefit liabilities | **2,670** | 2,582 |
| **Cash provided by operating activities** | **106,603** | 63,818 |
| **INVESTING ACTIVITIES** | | |
| Purchase of capital assets | **(152,827)** | (140,528) |
| Net decrease (increase) in loans receivable | **(6,507)** | 300 |
| Increase in long-term investments | **(42,317)** | (14,127) |
| **Cash used in investing activities** | **(201,651)** | (154,355) |
| **FINANCING ACTIVITIES** | | |
| Contributions received for capital purposes | **120,789** | 144,992 |
| Decrease in due to MaRS Development Trust | **(1,568)** | (1,468) |
| Repayment of long-term debt | **(13,415)** | (12,682) |
| **Cash provided by financing activities** | **105,806** | 130,842 |
| **Net increase in cash and cash equivalents during the year** | **10,758** | 40,305 |
| Cash and cash equivalents, beginning of year | **190,903** | 150,598 |
| **Cash and cash equivalents, end of year** | **201,661** | 190,903 |
| **Supplemental cash flow information** | | |
| Interest paid *[notes 7 and 9]* | **18,987** | 19,818 |
| Capital asset purchases funded by accounts payable, accrued liabilities or other long-term liabilities | **(31,364)** | (22,868) |
| Contributions receivable related to capital asset purchases | **(26,944)** | (14,688) |

*See accompanying notes*

# NOTES TO FINANCIAL STATEMENTS

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

March 31, 2012

## 1. PURPOSE OF THE ORGANIZATION

University Health Network ["UHN"] is a corporation without share capital incorporated under the University Health Network Act, 2002, devoted to patient care, education and research. UHN operates on four hospital sites. These sites are separately identified as Princess Margaret Hospital, 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.

On July 1, 2011, UHN acquired the assets and assumed the liabilities of Toronto Rehab. Continuity of interests accounting has been applied to this transaction. As a result, the former carrying values of Toronto Rehab's assets, liabilities and net assets as at March 31, 2012 and 2011 and its operations and cash flows for the years ended March 31, 2012 and 2011 are included in these financial statements as if the hospitals had always been combined.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of presentation

These financial statements do not include the financial activities of the following non-controlled not-for-profit entities *[note 14]*:

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

UHN's investment in Yi-En Medical System Research and Development (Shanghai) Co. Ltd. ["Shanghai Research and Development"], a for-profit entity, is accounted for by the equity method *[note 6[c]]*.

## Cash and cash equivalents

Cash and cash equivalents include cash on deposit and short-term investments that have a term to maturity of less than 90 days at the date of purchase. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as long-term investments.

## Revenue recognition

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

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

## Employee benefit plans

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

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

### OCI Pension Plan

Certain employees of UHN have remained in a voluntary pension plan that was established for the employees of the former Ontario Cancer Institute/Princess Margaret Hospital [the "OCI Pension Plan"]. Since the OCI Pension Plan is in the process of being wound up, the net unfunded liability calculated by the actuary is recorded in the accounts.

**Other defined benefit plans**

UHN has adopted the following policies for other defined benefit plans:

- The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.
- Past service costs from plan amendments and the net transitional liability are amortized on a straight-line basis over the average remaining service period of employees.
- Liabilities are discounted using current interest rates on long-term bonds.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the benefit obligation is amortized over the remaining service period of the active employees.

## Inventory

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

## Investments

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

All other investments are classified as available for sale, whereby realized gains and losses are recorded as ancillary services and other revenue in the statement of operations and changes in unrestricted net assets, and unrealized gains and losses are recorded as a change in net assets.

Publicly traded securities are valued based on the latest bid prices. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on the settlement date basis and transaction costs are expensed when incurred.

## 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.

## Derivative financial instruments

UHN records derivative financial instruments on the statement of financial position at fair value with subsequent changes in fair value recognized in the statement of operations and changes in unrestricted net assets.

## Deferred capital contributions

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

## Long-term debt

Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

## Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 years 2011 and 2012.

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.

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.

## Financial instruments

UHN has chosen to apply the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3861, *Financial Instruments – Disclosures and Presentation,* in place of CICA 3862, *Financial Instruments – Disclosure* and CICA 3863, *Financial Instruments – Presentation*.

## Future changes in accounting policies

Effective for the fiscal year beginning April 1, 2012, UHN will be required to follow the accounting policies in the Public Sector Accounting ["PSA"] Handbook. UHN will adopt the new standards in its fiscal 2013 financial statements.

The Public Sector Accounting Board ["PSAB"] has approved the inclusion of the CICA Handbook – Accounting standards addressing issues unique to not-for-profit organizations into the PSA Handbook as the PS4200 series. The application of PS4200 series by government not-for-profit organizations is optional. UHN has chosen to apply the PS4200 series and is currently evaluating the impact of adopting the PSA Handbook standards.

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

## 3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Ontario Ministry of Health and Long-Term Care/<br>Toronto Central Local Health Integration Network | **33,764** | 16,436 |
| Patient receivables | **15,646** | 14,409 |
| Other receivables | **30,752** | 21,891 |
| Princess Margaret Hospital Foundation *[note 14[b]]* | **27,068** | 19,962 |
| Toronto General and Western Hospital Foundation *[note 14[a]]* | **9,640** | 3,818 |
| Arthritis Research Foundation *[note 14[c]]* | **1,524** | 1,513 |
| Toronto Rehabilitation Institute Foundation *[note 14[d]]* | **6,365** | 8,646 |
| Research-related receivables | **57,200** | 52,027 |
| Short-term receivable | **11,543** | 33,147 |
| Current portion of loans receivable *[note 4]* | **873** | 350 |
| | **194,375** | 172,199 |

## 4. LOANS RECEIVABLE

Loans receivable consist of the following:

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

[a] On June 13, 2008, UHN issued a vendor take-back note of $900 to a third party, with principal payments commencing on July 1, 2009 and quarterly interest payments commencing on September 1, 2008. The loan was repaid in full during 2012.

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

[b] On January 31, 2009, UHN advanced a five-year term loan of $750 to 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. There is a provision for doubtful accounts equal to the deficit of Shanghai Research and Development *[note 6[c]]*.

[c] On March 5, 2012, UHN entered into an agreement with Plexxus *[note 15[d]]* to advance $6,932 with principal and interest payments commencing in fiscal 2013 and ending in fiscal 2016.

## 5. CAPITAL ASSETS

Capital assets consist of the following:

| | | **2012** | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated depreciation**<br>$ | **Net book value**<br>$ |
| 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** |

| | | **2011** | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated depreciation**<br>$ | **Net book value**<br>$ |
| 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 [2011 - $88,329] of costs and $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 $1,919 [2011 - $11,762] and accumulated depreciation of $1,161 [2011 - $11,762] and equipment and furniture with a cost of $13,552 [2011 - $5,880] and accumulated depreciation of $11,694 [2011 - $5,880].

## 6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

| | **2012**<br>$ | **2011**<br>$ |
|---|---|---|
| Cash and cash equivalents | **7,247** | 19,464 |
| Short-term securities | **118,362** | 110,245 |
| Term deposits *[note 6[a]]* | **58,863** | — |
| Government bonds *[note 6[a]]* | **66,615** | 86,387 |
| Corporate bonds *[note 6[a]]* | **41,575** | 33,892 |
| Other *[note 6[d]]* | **2,200** | — |
| | **294,862** | 249,988 |

Cash and cash equivalents are included in long-term investments to the extent required for long-term investments to be equal to the total of contingency funds held in segregated trust accounts *[note 6[b]]*, deferred research contributions *[note 8]*, internally restricted net assets *[note 12]* and certain long-term liabilities.

During the year, UHN earned interest income of $7,849 [2011 - $5,675] which is included in ancillary services and other revenue in the statement of operations and changes in unrestricted net assets.

**[a] Fixed-income investments**

UHN's fixed-income investments are classified as available for sale. The change in the unrealized gain of $2,557 [2011 - $670] on these fixed-income securities is recorded in the statement of operations and changes in unrestricted net assets.

The term deposits have an average term to maturity of one year and ten months and an average yield of 2.14%.

The bonds have an average term to maturity of two years and eight months and an average yield of 3.34%.

**[b] Contingency funds**

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

One fund, with a 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]*, 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 contingency 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.

**[c] 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 and a loan receivable for CDN $750 *[note 4[b]]*. During the year, UHN recorded Shanghai Research and Development's net income of $7 [2011 - net loss of $228] 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:

| | **2012** $ | **2011** $ |
|---|---|---|
| Assets | **172** | 306 |
| Liabilities | **93** | 217 |
| Long-term loan *[note 4[b]]* | **750** | 750 |
| Deficit *[note 4[b]]* | **(671)** | (661) |
| Revenue | **358** | 216 |
| Expenses | **351** | 444 |

**[d] Other investments**

UHN has interests in a variety of early-stage research entities. The shares of one of these entities is traded on an exchange and the fair value is recorded in the accounts. The shares of the other entities have no current market value and therefore no value has been recorded in the accounts.

## 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 and receivable from the MaRS Trust related to financing proceeds in excess of the cost of the building and leasehold inducements. The obligation has been reduced by payments made since August 1, 2005, when payments commenced. During 2012, interest paid was $5,973 [2011 - $6,073] and interest expense was $5,955 [2011 - $6,057].

UHN has subleased 136,597 square feet of the TMRT. The sublease expires July 31, 2020 and has an annual average base rent of $2,809.

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

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

| | $ |
|---|---|
| 2013 | 1,676 |
| 2014 | 1,790 |
| 2015 | 1,913 |
| 2016 | 2,043 |
| 2017 | 2,183 |
| Thereafter | 78,060 |
| Due to MaRS Development Trust | 87,665 |
| Less current portion | 1,676 |
| | 85,989 |

## 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:

| | **2012**<br>$ | **2011**<br>$ |
|---|---|---|
| **Deferred research contributions, beginning of year** | **157,780** | 159,072 |
| Externally restricted contributions *[note 14]* | **263,790** | 233,718 |
| Less amounts recognized as revenue | **(241,642)** | (235,010) |
| **Deferred research contributions, end of year** | **179,928** | 157,780 |

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

## 9. LONG-TERM DEBT

Long-term debt consists of the following:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| 5.64% Secured Bonds, Series 1 *[note 9[a]]* | **203,173** | 216,197 |
| Equity loan *[note 9[b]]* | **1,099** | 1,132 |
| Other loans *[note 9[b]]* | **12,158** | 12,489 |
| | **216,430** | 229,818 |
| Less current portion | **14,160** | 13,388 |
| | **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 all cash receipts, book debts and monies of UHN and a floating charge on all other property and assets of UHN, other than certain excluded assets such as 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[b]]*. During the year, interest paid was $12,020 [2011 - $12,725] and interest expense was $11,801 [2011 - $12,519].

[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 payment 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 $994 [2011 - $1,020] and interest expense was $994 [2011 - $1,020].

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

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

| | $ |
|---|---|
| 2013 | 14,160 |
| 2014 | 14,978 |
| 2015 | 15,844 |
| 2016 | 16,760 |
| 2017 | 17,727 |
| Thereafter | 136,961 |
| | 216,430 |

[d] On June 29, 2011, in order to manage the exposure to changes in interest rates, 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 $4,390 and is recorded in accounts payable and accrued liabilities in the statement of financial position. The change in the fair value of the interest rate swap is a loss of $4,390 and is recorded under supplies and other expenses in the statement of operations and changes in unrestricted net assets.

## 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 $62,194 [2011 - $60,197]. These amounts are included in compensation expense in the statement of operations and changes in unrestricted net assets. The most recent valuation for financial reporting purposes completed by HOOPP as of December 31, 2011 disclosed net assets available for benefits of $40,321 million with pension obligations of $36,782 million, resulting in a surplus of $3,539 million.

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

**[b] OCI Pension Plan**

Certain employees of UHN have remained in a voluntary pension plan that was established for the employees of the former Ontario Cancer Institute/Princess Margaret Hospital. Effective March 31, 2009, all contributions to the OCI Pension Plan were stopped.

Most employees, former employees and pensioners covered by the OCI Pension Plan have transferred to HOOPP. The only members now remaining in the OCI Pension Plan are former employees [pensioners and terminated vested members]. On July 20, 2011, UHN's Board of Trustees approved the full wind up of the OCI Pension Plan effective October 1, 2011. A request for approval was submitted to the Financial Services Commission of Ontario on March 22, 2012.

As at March 31, 2012, the fair value of the OCI Pension Plan assets was $29,264 and the accrued benefits were $34,764, resulting in a deficit of $5,500 [2011 - $3,696]. This deficit is included in accounts payable and accrued liabilities in the statement of financial position.

**[c] Other defined benefit plans**

UHN offers various non-pension post-employment and post-retirement benefit plans to its employees that provide life insurance, medical and dental benefits. These plans are accounted for as defined benefit plans and are not funded by UHN.

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

| | **2012**<br>$ | **2011**<br>$ |
|---|---|---|
| Accrued benefit obligations | **50,376** | 41,323 |
| Unamortized net transitional liability | **—** | (552) |
| Unamortized actuarial loss | **(11,838)** | (6,838) |
| Unamortized past service gain | **(983)** | 952 |
| **Employee future benefit liabilities** | **37,555** | 34,885 |

The net expense for these plans for the year ended March 31, 2012 is $5,170 [2011 - $4,796].

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

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

| | **2012** | **2011** |
|---|---|---|
| | % | % |
| Discount rate | **4.34** | 5.63 |
| Rate of compensation increase | **3.14** | 3.14 |

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

| | **2012** | **2011** |
|---|---|---|
| | % | % |
| Discount rate | **5.64** | 5.68 |
| Rate of compensation increase | **3.14** | 3.14 |

Health care costs were assumed to increase by 11% in 2008, declining by 1% per year to 6% in 2013. Dental costs were assumed to increase by 4% per year.

The accrued benefit obligations of the other defined benefit plans are measured as at March 31, and are based on actuarial valuations as of November 1, 2010 and January 1, 2012 .

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

| | **2012** | **2011** |
|---|---|---|
| | $ | $ |
| Employer's contributions | **2,490** | 2,065 |
| Employees' contributions | **—** | — |
| Benefits paid | **2,490** | 2,065 |

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

## 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:

| | **2012**<br>$ | **2011**<br>$ |
|---|---|---|
| **Deferred capital contributions, beginning of year** | **586,552** | 531,650 |
| Add contributions for capital purposes *[note 14]* | **92,871** | 128,090 |
| Less amortization of deferred capital contributions | **(73,679)** | (73,188) |
| **Deferred capital contributions, end of year** | **605,744** | 586,552 |

## 12. INTERNALLY RESTRICTED NET ASSETS

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

In fiscal 2012, the Board of Trustees approved a net transfer of $29,817 [2011 - $10,270] from unrestricted to internally restricted net assets. An amount of $37,415 [2011 - $16,163] 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 2012, $7,598 [2011 - $5,893], 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, 2012

## 13. STATEMENT OF CASH FLOWS

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

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **Sources (uses) of cash** | | |
| Accounts receivable | **(46,923)** | (995) |
| Inventory and prepaid expenses | **400** | (2,824) |
| Accounts payable and accrued liabilities | **72,308** | 18,843 |
| | **25,785** | 15,024 |

## 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, 2012, it had net assets of $311,398 [2011 - $297,411]. For the year ended March 31, 2012, grants of $49,639 [2011 - $53,317] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2012, UHN had receivables from the TG/WH Foundation of $9,640 [2011 - $3,818] recorded in accounts receivable *[note 3]*.

[b] The PMH Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital and operating purposes in connection with cancer research, education and treatment. The PMH Foundation's accounts are not included in these financial statements. As at March 31, 2012, it had net assets of $348,998 [2011 - $322,624]. For the year ended March 31, 2012, grants of $63,484 [2011 - $54,322] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2012, UHN had receivables from the PMH Foundation of $27,068 [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, 2012, it had net assets of $21,253 [2011 -

$21,352]. For the year ended March 31, 2012, grants of $2,192 [2011 - $2,482] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2012, UHN had receivables from the AR Foundation of $1,524 [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, 2012, it had net assets of $26,159 [2011 - $33,026]. For the year ended March 31, 2012, grants of $9,150 [2011 - $12,385] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2012, UHN had receivables from the TRI Foundation of $6,365 [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 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, 2012.

[c] As at March 31, 2012, UHN's Board of Trustees had approved expenditures for construction and renovation of which $139,902 [2011 - $140,353] had not been recorded in the accounts. Contracts have been entered into with respect to costs of $104,163.

[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

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

cost-recovery basis. The objective is to provide these services at a lower cost as compared to the members' costs prior to entering into the agreement. Based on the agreement, Plexxus has the right to charge membership fees to its members. 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, 2012, no member was in default.

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

| | $ |
|---|---|
| 2013 | 8,339 |
| 2014 | 5,757 |
| 2015 | 4,329 |
| 2016 | 3,650 |
| 2017 | 3,484 |
| Thereafter | 6,380 |

## 16. CREDIT FACILITIES

UHN has the following 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, 2012 - 2.45%] or bankers' acceptance rate plus 0.45% [March 31, 2012 - 1.57%]. The facility agreement is collateralized by all present and future acquired research equipment, together with all enhancements to a maximum value of $153,000.

As at March 31, 2012, no funds had been drawn on the above facilities.

## 17. FINANCIAL INSTRUMENTS

UHN is subject to interest rate price risk with respect to its bond investment portfolio and its long-term debt; and credit risk with respect to its accounts receivable and bond portfolio. To manage credit risk on investments, UHN has established an investment policy with restrictions related to the credit rating of issuers.

## 18. CAPITAL MANAGEMENT

In managing capital, UHN focuses on liquid resources available for operations. UHN's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. In addition, UHN is required to achieve certain performance measures related to working capital set out in the Accountability Agreements. The need for sufficient liquid resources and achieving the performance measures is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2012, UHN has met its objective of having sufficient liquid resources to meet its current obligations and the performance measures related to working capital set out in the Accountability Agreements.

## 19. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 financial statements.