

Financial Statements

University Health Network
March 31, 2008



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, 2008 and the statements of operations, 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, 2008 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,
May 20, 2008.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

University Health Network

STATEMENT OF FINANCIAL POSITION

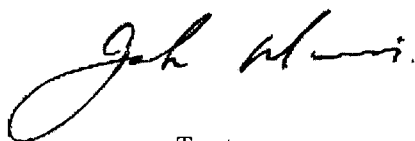
[in thousands of dollars]

As at March 31

	2008 \$	2007 \$
ASSETS		
Current		
Cash and cash equivalents	76,401	66,617
Short-term investments	—	2,093
Accounts receivable [note 3]	112,708	95,112
Inventory	10,680	10,443
Prepaid expenses	4,680	4,093
Total current assets	204,469	178,358
Loans receivable [note 4]	2,841	3,460
Capital assets, net [note 5]	1,034,263	1,029,624
Long-term investments [note 6]	171,046	160,957
	1,412,619	1,372,399
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	235,076	217,068
Current portion of long-term liabilities [notes 7 and 9]	12,814	12,104
Total current liabilities	247,890	229,172
Due to MaRS Development Trust [note 7]	92,076	93,362
Deferred contributions [note 8]	115,375	105,472
Long-term debt [note 9]	245,275	256,803
Employee future benefit liabilities [note 10]	20,830	18,950
Deferred capital contributions [note 11]	429,325	407,530
Total liabilities	1,150,771	1,111,289
Commitments and contingencies [note 15]		
Total net assets	261,848	261,110
	1,412,619	1,372,399

See accompanying notes

On behalf of the Board:



Trustee



Trustee

University Health Network**STATEMENT OF OPERATIONS**

[in thousands of dollars]

Year ended March 31

	2008	2007
	\$	\$
REVENUE		
Ontario Ministry of Health and Long-Term Care/ Toronto Central – Local Health Integration Network		
Hospital programs	760,313	705,204
Specifically funded programs	43,962	40,681
Other patient services	56,818	56,835
Grants and donations for research and other purposes [notes 8 and 14]	202,109	189,504
Ancillary services and other [note 6[b], [c] and [d]]	164,095	160,810
Amortization of deferred capital contributions [note 11]	60,583	53,594
	1,287,880	1,206,628
EXPENSES		
Salaries and benefits [note 10]	745,546	679,235
Medical, surgical supplies and drugs	151,331	146,071
Specifically funded programs	44,519	41,381
Plant operations and equipment maintenance	63,937	63,289
Depreciation	84,758	79,416
Loss on disposal of capital assets	8,256	12,150
Interest on long-term liabilities [notes 7 and 9]	21,364	22,275
Supplies and other	167,431	157,556
	1,287,142	1,201,373
Excess of revenue over expenses for the year	738	5,255

See accompanying notes



University Health Network**STATEMENT OF CHANGES IN NET ASSETS**

[in thousands of dollars]

Year ended March 31

	2008		
	Invested in capital assets \$	Deficit \$	Total \$
	<i>[note 12[a]]</i>		
Net assets, beginning of year	270,862	(9,752)	261,110
Excess of revenue over expenses for the year	—	738	738
Net change in net assets invested in capital assets <i>[note 12[b]]</i>	(5,193)	5,193	—
Net assets, end of year	265,669	(3,821)	261,848
	2007		
	Invested in capital assets \$	Deficit \$	Total \$
	<i>[note 12[a]]</i>		
Net assets, beginning of year	254,891	964	255,855
Excess of revenue over expenses for the year	—	5,255	5,255
Net change in net assets invested in capital assets <i>[note 12[b]]</i>	15,971	(15,971)	—
Net assets, end of year	270,862	(9,752)	261,110

See accompanying notes

University Health Network**STATEMENT OF CASH FLOWS**

[in thousands of dollars]

Year ended March 31

	2008 \$	2007 \$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	738	5,255
Add (deduct) items not involving cash		
Loss on disposal of capital assets	8,256	12,150
Depreciation of capital assets	84,758	79,416
Amortization of deferred capital contributions	(60,583)	(53,594)
	33,169	43,227
Net change in non-cash working capital balances related to operations <i>[note 13]</i>	(412)	5,340
Net increase in deferred contributions	9,903	4,816
Net increase in employee future benefit liabilities	1,880	1,706
Cash provided by operating activities	44,540	55,089
INVESTING ACTIVITIES		
Purchase of capital assets	(97,653)	(103,938)
Decrease in short-term investments	2,093	44,430
Decrease (increase) in loans receivable	619	(1,955)
Increase in long-term investments	(10,089)	(15,789)
Cash used in investing activities	(105,030)	(77,252)
FINANCING ACTIVITIES		
Contributions received for capital purposes	82,378	63,588
Decrease in due to MaRS Development Trust	(1,204)	(1,595)
Repayment of long-term debt	(10,900)	(10,288)
Cash provided by financing activities	70,274	51,705
Net increase in cash position during the year	9,784	29,542
Cash and cash equivalents, beginning of year	66,617	37,075
Cash and cash equivalents, end of year	76,401	66,617
Represented by:		
Cash	76,299	66,515
Cash equivalents	102	102
	76,401	66,617

See accompanying notes

University Health Network

NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

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. In order to maintain its status as an organization registered under the Act, it must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

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"]
- The Arthritis and Autoimmunity Research Centre Foundation [the "AARC Foundation"]
- The Toronto Hospital Research Corporation

The investments in the following for-profit entities are accounted for by the equity method [note 6]:

- Toronto Medical Laboratories Limited Partnership ["TMLLP"]
- PRISM Partners Inc. ["PRISM"]
- Yi-En Medical System Research and Development (Shanghai) Co. Ltd. ["Shanghai Research and Development"]

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.

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NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

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 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:

[a] Multi-employer plan

Defined contribution accounting is applied for the Hospitals 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.

[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 [the "OCI Pension Plan"]. UHN accounts for the OCI Pension Plan on a defined contribution basis, whereby contributions are expensed when due.

[c] 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.

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NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

Inventory

Inventory is recorded at the lower of cost and 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. Other investments are accounted for at amortized cost plus accrued interest.

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 value-based on 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.

University Health Network

NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

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"] requires a number of estimates. UHN has entered into the Hospital Accountability Agreement [the "HAA"] with the MOHLTC that sets out the rights and obligations of the two parties in respect of funding provided to UHN by the MOHLTC for fiscal 2008. This agreement was assigned to the Toronto Central Local Health Integration Network [the "TC-LHIN"] effective April 1, 2007. Beginning in fiscal 2009, the HAA will be replaced by a Hospital Service Accountability Agreement [the "HSAA"] between UHN and the TC-LHIN.

The HSAA sets out certain performance standards and obligations that establish acceptable results for UHN's performance in a number of areas.

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.

Change in accounting policy

Effective April 1, 2007, UHN adopted the recommendations of CICA 3855: *Financial Instruments – Recognition and Measurement* and CICA 3861: *Financial Instruments - Disclosure and Presentation*. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As permitted by CICA 3855 and consistent with the accounting policy for fixed-income investments used to prepare the prior year's financial statements, fixed-income investments continue to be presented at amortized cost. As permitted by CICA 3855, UHN's other financial assets and liabilities continue to be presented at amortized cost, which approximates fair value.

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NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

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The adoption of CICA 3855 and 3861 did not have a significant impact on the financial statements in the prior or current year.

Future changes in accounting policies

The CICA has issued two new standards, CICA 3682: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*, which enhances the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

The CICA has also issued a new accounting standard, CICA 1535: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information to evaluate the entity's objectives, policies and procedures for managing capital.

In addition, the CICA has issued a new accounting standard, CICA 3031: *Inventories*, which requires additional disclosures and sets out new rules that may affect the valuation of inventories.

These changes in accounting policies, which will be adopted effective April 1, 2008, will only require additional disclosures in the financial statements, except for CICA 3031: *Inventories*. The impact of the adoption of these sections on the financial statements has not yet been determined.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2008 \$	2007 \$
Ontario Ministry of Health and Long-Term Care/ Toronto Central – Local Health Integration Network	8,330	2,337
Patient receivables	9,889	12,938
Other receivables	18,268	21,110
Toronto Medical Laboratories Limited Partnership [note 6[b]]	812	944
PRISM Partners Inc. [note 6[c]]	—	1,399
Toronto General and Western Hospital Foundation [note 14[a]]	3,948	3,750
Princess Margaret Hospital Foundation [note 14[b]]	17,350	14,738
Arthritis & Autoimmunity Research Centre Foundation [note 14[c]]	871	630
Research related receivables	52,528	36,478
Current portion of loans receivable [note 4]	712	788
	112,708	95,112

University Health Network**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

March 31, 2008

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	2008 \$	2007 \$
Term loans		
[a] 6.21% per annum with equal quarterly blended payments of \$71, maturing August 21, 2010 [note 6[c]]	653	893
[b] 6.21% per annum with equal quarterly blended payments of \$128, maturing March 31, 2010	1,050	1,391
Other loans receivable	1,850	1,964
	3,553	4,248
Less current portion [note 3]	712	788
	2,841	3,460

[a] On August 21, 2006, UHN advanced a four-year term loan of \$1,000 to PRISM Partners Inc. ["PRISM"], a related party [note 6[c]], with payments commencing on November 21, 2006. A general security interest over PRISM's personal property has been pledged as collateral against the loan.

[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. A general security interest over the third party's personal property has been pledged as collateral against the loan. The loan is subordinated to the interest of the third party's bankers and is guaranteed by the third party's parent company.



University Health Network**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

March 31, 2008

5. CAPITAL ASSETS

Capital assets consist of the following:

	2008		Net book value \$
	Cost \$	Accumulated depreciation \$	
Land	5,564	—	5,564
Buildings and improvements	1,075,549	301,282	774,267
Equipment and furniture	573,890	370,352	203,538
Construction in progress	50,894	—	50,894
	1,705,897	671,634	1,034,263

	2007		Net book value \$
	Cost \$	Accumulated depreciation \$	
Land	5,564	—	5,564
Buildings and improvements	1,109,023	308,463	800,560
Equipment and furniture	555,262	370,960	184,302
Construction in progress	39,198	—	39,198
	1,709,047	679,423	1,029,624

Buildings and improvements include \$88,329 [2007 - \$88,329] of costs and \$7,852 [2007 - \$4,907] of accumulated depreciation related to assets under capital lease obligations [note 7].

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NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2008 \$	2007 \$
Cash and cash equivalents	42,418	21,662
Government bonds	76,477	84,727
Corporate bonds	48,984	51,030
Other intercorporate investments		
Toronto Medical Laboratories Limited Partnership	2,211	2,393
PRISM Partners Inc.	456	590
Shanghai Research and Development	500	555
	171,046	160,957

Long-term investments represent funds held for contingency funds held in segregated trust accounts [note 6[a]], operating funds and amounts for deferred contributions that management intends to invest for periods greater than one year. Cash and cash equivalents are included in this balance to the extent that they relate to the contingency funds. The bonds have an average term to maturity of two years and six months, an average yield of 4.29% and a market value of \$169,386 [2007 - \$157,904]. During the year, UHN earned \$5,855 [2007 - \$6,387] in investment income, which is included in ancillary services and other revenue.

[a] 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.

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NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

A second contingency fund of \$15,632 has been established since 2004 to ensure patient services are not reduced due to financial pressures resulting from UHN's commitments to MaRS Development Trust [the "MaRS Trust"] [note 7]. The fund will be terminated on the expiry of the 30-year term of the lease or earlier with the mutual agreement of the MOHLTC and UHN.

[b] Toronto Medical Laboratories Limited Partnership

UHN formed and registered TMLLP together with MDS Health Group Limited as an equal limited partner on November 10, 1995. This partnership was subsequently renewed on July 17, 2001. TMLLP was 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. During the year, UHN recorded a pro-rata share of TMLLP's earnings of \$1,318 [2007 - \$855] as ancillary services and other revenue, as well as charged laboratory testing services of \$4,211 [2007 - \$2,869] to TMLLP and purchased administration services of \$1,400 [2007 - \$1,400]. As at March 31, 2008, UHN reported an amount of \$812 [2007 - \$944] due from TMLLP, which is included in accounts receivable [note 3]. 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:

	2008 \$	2007 \$
Assets	2,712	3,016
Liabilities	501	623
Equity	2,211	2,393
Revenue	9,281	8,303
Expenses	7,963	7,448
Distributions	1,500	1,000

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NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

[c] PRISM Partners Inc.

PRISM, a wholly-owned for-profit subsidiary of UHN, commenced operations as a separate legal entity on November 1, 2005. Prior to that date, PRISM operated as a division within UHN. PRISM is a pioneering, full service project management and consulting firm. During the year, UHN recorded PRISM's net loss of \$134 [2007 - earnings of \$316] as ancillary services and other revenue. UHN was charged indirect project management and cost control fees of \$716 [2007 - \$363] by PRISM, which were expensed, and project specific management fees of \$1,250 [2007 - \$1,181], which were capitalized as part of construction in progress and buildings and improvements. As at March 31, 2008, UHN reported amounts owing from PRISM of nil [2007 - \$1,399], which is included in accounts receivable [note 3] and \$653 [2007 - \$893], which is recorded as a loan receivable [note 4]. 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:

	2008 \$	2007 \$
Assets	2,120	3,384
Liabilities	1,664	2,794
Equity	456	590
Revenue	7,051	6,055
Expenses	7,185	5,739

University Health Network

NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except share information]

March 31, 2008

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

Shanghai Research and Development, a wholly-owned for-profit subsidiary of UHN, was incorporated on April 14, 2006 to undertake medical research and development to discover new technologies and therapies to treat major human diseases. UHN committed an investment of U.S. \$2,000. During the year, U.S. \$500 [2007 - U.S. \$650] was advanced against this commitment, with the balance of U.S. \$250 to be fully paid by May 31, 2008. During the year, UHN recorded Shanghai Research and Development's net loss of \$607 [2007 - \$153] 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:

	2008 \$	2007 \$
Assets	501	562
Liabilities	1	7
Equity	500	555
Revenue	6	3
Expenses	613	156
Advances	552	708

[e] Other intercorporate 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.

University Health Network**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

March 31, 2008

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:

	\$
2009	1,286
2010	1,374
2011	1,468
2012	1,569
2013	1,676
Thereafter	85,989
Due to MaRS Development Trust	93,362
Less current portion	1,286
	<u>92,076</u>

8. DEFERRED CONTRIBUTIONS

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

	2008 \$	2007 \$
Deferred contributions, beginning of year	105,472	100,656
Externally restricted contributions received [note 14]	212,012	194,320
Less amounts recognized as revenue	(202,109)	(189,504)
Deferred contributions, end of year	115,375	105,472

University Health Network**NOTES TO FINANCIAL STATEMENTS**

[all amounts in thousands of dollars, except share information]

March 31, 2008

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2008 \$	2007 \$
5.64% Secured Bonds, maturing December 8, 2022	251,187	261,611
4.991% Term loan compounded semi-annually with monthly blended payments of \$64, maturing April 1, 2012	5,616	6,092
	256,803	267,703
Less current portion	11,528	10,900
	245,275	256,803

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 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.

Repayments of the long-term debt are as follows:

	\$
2009	11,528
2010	12,184
2011	12,878
2012	13,611
2013	17,198
Thereafter	189,404
	256,803

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[all amounts in thousands of dollars, except share information]

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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 \$46,061 [2007 - \$41,472]. These amounts are included in salaries and benefits expense in the statement of operations. The most recent regulatory funding valuation conducted as at December 31, 2006 disclosed actuarial assets of \$25,205 with accrued pension liabilities of \$25,454, resulting in a deficit of \$249,000. This funding valuation also confirmed that the Plan is fully funded on a solvency basis.

[b] OCI Pension Plan

Certain employees of UHN have remained in a voluntary hybrid defined benefit/defined contribution pension plan that was established for the employees of the former Ontario Cancer Institute/Princess Margaret Hospital. UHN accounts for the OCI Pension Plan on a defined contribution basis. The approximate present value of accrued pension benefits as at March 31, 2008 is \$63,078 [2007 - \$95,273]. UHN's contributions of \$73 [2007 - \$70] to the OCI Pension Plan have been recorded as salaries and benefits expense in the statement of operations.

The market value of the net assets of the OCI Pension Plan as at March 31, 2008 is \$75,241 [2007 - \$137,835].

Some members of the OCI Pension Plan elected to join HOOPP effective March 1, 1999 and January 1, 2001. On December 1, 2006, the Financial Services Commission of Ontario approved the Phase I transfer of \$56,913 to HOOPP effective April 2, 2007. On June 25, 2007, \$503 was transferred to HOOPP, which represented investment income accrued from January 31, 2007 through to the effective date of June 25, 2007. The Phase II transfer of \$15,320 is currently awaiting approval. When this transfer is made, it will reduce the net assets of the OCI Pension Plan by approximately \$15,320 and accrued pension benefits by approximately \$11,422.

[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.

University Health Network**NOTES TO FINANCIAL STATEMENTS**

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

	2008 \$	2007 \$
Accrued benefit obligations	24,407	23,648
Unamortized net transitional liability	(2,206)	(2,757)
Unamortized actuarial gain (loss)	353	(1,420)
Unamortized past service costs	(1,724)	(521)
Employee future benefit liabilities	20,830	18,950

The net expense for these plans for the year ended March 31, 2008 is \$2,916 [2007 - \$1,809].

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

	2008 %	2007 %
Discount rate	5.75	5.25
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:

	2008 %	2007 %
Discount rate	5.25	5.25
Rate of compensation increase	2.50	2.50

Health care costs were assumed to increase by 12% in 2008, declining by 1% per year to 6% in 2011. 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.

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

	2008	2007
	\$	\$
Employer's contributions	885	1,088
Employees' contributions	—	—
Benefits paid	885	1,088

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:

	2008	2007
	\$	\$
Deferred capital contributions, beginning of year	407,530	397,536
Add contributions received for capital purposes <i>[note 14]</i>	82,378	63,588
Less amortization of deferred capital contributions	(60,583)	(53,594)
Deferred capital contributions, end of year	429,325	407,530

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12. NET ASSETS INVESTED IN CAPITAL ASSETS

[a] Net assets invested in capital assets is calculated as follows:

	2008 \$	2007 \$
Capital assets, net <i>[note 5]</i>	1,034,263	1,029,624
Less amounts funded by		
Deferred capital contributions <i>[note 11]</i>	(429,325)	(407,530)
Due to MaRS Development Trust <i>[note 7]</i>	(82,466)	(83,529)
Long-term debt <i>[note 9]</i>	(256,803)	(267,703)
	265,669	270,862

[b] The net change in net assets invested in capital assets is calculated as follows:

	2008 \$	2007 \$
Purchase of capital assets	97,653	103,938
Amounts funded by deferred capital contributions <i>[note 11]</i>	(82,378)	(63,588)
Depreciation of capital assets	(84,758)	(79,416)
Loss on disposal of capital assets	(8,256)	(12,150)
Repayment to MaRS Development Trust	1,063	3,305
Repayment of long-term debt	10,900	10,288
Amortization of deferred capital contributions	60,583	53,594
	(5,193)	15,971

13. STATEMENT OF CASH FLOWS

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

	2008 \$	2007 \$
Sources (uses) of cash		
Accounts receivable	(17,596)	(17,654)
Inventory and prepaid expenses	(824)	(1,697)
Accounts payable and accrued liabilities	18,008	24,691
	(412)	5,340

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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, 2008, it had net assets of \$260,412 [2007 - \$249,124]. For the year ended March 31, 2008, grants of \$35,497 [2007 - \$23,289] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2008, UHN had receivables from the TG/WH Foundation of \$3,948 [2007 - \$3,750] 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, 2008, it had net assets of \$246,228 [2007 - \$234,565]. For the year ended March 31, 2008, grants of \$54,637 [2007 - \$54,515] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2008, UHN had receivables from the PMH Foundation of \$17,350 [2007 - \$14,738] 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, 2008, it had net assets of \$23,624 [2007 - \$21,600]. For the year ended March 31, 2008, an amount of \$2,849 [2007 - \$2,827] was recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2008, UHN had receivables from the AARC Foundation of \$871 [2007 - \$630] recorded in accounts receivable *[note 3]*.
- [d] The Toronto Hospital Research Corporation is inactive.

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15. COMMITMENTS AND CONTINGENCIES

- [a] UHN is subject to various claims and potential claims. Where the potential liability is determinable, 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 determinable 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, 2008.
- [c] The UHN Board of Trustees has approved expenditures for construction and renovation of which \$24,410 [2007 - \$23,972] have not been incurred and not recorded in the accounts as at March 31, 2008.
- [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, 2008, no member was in default.
- [e] The future minimum annual payments under operating leases consist of the following:

	\$
2009	8,177
2010	6,652
2011	4,432
2012	2,075
2013	947
Thereafter	486

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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.

17. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.



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