Management’s report

The accompanying financial statements of The Hospital for Sick Children (the “Hospital”) are the responsibility of management and have been approved by the members of the Board of Trustees (the “Board”).

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The preparation of the financial statements necessarily involves management’s judgment and estimates of the expected outcomes of current events and transactions with appropriate consideration to materiality.

The Hospital maintains systems of internal accounting and financial controls. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that assets are properly accounted for and safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Finance and Audit Committee (the “Committee”). The Committee meets with management and the internal and external auditors to review any significant accounting and auditing matters, to discuss the results of audit examinations, and to review the financial statements and the external auditors’ report. The Committee reports its findings to the Board for consideration when approving the financial statements.

The financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards.

Michael Apkon  
President & Chief Executive Officer

Laurie A. Harrison  
Vice President Finance & Chief Financial Officer

May 28, 2018
Independent auditors’ report

To the Members of the Board of Trustees of
The Hospital for Sick Children

We have audited the accompanying financial statements of The Hospital for Sick Children, which comprise the balance sheet as at March 31, 2018, and the statements of operations, changes in net assets (deficit), remeasurement gains and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the financial statements

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

Auditors’ responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Hospital for Sick Children as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Canada
May 28, 2018

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants
The Hospital for Sick Children

Balance sheet
[in thousands of dollars]

As at March 31

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents [notes 4 and 8]</td>
<td>452,514</td>
<td>214,204</td>
</tr>
<tr>
<td>Accounts receivable [notes 3 and 13[f]]</td>
<td>92,335</td>
<td>91,283</td>
</tr>
<tr>
<td>Short-term investments [note 4]</td>
<td>13,710</td>
<td>50,119</td>
</tr>
<tr>
<td>Inventories</td>
<td>6,999</td>
<td>7,812</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>9,711</td>
<td>9,948</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>575,269</td>
<td>373,366</td>
</tr>
<tr>
<td>Long-term investments [notes 4 and 5]</td>
<td>265,148</td>
<td>181,485</td>
</tr>
<tr>
<td>Capital assets, net [note 6]</td>
<td>761,677</td>
<td>719,713</td>
</tr>
<tr>
<td>Accrued pension benefits [note 7]</td>
<td>295,099</td>
<td>285,723</td>
</tr>
<tr>
<td>Other non-current assets [note 13[g]]</td>
<td>7,838</td>
<td>8,319</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,905,031</td>
<td>1,548,606</td>
</tr>
</tbody>
</table>

| **Liabilities and net assets** |       |       |
| **Current** |       |       |
| Accounts payable and accrued liabilities [notes 9[c],13[f] and 16] | 147,717 | 134,054 |
| Amounts held for other organizations | 30,850  | 33,264  |
| Deferred contributions [note 10] | 186,340 | 169,194 |
| **Total current liabilities** | 364,907 | 336,512 |
| Deferred capital contributions [note 11] | 414,061 | 417,716 |
| Long-term debt [note 9] | 498,200 | 200,000 |
| Pension and other employee benefit obligations [note 7] | 191,944 | 185,950 |
| Long-term deferred contributions [note 10] | 26,500  | —       |
| Other non-current liabilities | 19,668  | 19,908  |
| **Total liabilities** | 1,515,280 | 1,160,086 |
| Commitments and contingencies [notes 13[c] and 17] |       |       |

| **Net assets** |       |       |
| Deficit | (112,917) | (48,708) |
| Internally restricted [note 12] | 482,483 | 418,091 |
| Accumulated remeasurement gains | 20,185  | 19,137  |
| **Total net assets** | 389,751 | 388,520 |
| **Total** | 1,905,031 | 1,548,606 |

See accompanying notes

On behalf of the Board of Trustees:

Hon. Sarabjit S. Marwah
Chair, Board of Trustees

Timothy H. Panter
Chair, Finance and Audit Committee
The Hospital for Sick Children

Statement of operations
[in thousands of dollars]

Year ended March 31

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient care</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Health and Long-Term Care/Toronto Central Local Health Integration Network</td>
<td>571,262</td>
<td>560,902</td>
</tr>
<tr>
<td>Other [note 15]</td>
<td>81,045</td>
<td>71,991</td>
</tr>
<tr>
<td>Research [note 13[e]]</td>
<td>213,010</td>
<td>193,383</td>
</tr>
<tr>
<td>Commercial [note 13[d]]</td>
<td>62,976</td>
<td>56,288</td>
</tr>
<tr>
<td>Amortization of deferred capital contributions [note 11]</td>
<td>33,607</td>
<td>32,111</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>961,900</td>
<td>914,675</td>
</tr>
</tbody>
</table>

| **Expenses**          |            |            |
| Compensation [note 7] | 599,648    | 585,216    |
| Clinical supplies and drugs | 90,025    | 86,342    |
| Cost of goods sold    | 30,697     | 27,679     |
| Other operating       | 110,517    | 98,522     |
| Administrative and general | 43,401    | 35,487    |
| Interest [note 9[b]]  | 13,646     | 10,605     |
| Depreciation          | 78,875     | 83,567     |
| **Total Expenses**    | 966,809    | 927,418    |

Deficiency of revenue over expenses before investment income | (4,909) | (12,743) |
Investment income [note 5] | 5,092 | 23,885 |

**Excess of revenue over expenses for the year** | 183 | 11,142 |

See accompanying notes
The Hospital for Sick Children

Statement of changes in net assets (deficit)
[in thousands of dollars]

Year ended March 31

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deficit</td>
<td>Internally restricted</td>
</tr>
<tr>
<td>Net assets (deficit), beginning of year</td>
<td>(48,708)</td>
<td>418,091</td>
</tr>
<tr>
<td>Excess of revenue over expenses for the year</td>
<td>183</td>
<td>—</td>
</tr>
<tr>
<td>Interfund transfers [note 12]</td>
<td>(64,392)</td>
<td>64,392</td>
</tr>
<tr>
<td>Net assets (deficit), end of year</td>
<td>(112,917)</td>
<td>482,483</td>
</tr>
</tbody>
</table>

See accompanying notes
The Hospital for Sick Children

Statement of remeasurement gains
[in thousands of dollars]

Year ended March 31

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated remeasurement gains, beginning of year</td>
<td>19,137</td>
<td>19,193</td>
</tr>
<tr>
<td>Unrealized gains (losses) attributable to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio investments</td>
<td>(3,246)</td>
<td>19,841</td>
</tr>
<tr>
<td>Derivatives [note 5]</td>
<td>(296)</td>
<td>(1,420)</td>
</tr>
<tr>
<td></td>
<td>(3,542)</td>
<td>18,421</td>
</tr>
<tr>
<td>Realized losses (gains) reclassified to statement of operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio investments</td>
<td>4,102</td>
<td>(17,302)</td>
</tr>
<tr>
<td>Derivatives [note 5]</td>
<td>488</td>
<td>(1,175)</td>
</tr>
<tr>
<td></td>
<td>4,590</td>
<td>(18,477)</td>
</tr>
<tr>
<td>Accumulated remeasurement gains, end of year</td>
<td>20,185</td>
<td>19,137</td>
</tr>
</tbody>
</table>

See accompanying notes
## Statement of cash flows

[in thousands of dollars]

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

### Operating activities

- Excess of revenue over expenses for the year: 183, 11,142
- Change in accumulated remeasurement gains: 1,048, (57)
- Add (deduct) items not affecting cash:
  - Depreciation: 78,875, 83,567
  - Amortization of deferred capital contributions: (33,607), (32,111)
  - Pension and other post-employment benefit recovery: (12,539), (8,884)
  - 33,960, 53,657
- Net change in other non-cash working capital balances: 31,295, 6,336
- Employer benefit contributions: (10,843), (9,897)

| Cash provided by operating activities | 54,412 | 50,096 |

### Investing activities

- Decrease in short-term investments, net: 36,409, 20,548
- Decrease (increase) in long-term investments, net: (83,663), 35,558
- Net change in other non-current assets: 481, (356)

| Cash provided by (used in) by investing activities | (46,773) | 55,750 |

### Capital activities

- Acquisition of capital assets: (122,785), (78,388)

| Cash used in capital activities | (122,785) | (78,388) |

### Financing activities

- Contributions received for capital purposes: 28,996, 18,942
- Issuance of long-term debt, net of transaction fees: 298,255, —
- Repayment of long-term debt: (55), (55)
- Proceeds received for debenture retirement fund: 26,500, —
- Net change in other non-current liabilities: (240), 350

| Cash provided by financing activities | 353,456 | 19,237 |

### Net increase in cash and cash equivalents during the year

| 238,310 | 46,695 |

| Cash and cash equivalents, beginning of year | 214,204 | 167,509 |

| Cash and cash equivalents, end of year | 452,514 | 214,204 |

<table>
<thead>
<tr>
<th>Cash and cash equivalents represented by</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>118,320</td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>334,194</td>
</tr>
</tbody>
</table>

### Supplemental cash flow information

- Decrease (increase) in accounts payable, accrued liabilities and other long-term liabilities, related to capital asset transactions, net: 1,946, (5,060)
- Increase in accounts receivable related to capital asset transactions, net: 956, 79

**See accompanying notes**
1. Purpose of the organization

The Hospital for Sick Children [the “Hospital”] is a Canadian public hospital dedicated to advancing children’s health through the integration of patient care, research and education. Its mission is to provide the best in complex and specialized family-centred care; pioneer scientific and clinical advancements; share expertise; foster an academic environment that nurtures healthcare professionals; and champion an accessible, comprehensive and sustainable child health system.

The Hospital is incorporated under the Act to Incorporate the Hospital for Sick Children, 1892. The Hospital is a registered charity under the Income Tax Act (Canada) and, as such, is exempt from income taxes.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with the Chartered Professional Accountants of Canada Public Sector [“PS”] Handbook, which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. The Hospital has chosen to use the standards for not-for-profit organizations that include Sections PS 4200 to PS 4270. The significant accounting policies are summarized below.

Basis of presentation

These financial statements include the assets, liabilities and activities of the Hospital. They do not include the activities of the The Women’s Auxiliary of the Hospital for Sick Children, which is not controlled by the Hospital. Entities that the Hospital does not control or have significant influence over, but does have an economic interest in, are not consolidated:

- The Hospital for Sick Children Foundation [the “Foundation”] [note 13]

For the following controlled not-for-profit entities, the Hospital has chosen the accounting policy option to note disclose the required information:

- The SickKids Centre for Community Mental Health [the “Centre”] and the Hincks Dellcrest Institute [the “Institute”] [note 15]

The following entities are jointly controlled by the Hospital and others. The Hospital has chosen the accounting policy option to account for these entities by the modified equity method. The modified equity method is a basis of accounting for the Hospital’s partnerships, whereby the accounting principles of the partnerships are not modified to conform with that of the Hospital and inter-organizational transactions and balances are not eliminated, except for gains and losses on assets remaining within the Hospital at the reporting date.

- Kid’s Health Alliance [note 14]
- The Centre for Phenogenomics [note 16]

Other for-profit entities that the Hospital controls, or where there is significant influence, are accounted for by the modified equity method and included within the Hospital’s investments.
Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accounts requiring significant estimates include accounts receivable and the collectability thereof, the useful lives of capital assets, accrued liabilities, deferred contributions, and employee future benefits. Actual results could differ from those estimates.

The amount of revenue recognized from the Ontario Ministry of Health and Long-Term Care [the “MOHLTC”] and Toronto Central Local Health Integration Network [the “TC-LHIN”] requires a number of estimates. The Hospital has entered into a number of accountability agreements with the TC-LHIN that set out the rights and obligations of the two parties in respect of funding provided to the Hospital by the TC-LHIN for fiscal year 2018.

These accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital’s performance in a number of areas, such as total margin, liquidity and operating volumes.

If the Hospital does not meet its performance standards or obligations, the MOHLTC and TC-LHIN have the right to adjust funding received by the Hospital. The MOHLTC and TC-LHIN are not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of MOHLTC and TC-LHIN funding received during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management’s best estimate of amounts that have been earned during the year.

Revenue recognition

The Hospital follows the deferral method of accounting for contributions, which include grants. Unrestricted contributions are recorded 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 initially deferred when recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Contributions externally restricted for capital assets are recorded as deferred capital contributions and are amortized to operations on the same basis as the related asset is depreciated.

Revenue from patient care, consulting and other activities is recognized when the service is provided. Revenue from the sale of goods is recognized at the time of sale. Revenue from consulting and related services under a fixed price contract is recognized on a percentage-of-completion basis.

Investment income (loss) recorded in the statement of operations consists of interest, dividends, income distributions from pooled funds, and realized gains and losses, net of related fees. Unrealized gains and losses are recorded in the statement of remeasurement gains, except to the extent they relate to deferred contributions and amounts held for others, in which case they are added to the balances.

Inventories

Inventories held for commercial sale are valued at the lower of cost and net realizable value. All other inventories are valued at the lower of cost and current replacement cost. Cost is determined on a first-in, first-out basis.
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and held in money market funds. Cash and cash equivalents held by external investment managers for investing rather than liquidity purposes are classified as investments.

Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value or [ii] cost or amortized cost. The Hospital determines the classification of its financial instruments at initial recognition.

Portfolio investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds, derivative contracts and any other investments where the investments are managed on a fair value basis and the fair value option is elected. Transaction costs are recognized in the statement of operations in the period during which they are incurred. Investments at fair value are remeasured at their fair value at the end of each reporting period. Any revaluation gains and losses are recognized in the statement of remeasurement gains and are reclassified to the statement of operations upon disposal or settlement.

Portfolio investments in for-profit entities not quoted in an active market and securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs. These investments are subsequently measured at cost or amortized cost using the effective interest rate method, less any provision for impairment.

All investment transactions are recorded on a trade date basis.

A write-down is recognized in the statement of operations for a portfolio investment in either category when there has been a loss in the value of the investment considered as an "other than temporary" loss. Subsequent changes to remeasurement of portfolio investments in the fair value category are reported in the statement of remeasurement gains. If the loss in value of a portfolio investment subsequently reverses, the write down to the statement of operations is not reversed until the investment is sold.

Senior unsecured debentures and other long-term debt are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. Transaction costs related to the issuance of long-term debt are capitalized and amortized over the term of the debt.

Other financial instruments, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year-end. Revenue and expenses are translated at exchange rates prevailing on the transaction dates. Realized gains or losses arising from these foreign currency transactions are included in the statement of operations. Unrealized gains or losses are included in the statement of remeasurement gains, except to the extent they relate to deferred contributions and amounts held for other organizations, in which case they are added to the balances.
Capital assets

Purchased capital assets are recorded at original cost. Donated capital assets are recorded at fair value at the date of contribution. Depreciation of cost and any corresponding deferred capital contribution is calculated on a straight-line basis over their estimated useful lives:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and building service equipment</td>
<td>10–50 years</td>
</tr>
<tr>
<td>Other equipment and systems</td>
<td>3–15 years</td>
</tr>
</tbody>
</table>

Capital assets in development comprises construction, development costs and interest capitalized during the construction period. The Hospital allocates salary and benefit costs related to certain personnel who work directly on managing capital projects to capital assets. No depreciation is recorded until construction is substantially complete and the assets are ready for productive use.

When a capital asset no longer has any long-term service potential to the Hospital, the excess of the carrying value amount over any residual value is recognized as an expense in the statement of operations.

Contributed services and materials

Volunteers contribute numerous hours to assist the Hospital in carrying out certain charitable aspects of its service delivery activities. The fair value of these contributed services is not readily determinable and, as such, they are not reflected in the financial statements. Contributed materials are also not recognized in the financial statements.

Employee benefit plans

The Hospital accrues its obligations under employee benefit plans and the related costs, net of plan assets. The following policies for defined benefit plans have been adopted:

- The cost of pensions and other post-employment benefits earned by employees is actuarially determined using the projected unit credit actuarial cost method prorated on service and management’s best estimate assumptions.
- For the purpose of measuring plan assets, a market-related value of assets is used, whereby all investment gains and losses are recognized over five years.
- For the registered pension plan and the supplemental plan, liabilities are measured using a discount rate determined by reference to the expected long-term earnings on the plan assets. For the other post-employment benefit plans, liabilities are measured using a discount rate determined by reference to the 10-year Ontario provincial bond yield, which represents the Hospital’s cost of borrowing. The cost of non-vesting sick leave benefits is actuarially determined using management’s best estimate of salary escalation, employees’ use of entitlement and discount rates referenced to the 10-year Ontario provincial bond yield.
- Adjustments to these costs arising from changes in actuarial assumptions and/or experience are recognized over the estimated average remaining service period of the active employees on a straight-line basis.

In conjunction with the defined benefit plan, the Hospital maintains a defined contribution pension plan in which the Hospital pays fixed contributions for eligible employees into a registered plan and has no further significant obligation to pay any further amounts. The amount of the pension benefit is based on accumulated Hospital contributions, employee contributions and investment gains and losses. The cost of benefits for the defined contribution plans are expensed as contributions are due.
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

Change in accounting policy

During the year, the Hospital adopted the new accounting standards PS 2200, Related Party Disclosures, and PS 3420, Inter-entity Transactions. These new standards are effective for fiscal years beginning on or after April 1, 2017. PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government’s reporting entity from both a provider and recipient perspective. The change in accounting policy was applied on a retroactive basis and did not have any impact on the financial statements.

3. Accounts receivable

Accounts receivable consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOHLTC/TC-LHIN</td>
<td>9,871</td>
<td>11,448</td>
</tr>
<tr>
<td>Patient care</td>
<td>12,435</td>
<td>8,245</td>
</tr>
<tr>
<td>Research</td>
<td>42,954</td>
<td>53,162</td>
</tr>
<tr>
<td>Other [note 13[f]]</td>
<td>27,075</td>
<td>18,428</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>92,335</td>
<td>91,283</td>
</tr>
</tbody>
</table>

There are no significant amounts that are past due or impaired.

4. Investments

Investments, which are held by external investment managers, are measured at fair value and consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>16,783</td>
<td>48,006</td>
</tr>
<tr>
<td>Fixed income</td>
<td>42,461</td>
<td>57,995</td>
</tr>
<tr>
<td>Canadian equities</td>
<td>14,230</td>
<td>13,837</td>
</tr>
<tr>
<td>Foreign equities [note 5]</td>
<td>205,384</td>
<td>111,766</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>278,858</td>
<td>231,604</td>
</tr>
</tbody>
</table>

Investments held in pooled funds have been allocated among the asset classes based on the underlying investments in the pooled funds.

Fixed income investments have an average term to maturity of 4.68 years and an average yield of 2.68% as at March 31, 2018 based on market values.

Investments include $35.8 million [2017 – $35.4 million] for the Peter Gilgan Centre for Research and Learning Debenture Retirement Fund [note 9[a]] and $26.3 million [2017 – nil] for the Patient Support Centre Debenture Retirement Fund [note 9[b]].
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

The presentation of investments on the balance sheet is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term investments</td>
<td>13,710</td>
<td>50,119</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>265,148</td>
<td>181,485</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>278,858</strong></td>
<td><strong>231,604</strong></td>
</tr>
</tbody>
</table>

Investments are primarily held for certain obligations, including non-funded pension obligations [note 7], the Denture Retirement Fund [note 9], and restricted trust funds.

5. Financial instruments

Fair value hierarchy

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each valuation. The fair value hierarchy is made up of the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data in the market each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The following table presents the investments measured at fair value [note 4] classified according to the fair value hierarchy described above:

<table>
<thead>
<tr>
<th>Investments</th>
<th>Fair value as at March 31, 2018 according to the following levels</th>
<th>Total assets at fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>—</td>
<td>1,120</td>
</tr>
<tr>
<td>Fixed income</td>
<td>—</td>
<td>42,461</td>
</tr>
<tr>
<td>Canadian equities</td>
<td>14,230</td>
<td>—</td>
</tr>
<tr>
<td>Foreign equities [note 4]</td>
<td>101,520</td>
<td>103,864</td>
</tr>
<tr>
<td></td>
<td>115,750</td>
<td>147,445</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>278,858</strong></td>
<td></td>
</tr>
</tbody>
</table>
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

<table>
<thead>
<tr>
<th>Investments</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total assets at fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalents</td>
<td>—</td>
<td>4,528</td>
<td>—</td>
<td>4,528</td>
</tr>
<tr>
<td>Fixed income</td>
<td>—</td>
<td>57,995</td>
<td>—</td>
<td>57,995</td>
</tr>
<tr>
<td>Canadian equities</td>
<td>13,837</td>
<td>—</td>
<td>—</td>
<td>13,837</td>
</tr>
<tr>
<td>Foreign equities [note 4]</td>
<td>73,572</td>
<td>38,194</td>
<td>—</td>
<td>111,766</td>
</tr>
<tr>
<td>Cash</td>
<td>43,478</td>
<td>100,717</td>
<td>—</td>
<td>188,126</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>87,409</strong></td>
<td><strong>100,717</strong></td>
<td>—</td>
<td><strong>231,604</strong></td>
</tr>
</tbody>
</table>

During the years ended March 31, 2018 and 2017, there were no transfers of assets between Level 1, Level 2 and Level 3.

Financial risks

The Hospital’s activities expose it to a range of financial risks. These risks include market risk [including foreign currency risk, interest rate risk, and other price risk], credit risk and liquidity risk.

[a] Market risk

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk and other price risk. Significant volatility in interest rates, equity values and the fair value of the Canadian dollar against the foreign currencies in which the Hospital’s investments are held can significantly impact the value of the investments.

The Hospital manages market risk by using various strategies such as diversification and hedging to mitigate the various forms of market risk as set out in its Statement of Investment Policies and Procedures. In addition, investment exposure in various assets and markets is monitored regularly.

[i] Foreign currency risk

Foreign currency exposure arises from holdings of foreign currency denominated investments. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments. The Hospital has a foreign currency hedging program as set out in the Statement of Investment Policies and Procedures whereby it hedges its foreign currency exposure to the U.S. dollar, the Japanese yen and the euro through the use of foreign exchange forward contracts. The maximum hedging policy is 90% for U.S. dollar, Japanese yen and euro contracts. Foreign currency hedges cannot be projected into the future due to the uncertainty of future asset mix.
The Hospital for Sick Children

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[in thousands of dollars, except where otherwise noted]

March 31, 2018

The following tables illustrate the financial instruments that are exposed to foreign currency risk. The table demonstrates the impact on the accumulated remeasurement gains and losses of a 1% absolute change in foreign exchange rates.

<table>
<thead>
<tr>
<th>2018 Foreign currency denominated assets</th>
<th>Fair value CAD$</th>
<th>Hedging CAD$</th>
<th>Net exposure CAD$</th>
<th>Impact of 1% absolute change in foreign exchange rates on net assets CAD$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents and short-term notes</td>
<td>15,508</td>
<td>6,677</td>
<td>8,831</td>
<td>88</td>
</tr>
<tr>
<td>Equities</td>
<td>205,250</td>
<td>88,375</td>
<td>116,875</td>
<td>1,169</td>
</tr>
<tr>
<td>Total</td>
<td>220,758</td>
<td>95,052</td>
<td>125,706</td>
<td>1,257</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2017 Foreign currency denominated assets</th>
<th>Fair value CAD$</th>
<th>Hedging CAD$</th>
<th>Net exposure CAD$</th>
<th>Impact of 1% absolute change in foreign exchange rates on net assets CAD$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents and short-term notes</td>
<td>43,287</td>
<td>18,271</td>
<td>25,016</td>
<td>250</td>
</tr>
<tr>
<td>Equities</td>
<td>111,840</td>
<td>47,206</td>
<td>64,634</td>
<td>646</td>
</tr>
<tr>
<td>Total</td>
<td>155,127</td>
<td>65,477</td>
<td>89,650</td>
<td>896</td>
</tr>
</tbody>
</table>

Since all other variables are held constant in assessing foreign currency risk sensitivity, it is possible to extrapolate a 1% absolute change in foreign exchange rates to any absolute percentage change in foreign exchange rates.

The Hospital has entered into foreign exchange forward contracts as set out below to manage the risks associated with changes in currency values:

<table>
<thead>
<tr>
<th>2018</th>
<th>Total exposure CAD$</th>
<th>HedgingCAD$</th>
<th>Net exposure CAD$</th>
<th>Foreign currency contract notional amount</th>
<th>Fair value of contracts CAD$</th>
<th>Foreign currency contract expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>119,743</td>
<td>59,227</td>
<td>60,516</td>
<td>USD$</td>
<td>4,600</td>
<td>(17)</td>
</tr>
<tr>
<td>Japan</td>
<td>14,853</td>
<td>13,466</td>
<td>1,387</td>
<td>JPY¥</td>
<td>1,100,000</td>
<td>83</td>
</tr>
<tr>
<td>Europe</td>
<td>27,086</td>
<td>22,359</td>
<td>4,727</td>
<td>EUR€</td>
<td>14,000</td>
<td>69</td>
</tr>
<tr>
<td>Other</td>
<td>59,076</td>
<td>—</td>
<td>59,076</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>220,758</td>
<td>95,052</td>
<td>125,706</td>
<td>1,118,600</td>
<td>135</td>
<td></td>
</tr>
</tbody>
</table>
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

<table>
<thead>
<tr>
<th>2017</th>
<th>Total exposure CAD$</th>
<th>Hedging CAD$</th>
<th>Net exposure CAD$</th>
<th>Foreign currency contract notional amount</th>
<th>Fair value of contracts CAD$</th>
<th>Foreign currency contract expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>99,017</td>
<td>47,689</td>
<td>51,328</td>
<td>USD$ 36,000</td>
<td>(134)</td>
<td>23-Jun-17</td>
</tr>
<tr>
<td>Japan</td>
<td>10,146</td>
<td>6,280</td>
<td>3,866</td>
<td>JPY¥ 530,000</td>
<td>(66)</td>
<td>23-Jun-17</td>
</tr>
<tr>
<td>Europe</td>
<td>14,006</td>
<td>11,508</td>
<td>2,498</td>
<td>EUR€ 8,000</td>
<td>126</td>
<td>23-Jun-17</td>
</tr>
<tr>
<td>Other</td>
<td>31,958</td>
<td>—</td>
<td>31,958</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>155,127</strong></td>
<td><strong>65,477</strong></td>
<td><strong>89,650</strong></td>
<td><strong>574,000</strong></td>
<td>(74)</td>
<td></td>
</tr>
</tbody>
</table>

The fair value of these contracts as at March 31, 2018 is a gain of $0.1 million [2017 – loss of $0.07 million], which is included in the balance of foreign equity investments [note 4].

[ii] Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of a financial instrument due to fluctuations in interest rates. The Hospital’s interest-bearing investments are exposed to interest rate risk. The most significant exposure to interest rate risk is the Hospital’s investment in bonds. The fixed income portfolio has guidelines on duration and concentration, which are designed to mitigate the risk of interest rate volatility. Duration measures the sensitivity of the price of financial instruments for every 1% change in interest rates. As at March 31, 2018, the impact on the accumulated remeasurement gains of a 1% absolute change in bond yields on investments is $1.7 million [2017 – $2.6 million].

In addition, the Hospital is exposed to interest rate risk with respect to its long-term debt because the fair value of the debt will fluctuate due to changes in market interest rates. A change in the interest rate on the long-term debt would have no impact on the financial statements since the debt has a fixed rate of interest and is measured at amortized cost.

[iii] Other price risk

Other price risk is the risk that the fair value of equity or pooled fund investments will fluctuate because of changes in market prices [other than those arising from foreign currency risk or interest rate risk], whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

Since all other variables are held constant in assessing other price risk sensitivity, it is possible to extrapolate a 1% absolute change in the fair value to any absolute percentage change in fair value. As at March 31, 2018, the impact on accumulated remeasurement gains of a 1% absolute change in the fair value of the investments that are exposed to other price risk would be $2.2 million [2017 – $1.3 million].

[b] Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligations to the Hospital. The Hospital’s investments in debt securities are exposed to credit risk. The cost of these investments represents the maximum credit risk exposure at the date of the financial statements. Credit risk is managed by the Hospital’s investment managers whose responsibility is regular
monitoring of credit exposures. The credit quality of financial assets is generally assessed by reference to external credit ratings where available, or to historical information about counterparty default rates. As at March 31, 2018, 98% [2017 – 92%] of fixed income securities held were of investment grade.

The Hospital is also subject to credit risk with respect to its accounts receivable. The Hospital manages and controls credit risk with respect to accounts receivable by dealing primarily with recognized, creditworthy third parties [note 3].

c) Liquidity risk

The Hospital is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. The Hospital derives a significant portion of its operating revenue from the Ontario government and other funders with no firm commitment of funding in future years. To manage liquidity risk, the Hospital keeps sufficient resources readily available to meet its obligations. The Hospital invests in publicly traded liquid assets that are easily sold and converted to cash.

Accounts payable mature within six months. The maturities of other financial liabilities are provided in the notes to the financial statements related to these liabilities.

6. Capital assets

Capital assets consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>5,673</td>
<td>5,673</td>
</tr>
<tr>
<td>Buildings and building service equipment</td>
<td>792,445</td>
<td>802,675</td>
</tr>
<tr>
<td>Other equipment and systems</td>
<td>436,902</td>
<td>421,531</td>
</tr>
<tr>
<td>Capital assets in development</td>
<td>136,821</td>
<td>83,501</td>
</tr>
<tr>
<td></td>
<td>1,371,841</td>
<td>1,313,380</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building service equipment</td>
<td>305,159</td>
<td>301,043</td>
</tr>
<tr>
<td>Other equipment and systems</td>
<td>305,005</td>
<td>292,624</td>
</tr>
<tr>
<td></td>
<td>610,164</td>
<td>593,667</td>
</tr>
<tr>
<td>Net book value</td>
<td>761,677</td>
<td>719,713</td>
</tr>
</tbody>
</table>

During 2018, the Hospital has written off fully depreciated assets in the amount of $62.3 million [2017 – $50.4 million].
The Hospital for Sick Children

Notes to financial statements
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March 31, 2018

7. Pension and employee benefit obligations

The components of the pension and other post-employment benefit plans are as follows:

- **Registered pension plan**: Permanent staff of the Hospital are eligible to participate in its registered pension plan, which has both a defined benefit and a defined contribution component. The vast majority of pension plan members participate in the plan’s defined benefit component, which uses a member’s final average earnings for pension calculation purposes and provides contractual indexing to pensions for certain portions of employees’ accrued pensions.

- **Supplemental pension plan**: Some employees are also entitled to benefits under a supplemental defined benefit pension plan. The Board has internally designated a certain amount of investments to fund these benefits.

- **Non-vesting sick leave benefit plan**: The Hospital allocates to certain employee groups a specified number of days each year for use as paid absences in the event of illness or injury. Employees are permitted to accumulate their unused allocation each year up to the allowable maximum provided in their employment agreements. Accumulated days may be used in future years to the extent that employees’ illness or injury exceeds the current year’s allocation of sick days. Sick days are paid out according to the salary in effect at the time of usage. No payment is due to employees for unused days.

- **Other post-employment benefit plans**: These defined benefit plans, which are vested, comprise medical, dental and life insurance coverage for certain groups of retired employees.

All retirement benefit computations and disclosures are determined using a measurement date for accounting purposes three months prior to the fiscal year-end. The most recent actuarial valuation of the registered pension plan for funding purposes was as at December 31, 2016. The next required valuation is as at December 31, 2019 and will be used for the year ending March 31, 2020. The most recent actuarial valuation of the supplemental pension plan for accounting purposes was as at December 31, 2016 and as at January 1, 2015 for the other post-employment benefit plans and the non-vesting sick leave benefit plan.
Information about the Hospital's defined benefit plans as at and for the year ended March 31, 2018 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Registered pension plan</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Accrued benefit obligation*</td>
<td>(1,054,325)</td>
</tr>
<tr>
<td>Plan assets*</td>
<td>1,607,996</td>
</tr>
<tr>
<td>Funded status – plan surplus (deficit)*</td>
<td>553,671</td>
</tr>
<tr>
<td>Unamortized net actuarial loss (gain)*</td>
<td>(258,572)</td>
</tr>
<tr>
<td>Adjustment for off-fiscal measurement date</td>
<td>—</td>
</tr>
<tr>
<td>Accrued pension benefit asset (liability)</td>
<td>295,099</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>—</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>18,162</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>44,748</td>
</tr>
</tbody>
</table>

The expense for the year ended March 31, 2018 related to pension and other post-employment benefit plans is calculated as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Registered pension plan</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Current year benefit cost</td>
<td>25,920</td>
</tr>
<tr>
<td>Interest on accrued benefit obligation</td>
<td>63,281</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(93,751)</td>
</tr>
<tr>
<td>Amortization of actuarial loss (gain)</td>
<td>(24,826)</td>
</tr>
<tr>
<td>Expense for the year**</td>
<td>(29,376)</td>
</tr>
</tbody>
</table>
Information about the Hospital’s defined benefit plans as at and for the year ended March 31, 2017 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Registered pension plan</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Accrued benefit</td>
<td>(994,278)</td>
</tr>
<tr>
<td>obligation*</td>
<td></td>
</tr>
<tr>
<td>Plan assets*</td>
<td>1,513,414</td>
</tr>
<tr>
<td>Funded status – plan</td>
<td>519,136</td>
</tr>
<tr>
<td>surplus (deficit)*</td>
<td></td>
</tr>
<tr>
<td>Unamortized net actuarial loss (gain)*</td>
<td>(253,413)</td>
</tr>
<tr>
<td>Adjustment for off-fiscal measurement date</td>
<td>—</td>
</tr>
<tr>
<td>Accrued pension</td>
<td>265,723</td>
</tr>
<tr>
<td>benefit asset (liability)</td>
<td></td>
</tr>
<tr>
<td>Employer contributions</td>
<td>—</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>17,450</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>40,503</td>
</tr>
</tbody>
</table>

The expense for the year ended March 31, 2017 related to pension and other post-employment benefit plans is calculated as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Registered pension plan</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Current year benefit</td>
<td>24,989</td>
</tr>
<tr>
<td>cost</td>
<td></td>
</tr>
<tr>
<td>Interest on accrued</td>
<td>59,700</td>
</tr>
<tr>
<td>benefit obligation</td>
<td></td>
</tr>
<tr>
<td>Expected return on</td>
<td>(87,900)</td>
</tr>
<tr>
<td>plan assets</td>
<td></td>
</tr>
<tr>
<td>Amortization of</td>
<td>(22,000)</td>
</tr>
<tr>
<td>actuarial loss (gain)</td>
<td></td>
</tr>
<tr>
<td>Expense for the year**</td>
<td>(25,211)</td>
</tr>
</tbody>
</table>
Included in long-term investments and in cash and cash equivalents is $222.7 million [2017 – $219.4 million] that the Board has designated to fund the supplemental pension plan liability [note 4].

* By its nature, the defined contribution element is exactly fully funded. Accordingly, information shown for the value at year-end of plan obligations, assets, funded status and unamortized amounts all relate to the defined benefit element only and exclude the defined contribution assets and liabilities of $86.9 million [2017 – $75.0 million]. Otherwise, results shown relate to the defined benefit and defined contribution elements combined. ** Includes an expense of $3.3 million [2017 – $3.1 million] relating to the registered pension plan’s defined contribution element.

The significant actuarial assumptions adopted in measuring the Hospital’s accrued benefit obligations for the registered pension plan and supplemental pension plan are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.25</td>
<td>6.25</td>
</tr>
<tr>
<td>Increase in pension payments</td>
<td>1.50</td>
<td>1.50</td>
</tr>
<tr>
<td>Inflation increases</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Salary escalation</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>

The expected annual increase in healthcare costs applicable to the other post-employment benefit plans was 6.0% at the end of 2016, decreasing to an ultimate level of 5.0% in 2018.

The significant actuarial assumptions adopted in measuring the Hospital’s expense for the defined benefit plans are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.25</td>
<td>6.25</td>
</tr>
<tr>
<td>Expected long-term rate of return on plan assets</td>
<td>6.25</td>
<td>6.25</td>
</tr>
<tr>
<td>Increase in pension payments</td>
<td>1.50</td>
<td>1.50</td>
</tr>
<tr>
<td>Inflation increases</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Salary escalation</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>

The expected annual increase in healthcare costs applicable to the other post-employment benefit plans was 6.5% at the beginning of 2016, decreasing to an ultimate level of 5.0% in 2018.

The estimated average remaining service periods of the active employees for which actuarial gains (losses) are amortized over are as follows: 12.0 years for the registered and supplemental pension plans; 7.5 years for other post-employment benefit plans and 12 years for the non-vesting sick leave benefit plan.
The Hospital for Sick Children

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The breakdown of assets held for the Hospital's registered pension plan at the measurement date was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>23</td>
<td>36</td>
</tr>
<tr>
<td>Equity securities</td>
<td>64</td>
<td>50</td>
</tr>
<tr>
<td>Debt securities</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligation for the other post-employment benefit plans and non-vesting sick leave benefit plan are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.61</td>
<td>2.66</td>
</tr>
<tr>
<td>Salary escalation</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>

The significant actuarial assumptions adopted in measuring the Hospital's expense for the other post-employment benefit plans and non-vesting sick leave benefit plan are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.66</td>
<td>2.51</td>
</tr>
<tr>
<td>Salary escalation</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>

8. Lines of credit

The Hospital has a concentration account arrangement with its bankers. In addition, there are two operating lines of credit totalling $125.0 million that can be utilized through a net overdraft paying interest at prime or through bankers’ acceptances. When the Hospital has a net cash balance, interest is earned at prime less 1.75%. The Hospital did not draw from the operating lines of credit for the years ended March 31, 2018 and 2017.
9. Long-term debt

Long-term debt consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A Senior Unsecured Debentures – principal [note 9[a]]</td>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Series B Senior Unsecured Debentures – principal [note 9[b]]</td>
<td>300,000</td>
<td>—</td>
</tr>
<tr>
<td>Transaction fees</td>
<td>(1,745)</td>
<td>—</td>
</tr>
<tr>
<td>Interest-free long-term borrowing agreement</td>
<td>—</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>498,255</td>
<td>200,055</td>
</tr>
<tr>
<td>Current portion included in accounts payable and accrued liabilities</td>
<td>(55)</td>
<td>(55)</td>
</tr>
<tr>
<td></td>
<td>498,200</td>
<td>200,000</td>
</tr>
</tbody>
</table>

[a] On December 16, 2009, the Hospital issued $200,000 of Series A Senior Unsecured Debentures associated with the construction of the Peter Gilgan Centre for Research and Learning. The debentures bear interest at 5.217%, which is payable semi-annually on June 16 and December 16, with the principal to be repaid on December 16, 2049.

As at March 31, 2018, unspent proceeds from the Series A Senior Unsecured Debentures of $35.8 million [2017 – $35.4 million] have been primarily invested with external investment managers. A portion of the assets is invested internally and is invested in money market instruments. These funds are designated as the Peter Gilgan Centre for Research and Learning Debenture Retirement Fund [note 4].

[b] On December 7, 2017, the Hospital issued $300,000 of Series B Senior Unsecured Debentures associated with the construction of the Patient Support Centre. The debentures bear interest at 3.416%, which is payable semi-annually on June 7 and December 7, with the principal to be repaid on December 7, 2057.

On December 20, 2017, the Foundation granted $26.5 million for the establishment of the Patient Support Centre Debenture Retirement Fund [note 13[b]]. As at March 31, 2018, $26.3 million [2017 – nil] has been primarily invested with external investment managers. A portion of the assets is invested internally and is invested in money market instruments [note 4].

[c] For the year ended March 31, 2018, interest payable to bondholders of $13.6 million [2017 – $10.4 million] was expensed in the statement of operations. Of the amount payable to bondholders, $6.2 million [2017 – $3.0 million] had not been paid as at March 31, 2018 and is included in accounts payable and accrued liabilities.
10. Deferred contributions

Deferred contributions represent unspent resources externally restricted, primarily for research, that are related to subsequent years. Changes in the deferred contributions balance are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>169,194</td>
<td>145,032</td>
</tr>
<tr>
<td>Amounts received during the year [notes 13[b] and 13[e]]</td>
<td>263,683</td>
<td>227,197</td>
</tr>
<tr>
<td>Amounts recognized as revenue during the year</td>
<td>(220,037)</td>
<td>(203,035)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>212,840</td>
<td>169,194</td>
</tr>
</tbody>
</table>

The presentation on the balance sheet is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td>186,340</td>
<td>169,194</td>
</tr>
<tr>
<td>Long-term related to the Series B Senior Unsecured Debenture [note 13[b]]</td>
<td>26,500</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>212,840</td>
<td>169,194</td>
</tr>
</tbody>
</table>

11. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of externally restricted contributions received for the purchase of capital assets. Changes in the deferred capital contributions balance are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>417,716</td>
<td>430,806</td>
</tr>
<tr>
<td>Amounts received during the year [note 13[e]]</td>
<td>29,952</td>
<td>19,021</td>
</tr>
<tr>
<td>Amounts recognized as revenue during the year</td>
<td>(33,607)</td>
<td>(32,111)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>414,061</td>
<td>417,716</td>
</tr>
</tbody>
</table>

As at March 31, 2018, the deferred capital contributions include funds received but not yet spent of $9.2 million [2017 – $15.6 million].
12. Internally restricted net assets

Internally restricted net assets consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets</td>
<td>$151,588</td>
<td>$117,620</td>
</tr>
<tr>
<td>Internally funded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series A Debenture Retirement Fund</td>
<td>$35,796</td>
<td>$34,748</td>
</tr>
<tr>
<td>Accrued pension benefits</td>
<td>$295,099</td>
<td>$265,723</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>$482,483</th>
<th>$418,091</th>
</tr>
</thead>
</table>

Internally restricted net assets include funds committed for the following purposes:

- Capital assets internally funded represent capital assets funded using internal resources;
- Debenture Retirement Fund represents funds set aside to retire the Series A Debenture [note 9[a]]; and
- Accrued pension benefits represent the asset recorded on the balance sheet related to the registered pension plan [note 7].

13. The Hospital for Sick Children Foundation

[a] The Hospital for Sick Children Foundation [the “Foundation”] is an independent corporation without share capital that has its own Board of Directors. As at March 31, 2018, the Foundation holds $1.19 billion [2017 – $1.17 billion] in unrestricted, restricted and endowment funds to be used primarily to support research, educational activities and capital investments at the Hospital. The Foundation is responsible for fundraising activities carried out on behalf of the Hospital, and donations or bequests made to the Hospital are recorded as Foundation revenue.

[b] The Hospital entered into three funding agreements with the Foundation: the Research Tower Funding Agreement, the Patient Support Centre Funding Agreement and the Core Funding Agreement. The Research Tower Funding Agreement provided for the capital fundraising campaign in respect of the Peter Gilgan Centre for Research and Learning and provided, on a best efforts basis, certain grants to the Hospital in respect of the Peter Gilgan Centre for Research and Learning. The Hospital used a portion of the grants toward the design and construction costs of the Peter Gilgan Centre for Research and Learning and a portion to support the Hospital’s interest and principal obligations related to the debentures. Subject to certain provisions for termination, the Research Tower Funding Agreement will remain in effect for as long as any of the Series A Debentures [note 9[a]] are outstanding.

The Patient Support Centre Funding Agreement provides the terms and conditions under which the Foundation will, on a best efforts basis, make grants to the Hospital in respect to the Patient Support Centre. On December 20, 2017, the Foundation granted $26.5 million, for the purposes of establishing a Debenture Retirement Fund, whereby the Hospital will invest such funds for the retirement of the debentures upon maturity. Other grants under this agreement will be used to support the Hospital’s interest obligations related to the Series B Debentures [note 9[b]].

In general, the Foundation’s grants under the Research Tower Funding Agreement and the Patient Support Centre Funding Agreement take precedence over any other commitments of the Foundation to the Hospital.
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

The Core Funding Agreement provides for the terms and conditions under which the Foundation will make grants to the Hospital in respect of core funding support for the SickKids Research Institute, a division of the Hospital, and certain other matters, including grants intended to be equivalent to the operating and maintenance costs of the Peter Gilgan Centre for Research and Learning.

Each of the Research Tower Funding Agreement, the Patient Support Centre Funding Agreement and the Core Funding Agreement contains a provision that provides for mandatory renegotiation if the Board Unrestricted Endowment Fund of the Foundation is reduced to $150.0 million or less. The Board Unrestricted Endowment Fund of the Foundation represents unrestricted resources transferred by the Board of Directors of the Foundation to the Foundation’s Endowment Fund. As at March 31, 2018, the Foundation holds $155.5 million [2017 – $165.2 million] in the Board Unrestricted Endowment Fund.

[c] The Hospital has agreed to indemnify the Foundation and its directors, officers, employees, members and agents against losses arising out of or resulting from the offering of the debentures.

d] On April 1, 2011, the Hospital entered into a 10-year agreement to lease its parking facilities to the Foundation. For the first five years, the lease payments are $0.3 million per month, increasing to $0.4 million per month in the last five years of the term. The Hospital has also entered into an agreement with the Foundation to manage the facilities for a fee equivalent to costs incurred by the Hospital to operate the facilities and a portion of the parking fees. During the year, the Hospital earned $4.4 million [2017 – $4.4 million] in leasing revenue and $1.2 million [2017 – $1.3 million] in management fees, which are recorded in commercial services revenue in the statement of operations.

[e] During the year, the Foundation granted $135.4 million [2017 – $98.4 million] to the Hospital for research, education, capital and debenture operating interest expense. These grants are recorded as revenue, deferred contributions or deferred capital contributions in the Hospital’s financial statements.

[f] As at March 31, 2018, accounts receivable include a receivable from the Foundation of $4.0 million [2017 – $1.9 million]. Accounts payable and accrued liabilities include an amount payable to the Foundation of $0.7 million [2017 – $3.0 million] related to parking revenue [note 13[d]] and other. These current amounts due to/from the Foundation are non-interest bearing and due on demand.

[g] Some former Foundation staff participate in the Hospital’s benefit plans. The Foundation reimburses the Hospital for any contributions related to the Foundation employees’ participation in these benefit plans. Other non-current assets include $2.5 million [2017 – $2.4 million] related to an amount receivable from the Foundation for those staff participating in the Hospital’s benefit plan.

[h] These transactions occur in the normal course of business and are recorded at their exchange amounts, which is the amount agreed upon by both parties.
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

14. Kids Health Alliance

In June 2017, the Hospital, Holland Bloorview Kids Rehabilitation Hospital and the Children’s Hospital of Eastern Ontario – Ottawa Children’s Treatment Centre partnered to form Kids Health Alliance [“KHA”]. KHA is a network of paediatric healthcare institutions working together to improve the health of children and youth in our regions to create a more coordinated, consistent, high-quality system of care for children, youth and their families.

KHA is an independent corporation without share capital and prepares its financial statements in accordance with Part III of the CPA Canada Handbook – Accounting, which set out generally accepted accounting principles for not-for-profit organizations in Canada. There are no significant differences in the presentation of KHA’s and the Hospital’s financial results arising from their different accounting policies.

These transactions occur in the normal course of business and are recorded at their exchange amounts, which is the amount agreed upon by both parties. As at March 31, 2018, net assets amounted to $0.2 million.

15. SickKids Centre for Community Mental Health and the Hincks-Dellcrest Institute

The SickKids Centre for Community Mental Health [the “Centre”], formerly known as the Hincks-Dellcrest Treatment Centre, is an organization dedicated to serving infants, children and youth with complex mental health needs and their families. The Centre provides prevention, early intervention and treatment services as well as training to students in all major mental health disciplines as a community affiliate of the University of Toronto.

The Hincks-Dellcrest Institute [the “Institute”] is an organization that provides training, research and community consultation in a wide range of disciplines connected to children’s mental health.

The Centre and the Institute are registered charities and, as such, are exempt from income taxes under the Income Tax Act (Canada). Control is exercised over the Centre and the Institute through a governance structure managed by the Hospital.

Effective April 1, 2017, the Centre and the Institute have chosen to adopt Public Sector Accounting Standards in order to harmonize their accounting policies with those used by the Hospital. The financial statements for the Centre and the Institute are prepared in accordance with the CPA Canada Public Sector Accounting Handbook, which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. In preparing the opening balance sheet for April 1, 2017 [the “Transition Date”], the Centre and the Institute have applied PS 2125, First-time Adoption by Government Organizations. Adjustments were recorded directly to the Centre’s and the Institute’s net assets at the Transition Date using transitional provisions as set out in PS 2125 and are not significant to the Hospital’s financial statements.
As at and for the full year ended March 31, 2018 and 2017, the summarized assets, liabilities and results of operations for the Centre are as follows:

<table>
<thead>
<tr>
<th>Financial position</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>$9,655</td>
<td>$9,099</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$4,780</td>
<td>$4,307</td>
</tr>
<tr>
<td>Internally restricted funds</td>
<td>$3,729</td>
<td>$3,644</td>
</tr>
<tr>
<td>Unrestricted funds</td>
<td>$1,146</td>
<td>$1,058</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$4,875</td>
<td>$4,702</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>$9,655</td>
<td>$9,009</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results of operations</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>$14,626</td>
<td>$15,178</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$14,453</td>
<td>$15,425</td>
</tr>
<tr>
<td>Excess (deficiency) of revenue over expenses for the year</td>
<td>$173</td>
<td>$(247)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td>$(417)</td>
<td>$55</td>
</tr>
<tr>
<td>Investing activities</td>
<td>$(100)</td>
<td>$(266)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>$582</td>
<td>$348</td>
</tr>
<tr>
<td>Net increase in cash flows for the year</td>
<td>$65</td>
<td>$137</td>
</tr>
</tbody>
</table>
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

March 31, 2018

As at and for the full year ended March 31, 2018 and 2017, the summarized assets, liabilities and results of operations for the Institute are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>1,876</td>
<td>1,126</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,170</td>
<td>453</td>
</tr>
<tr>
<td>Internally restricted funds</td>
<td>872</td>
<td>961</td>
</tr>
<tr>
<td>Unrestricted funds</td>
<td>(166)</td>
<td>(288)</td>
</tr>
<tr>
<td>Total net assets</td>
<td>706</td>
<td>673</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>1,876</td>
<td>1,126</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results of operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,198</td>
<td>1,093</td>
</tr>
<tr>
<td>Total expenses</td>
<td>1,165</td>
<td>1,166</td>
</tr>
<tr>
<td>Excess (deficiency) of revenue over expenses for the year</td>
<td>33</td>
<td>(73)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>214</td>
<td>(5)</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(7)</td>
<td>—</td>
</tr>
<tr>
<td>Net increase (decrease) in cash flows for the year</td>
<td>207</td>
<td>(5)</td>
</tr>
</tbody>
</table>

The Hospital maintains a service agreement with the Centre and the Institute, whereby the Hospital provides senior management and administrative support on a cost recovery basis. These transactions occur in the normal course of business and are recorded at their exchange amounts, which is the amount agreed upon by all parties. During the year, the Hospital earned $0.9 million [2017 – nil] in management and administrative fees from the Centre and the Institute, which are recorded in other revenue in the statement of operations. As at March 31, 2018, the Centre owed the Hospital $0.5 million [2017 – nil] relating to managed service fees and other expenses paid for on behalf of the Centre. As at March 31, 2018, the Hospital owes an amount of $0.3 million, primarily for granting from the Foundation that has not yet been transferred to the Institute. No amounts were owing to/from the Centre and the Institute as at March 31, 2017.
16. The Centre for Phenogenomics

The Centre for Phenogenomics ["TCP"] is a contractual joint venture between the Hospital and Sinai Health System, comprising a 120,000 square foot centralized, state-of-the-art research-enabling mouse facility. The Hospital accounts for its interest in TCP using the modified equity method and recognizes 50% of the joint venture’s operations of nil [2017 – nil] in the statement of operations.

TCP is an unincorporated entity and prepares its financial statements in accordance with Part III of the CPA Canada Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada. There are no significant differences in the presentation of TCP’s and the Hospital’s financial results arising from their different accounting policies.

The summarized assets, liabilities and results of operations for TCP as at and for the year ended March 31, 2018 and 2017 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>4,997</td>
<td>2,344</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4,997</td>
<td>2,344</td>
</tr>
<tr>
<td><strong>Results of operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>9,182</td>
<td>9,121</td>
</tr>
<tr>
<td>Total expenses</td>
<td>9,182</td>
<td>9,121</td>
</tr>
<tr>
<td><strong>Excess of revenue over expenses for the year</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Cash flows</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>(2,046)</td>
<td>(219)</td>
</tr>
<tr>
<td><strong>Net decrease in cash flows for the year</strong></td>
<td>(2,046)</td>
<td>(219)</td>
</tr>
</tbody>
</table>

As at March 31, 2018, accounts payable and accrued liabilities include an amount payable to TCP of $0.41 million [2017 – $0.34 million]. This current amount due to TCP is non-interest bearing and due on demand.

Transactions occurred in the normal course of business and have been recorded at their exchange amounts, which is the amount agreed upon by both parties.
The Hospital for Sick Children

Notes to financial statements
[in thousands of dollars, except where otherwise noted]

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17. Commitments and contingencies

[a] The nature of the Hospital’s activities is such that there is often litigation pending or in progress. Where the potential liability is likely and able to be estimated, management records its best estimate of the potential liability. With respect to claims as at March 31, 2018, it is management’s position that the Hospital has valid defenses and appropriate insurance coverage to offset the cost of unfavourable settlements, if any, which may result from such claims. 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 any amount recorded are determined to be required.

[b] The Hospital participates in the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the year ended March 31, 2018.

[c] The future minimum annual payments under various operating leases are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>3,185</td>
</tr>
<tr>
<td>2020</td>
<td>3,265</td>
</tr>
<tr>
<td>2021</td>
<td>3,311</td>
</tr>
<tr>
<td>2022</td>
<td>3,362</td>
</tr>
<tr>
<td>2023</td>
<td>3,215</td>
</tr>
<tr>
<td>Thereafter</td>
<td>11,786</td>
</tr>
</tbody>
</table>

In addition to minimum rentals, property leases generally provide for payment by the Hospital of various operating costs.

18. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2018 financial statements.
ABOUT SICKKIDS

Healthier Children. A Better World.™ is a vision everyone at SickKids shares. And it will continue to guide us as we look to the future of SickKids. By working together and with our partners in the community, we can lead transformational change that will improve the lives of children everywhere and create a better world for all of us.