

Financial Statements

University Health Network
March 31, 2011

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, 2011 and the statements of operations and 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, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
June 15, 2011.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

University Health Network

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2011 \$	2010 \$
ASSETS		
Current		
Cash and cash equivalents	171,611	132,238
Accounts receivable <i>[note 3]</i>	117,015	116,117
Inventory	12,319	11,336
Prepaid expenses	6,534	5,189
Total current assets	307,479	264,880
Loans receivable <i>[note 4]</i>	1,939	2,517
Capital assets, net <i>[note 5]</i>	976,132	985,693
Long-term investments <i>[note 6]</i>	220,157	206,378
	1,505,707	1,459,468
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities <i>[note 10[b]]</i>	303,337	268,030
Current portion of long-term liabilities <i>[notes 7 and 9]</i>	14,593	13,786
Total current liabilities	317,930	281,816
Due to MaRS Development Trust <i>[note 7]</i>	87,664	89,233
Deferred research contributions <i>[note 8]</i>	151,383	153,767
Long-term debt <i>[note 9]</i>	203,173	216,197
Employee future benefit liabilities <i>[note 10]</i>	24,928	23,232
Deferred capital contributions <i>[note 11]</i>	411,366	410,533
Total liabilities	1,196,444	1,174,778
Commitments and contingencies <i>[note 14]</i>		
Net assets	309,263	284,690
	1,505,707	1,459,468

See accompanying notes

University Health Network

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

[in thousands of dollars]

Year ended March 31

	2011	2010
	\$	\$
REVENUE		
Ontario Ministry of Health and Long-Term Care/ Toronto Central – Local Health Integration Network		
Hospital programs	847,529	820,639
Specifically funded programs	79,354	69,682
Other patient services	149,799	156,068
Grants and donations for research and other purposes [notes 8 and 13]	228,362	230,084
Ancillary services and other [note 6]	214,538	205,098
Amortization of deferred capital contributions [note 11]	69,479	72,648
	1,589,061	1,554,219
EXPENSES		
Compensation [note 10]	938,676	923,128
Medical, surgical supplies and drugs	188,805	180,451
Specifically funded programs	79,496	69,688
Plant operations and equipment maintenance	73,278	74,321
Depreciation [note 5]	91,865	93,826
Interest on long-term liabilities [notes 7 and 9]	18,576	19,842
Supplies and other	174,462	176,526
	1,565,158	1,537,782
Excess of revenue over expenses for the year	23,903	16,437
Net change in unrealized gain on available for sale investments [note 6[a]]	670	—
Net assets, beginning of year	284,690	268,253
Net assets, end of year	309,263	284,690

See accompanying notes

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STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	23,903	16,437
Add (deduct) items not involving cash		
Depreciation	91,865	93,826
Amortization of deferred capital contributions	(69,479)	(72,648)
Provision for doubtful accounts <i>[note 4]</i>	228	433
	46,517	38,048
Net change in non-cash working capital balances related to operations <i>[note 12]</i>	18,231	2,063
Net increase (decrease) in deferred research contributions	(2,384)	23,914
Net increase in employee future benefit liabilities	1,696	870
Cash provided by operating activities	64,060	64,895
INVESTING ACTIVITIES		
Purchase of capital assets	(68,404)	(71,633)
Net decrease in loans receivable	300	742
Increase in long-term investments	(13,109)	(20,837)
Cash used in investing activities	(81,213)	(91,728)
FINANCING ACTIVITIES		
Contributions received for capital purposes	70,312	60,563
Decrease in due to MaRS Development Trust	(1,468)	(1,375)
Repayment of long-term debt	(12,318)	(16,760)
Cash provided by financing activities	56,526	42,428
Net increase in cash and cash equivalents during the year	39,373	15,595
Cash and cash equivalents, beginning of year	132,238	116,643
Cash and cash equivalents, end of year	171,611	132,238

See accompanying notes

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NOTES TO FINANCIAL STATEMENTS

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

March 31, 2011

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 three hospital sites. These sites are separately identified as Princess Margaret Hospital, Toronto General Hospital and Toronto Western Hospital.

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

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 13]:

- Toronto General and Western Hospital Foundation [the "TG/WH Foundation"]
- Princess Margaret Hospital Foundation [the "PMH Foundation"]
- The Arthritis & Autoimmunity Research Centre Foundation [the "AARC Foundation"]
- The Toronto Hospital Research Corporation

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.

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NOTES TO FINANCIAL STATEMENTS

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March 31, 2011

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" or the "Plan"]. Since the intention is to eventually wind up the OCI Pension Plan, 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.

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NOTES TO FINANCIAL STATEMENTS

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

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- 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 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.

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NOTES TO FINANCIAL STATEMENTS

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

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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.

In particular, 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 Hospital Service Accountability Agreement [the "HSAA"] with the TC-LHIN that sets 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.

The HSAA sets 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.

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NOTES TO FINANCIAL STATEMENTS

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

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Financial instruments

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

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 the 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.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2011	2010
	\$	\$
Ontario Ministry of Health and Long-Term Care/ Toronto Central - Local Health Integration Network	8,762	17,717
Patient receivables	12,560	10,558
Other receivables	20,976	15,602
Princess Margaret Hospital Foundation [note 13[b]]	19,962	19,334
Toronto General and Western Hospital Foundation [note 13[a]]	3,818	5,875
Arthritis & Autoimmunity Research Centre Foundation [note 13[c]]	1,513	1,312
Research-related receivables	49,074	45,419
Current portion of loans receivable [note 4]	350	300
	117,015	116,117

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NOTES TO FINANCIAL STATEMENTS

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

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4. LOANS RECEIVABLE

Loans receivable consist of the following:

	2011	2010
	\$	\$
Term loans		
[a] 7.25% per annum with quarterly interest payments, maturing July 1, 2011	350	650
[b] 2.27% per annum with quarterly interest payments, maturing on December 31, 2013 <i>[note 6[c]]</i>	750	750
Other loans receivable	1,850	1,850
	2,950	3,250
Less current portion included in accounts receivable <i>[note 3]</i>	350	300
Less provision for doubtful accounts	661	433
	1,939	2,517

[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.

[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]]*.

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NOTES TO FINANCIAL STATEMENTS

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5. CAPITAL ASSETS

Capital assets consist of the following:

	2011		
	Cost \$	Accumulated depreciation \$	Net book value \$
Land	5,564	—	5,564
Buildings and improvements	1,118,078	386,057	732,021
Equipment and furniture	681,849	506,121	175,728
Construction in progress	62,819	—	62,819
	1,868,310	892,178	976,132

	2010		
	Cost \$	Accumulated depreciation \$	Net book value \$
Land	5,564	—	5,564
Buildings and improvements	1,116,660	358,448	758,212
Equipment and furniture	641,180	459,507	181,673
Construction in progress	40,244	—	40,244
	1,803,648	817,955	985,693

Buildings and improvements include \$88,329 [2010 - \$88,329] of costs and \$16,684 [2010 - \$13,740] of accumulated depreciation related to assets under capital lease obligations [note 7].

During the year, UHN reduced the cost and accumulated depreciation by \$11,762 for buildings and improvements and by \$5,880 for equipment and furniture which were fully depreciated.

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NOTES TO FINANCIAL STATEMENTS

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

March 31, 2011

6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2011	2010
	\$	\$
Cash and cash equivalents	19,424	47,821
Short-term securities	94,433	57,374
Government bonds	72,408	64,500
Corporate bonds	33,892	36,683
	220,157	206,378

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]], and the balance of deferred research contributions [note 8]. As well, at March 31, 2011, an amount equal to capital commitments of \$16,163 is included which represents net operating surpluses included in net assets that have been set aside for future capital projects. During the year, UHN earned interest income of \$5,108 [2010 - \$5,841] which is included in ancillary services and other revenue in the statement of operations and changes in net assets.

[a] Bonds

In previous fiscal years, UHN classified its fixed-income investments as held to maturity and carried these investments at amortized cost. These fixed-income investments had a market value of \$103,035 and cost of \$101,183 as at March 31, 2010. During fiscal 2011, UHN reclassified its fixed-income investments from held to maturity to available for sale. The unrealized gain of \$670 on these investments as at March 31, 2011 is recorded in the statement of operations and changes in net assets.

The bonds have an average term to maturity of two years and five months and an average yield of 3.60% based on market value.

[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.

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

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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]. 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 loss of \$228 [2010 - \$472] as ancillary services and other revenue. 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:

	2011	2010
	\$	\$
Assets	306	453
Liabilities	217	136
Long-term loan [note 4[b]]	750	750
Deficit [note 4[b]]	(661)	(433)
Revenue	216	377
Expenses	444	849

[d] Other investments

UHN has a minority interest in a variety of early-stage research entities with no current market value for which no value has been recorded in the accounts.

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

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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 2011, interest paid was \$6,057 [2010 - \$6,167].

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.

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

	\$
2012	1,569
2013	1,676
2014	1,790
2015	1,913
2016	2,043
Thereafter	80,242
Due to MaRS Development Trust	89,233
Less current portion	1,569
	<u>87,664</u>

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NOTES TO FINANCIAL STATEMENTS

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

March 31, 2011

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:

	2011	2010
	\$	\$
Deferred research contributions, beginning of year	153,767	129,853
Externally restricted contributions <i>[note 13]</i>	225,978	253,998
Less amounts recognized as revenue	(228,362)	(230,084)
Deferred research contributions, end of year	151,383	153,767

9. LONG-TERM DEBT

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 \$12,725 [2010 - \$13,392].

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

	\$
2012	13,024
2013	13,769
2014	14,557
2015	15,391
2016	16,272
Thereafter	143,184
	216,197
Less current portion	13,024
	203,173

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

March 31, 2011

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 \$53,519 [2010 - \$52,431]. These amounts are included in compensation expense in the statement of operations and changes in net assets. The most recent valuation for financial reporting purposes completed by HOOPP as of December 31, 2010 disclosed an actuarial value of net assets of \$35,073 million with accrued pension benefits of \$34,897 million, resulting in a surplus of \$176 million.

[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.

Employees of the Plan were given the option to transfer from the Plan to HOOPP, and these transfers were completed in three phases, with the intention to eventually wind up the Plan. On December 1, 2006, Phase I was approved by the Financial Services Commission of Ontario [the "FSCO"] and, during fiscal 2007, \$57,416 was transferred to HOOPP. On July 2, 2008, Phase II was approved by the FSCO and, during fiscal 2008, \$15,057 was transferred to HOOPP. The Phase III transfer was approved by the FSCO on October 25, 2010 and, during fiscal 2011, \$25,632 was transferred to HOOPP. The only members now remaining in the Plan are former employees [pensioners and terminated vested members].

As at March 31, 2011, the fair value of the Plan assets was \$30,729 and the accrued benefits were \$34,425, resulting in a deficit of \$3,696 [2010 - \$3,500]. This deficit is included in accounts payable and accrued liabilities in the statement of financial position.

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

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[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:

	2011 \$	2010 \$
Accrued benefit obligations	29,997	27,610
Unamortized net transitional liability	(552)	(1,103)
Unamortized actuarial loss	(3,989)	(2,346)
Unamortized past service costs	(528)	(929)
Employee future benefit liabilities	24,928	23,232

The net expense for these plans for the year ended March 31, 2011 is \$3,421 [2010 - \$1,790].

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

	2011 %	2010 %
Discount rate	5.75	5.75
Rate of compensation increase	3.00	3.00

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

	2011 %	2010 %
Discount rate	5.75	8.50
Rate of compensation increase	3.00	3.00

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.

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The accrued benefit obligations of the other defined benefit plans are measured as at March 31, and are based on an actuarial valuation as of April 1, 2007. The next valuation will be completed as of April 1, 2011.

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

	2011	2010
	\$	\$
Employer's contributions	1,725	1,590
Employees' contributions	—	—
Benefits paid	1,725	1,590

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:

	2011	2010
	\$	\$
Deferred capital contributions, beginning of year	410,533	422,618
Add contributions for capital purposes <i>[note 13]</i>	70,312	60,563
Less amortization of deferred capital contributions	(69,479)	(72,648)
Deferred capital contributions, end of year	411,366	410,533

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

March 31, 2011

12. STATEMENT OF CASH FLOWS

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

	2011	2010
	\$	\$
<hr/>		
Sources (uses) of cash		
Accounts receivable	(848)	6,100
Inventory and prepaid expenses	(2,328)	(233)
Accounts payable and accrued liabilities	21,407	(3,804)
	<hr/>	<hr/>
	18,231	2,063
	<hr/>	<hr/>

13. 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, 2011, it had net assets of \$297,411 [2010 - \$281,596]. For the year ended March 31, 2011, grants of \$53,317 [2010 - \$42,996] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2011, UHN had receivables from the TG/WH Foundation of \$3,818 [2010 - \$5,875] 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, 2011, it had net assets of \$322,624 [2010 - \$284,582]. For the year ended March 31, 2011, grants of \$54,322 [2010 - \$53,818] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2011, UHN had receivables from the PMH Foundation of \$19,962 [2010 - \$19,334] recorded in accounts receivable [note 3].
- [c] The AARC 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, 2011, it had net assets of \$21,352 [2010 -

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\$20,740]. For the year ended March 31, 2011, grants of \$2,482 [2010 - \$2,384] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2011, UHN had receivables from the AARC Foundation of \$1,513 [2010 - \$1,312] recorded in accounts receivable [note 3].

[d] The Toronto Hospital Research Corporation is 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, 2011.

[c] The UHN Board of Trustees has approved expenditures for construction and renovation of which \$140,353 [2010 - \$140,722] have not been incurred and not recorded in the accounts as at March 31, 2011. Of this amount, contracts have been entered into with respect to costs of \$109,503.

[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. 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, 2011, no member was in default.

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

	\$
2012	8,823
2013	6,352
2014	3,755
2015	2,467
2016	2,051
Thereafter	7,370

15. 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' acceptance 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 measurement 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, 2011 - 2.45%] or bankers' acceptance rate plus 0.45% [March 31, 2011 - 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, 2011, no funds had been drawn on the above facilities.

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

March 31, 2011

16. 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.

17. 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 HSAA. 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, 2011, 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 HSAA.

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 financial statements.

19. SUBSEQUENT EVENT

On June 15, 2011, the Board of Trustees approved the integration of UHN and Toronto Rehabilitation Institute with a target date of completion of June 30, 2011.

