

**Sunnybrook Health
Sciences Centre**

Consolidated Financial Statements
March 31, 2013
(in thousands of dollars)



June 6, 2013

Independent Auditor's Report

**To the Board of Directors of
Sunnybrook Health Sciences Centre**

We have audited the accompanying consolidated financial statements of Sunnybrook Health Sciences Centre, which comprise the consolidated statement of financial position as at March 31, 2013 and the consolidated statements of operations, changes in accumulated operating surplus, remeasurement gains and losses and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunnybrook Health Sciences Centre as at March 31, 2013 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.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Sunnybrook Health Sciences Centre

Consolidated Statement of Financial Position

(in thousands of dollars)

	March 31, 2013 \$	March 31, 2012 \$ (Unaudited) (restated - note 1)	April 1, 2011 \$ (Unaudited) (restated - note 1)
Assets			
Current assets			
Cash and cash equivalents	135,004	133,620	87,620
Accounts receivable (note 4)	62,927	59,667	67,536
Inventories	9,673	8,989	9,176
Prepaid expenses	5,449	2,739	6,371
	213,053	205,015	170,703
Restricted investments (note 5)	195,935	170,144	160,883
Other receivable (note 6)	4,580	-	12,617
Property, plant and equipment (note 7)	666,882	683,290	666,803
	<u>1,080,450</u>	<u>1,058,449</u>	<u>1,011,006</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 9)	188,880	188,377	187,461
Long-term debt (note 10)	4,194	19,265	4,249
Employee future benefits (note 11(c))	1,974	2,035	2,011
	195,048	209,677	193,721
Long-term debt (note 10)	88,543	76,713	88,238
Employee future benefits (note 11(c))	21,504	20,841	21,317
	305,095	307,231	303,276
Deferred contributions (note 12)	711,604	698,090	667,113
Net Assets	63,751	53,128	40,617
	<u>1,080,450</u>	<u>1,058,449</u>	<u>1,011,006</u>
Net assets consist of			
Accumulated operating surplus	72,595	53,128	40,617
Accumulated rereasurement losses	(8,844)	-	-
	<u>63,751</u>	<u>53,128</u>	<u>40,617</u>

Approved by the Board of Directors

 Director

 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, 2013

(in thousands of dollars)

	2013 \$	2012 \$ (Unaudited) (restated - note 1)
Revenues		
Toronto Central Local Health Integration Network/Ministry of Health and Long-Term Care	629,129	631,950
Cancer Care Ontario	72,692	67,749
Other agencies and patients	42,102	45,187
Ancillary services and other sources	126,779	114,112
Investment income	5,254	3,393
Grant and other revenue (note 12)	68,468	67,359
Amortization of deferred contributions for equipment	14,733	13,763
	<u>959,157</u>	<u>943,513</u>
Expenses		
Salaries, wages and employee benefits	620,235	611,642
Medical and surgical supplies	65,275	65,759
Drugs (retail - \$34,116; 2012 - \$30,273)	64,458	59,746
Other supplies and expenses	158,514	147,166
Bad debts	1,178	3,019
Interest	3,928	3,768
Amortization of equipment	27,061	26,365
	<u>940,649</u>	<u>917,465</u>
Excess of revenues over expenses before net building amortization	<u>18,508</u>	<u>26,048</u>
Net building amortization		
Amortization of deferred contributions for buildings	18,869	15,150
Amortization of buildings	(25,305)	(21,292)
	<u>(6,436)</u>	<u>(6,142)</u>
Excess of revenues over expenses for the year	<u>12,072</u>	<u>19,906</u>

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

Sunnybrook Health Sciences Centre

Consolidated Statement of Changes in Accumulated Operating Surplus For the year ended March 31, 2013

(in thousands of dollars)

	2013 \$	2012 \$ (Unaudited) (restated - note 1)
Accumulated operating surplus - Beginning of year		
As previously reported	53,128	40,617
Adjustment due to adoption of PS3450, Financial Instruments	7,395	-
	<hr/>	<hr/>
As restated	60,523	40,617
Excess of revenues over expenses for the year	12,072	19,906
Reclassification of effective portion of cash flow hedge	-	2,615
Change in unrealized loss of interest rate swaps (note 10(a))	-	(10,010)
	<hr/>	<hr/>
Accumulated operating surplus - End of year	72,595	53,128

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, 2013

(in thousands of dollars)

	\$
Accumulated remeasurement losses - Beginning of year	
As previously reported	-
Adjustment due to adoption of PS3450 - Financial Instruments	<u>(7,395)</u>
As restated	<u>(7,395)</u>
Unrealized losses attributable to	
Derivatives	(633)
Restricted investments	<u>(816)</u>
Net remeasurement losses for the year	<u>(1,449)</u>
Accumulated remeasurement losses - End of year	<u>(8,844)</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, 2013

(in thousands of dollars)

	2013 \$	2012 \$ (Unaudited) (restated - note 1)
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	12,072	19,906
Items not affecting cash		
Amortization of property, plant and equipment	52,366	47,657
Amortization of deferred contributions - property, plant and equipment	(33,602)	(28,913)
Change resulting from de-designation of derivative	-	345
Increase (decrease) in employee future benefits	602	(452)
Unrealized gain on restricted investments prior to adoption of PS3450	-	(2,459)
	<u>31,438</u>	<u>36,084</u>
(Increase) decrease in other receivable	(4,580)	12,617
Changes in non-cash working capital items		
Accounts receivable	(3,260)	7,869
Other current assets	(3,394)	3,819
Accounts payable and accrued liabilities	301	916
	<u>20,505</u>	<u>61,305</u>
Investing activities		
Increase in restricted investments	<u>(23,171)</u>	<u>(4,130)</u>
Capital activities		
Purchase of property, plant and equipment	<u>(37,544)</u>	<u>(64,215)</u>
Financing activities		
Deferred contributions received for property, plant and equipment	37,503	50,104
Increase in deferred contributions received for research and other expenses of future periods	7,965	7,185
Repayment of long-term debt	<u>(3,874)</u>	<u>(4,249)</u>
	<u>41,594</u>	<u>53,040</u>
Increase in cash and cash equivalents during the year	1,384	46,000
Cash and cash equivalents - Beginning of year	133,620	87,620
Cash and cash equivalents - End of year	135,004	133,620
Supplementary disclosure		
Interest paid	3,928	3,555

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

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

1 Operations, reorganizations and amalgamation

- i) Sunnybrook Health Sciences Centre (the Hospital and SHSC) is an academic health sciences centre involved in providing patient care, teaching health-care professionals, conducting research and providing adult specialty rehabilitation services. 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 the Toronto Central Local Health Integration Network (TC LHIN). Any excess of revenues over expenses incurred during a fiscal year is not required to be returned. To the extent that deficits are incurred and not funded, future operations may be impacted. Net building amortization expense (building amortization net of related amortization of deferred contributions) is not funded by the TC LHIN. These consolidated financial statements include net building amortization of \$8,378 (2012 (unaudited) - \$6,142).

- ii) On December 1, 2010, the Hospital transferred its research operations to Sunnybrook Research Institute (SRI), a charitable non-share capital corporation incorporated on April 27, 2010 under the Corporations Act of Ontario, where it is the sole voting member.

The Hospital is the sole voting member of Sunnybrook Research Academy (SRA), a registered charity under the Income Tax Act (Canada), incorporated without share capital under the Canada Corporations Act on September 3, 2010. SRA began operations on June 1, 2011.

The Bayview Trust (the Trust) was created on January 10, 2012 as a commercial entity dedicated to development, operation and/or investment in commercial opportunities benefiting the community by supporting profitable business development in the health-care sector. The beneficiaries of the Trust are the Hospital and SRI. In March 2012, the Ambulatory Rehabilitation Services operations were transferred to the Trust. In May 2012, the Sunnybrook international operations were transferred to the Trust. These transfers have no significant impact on these consolidated financial statements.

- iii) The Hospital was formed as a result of the amalgamation of SHSC and St. John's Rehab Hospital (SJR) effective July 1, 2012. The amalgamation was accounted for using the continuity of interest method as the entities are subject to common control. Under the continuity of interest method, the carrying value of the assets and liabilities of each of the combining entities have been carried forward at their book values. Accordingly, these consolidated financial statements are presented as if the Hospital and SJR had been combined since their inception. In addition, the results of operations of the predecessor entities for the period from April 1, 2011 to March 31, 2012 and from April 1, 2012 to June 30, 2012 have been included in the results of operations of the Hospital for the years ended March 31, 2012 and March 31, 2013, respectively.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

The net assets of each of the combining entities as at March 31, 2012 and April 1, 2011 are as follows:

	March 31, 2012		
	SHSC \$	SJR \$	Combined \$ (Unaudited)
Current assets	195,244	9,771	205,015
Capital assets	644,135	39,155	683,290
Other assets	170,144	-	170,144
Current liabilities	202,431	7,246	209,677
Other liabilities	755,978	39,666	795,644
Net assets	51,114	2,014	53,128

	April 1, 2011		
	SHSC \$	SJR \$	Combined \$ (Unaudited)
Current assets	157,160	13,543	170,703
Capital assets	639,204	27,599	666,803
Other assets	173,500	-	173,500
Current liabilities	184,137	9,584	193,721
Other liabilities	746,938	29,730	776,668
Net assets	38,789	1,828	40,617

All comparative figures in the consolidated statements of financial position for March 31, 2012 and April 1, 2011 and for the consolidated statement of operations for the year ended March 31, 2012, and any reference to balances "as previously stated", include the balances and results of the pre-amalgamated entities noted above.

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS), including accounting standards that apply only to government not-for-profit organizations and include the assets, liabilities and activities of the Hospital, SRI and SRA and do not include the assets, liabilities and activities of the following non-controlled not-for-profit entities:

- Sunnybrook Health Sciences Centre Foundation (Sunnybrook Foundation);
- Sunnybrook Volunteer Association;
- St. John's Rehab Foundation; and
- St. John's Rehab Volunteer Association.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

Revenue recognition

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

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. Grants that are approved but not received at the end of a period are accrued. Operating grants are recorded as revenue in the period to which they relate. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period.

Contributions and investment income 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.

Ancillary revenue is primarily derived from the Hospital's pharmacies, preferred accommodation, the Working Conditions Program, leasing revenue from parking, commission revenue from catering services at the Estates of Sunnybrook, and various service level agreements with other institutions.

Contributed assets, 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 consolidated financial statement notes. Contributed assets, materials and services are recorded, when received, at their fair value.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments. Short-term investments are recorded at fair value. Interest is recorded on an accrual basis.

Inventories

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

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.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

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	2.5% - 20.0%
Equipment	3.3% - 33.3%
Building improvements	6.7%
Parking structure	5.0%

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 Hospitals of Ontario Pension Plan (HOOPP), which is a multi-employer, defined benefit, final average earnings, and 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. The plan has been accounted for as if it were on a defined contribution basis, whereby contributions are expensed when due.

The Hospital's share of the approved surplus distribution of this plan was received during fiscal 2012.

- 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 Hospital's long-term cost of borrowing consistent with the specific rates of interest and periods committed to by the Hospital on amounts borrowed. The Hospital estimated its cost of borrowing by referencing the rate of return on provincial government and corporate bonds for varying durations based on the cash flows expected from the post-employment benefit 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.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

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.

Restricted investments

Investments are carried at fair value. Interest is recorded on an accrual basis. The Hospital invests in a diversified portfolio of investment funds as outlined in note 5. The investments are reported at fair value. These investments are managed on a fair value basis and are therefore reported at fair value. Changes in fair value are recorded in the consolidated statement of remeasurement gains and losses until the restricted investment is settled. Transaction costs related to restricted investments are expensed as incurred.

Interest, dividends and realized gains or losses attributable to restricted investments are reported in the consolidated statement of operations.

Derivatives

The Hospital currently employs an interest rate swap to convert the variable interest rate on \$78 million of its bank loan to a fixed interest rate. The interest rate swap is employed in order to eliminate variability in future interest cash flows. The swap is measured at fair value until the swap is derecognized. The change in fair value of the swap is recorded in the consolidated statement of remeasurement gains and losses.

Deferred contributions

Contributions for the purpose of acquiring property, plant and equipment are deferred and amortized on the same basis, and over the same periods, as the related asset.

Contributions for research and special purpose expenses are funded through various sources, including research grants and donations. They are recognized as revenue in the year in which the related expenses are incurred.

Changes in fair value and investment income earned on amounts received for special purpose funds and unspent capital grants are recognized as an increase in deferred contributions and restricted for these purposes.

Use of estimates

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

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

3 Transition to PSAS

Commencing with the 2013 fiscal year, the Hospital has adopted PSAS. These consolidated financial statements are the first financial statements for which the Hospital has applied PSAS. The Hospital has elected to apply PSAS standards that apply only to government not-for-profit organizations.

The impact of the transition to PSAS on the accumulated net assets as at the date of transition, April 1, 2011, and the comparative financial information is presented below. These accounting changes have been applied retroactively with restatement of prior periods except for the accounting standards contained in PS3450 as this standard specifically prohibits retroactive application. The following changes have been implemented to comply with PSAS:

a) Consolidated statements of financial position

	March 31, 2012 \$ (Unaudited)	April 1, 2011 \$ (Unaudited)
Employee future benefit liability - as previously stated	22,558	21,874
Change in discount rate and attribution period (i)	(4,002)	(3,796)
Initial recognition of unamortized losses (ii)	1,924	1,999
Past service costs (iii)	(165)	597
Accumulated sick days (iv)	2,561	2,654
Employee future benefit liability - restated	<u>22,876</u>	<u>23,328</u>

b) Consolidated statement of operations

	2012 \$ (Unaudited)
Excess of revenues over expenses for the year - as originally reported	18,770
Adjustments to the excess of revenues over expenses for the year	
Employee future benefits, other than sick days	
Discount rate and attribution period (i)	206
Amortization of actuarial losses (ii)	75
Past service costs (iii)	762
Accumulated sick days (iv)	93
Excess of revenues over expenses for the year - as restated	<u>19,906</u>

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

c) Accumulated operating surplus

The impact of the transition on accumulated operating surplus is as follows:

	April 1, 2011 \$ (Unaudited)
Accumulated operating surplus - Beginning of year - as originally reported	42,071
Adjustments to net assets on conversion to PSAS	
Employee future benefits, other than accumulated sick days	
Attribution period	3,796
Recognition of unamortized gains (ii)	(1,999)
Past service costs (iii)	(597)
Accumulated sick days (iv)	<u>(2,654)</u>
Accumulated operating surplus - Beginning of year - as restated	<u>40,617</u>

- i) The Hospital has revalued its employee future benefit liability using a discount rate referencing the Hospital's cost of borrowing. This had an impact on the discount rate applied at March 31, 2012 only. In addition, the Hospital has revalued this liability using an attribution period from the employee's date of hire to the first day of payment. These changes have been applied retroactively.
- ii) The Hospital has retroactively recognized unamortized actuarial gains and losses on the date of transition. Future accumulated actuarial gains and losses are amortized over the remaining service life of the employee group.
- iii) The Hospital has retroactively recognized unamortized past service costs relating to previous years' plan amendments as PSAS requires these costs to be expensed fully in the year the plan has been amended.
- iv) The Hospital has retroactively recognized sick days that accumulate but do not vest as liabilities.

d) Exemption

The Hospital has elected to use the following exemption:

- Retirement and post-employment benefits

The Hospital has elected to recognize all cumulative actuarial gains and losses as at the date of transition to PSAS directly in net assets.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

e) Adoption of financial instruments accounting standard

The Hospital adopted the new financial instruments standard on a prospective basis as required by the standard. The cumulative unrealized gains in opening net assets have been transferred to the accumulative remeasurement gains - beginning of year in the statement of remeasurement gains and losses.

4 Accounts receivable

	2013 \$	2012 \$ (Unaudited)
Non-patient care	34,377	32,229
M Wing receivable - MOHLTC	13,720	13,400
Patient care		
Cancer Care Ontario	3,557	3,393
Veterans Affairs Canada	1,089	4,218
Other	6,235	4,487
MOHLTC/TC LHIN	3,949	1,940
	62,927	59,667

5 Restricted investments

	2013		2012	
	Fair value \$	Cost \$	Fair value \$	Cost \$ (Unaudited)
Cash and cash equivalents	17,062	17,062	6,149	6,149
BMO Harris Canadian Money Market Fund	6,062	6,062	6,003	6,003
PH&N Canadian Money Market Fund	4,950	4,950	5,631	5,631
PH&N Short-term Bond and Mortgage Fund	95,097	93,440	52,143	50,453
PH&N Bond Fund	-	-	49,321	45,914
TD short-term investment	10,153	10,153	3,054	3,054
UBS Cash Management Fund	37,492	37,492	34,744	34,744
Burgundy Canadian Equity	6,304	5,464	3,650	3,324
Burgundy Global Equity	5,918	4,928	2,993	2,694
Burgundy Emerging Markets	612	576	-	-
Bonavista Canadian Equity	6,225	5,659	3,211	2,975
Bonavista US Equity	2,974	2,493	1,554	1,353
Bonavista International Equity	3,086	2,763	1,293	1,237
Bonavista Money Market Fund	-	-	398	398
	195,935	191,042	170,144	163,929

Restricted investments are for capital construction, the purchase of equipment and other expenses of future periods. Specifically, the funds held in the BMO Harris Canadian Money Market Fund represent funds restricted in accordance with the Development Accountability Agreement. In addition, the funds held at TD as a short-term investment represent funds restricted for the Research Hospital Fund (RHF) award project. The restricted investments also include \$74,112 (2012 - \$62,833) restricted for research expenditures.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

6 Other receivable

The receivable of \$4,580 as at March 31, 2013 represents a receivable from the MOHLTC for HIRF funding.

The receivable of \$12,617 (unaudited) as at April 1, 2011 arose from the approved superannuation surplus sharing agreement. The funds were received in April 2011 and were restricted (see note 5) since the surplus sharing agreement requires that they be spent on future capital initiatives of the Hospital.

7 Property, plant and equipment

	2013		
	Cost \$	Accumulated amortization \$	Net \$
Land	973	-	973
Buildings	783,838	284,706	499,132
Equipment	315,978	191,309	124,669
Parking structure	45,299	18,329	26,970
Construction-in-progress	15,138	-	15,138
	<u>1,161,226</u>	<u>494,344</u>	<u>666,882</u>
	2012		
	Cost \$	Accumulated amortization \$	Net \$
Land	973	-	973
Buildings	691,133	259,852	431,281
Equipment	297,789	174,453	123,336
Parking structure	44,991	16,387	28,604
Construction-in-progress	99,096	-	99,096
	<u>1,133,982</u>	<u>450,692</u>	<u>683,290</u>

Property, plant and equipment include land and buildings, carried at \$nil cost, which are leased for nominal consideration to the Hospital by the University of Toronto.

Construction-in-progress is primarily related to the phase II expansion at SJR in 2013 and the expansion of the Bayview campus and the RHF project in 2012.

8 Operating line of credit

The Hospital has an unsecured operating line of credit to a maximum of \$30,000, which bears interest at prime (3% at March 31, 2013) less 0.75% and is due on demand. The credit facility is subject to the Hospital maintaining certain covenants. The Hospital is in compliance with such covenants as at March 31, 2013. As at March 31, 2013 and March 31, 2012, the Hospital had utilized \$nil of its credit facilities.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

9 Accounts payable and accrued liabilities

	2013 \$	2012 \$ (Unaudited)
Accounts payable	26,521	28,915
Accrued liabilities		
Salaries, wages and employee benefits	77,906	79,272
Deferred revenue	58,878	57,433
Other	25,575	22,757
	<u>188,880</u>	<u>188,377</u>

Deferred revenue is subject to a settlement process and is either repayable to the TC LHIN or may be available for future use.

10 Long-term debt

The long-term debt is unsecured and consists of:

	2013 \$	2012 \$ (Unaudited)
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. Principal repayments are \$268 per month, due on the first working day of each month and will conclude on June 1, 2028 (see (a) below)	72,352	59,397
Term loan with variable interest rate of CAD BA CDOR plus 0.25%, fully paid in April 2012	-	15,906
Term loan with variable to fixed interest rate swap to eight years resulting in an effective interest rate of 4.88%, principal repayments of \$62 per month and concludes November 1, 2018 (see (a) below)	5,231	6,014
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)	649	688
Interest free loan with quarterly payments of \$25, quarterly principal payments commenced on January 1, 2010 and will conclude on October 1, 2019 (see (b) below)	650	750
	<u>78,882</u>	<u>82,755</u>
Fair value of derivatives	13,855	13,223
Less: Current portion	(4,194)	(19,265)
	<u>88,543</u>	<u>76,713</u>

- a) In June 2008, the Hospital entered into a credit facility for a maximum borrowing of \$100,000. In February 2010, the credit facility was increased to \$107,000. The amended credit facility includes both a construction loan facility and a term loan facility (to a maximum of \$83,000). The construction loan is a revolving facility at the banker's acceptance rate plus 22 basis points. As at March 31, 2013, no draws had been made against the construction loan. The term loan is currently primarily financing the physical facilities expansion at the Bayview campus in addition to the refinancing of prior existing loans.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

- 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:

	\$
2014	4,194
2015	4,431
2016	4,638
2017	4,865
2018	5,105
Thereafter	55,649
	<u>78,882</u>

As at March 31, the fair value of these liabilities is as follows:

	2013		2012	
	Cost \$	Fair value \$	Cost \$	Fair value \$ (Unaudited)
Variable interest loan	77,583	77,583	81,317	81,317
Interest free loans	1,299	1,028	1,438	1,115
	<u>78,882</u>	<u>78,611</u>	<u>82,755</u>	<u>82,432</u>

11 Employee future benefits

a) Multi-employer plan

Substantially all the employees of the Hospital are members of HOOPP, which is a multi-employer, defined benefit, final average earnings, contributory pension plan. Given that HOOPP is a multi-employer plan, it is accounted for as a defined contribution plan, whereby the contributions are expensed as made. Employer contributions made to HOOPP during the year by the Hospital amounted to \$35,239 (2012 - \$32,444). These amounts are included in salaries, wages and employee benefits expense in the consolidated statement of operations. As at December 31, 2012, HOOPP was 104% funded.

b) Superannuation defined benefit plan

The surplus sharing agreement was approved by the Financial Services Commission of Ontario (FSCO) and the courts on March 3, 2009. The outstanding surplus distribution and the reimbursement of related costs were received in 2012.

As at December 31, 2012, the plan has assets, at fair value, of \$5,836 (2012 - \$6,319).

In the current year, there were no contributions made nor expenses incurred.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

c) Post-employment benefits and compensated absences

The Hospital provides extended health-care, dental and life insurance benefits to substantially all employees. The plan is unfunded and requires no contributions from employees. The Hospital's accrued benefit liability relating to employee future non-pension benefit plans has been calculated by the accrued benefit method pro-rated on service. The average remaining service period of employees at the date of valuation was 16 years for Hospital employees and 11 years for SRI employees.

For employees credited with 18 days per year for use as paid absences in the year, due to illness or injury, they are allowed to accumulate unused sick day credits each year, up to the allowable maximum provided in their respective employment agreements. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick days for sick leave compensation ceases on termination of employment. The benefit costs, which have been actuarially determined, and liabilities related to the plan are included in the consolidated financial statements.

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

	2013 \$	2012 \$ (Unaudited)
Accrued benefit obligation	26,631	25,480
Unamortized actuarial losses	(3,153)	(2,604)
Employee future benefits liability	23,478	22,876
Less: Current portion	1,974	2,035
Long-term portion	21,504	20,841

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

	2013 \$	2012 \$ (Unaudited)
Employee future benefits liability as at April 1	22,876	23,328
Current service cost		
Interest cost	1,365	1,131
Prior service costs	1,098	1,191
Amortization of actuarial gains and losses	-	(762)
Post-employment and sick leave benefit expense	174	-
	2,637	1,560
Benefits paid	25,513 (2,035)	24,888 (2,012)
Employee future benefits liability as at March 31	23,478	22,876

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

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:

	2013	2012
		(Unaudited)
Discount rate for accrued benefit obligation	4.0%	4.25%
Discount rate for net benefit cost	4.25%	5.25%
Dental benefits cost escalation	4.0%	4%
Medical benefits cost escalation - extended health care	7.5% - 9.0%	7.0% - 8.0%

12 Deferred contributions

	2013	2012
	\$	\$
Research and special purpose funds	149,252	137,852
Property, plant and equipment	562,352	560,238
	<u>711,604</u>	<u>698,090</u>

As at March 31, 2013, total deferred contributions for property, plant and equipment include \$39,912 (2012 (unaudited) - \$37,805) held in restricted investments, which will be utilized to fund capital expenditures in future years and amounts that are subject to a settlement process with the MOHLTC.

During the year, the Hospital recognized \$68,468 (2012 (unaudited) - \$67,359) as grant and other revenue from deferred contributions. These revenues have been offset by research related expenses.

13 Related party transactions

Related party transactions not separately disclosed in the consolidated financial statements include the following:

- During the year, the Hospital received donations of \$26,635 (2012 (unaudited) - \$25,862) from Sunnybrook Foundation and \$2,805 (2012 (unaudited) - \$1,038) from the St. John's Rehab Foundation and these amounts were used to fund operations, research and building and equipment purchases.
- On May 1, 2010, the Hospital entered into a ten-year sublease agreement for its parking facilities with Sunnybrook Foundation. During the year, the Hospital earned \$9,400 (2012 (unaudited) - \$9,400) in leasing revenue, \$2,827 (2012 (unaudited) - \$3,456) as service fee and additional surplus generated was gifted to the Hospital and included in donations. In addition, relating to the parking operations, as at March 31, 2013, the Hospital had an outstanding receivable from the Foundation of \$1,454 (2012 (unaudited) - \$1,457) and an outstanding liability with the Foundation of \$31 (2012 (unaudited) - \$329).
- At March 31, 2013, included in accounts receivable is \$517 (2012 (unaudited) - \$1,068) due from Sunnybrook Foundation relating to non-parking expenses paid on its behalf and \$1,529 (2012 (unaudited) - \$717) due from St. John's Rehab Foundation for administrative services provided.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

14 Contingencies and commitments

- a) Contractual commitments to various parties amount to approximately \$5,408 (2012 (unaudited) - \$9,099) 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, 2013, no negative assessments have been received.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber who has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as of March 31, 2012.

During the year, the Hospital entered into an arrangement with HIROC to self insure legal and adjusting costs through an agency/trust relationship. The benefit of this arrangement is to reduce overall legal and adjusting expenses for the Hospital.

From time to time, the Hospital is named in lawsuits related to its activities. These claims are at various stages and therefore it is not possible to determine the merits of these claims or to estimate the possible financial liability, if any, to the Hospital. Accordingly, no provision has been made for loss in these consolidated financial statements, but in management's view, these claims should not have a material adverse effect on the financial position of the Hospital.

- c) On March 31, 2006 and amended on June 20, 2009, the Hospital entered into an agreement with Hospital Administrative Services (Plexxus), whose primary responsibility is to provide material management services to its members on a cost recovery basis and implement a back office technology solution, which is currently underway. The objective is to provide these services at a lower cost as compared to the members' cost 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.

On June 1, 2012, the Hospital converted its financial reporting system to SAP through services provided by Plexxus and supported by CGI Group Inc. The Hospital pays ongoing service fees for supply chain services and to support and maintain SAP. These amounts are included in the other supplies and expenses in the consolidated statement of operations.

During the year, the Hospital paid \$5,460 to Plexxus, in respect of a refundable membership fee agreement signed in April 2012. Subsequent to this date, and pursuant to a change in the Plexxus fee model, a resolution among the member hospitals was passed that had the effect of rendering the

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

membership fee non-refundable and as a result the Hospital wrote off the entire balance at year-end. This amount is included in other supplies and expenses in the consolidated statement of operations.

- d) The Hospital has outstanding letters of guarantee totalling \$2,217 (2012 - \$2,155) in support of performance guarantees in favour of the City of Toronto and the Toronto Transit Commission.
- e) The Hospital has entered into various operating lease arrangements, which expire at various dates up to 2016. The minimum rental payments for the next three fiscal years and thereafter are as follows:

		\$
2014		332
2015		268
2016		58
		658

15 Financial instruments and risk management

The Hospital's financial instruments consist of cash and cash equivalents, restricted investments, accounts receivable, accounts payable and accrued liabilities, long-term debt and derivatives.

The Hospital's financial instruments are measured as follows:

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

Fair value measurement

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.

Sunnybrook Health Sciences Centre

Notes to Consolidated Financial Statements

March 31, 2013

(in thousands of dollars)

Within the fair value hierarchy, as at March 31, 2013 and March 31, 2012, the restricted investments as outlined in note 5 are classified as Level 1 and the derivatives are classified as Level 2.

Risk management

The Hospital is exposed to a variety of financial risks, including market 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

The interest rate risk is the risk that the fair value of the future cash flows of a financial instrument fluctuates because of changes in market interest rates. The Hospital is exposed to interest rate risk as a result of cash balances and debt. Of these risks, the Hospital's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to decreases in cash flow and excess of revenues over expenditures. The Hospital has effectively fixed its interest rate on the majority of long-term debt by entering into interest rate swaps.

As at March 31, 2013, the Hospital's estimate of the exposure to interest rate risk and the effect on net assets is not material.

- Credit risk

The majority of the Hospital's receivables are due from MOHLTC or other government agencies. As at March 31, 2013, the Hospital's exposure to credit risk in the event of non-payment by patients and other non-government parties is not material.

- 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 that the current and future obligations will be met. The Hospital believes that 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 10. The majority of accounts payable and accrued liabilities is expected to be settled in the next fiscal year.

16 Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2013 consolidated financial statements.



June 6, 2013

Additional Comments of Independent Auditor

The accompanying schedules of operations for SHSC and SJR are presented as supplementary information only. In this respect, they do not form part of the consolidated financial statements of Sunnybrook Health Sciences Centre for the year ended March 31, 2013, and hence are excluded from the opinion expressed in our report dated June 6, 2013 to the Board of Directors on such consolidated financial statements. The information in these schedules of operations for SHSC and SJR has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the Hospital and, in our opinion, is fairly presented in all respects material to those consolidated financial statements.

Chartered Accountants, Licensed Public Accountants

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

Sunnybrook Health Sciences Centre

Schedule of Operations - SHSC

For the year ended March 31, 2013

(in thousands of dollars)

	2013 \$	2012 \$
Revenues		
Toronto Central Local Health Integration Network/Ministry of Health and Long-Term Care	598,875	600,903
Cancer Care Ontario	72,692	67,749
Other agencies and patients	39,746	41,929
Ancillary services and other sources	115,825	101,240
Investment income	1,116	846
Grant and other revenue	8,078	12,463
Amortization of deferred contributions for equipment	8,257	8,316
	<u>844,589</u>	<u>833,446</u>
Expenses		
Salaries, wages and employee benefits	541,111	533,464
Medical and surgical supplies	64,692	64,051
Drugs	63,648	58,868
Other supplies and expenses	130,807	124,206
Bad debts	1,561	3,109
Interest	3,928	3,768
Amortization of equipment	20,468	20,494
	<u>826,215</u>	<u>807,960</u>
Excess of revenues over expenses before net building amortization	<u>18,374</u>	<u>25,486</u>
Net building amortization		
Amortization of deferred contributions for buildings	17,747	15,100
Amortization of buildings	(23,986)	(21,013)
	<u>(6,239)</u>	<u>(5,913)</u>
Excess of revenues over expenses for the year	<u>12,135</u>	<u>19,573</u>

Note: The above schedule has been provided as supplemental information and represents the operating results of SHSC.

Sunnybrook Health Sciences Centre

Schedule of Operations - SJR

For the year ended March 31, 2013

(in thousands of dollars)

	2013 \$	2012 \$
Revenues		
Toronto Central Local Health Integration Network/Ministry of Health and Long-Term Care	30,254	31,047
Other agencies and patients	2,357	3,258
Ancillary services and other sources	3,548	4,653
Investment income	67	81
Grant and other revenue	113	-
Amortization of deferred contributions for equipment	722	484
	<u>37,061</u>	<u>39,523</u>
Expenses		
Salaries, wages and employee benefits	30,483	30,981
Medical and surgical supplies	433	440
Drugs	693	700
Other supplies and expenses	5,303	6,169
Bad debts	33	(90)
Amortization of equipment	838	908
	<u>37,783</u>	<u>39,108</u>
Excess (deficiency) of revenues over expenses before net building amortization	<u>(722)</u>	<u>415</u>
Net building amortization		
Amortization of deferred contributions for buildings	1,122	50
Amortization of buildings	(1,319)	(279)
	<u>(197)</u>	<u>(229)</u>
Excess (deficiency) of revenues over expenses for the year	<u>(919)</u>	<u>186</u>

Note: The above schedule has been provided as supplemental information and represents the operating results of SJR.