Financial Statements

University Health Network

March 31, 2010

Ernst & Young

Quality In Everything We Do

AUDITORS' REPORT

To the Board of Trustees of
University Health Network

We have audited the statement of financial position of **University Health Network** ["UHN"] as at March 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of UHN's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of UHN as at March 31, 2010 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,
May 26, 2010.

University Health Network

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2010 $	**2009** $
ASSETS *[note 9]*		
Current		
Cash and cash equivalents	**132,238**	116,643
Accounts receivable *[note 3]*	**116,117**	122,659
Inventory	**11,336**	11,520
Prepaid expenses	**5,189**	4,772
Total current assets	**264,880**	255,594
Loans receivable *[note 4]*	**2,517**	3,250
Capital assets, net *[note 5]*	**985,693**	997,886
Long-term investments *[note 6]*	**206,378**	185,541
	1,459,468	1,442,271
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 10[b]]*	**268,030**	261,834
Current portion of long-term liabilities *[notes 7 and 9]*	**13,786**	13,558
Total current liabilities	**281,816**	275,392
Due to MaRS Development Trust *[note 7]*	**89,233**	90,701
Deferred research contributions *[note 8]*	**153,767**	129,853
Long-term debt *[note 9]*	**216,197**	233,092
Employee future benefit liabilities *[note 10]*	**23,232**	22,362
Deferred capital contributions *[note 11]*	**410,533**	422,618
Total liabilities	**1,174,778**	1,174,018
Commitments and contingencies *[note 14]*		
Net assets	**284,690**	268,253
	1,459,468	1,442,271

See accompanying notes

University Health Network

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

[in thousands of dollars]

Year ended March 31

	2010 $	**2009** $
REVENUE		
Ontario Ministry of Health and Long-Term Care/		
Toronto Central – Local Health Integration Network		
Hospital programs	**820,639**	800,169
Specifically funded programs	**58,715**	54,465
Other patient services	**156,068**	164,852
Grants and donations for research and other purposes *[notes 8 and 13]*	**230,084**	213,782
Ancillary services and other *[note 6]*	**205,098**	198,741
Amortization of deferred capital contributions *[note 11]*	**72,648**	70,923
	1,543,252	1,502,932
EXPENSES		
Compensation *[note 10]*	**923,128**	900,402
Medical, surgical supplies and drugs	**180,451**	173,553
Specifically funded programs	**58,721**	54,665
Plant operations and equipment maintenance	**74,321**	74,357
Depreciation *[note 5]*	**93,826**	92,313
Write-off of capital assets	**—**	6,761
Interest on long-term liabilities *[notes 7 and 9]*	**19,842**	20,330
Supplies and other *[notes 6[c] and [d]]*	**176,526**	174,146
	1,526,815	1,496,527
Excess of revenue over expenses for the year	**16,437**	6,405
Net assets, beginning of year	**268,253**	261,848
Net assets, end of year	**284,690**	268,253

See accompanying notes

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2010 $	2009 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**16,437**	6,405
Add (deduct) items not involving cash		
Write-off of capital assets	**—**	6,761
Depreciation	**93,826**	92,313
Amortization of deferred capital contributions	**(72,648)**	(70,923)
Provision for doubtful accounts	**433**	—
	38,048	34,556
Net change in non-cash working capital balances related to operations *[note 12]*	**12,063**	(1,498)
Net increase in deferred research contributions	**23,914**	14,478
Net increase in employee future benefit liabilities	**870**	1,532
Cash provided by operating activities	**74,895**	49,068
INVESTING ACTIVITIES		
Purchase of capital assets	**(81,633)**	(71,406)
Decrease (increase) in loans receivable	**742**	(409)
Increase in long-term investments	**(20,837)**	(14,495)
Cash used in investing activities	**(101,728)**	(86,310)
FINANCING ACTIVITIES		
Contributions received for capital purposes	**60,563**	72,925
Decrease in due to MaRS Development Trust	**(1,375)**	(1,286)
Repayment of long-term debt	**(16,760)**	(11,528)
Cash provided by financing activities	**42,428**	60,111
Net increase in cash during the year	**15,595**	22,869
Cash and cash equivalents, beginning of year	**116,643**	93,774
Cash and cash equivalents, end of year	**132,238**	116,643

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

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

March 31, 2010

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) [the "Act"], 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[e]]*.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and short-term investments that have a term of maturity of less than 90 days at 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.

Fixed-income investments with fixed or determinable payments that management has the positive intention and ability to hold to maturity are recorded at amortized cost using the effective interest rate method. Other investments are recorded at fair value. 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 direct construction, development costs and net capitalized interest. Interest costs, net of related interest income, are capitalized during the construction period. No depreciation is recorded until construction is substantially complete and the assets are ready for productive use.

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 2009 and 2010.

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.

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*.

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

Change in accounting policies

Effective April 1, 2009, UHN adopted retroactively those revisions to the 4400 series and certain other sections to amend or improve those parts of the CICA Handbook related to not-for-profit organizations that impact its financial statements. As a result of adopting the changes to the recommendations in CICA 4400, *Financial Statement Presentation for Not-For-Profit Organizations,* that eliminate the requirement to separately disclose the amount of net assets invested in capital assets, UHN has eliminated from the financial statements details about the amount of net assets invested in capital assets and the calculation of this amount. As a result, UHN has reclassified the prior year statement of financial position to include the amount of net assets invested in capital assets as at April 1, 2008 of $265,669 and as at April 1, 2009 of $248,663 in net assets.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2010	**2009**
	$	$
Ontario Ministry of Health and Long-Term Care/ Toronto Central - Local Health Integration Network	**17,717**	8,234
Patient receivables	**10,558**	12,647
Other receivables	**15,602**	20,006
Princess Margaret Hospital Foundation *[note 13[b]]*	**19,334**	18,475
Toronto General and Western Hospital Foundation *[note 13[a]]*	**5,875**	5,601
Arthritis & Autoimmunity Research Centre Foundation *[note 13[c]]*	**1,312**	1,516
Research-related receivables	**45,419**	55,438
Current portion of loans receivable *[note 4]*	**300**	742
	116,117	122,659

NOTES TO FINANCIAL STATEMENTS

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

March 31, 2010

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	2010 $	**2009** $
Term loans		
[a] 7.25% per annum with quarterly interest payments, maturing July 1, 2011 *[note 6[d]]*	**650**	900
[b] 6.21% per annum with equal quarterly blended payments of $128, maturing March 31, 2010	**—**	492
[c] 2.27% per annum with quarterly interest payments, maturing on December 31, 2013 *[note 6[e]]*	**750**	750
Other loans receivable	**1,850**	1,850
	3,250	3,992
Less current portion included in accounts receivable *[note 3]*	**300**	742
Less provision for doubtful accounts	**433**	—
	2,517	3,250

[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 *[note 6[d]]*.

[b] As at March 31, 2006, UHN advanced a four-year term loan of $1,800 to a third party, with payments commencing on June 30, 2006. The loan was repaid in full during 2010.

[c] On January 31, 2009, UHN advanced a five-year term loan of $750 to Shanghai Research and Development, a related party *[note 6[e]]*, 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.

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

5. CAPITAL ASSETS

Capital assets consist of the following:

	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**

	2009		
	Cost $	Accumulated depreciation $	Net book value $
Land	5,564	—	5,564
Buildings and improvements	1,071,079	320,682	750,397
Equipment and furniture	605,393	407,896	197,497
Construction in progress	44,428	—	44,428
	1,726,464	728,578	997,886

Buildings and improvements include $88,329 [2009 - $88,329] of costs and $13,740 [2009 - $10,796] of accumulated depreciation related to assets under capital lease obligations *[note 7]*.

NOTES TO FINANCIAL STATEMENTS

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

March 31, 2010

6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2010 $	2009 $
Cash and cash equivalents	**47,821**	42,000
Short-term securities	**57,374**	14,424
Government bonds	**64,500**	84,394
Corporate bonds	**36,683**	44,684
Other investments		
Shanghai Research and Development	**—**	39
	206,378	185,541

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 contributions.

[a] Bonds

The bonds, which are classified as held to maturity, have an average term to maturity of two years and eight months, an average yield of 4.45% and a market value of $103,035 [2009 - $131,470]. During the year, UHN earned $5,841 [2009 - $5,047] in investment income, which is included in ancillary services and other revenue.

[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 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.

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

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] Toronto Medical Laboratories Limited Partnership ["TMLLP"]

TMLLP was originally established to market and provide laboratory services to other hospitals, develop and commercialize laboratory-related innovations and technologies, and lead in research, training and development with respect to laboratory medicine, technologies and utilization.

Effective September 30, 2008, TMLLP was dissolved. As a part of the dissolution agreement, UHN received a closing cash distribution of $1,667 and a promissory note in the amount of $1,043 for the redemption of limited partnership units, which was repaid as at March 31, 2009. UHN also purchased TMLLP's capital assets for $599, which were capitalized as a part of equipment and furniture. The labs now operate under the name of UHN Labs, positioning UHN as the premier provider of pathology services in the Province of Ontario.

During 2009, prior to the dissolution, UHN recorded a pro-rata share of TMLLP's earnings of $499 as ancillary services and other revenue, as well as charged laboratory testing services of $2,013 to TMLLP, which is recorded as ancillary services and other revenue and purchased administration services of $700, which is recorded as supplies and other expenses. The following amounts represent UHN's 50% share of the assets, liabilities, equity, revenue, expenses and distributions of TMLLP as at and for the year ended March 31:

	2010 $	**2009** $
Assets	—	—
Liabilities	—	—
Equity	—	—
Revenue	—	2,578
Expenses	—	2,079
Distributions	—	2,710

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

[d] PRISM Partners Inc.

Effective June 13, 2008, UHN sold its shares in its wholly owned subsidiary, PRISM Partners Inc. ["PRISM"], for total cash proceeds of $300 and a loan receivable of $900 *[note 4[a]],* recognizing a gain on the sale of $587 reported as ancillary services and other revenue.

During 2009, prior to the sale, UHN recorded PRISM's net earnings of $154 as ancillary services and other revenue. UHN was charged indirect project management and cost control fees of $225 by PRISM, which were expensed as supplies and other, and project specific management fees of $167, which were capitalized as part of construction in progress. The following amounts represent UHN's 100% share of the assets, liabilities, equity, revenue and expenses of PRISM as at and for the year ended March 31:

	2010 $	**2009** $
Assets	—	—
Liabilities	—	—
Equity	—	—
Revenue	—	1,678
Expenses	—	1,524

[e] 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 committed an investment of U.S. $2,000 of which the full amount had been paid as of March 31, 2009 through advances totaling U.S. $1,400 and a loan receivable for CDN $750 *[note 4[c]].* During the year, UHN recorded Shanghai Research and Development's net loss of $472 [2009 - $711] as ancillary services and other revenue. The following amounts represent UHN's 100% share of the assets, liabilities, equity, revenue and expenses of Shanghai Research and Development as at and for the year ended March 31:

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

	2010 $	2009 $
Assets	**453**	917
Liabilities	**136**	128
Long-term loan	**750**	750
Equity	**(433)**	39
Revenue	**377**	252
Expenses	**849**	963
Advances	**—**	250

[f] 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.

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 2010, interest paid was $6,167 [2009 - $6,255].

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:

	$
2011	1,468
2012	1,569
2013	1,676
2014	1,790
2015	1,913
Thereafter	82,285
Due to MaRS Development Trust	90,701
Less current portion	1,468
	89,233

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:

	2010 $	**2009** $
Deferred research contributions, beginning of year	**129,853**	115,375
Externally restricted contributions *[note 13]*	**253,998**	228,260
Less amounts recognized as revenue	**(230,084)**	(213,782)
Deferred research contributions, end of year	**153,767**	129,853

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

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2010	**2009**
	$	$
5.64% Secured Bonds, maturing December 8, 2022	**228,515**	240,167
4.991% Term loan compounded semi-annually with monthly blended payments of $64, maturing April 1, 2012	**—**	5,108
	228,515	245,275
Less current portion	**12,318**	12,183
	216,197	233,092

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 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 payments of $13,392 [2009 - $14,023] were made.

During 2010, UHN repaid the term loan. Interest payments of $184 [2009 - $266] were made on the term loan.

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

Repayments of the long-term debt are due as follows:

	$
2011	12,318
2012	13,024
2013	13,769
2014	14,557
2015	15,391
Thereafter	159,456
	228,515

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 $50,916 [2009 - $48,429]. 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, 2009 disclosed a smoothed asset value of $32,556 million with going concern actuarial liabilities of $32,020 million, resulting in a going concern surplus of $536 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 [the "Plan"] were stopped.

Employees of the OCI Pension Plan have been given the option to transfer from the Plan to HOOPP, and these transfers are being 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.

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

During 2009, the Board of Trustees of UHN passed a resolution to partially wind up the Plan under Phase III, subject to regulatory approval. UHN has agreed to pay HOOPP $23,625 in connection with the Phase III transfer. A partial asset transfer valuation is being performed and it is expected this report, together with any necessary documents, will be filed with the FSCO in fiscal 2011.

After the completion of the Phase III transfer and the partial wind-up, there will only be former employees [pensioners and terminated vested members] remaining in the OCI Pension Plan.

As at December 31, 2009, the fair value of the OCI Pension Plan assets was $56,243. As part of the Phase III transfer, an estimated unfunded liability of $3,500 was calculated, which has been recorded in UHN's compensation expense in the statement of operations and changes in net assets and 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:

	2010 $	**2009** $
Accrued benefit obligations	**27,610**	18,813
Unamortized net transitional liability	**(1,103)**	(1,655)
Unamortized actuarial gain (loss)	**(2,346)**	6,533
Unamortized past service costs	**(929)**	(1,329)
Employee future benefit liabilities	**23,232**	22,362

The net expense for these plans for the year ended March 31, 2010 is $1,790 [2009 - $3,006].

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

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

	2010 %	**2009** %
Discount rate	**5.75**	8.50
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:

	2010 %	**2009** %
Discount rate	**8.50**	5.75
Rate of compensation increase	**3.00**	3.00

Health care costs were assumed to increase by 11% in 2009, declining by 1% per year to 6% in 2014. 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 an actuarial valuation as of April 1, 2007.

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

	2010 $	**2009** $
Employer's contributions	**1,590**	1,475
Employees' contributions	**—**	—
Benefits paid	**1,590**	1,475

NOTES TO FINANCIAL STATEMENTS

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

March 31, 2010

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:

	2010 $	2009 $
Deferred capital contributions, beginning of year	**422,618**	429,325
Add contributions for capital purposes *[note 13]*	**60,563**	72,925
Less amortization of deferred capital contributions	**(72,648)**	(70,923)
Less deferred capital contributions related to the write-off of capital assets	**—**	(8,709)
Deferred capital contributions, end of year	**410,533**	422,618

12. STATEMENT OF CASH FLOWS

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

	2010 $	2009 $
Sources (uses) of cash		
Accounts receivable	**6,100**	(9,459)
Inventory and prepaid expenses	**(233)**	(932)
Accounts payable and accrued liabilities	**6,196**	8,893
	12,063	(1,498)

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, 2010, it had net assets of $281,596 [2009 - $250,745]. For the year ended March 31, 2010, grants of $42,996 [2009 - $27,735] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital

contributions. As at March 31, 2010, UHN had receivables from the TG/WH Foundation of $5,875 [2009 - $5,601] 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, 2010, it had net assets of $284,582 [2009 - $231,515]. For the year ended March 31, 2010, grants of $53,818 [2009 - $64,954] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2010, UHN had receivables from the PMH Foundation of $19,334 [2009 - $18,475] 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, 2010, it had net assets of $20,740 [2009 - $18,171]. For the year ended March 31, 2010, grants of $2,384 [2009 - $3,053] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2010, UHN had receivables from the AARC Foundation of $1,312 [2009 - $1,516] 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, 2010.

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

[c] The UHN Board of Trustees has approved expenditures for construction and renovation of which $140,722 [2009 - $21,934] have not been incurred and not recorded in the accounts as at March 31, 2010. Of this amount, contracts have been entered into with respect to costs of $132,975.

[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, 2010, no member was in default.

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

	$
2011	8,586
2012	6,532
2013	3,734
2014	2,055
2015	1,117
Thereafter	5,257

15. FINANCIAL INSTRUMENTS

[a] 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.

[b] UHN has a revolving standby demand line of credit of $50,000. Interest is payable at the bank's prime rate minus 0.75%. The line of credit is collateralized by certain research equipment. As at March 31, 2010, no funds had been drawn on the line of credit.

NOTES TO FINANCIAL STATEMENTS

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

March 31, 2010

16. 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, 2010, 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.

17. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.

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