

Sunnybrook Health Sciences Centre

Consolidated Financial Statements
March 31, 2020



Independent auditor's report

To the Board of Directors of Sunnybrook Health Sciences Centre

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sunnybrook Health Sciences Centre and its subsidiaries (together, the Entity) as at March 31, 2020 and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Entity's consolidated financial statements comprise:

- the consolidated statement of financial position as at March 31, 2020;
- the consolidated statement of operations for the year then ended;
- the consolidated statement of changes in net assets for the year then ended;
- the consolidated statement of remeasurement gains and losses for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 9, 2020

Sunnybrook Health Sciences Centre

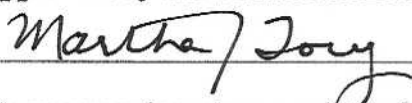
Consolidated Statement of Financial Position

As at March 31, 2020

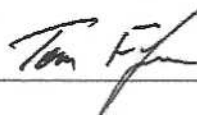
(in thousands of dollars)

	2020 \$	2019 \$
Assets		
Current assets		
Cash and cash equivalents	136,861	213,008
Accounts receivable (notes 3 and 12)	62,241	80,822
Inventories	16,731	13,734
Prepaid expenses	11,511	8,045
	<u>227,344</u>	<u>315,609</u>
Cash and investments (note 4)	271,018	179,615
Other non-current assets	8,365	7,238
Property, plant and equipment (note 5)	<u>827,264</u>	<u>761,296</u>
	<u>1,333,991</u>	<u>1,263,758</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 7 and 12)	213,514	191,928
Current portion of long-term debt (note 8)	4,649	4,457
Current portion of employee future benefits liability (note 9(c))	3,323	2,863
	<u>221,486</u>	<u>199,248</u>
Deferred contributions for research and special purposes (note 10)	134,050	141,005
Long-term debt (note 8)	49,124	52,887
Employee future benefits liability (note 9(c))	32,463	30,333
Other long-term liabilities	6,985	7,085
Deferred capital contributions (note 11)	<u>643,072</u>	<u>594,327</u>
	<u>1,087,180</u>	<u>1,024,885</u>
Net Assets		
Internally restricted (note 15)	255,022	243,659
Accumulated remeasurement losses	<u>(8,211)</u>	<u>(4,786)</u>
	<u>246,811</u>	<u>238,873</u>
	<u>1,333,991</u>	<u>1,263,758</u>
Contingencies and commitments (note 13)		

Approved by the Board of Directors



Director



Board Chair

Director

The accompanying notes are an integral part of these consolidated financial statements.

Sunnybrook Health Sciences Centre

Consolidated Statement of Operations

For the year ended March 31, 2020

(in thousands of dollars)

	2020 \$	2019 \$
Revenues		
Ontario Health / Ministry of Health and Long-Term Care	829,353	804,026
Ancillary services and other sources (note 12)	168,584	165,168
Contributions for research and special purposes (notes 10 and 12)	95,326	90,480
Other patient services	59,392	60,123
Amortization of deferred capital contributions (note 11)	41,887	38,887
Investment income	7,359	6,054
	<hr/> 1,201,901	<hr/> 1,164,738
Expenses		
Salaries, wages and employee benefits	719,004	695,017
Drugs	127,176	114,243
Clinical supplies	92,737	91,231
Other supplies and expenses	69,703	67,940
Amortization of property, plant and equipment	63,931	59,609
Purchased services	55,109	51,263
Plant operations and maintenance	31,778	30,310
Equipment and software maintenance	31,100	27,828
	<hr/> 1,190,538	<hr/> 1,137,441
Excess of revenues over expenses for the year	<hr/> 11,363	<hr/> 27,297

The accompanying notes are an integral part of these consolidated financial statements.

Sunnybrook Health Sciences Centre

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2020

(in thousands of dollars)

	2020		
	Internally restricted \$	Unrestricted \$	Total \$
Balance – Beginning of year	243,659	-	243,659
Excess of revenues over expenses for the year	-	11,363	11,363
Interfund transfers (note 15)	11,363	(11,363)	-
Balance – End of year	255,022	-	255,022

	2019		
	Internally restricted \$	Unrestricted \$	Total \$
Balance – Beginning of year	-	216,362	216,362
Excess of revenues over expenses for the year	-	27,297	27,297
Interfund transfers (note 15)	243,659	(243,659)	-
Balance – End of year	243,659	-	243,659

The accompanying notes are an integral part of these consolidated financial statements.

Sunnybrook Health Sciences Centre
Consolidated Statement of Remeasurement Gains and Losses
For the year ended March 31, 2020

(in thousands of dollars)

	2020	2019
	\$	\$
Accumulated remeasurement losses – Beginning of year	<u>(4,786)</u>	<u>(5,114)</u>
Change in fair value attributable to		
Derivatives	(886)	73
Investments	(2,528)	390
Amount reclassified to the consolidated statement of operations		
Gain on sale of investments	<u>(11)</u>	<u>(135)</u>
Net remeasurement (losses) gains for the year	<u>(3,425)</u>	<u>328</u>
Accumulated remeasurement losses – End of year	<u>(8,211)</u>	<u>(4,786)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Sunnybrook Health Sciences Centre

Consolidated Statement of Cash Flows

For the year ended March 31, 2020

(in thousands of dollars)

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	11,363	27,297
Items not affecting cash		
Amortization of property, plant and equipment	63,931	59,609
Amortization of deferred capital contributions (note 11)	(41,887)	(38,887)
Employee future benefits expense	5,453	5,124
Loss on disposal of property, plant and equipment	608	801
Interest income reinvested	(2,167)	(1,494)
Fair value changes in investments	542	(1,604)
	37,843	50,846
Change in other non-current assets	(1,127)	(661)
Net change in deferred contributions for research and special purposes	3,739	16,019
Change in other long-term liabilities	(100)	(1,025)
Employee future benefits paid	(2,863)	(2,765)
Changes in non-cash working capital items		
Accounts receivable	18,581	(4,085)
Inventories	(2,997)	(3,055)
Prepaid expenses	(3,466)	1,013
Accounts payable and accrued liabilities	(6,425)	(5,088)
	43,185	51,199
Investing activities		
Increase in cash held for future capital, research and special purposes	(100,231)	(6,313)
Purchases of investments	(999)	(9,586)
Proceeds from sale of investments	8,913	10,808
	(92,317)	(5,091)
Capital activities		
Purchases of property, plant and equipment	(102,496)	(60,519)
Financing activities		
Deferred capital contributions received (note 11)	79,938	37,037
Repayment of long-term debt	(4,457)	(5,002)
	75,481	32,035
Increase in cash and cash equivalents during the year	(76,147)	17,624
Cash and cash equivalents – Beginning of year	213,008	195,384
Cash and cash equivalents – End of year	136,861	213,008
Non-cash transactions		
Purchase of property, plant and equipment included in accounts payable and accrued liabilities	28,011	25,904
Transfer from deferred contributions for research and special purposes to deferred capital contributions (notes 10 and 11)	10,694	8,311

The accompanying notes are an integral part of these consolidated financial statements.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

1 Nature of operations

Sunnybrook Health Sciences Centre (the Hospital) is a teaching and research hospital affiliated with the University of Toronto. Sunnybrook is focused on providing care that is tailored to the patient's unique needs, developing a system of care around the patient's journey and delivering the highest possible quality, which is provided by high performing teams. The Hospital is a registered charity under the Income Tax Act (Canada) and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

Under the Health Insurance Act (Ontario) and the regulations thereunder, the Hospital is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry of Health and Long-Term Care (MOHLTC) and Ontario Health (an integrated organization of previous provincial health units including Local Health Integration Networks and Cancer Care Ontario). Any excess of revenues over expenses incurred during a fiscal year is not required to be returned and can be used in the reinvestment for capital needs of the Hospital. To the extent that deficits are incurred and not funded, future operations may be impacted.

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian public sector accounting standards, including accounting standards that apply only to government not-for-profit organizations. These policies have been consistently applied to all the years presented, unless otherwise stated. These consolidated financial statements include the assets, liabilities and operations of the following not-for-profit entities where the Hospital is the sole voting member:

- Sunnybrook Research Institute (SRI), a registered charity under the Income Tax Act (Canada), incorporated without share capital under the Corporations Act of Ontario; and
- Sunnybrook Research Academy (SRA), a registered charity under the Income Tax Act (Canada), incorporated without share capital under the Not-for-Profit Corporations Act (Canada).

These consolidated financial statements do not include the assets, liabilities and operations of the following non-controlled not-for-profit entities:

- Sunnybrook Foundation (note 12)
- St. John's Rehab Volunteer Association

Revenue recognition

The Hospital follows the deferral method of accounting for contributions, which include donations and grants.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

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 year in which the related expenses are recognized and the portion of the contributions attributable to future costs is deferred. Contributions that are approved but not received at the end of a period are accrued if expenses have been incurred.

Contributions restricted for the purchase of property, plant and equipment are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related property, plant and equipment.

Except for amounts related to unspent capital contributions and special purpose funds, which are recorded as deferred contributions, interest, dividends, income distributions from pooled funds and realized gains or losses attributable to investments are reported in the consolidated statement of operations and unrealized gains and losses are recorded in the consolidated statement of remeasurement gains and losses. Changes in the fair value of derivatives are also recorded in the consolidated statement of remeasurement gains and losses.

Ancillary revenue is primarily derived from the Hospital's pharmacies, preferred accommodation, leasing revenue from parking, gift shops, commission revenue from catering services at the Estates of Sunnybrook, and various service level agreements with other institutions. Revenue is recognized when services are performed or goods are delivered.

Contributed materials and services

Volunteers contribute a significant amount of time each year. Due to the difficulty of determining the fair value, these contributed services are not recognized or disclosed in the consolidated financial statements and related notes. Contributed materials are also not recognized.

Cash, cash equivalents and investments

Cash and cash equivalents include cash and short-term investments that have a short-term maturity. Cash and cash equivalents are classified as current assets, unless they are held for investment rather than liquidity purposes or internally restricted for future capital expenditures, in which case they are classified non-current assets.

Inventories

Inventories are valued at the lower of cost and net replacement value. Cost is determined by the average cost method.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

Property, plant and equipment

Purchased property, plant and equipment are recorded at cost. Contributed property, plant and equipment are recorded at fair value at the date of contribution. Betterments that extend the estimated life of an asset are capitalized. When property, plant and equipment no longer contribute to the Hospital's ability to provide services, their carrying amounts are written down to their residual value.

Equipment leased on terms that transfer substantially all of the benefits and risks of ownership to the Hospital are capital leases and are accounted for as though an asset had been purchased and a liability incurred. All other items of equipment held on lease are accounted for as operating leases.

Construction-in-progress consists of direct construction, development costs and capitalized interest. No amortization is recorded until construction is substantially complete and the assets are brought into service.

Property, plant and equipment are amortized on a straight-line basis using the following annual rates:

Buildings	2.0% – 20.0%
Equipment	3.3% – 50.0%
Parking structure	5%
Leasehold improvements	over the term of the lease

Employee benefit plans

The Hospital accrues its obligations under employee benefit plans and the related costs.

- Multi-employer plan

Substantially all of the employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer, defined benefit, final average earnings, contributory pension plan. Defined contribution accounting is applied to HOOPP, whereby contributions are expensed when due.

- Superannuation defined benefit plan

There are no active Hospital employees that are members of this superannuation defined benefit plan, and no new members can opt into this plan. The plan has been accounted for as if it were on a defined contribution basis, whereby contributions are expensed when due.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

- Other non-pension defined benefit plans

For other non-pension defined benefit plans, the cost of retirement benefits earned by employees is actuarially determined using the accrued benefit method, pro-rated on service, and management's best estimate of salary escalation (where applicable), retirement ages of employees and expected health-care costs. The discount rate used to determine the accrued benefit obligation was determined by reference to the rate of return on provincial government and corporate bonds for varying durations based on the cash flows expected for the employee future benefits obligations. Actuarial gains and losses are amortized over the remaining service lives of the employees. Past-service costs relating to plan amendments are expensed when incurred.

Sick days that accumulate, but do not vest, are recognized in the period in which employees have earned the related benefits in return for their services. The cost of sick leave benefits earned is actuarially determined using the projected benefits method pro-rated on service and using management's best estimate assumptions.

Financial instruments

The Hospital's financial instruments are measured as follows:

Cash and cash equivalents	fair value
Cash and investments	fair value
Accounts receivable	amortized cost
Accounts payable and accrued liabilities	amortized cost
Long-term debt	amortized cost
Derivatives	fair value

Transaction costs related to financial instruments measured at fair value are expensed as incurred.

All non-derivative financial assets are assessed for impairment on an annual basis. When a decline in value is determined to be other than temporary, the amount of the loss is reported in the consolidated statement of operations and any unrealized gain or loss is removed from the consolidated statement of remeasurement gains and losses.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Accounts requiring significant estimates include collectibility of accounts receivable, accounts payable and accrued liabilities and employee future benefits liability.

The Hospital has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to the Hospital by the MOHLTC and Ontario Health for the year ended March 31, 2020. Included with the accountability agreements, or subsequent funding letters, is the base or one-time volume that, if not achieved, will result in an adjustment to the funding received.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

The availability of confirmed volumes lags the completion of the consolidated financial statements and hence the amount of the MOHLTC and Ontario Health volume funding received during a year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these consolidated financial statements represents management's estimates of amounts that have been earned during the year.

3 Accounts receivable

	2020 \$	2019 \$
Patient care	16,753	15,889
Non-patient care	22,798	31,975
Research	14,058	17,094
MOHLTC – capital funding	8,632	15,864
	<hr/> 62,241	<hr/> 80,822

4 Cash and investments

Cash and investments have an asset mix as follows:

	2020 \$	2019 \$
Cash	<hr/> 148,060	<hr/> 47,829
Investments		
Money market	10,585	10,701
Canadian bonds	81,058	83,912
Canadian equities	10,699	14,798
International equities	8,518	9,842
Other fixed income	11,537	12,533
Other investment	561	-
	<hr/> 122,958	<hr/> 131,786
	<hr/> 271,018	<hr/> 179,615

Investments in pooled funds have been allocated among the asset classes based on the underlying investments held in the pooled funds. The Hospital has an equity interest in a company as a result of research-related transactions, the value of which is recorded as other investment.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

Cash and investments classified as non-current assets represent funds received and unspent related to the following:

	2020 \$	2019 \$
Research and special purposes (note 10)	134,050	141,005
Capital construction (note 11)	36,315	32,175
Internally restricted for future capital expenditures (note 15)	93,537	-
Other	7,116	6,435
	271,018	179,615

5 Property, plant and equipment

	2020		
	Cost \$	Accumulated amortization \$	Net \$
Land	10,395	-	10,395
Buildings	969,889	475,079	494,810
Equipment	554,026	390,667	163,359
Parking structure	46,995	31,460	15,535
Leasehold improvements	5,922	1,875	4,047
Construction-in-progress	139,118	-	139,118
	1,726,345	899,081	827,264
	2019		
	Cost \$	Accumulated amortization \$	Net \$
Land	973	-	973
Buildings	918,722	443,540	475,182
Equipment	508,520	360,804	147,716
Parking structure	46,994	30,074	16,920
Leasehold improvements	5,715	878	4,837
Construction-in-progress	115,668	-	115,668
	1,596,592	835,296	761,296

The Hospital leases certain land and buildings for nominal consideration from the University of Toronto.

On March 31, 2020, the Hospital purchased the property at 1035 Eglinton Avenue West, Toronto, Ontario (Pine Villa) for a total of \$15,737, with \$9,422 allocated to land and \$6,315 allocated to buildings.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

6 Operating line of credit

The Hospital has an unsecured operating line of credit to a maximum of \$30,000, which bears interest at the prime rate less 0.75% and is due on demand. The credit facility is subject to the Hospital maintaining certain covenants. As at March 31, 2020 and March 31, 2019, the Hospital had not drawn against any of this facility.

7 Accounts payable and accrued liabilities

	2020 \$	2019 \$
Accounts payable	73,495	68,619
Deferred revenue	1,453	1,734
Due to MOHLTC and Ontario Health	32,027	23,614
Accrued liabilities		
Salaries, wages and employee benefits	92,713	85,657
Other	13,826	12,304
	<hr/> 213,514	<hr/> 191,928

Amounts due to MOHLTC and Ontario Health are subject to a settlement process and are either repayable to the funder or the funder may approve the funds for future use.

8 Long-term debt

The long-term debt is unsecured and consists of:

	2020 \$	2019 \$
Term loan with variable to fixed interest rate swap to 20 years resulting in an effective interest rate of 4.94%, monthly principal repayments vary over the term of this loan; average principal repayments are \$342 per month, due on the first working day of each month and will conclude on June 1, 2028 (see (a) below)	45,818	50,186
Interest free loan with quarterly payments of \$10, quarterly principal payments commenced on January 1, 2010 and will conclude on October 1, 2029 (see (b) below)	374	413
Interest free loan with quarterly payments of \$25, quarterly principal payments commenced on January 1, 2010 and concluded on October 1, 2019 (see (b) below)	-	50
	<hr/> 46,192	<hr/> 50,649
Fair value of interest rate swaps (notional value of \$45,818; 2019 – \$50,186)	7,581	6,695
Less: Current portion	<hr/> (4,649)	<hr/> (4,457)
	<hr/> 49,124	<hr/> 52,887

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

- a) The term loan financed the physical facilities expansion at the Bayview campus in addition to refinancing of prior existing loans.
- b) In September 2009, the Hospital obtained two loans from the City of Toronto's Sustainable Energy Funds loan program. The loans were provided interest free as the proceeds were spent on approved energy saving initiatives.

The following is a schedule of the required principal payments due under the various debt agreements:

	\$
2021	4,649
2022	4,876
2023	5,122
2024	5,377
2025	5,646
Thereafter	<u>20,522</u>
	<u>46,192</u>

9 Employee future benefits

a) Multi-employer plan

Employer contributions made to HOOPP during the year by the Hospital amounted to \$44,654 (2019 – \$43,160). These amounts are included in salaries, wages and employee benefits expense in the consolidated statement of operations. As at December 31, 2019, HOOPP was 119% funded.

b) Superannuation defined benefit plan

As at December 31, 2019, the plan has assets, at fair value, of \$3,690 (2018 – \$3,761) and liabilities of \$194 (2018 – \$206). In the current year, \$91 (2018 – \$80) in contributions were made. These amounts are included in salaries, wages and employee benefits expense in the consolidated statement of operations.

c) Other employee future benefits

The Hospital provides extended health-care, dental and life insurance benefits to substantially all retired employees. The plan is unfunded and requires nominal contributions from employees. The average remaining service period of Hospital employees at the date of valuation was 12 to 15 years.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

Information about the Hospital's employee future benefits is as follows:

	2020	2019
	\$	\$
Accrued benefit obligation	50,412	46,319
Unamortized actuarial losses	(14,626)	(13,123)
	<hr/>	<hr/>
Employee future benefits liability	35,786	33,196
Less: Current portion	3,323	2,863
	<hr/>	<hr/>
Long-term portion	32,463	30,333
	<hr/>	<hr/>

The movement in the employee future benefit liability during the year is as follows:

	2020	2019
	\$	\$
Employee future benefits liability – Beginning of year	33,196	30,837
Current service cost	2,968	2,711
Interest cost	1,388	1,454
Amortization of actuarial losses – net	1,097	959
	<hr/>	<hr/>
Benefits paid	38,649	35,961
	(2,863)	(2,765)
	<hr/>	<hr/>
Employee future benefits liability – End of year	35,786	33,196
	<hr/>	<hr/>

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit liability are of a long-term nature consistent with the nature of employee future benefits, as follows:

	2020	2019
Discount rate for accrued benefit obligation	3.10%	2.90%
Discount rate for net benefit cost	2.90%	3.30%

Other economic factors are considered and trend rates developed for the Hospital from 2020 to 2024 are as follows:

Semi-private hospital and extended health-care	5.37%
Dental	3.00%

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of dollars)

10 Deferred contributions for research and special purposes

	2020		
	Research	Special	Net
	\$	purposes	\$
		\$	\$
Balance – Beginning of year	87,323	53,682	141,005
Externally restricted contributions received	92,016	7,049	99,065
Transferred to deferred capital contributions (note 11)	(7,716)	(2,978)	(10,694)
Amounts recognized as revenue	(88,285)	(7,041)	(95,326)
Balance – End of year	<u>83,338</u>	<u>50,712</u>	<u>134,050</u>
			2019
	Research	Special	Net
	\$	purposes	\$
		\$	\$
Balance – Beginning of year	76,898	56,399	133,297
Externally restricted contributions received	99,273	7,226	106,499
Transferred to deferred capital contributions (note 11)	(4,836)	(3,475)	(8,311)
Amounts recognized as revenue	(84,012)	(6,468)	(90,480)
Balance – End of year	<u>87,323</u>	<u>53,682</u>	<u>141,005</u>

Funds held for special purposes are provided by third parties and are held by the Hospital to be expended for specific purposes (note 4).

Research relates to externally restricted contributions held for research activities.

11 Deferred capital contributions

	2020	2019
	\$	\$
Balance – Beginning of year	594,327	587,866
Externally restricted contributions received	79,938	37,037
Transferred from deferred contributions for research and special purposes (note 10)	10,694	8,311
Amounts recognized as revenue	(41,887)	(38,887)
Balance – End of year	<u>643,072</u>	<u>594,327</u>

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(in thousands of dollars)

As at March 31, 2020, deferred capital contributions include \$36,315 (2019 – \$32,175) in unspent funds held in cash classified as cash and investments (note 4), which will be utilized to fund capital expenditures in future years and amounts that are subject to a settlement process.

12 Sunnybrook Foundation

- a) The Hospital has an economic interest in the net assets of the Foundation. Revenues generated by the Foundation may be donated to the Hospital on approval by its governing body.
- b) During the year, the Hospital received contributions of \$39,289 (2019 – \$39,474) from the Foundation; these amounts were primarily used to fund research and building and equipment purchases.
- c) Foundation. During the year, the Hospital earned \$12,530 (2019 – \$12,420) in leasing revenue and \$3,715 (2019 – \$3,990) as service fees included in ancillary revenue and other sources in the consolidated statement of operations. Additional surplus generated of \$2,046 (2019 – \$2,317) was gifted to the Hospital and included in contributions for research and special purposes in the consolidated statement of operations.

In addition, relating to the parking operations, as at March 31, 2020, the Hospital had an outstanding receivable from the Foundation of \$1,119 (2019 – \$1,557) and an outstanding liability with the Foundation of \$254 (2019 – \$89).

- d) As at March 31, 2020, \$1,071 (2019 – \$685) is included in accounts receivable and \$20 (2019 – \$111) is included in accounts payable relating to non-parking operations incurred on behalf of the Foundation.

13 Contingencies and commitments

- a) Contractual commitments to various parties amount to \$29,675 (2019 – \$40,498) and primarily relate to capital projects.
- b) A group of hospitals, including the Hospital, are members of the Health Care Insurance Reciprocal of Canada (HIROC). HIROC is a pooling of the public liability insurance risks of its members. All members of the pool pay annual deposit premiums, which are actuarially determined and are expensed in the current year. These premiums are subject to further assessment for experience gains and losses, by the pool, for the years in which the Hospital was a member. As at March 31, 2020, no negative assessments have been received.
- c) The Hospital is subject to various claims and potential claims in connection with operations. Where the potential liability is able to be estimated, management believes the ultimate disposition of the matters will not materially exceed the amounts recorded. 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.

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(in thousands of dollars)

- d) Effective March 31, 2006, the Hospital has an agreement with Plexxus, a not-for-profit shared services organization whose primary responsibility is to provide material management services to the Hospital and its other members through a cost-saving model. The agreement with Plexxus was renewed on April 1, 2016 with an expiry date of March 31, 2021. It also provides certain information technology services with the support of CGI Group Inc. and is paid a service fee by its members to pay for supply chain services and to support and maintain the financial reporting system.
- e) The Hospital has outstanding letters of guarantee totalling \$10,546 (2019 – \$4,705) in support of performance guarantees in favour of the City of Toronto and Toronto Hydro.
- f) Due to the nature of its operations, the Hospital is periodically subject to grievances filed by its various unions. In the opinion of management, the resolution of any current grievances should not have a material effect on the financial position or results of operations.
- g) The Hospital has entered into various operating lease arrangements, which expire at various dates up to 2025. The minimum rental payments for the next five fiscal years are as follows:

	\$
2021	1,407
2022	1,217
2023	1,105
2024	236
2025	9
	<hr/>
	3,974
	<hr/>

14 Financial instruments and risk management

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate, based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

Within the fair value hierarchy, as at March 31, 2020 and 2019, the investments (note 4) with the exception of other investment and the derivatives (note 8), are classified as Level 2. The other investment (note 4) is classified as Level 1.

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Risk management

The Hospital is exposed to a variety of financial risks, including market risk, interest rate risk, other price risk, credit risk and liquidity risk. The Hospital's overall risk management program focuses on managing risks across the Hospital.

- Market risk

The Hospital is exposed to market risk through the fluctuation of financial instrument fair values due to changes in market prices. The significant market risks to which the Hospital is exposed are interest rate and other price risks.

- Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Hospital is exposed to interest rate risk as a result of cash balances, debt and fixed income securities held in pooled funds. Of these risks, the Hospital's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to a decrease in cash flow and a decrease in the excess of revenues over expenses. The Hospital has effectively fixed its interest rate on the majority of long-term debt by entering into interest rate swaps. The Hospital does not enter into derivative financial instruments for speculative purposes.

A 1% change in the interest rates on fixed income securities, with all other variables held constant, would have a \$386 impact on deferred contributions held for research and special purposes and a \$540 impact on accumulated remeasurement gains and losses.

- Other price risk

The Hospital is exposed to other price risk through changes in market prices (other than those arising from interest rate risk) in connection with its investments held in equities. The Hospital does not have a significant risk due to the weighting of equity securities in its overall portfolio. A 10% change in the market price of these investments, with all other variables held constant, would have a \$802 impact on deferred contributions held for research and special purposes and a \$1,175 impact on accumulated remeasurement gains and losses.

- Credit risk

The majority of the Hospital's receivables are due from the MOHLTC or other government agencies. The Hospital believes that the credit risk related to these receivables is low. As at March 31, 2020, the Hospital's exposure to credit risk in the event of non-payment by patients and other non-government parties is not material.

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The credit risk on cash and investments is limited because the counterparties include chartered banks with high credit ratings assigned by national credit rating agencies. Risk arising from investment activities is managed by the Hospital through its Statement of Investment Policies and Procedures policy that establishes criteria for the selection of investments, including benchmarks for the creditworthiness of entities.

- Liquidity risk

Liquidity risk results from the Hospital's potential inability to meet its obligations associated with financial liabilities as they come due. The Hospital monitors its operations and cash flows to ensure current and future obligations will be met. The Hospital believes its current sources of liquidity are sufficient to cover its known short and long-term cash obligations.

The maturity analysis of the Hospital's long-term debt is described in note 8. The majority of accounts payable and accrued liabilities are expected to be settled in the next fiscal year.

15 Internally restricted net assets

During the year, the Board of Directors approved a transfer of \$11,363 (2019 – \$243,659) from unrestricted to internally restricted net assets. Internally restricted net assets represent own funds invested in property, plant and equipment and unspent funds set aside for future capital expenditures of \$93,537 (note 4).

16 Subsequent event

The outbreak of the novel strain of coronavirus, specifically identified as COVID-19, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. In response to the outbreak, the Hospital has incurred additional expenditures to provide COVID-19 related care since March 2020. Additionally, non-urgent exams and procedures were cancelled, resulting in a reduction of MOHLTC/Ontario Health funding and ancillary revenue generating operations. The Hospital will seek compensation from MOHLTC for the financial impact of COVID-19. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact (if any) on the financial results of the Hospital in future periods at this time.

17 Comparative figures

Certain prior year figures related to the presentation of internally and externally restricted cash within the consolidated statement of cash flows have been recast to conform to the current year's consolidated financial statement presentation.