

**THE HOSPITAL FOR SICK CHILDREN**

**Financial Statements**

**March 31, 2010**

**The Hospital for Sick Children**

**TABLE OF CONTENTS**

	Page
<b>Management's Report</b>	2
<b>Auditors' Report</b>	3
<b>Financial Statements</b>	
Balance Sheet	4
Statement of Operations	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to Financial Statements	8-22

## 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 Board of Trustees [the "Board"].

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 judgement 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.

Mary Jo Haddad  
President & Chief Executive Officer

Angela Holtham  
Vice President Finance & Chief Financial Officer

May 12, 2010

## AUDITORS' REPORT

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

We have audited the balance sheet of **The Hospital for Sick Children** as at March 31, 2010 and the statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada,  
May 12, 2010

The Hospital for Sick Children

**BALANCE SHEET**

[in thousands of dollars]

As at March 31

	2010	2009
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Appropriated cash and cash equivalents <i>[note 4]</i>	80,431	72,350
Accounts receivable <i>[note 3]</i>	56,510	46,083
Short-term investments <i>[note 4]</i>	63,556	69,927
Inventories	8,383	8,567
Prepaid expenses	4,184	4,074
<b>Total current assets</b>	<b>213,064</b>	<b>201,001</b>
Long-term investments <i>[note 4]</i>	274,101	76,174
Capital assets, net <i>[note 5]</i>	382,225	373,217
Accrued pension benefits <i>[note 6]</i>	32,287	24,638
<b>Total assets</b>	<b>901,677</b>	<b>675,030</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Bank indebtedness <i>[note 7]</i>	51,539	63,394
Accounts payable and accrued liabilities	94,455	107,294
Current portion of long-term liabilities <i>[notes 6 and 8]</i>	4,378	4,183
Amounts held for other organizations	30,642	22,320
Deferred contributions <i>[note 9]</i>	113,345	119,957
<b>Total current liabilities</b>	<b>294,359</b>	<b>317,148</b>
Deferred capital contributions <i>[note 10]</i>	231,538	230,861
Long-term debt <i>[note 8]</i>	200,382	437
Pension and other post-employment benefits <i>[note 6]</i>	110,220	102,600
<b>Total liabilities</b>	<b>836,499</b>	<b>651,046</b>
Commitments and contingencies <i>[notes 11 and 12]</i>		
<b>Equity</b>	<b>65,178</b>	<b>23,984</b>
<b>Total liabilities and equity</b>	<b>901,677</b>	<b>675,030</b>

See accompanying notes

On behalf of the Board of Trustees:

C.L. Sugiyama  
Chair

L.W. Scott  
Chair, Finance and Audit Committee

**The Hospital for Sick Children**

**STATEMENT OF OPERATIONS**

[in thousands of dollars]

Year ended March 31

	2010	2009
	\$	\$
<b>REVENUE</b>		
Ministry of Health and Long-Term Care / Toronto	421,930	413,943
Central Local Health Integration Network		
Patient care and other	67,483	53,972
Research grants	132,904	127,795
Commercial services	35,729	35,284
Amortization of deferred capital contributions <i>[note 10]</i>	24,247	23,094
	<u>682,293</u>	<u>654,088</u>
<b>EXPENSES</b>		
Salaries and benefits <i>[note 6]</i>	424,487	427,813
Medical, laboratory and drug supplies	65,599	60,581
Cost of goods sold	18,871	17,193
Other operating	81,971	80,187
Administrative and general <i>[note 8]</i>	29,871	27,841
Interest <i>[notes 7 and 8]</i>	3,352	1,376
Depreciation	50,468	45,083
	<u>674,619</u>	<u>660,074</u>
Excess (deficiency) of revenue over expenses before investment income (loss)	7,674	(5,986)
Investment income (loss) <i>[note 4]</i>	33,895	(13,790)
<b>Excess (deficiency) of revenue over expenses</b>	<u>41,569</u>	<u>(19,776)</u>

*See accompanying notes*

The Hospital for Sick Children

**STATEMENT OF CHANGES IN EQUITY**

[in thousands of dollars]

Year ended March 31

	2010	2009
	\$	\$
<b>Equity, beginning of year</b>	<b>23,984</b>	43,760
Excess (deficiency) of revenue over expenses	41,569	(19,776)
Net change in unrealized loss on investments classified as available for sale <i>[note 4]</i>	(375)	-
<b>Equity, end of year</b>	<b>65,178</b>	23,984

*See accompanying notes*

The Hospital for Sick Children

**STATEMENT OF CASH FLOWS**

[in thousands of dollars]

Year ended March 31

	2010	2009
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenue over expenses	41,569	(19,776)
Add (deduct) items not affecting cash		
Depreciation	50,468	45,083
Amortization of deferred capital contributions	(24,247)	(23,094)
Pension and other post-employment benefit expense	4,421	20,531
	<u>72,211</u>	<u>22,744</u>
Net change in non-cash working capital balances	(12,392)	34,847
Net change in appropriated cash and cash equivalents	(8,081)	(29,741)
Employer benefit contributions	(4,255)	(4,051)
<b>Cash provided by operating activities</b>	<u>47,483</u>	<u>23,799</u>
<b>INVESTING ACTIVITIES</b>		
Increase in long-term investments	(198,302)	(26,316)
Purchase of capital assets	(62,195)	(65,413)
<b>Cash used in investing activities</b>	<u>(260,497)</u>	<u>(91,729)</u>
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in bank indebtedness	(11,855)	39,315
Contributions received for capital purposes	24,924	28,670
Issuance of long-term debt	200,000	-
Repayment of long-term debt	(55)	(55)
<b>Cash provided by financing activities</b>	<u>213,014</u>	<u>67,930</u>
<b>Net change in cash during the year</b>	-	-
Cash, beginning of year	-	-
<b>Cash, end of year</b>	<u>-</u>	<u>-</u>
<b>Supplementary cash flow information</b>		
Interest paid	657	1,376

See accompanying notes

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

**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 health-care 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**

A summary of the significant accounting policies is as follows:

**Basis of presentation**

These financial statements include the assets, liabilities and activities of the Hospital. They do not include the activities of the following non-controlled not-for-profit entities:

- The Hospital for Sick Children Foundation [note 11]
- The Women’s Auxiliary of the Hospital for Sick Children

**Changes in accounting policy**

Effective April 1, 2009, the Hospital adopted retroactively those revisions to the 4400 series and certain other sections to amend or improve those parts of the CICA Handbook related to not-for-profit organizations that impact its financial statements. The revisions that have been adopted together with their impact are set out below.

The adoption of CICA 1540, *Cash Flow Statements*, required the presentation of investing and financing activities in separate sections as well as other supplementary disclosures and reclassifications of certain numbers in the statement of cash flows.

As a result of adopting the changes to the recommendations in CICA 4400, *Financial Statement Presentation for Not-for-Profit Organizations*, that eliminate the requirement to separately disclose the amount of net assets invested in capital assets, the Hospital has eliminated from the financial statements details about the amount of equity invested in capital assets and the calculation of this amount. As a result, the Hospital has reclassified the prior year financial statements to include the amount of equity invested in capital assets as at April 1, 2008 of \$128,136 and as at April 1, 2009 of \$141,864 in equity.

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

**Use of estimates**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The amount of revenue recognized from the Ministry of Health and Long-Term Care [the "Ministry"] and the Toronto Central Local Health Integration Network [the "TC-LHIN"] is a significant estimate. The Hospital entered into a Hospital Service Accountability Agreement [the "H-SAA"] with the TC-LHIN that sets out the rights and obligations of the parties in respect of funding provided to the Hospital by the TC-LHIN and the Ministry covering fiscal 2009 and 2010.

The H-SAA sets out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas. If the Hospital does not meet its performance standards or obligations, the TC-LHIN and/or the Ministry have the right to adjust funding received by the Hospital. The TC-LHIN and the Ministry 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 funding received during the year from the TC-LHIN and the Ministry 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 donations and grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are recognized. Revenue related to patient care and other activities is recognized when the service is provided.

**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, 2010

**Cash and cash equivalents**

Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as long-term investments. Cash and cash equivalents that the Hospital has internally restricted to cover amounts held for other organizations and deferred contributions are presented as appropriated cash and cash equivalents.

**Investments and investment income (loss)**

Investments in controlled for-profit entities or where there is significant influence are accounted for by the equity method.

Publicly-traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a trade-date basis.

All investments are designated as held for trading except for fixed income securities held for the unspent proceeds on the Series A Senior Unsecured Debentures [note 8], which are classified as available for sale.

Investment income (loss) consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses. For investments designated as held for trading, investment income (loss) is recorded in the statement of operations. For investments classified as available for sale, interest, dividends, income distributions from pooled funds and realized gains are recorded as investment income (loss) in the statement of operations. The change in unrealized gains and losses is recorded in the statement of changes in equity. Transaction costs are expensed as incurred.

Forward foreign exchange contracts, entered into for the purpose of managing the currency risk of a portion of the investment portfolio, are recognized and measured at fair value, with unrealized gains and losses included in investment income (loss) in the statement of operations.

**Financial instruments**

The Hospital has chosen to apply CICA 3861, *Financial Instruments – Disclosure and Presentation*, in place of CICA 3862, *Financial Instruments – Disclosures* and CICA 3863, *Financial Instruments – Presentation*.

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

**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. Operating revenues and expenses are translated at exchange rates prevailing on the transaction dates. Gains or losses arising from these translations are included in the statement of operations.

**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 contribution is calculated on a straight-line basis using the following annual rates:

Buildings and building service equipment	10 - 50 years
Other equipment and systems	2 - 15 years

Construction-in-progress 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.

**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.

**Senior unsecured debentures and other long-term debt**

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 expensed.

**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 benefit method and management's best estimate assumptions.

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

- For the purpose of calculating the expected return on plan assets, a market-related value of assets is used, whereby gains and losses on equity investments are recognized over five years and fixed income investments are valued at market.
- Liabilities are determined using discount rates that are consistent with the market rates of high quality debt instruments, with cash flows that match the expected benefit payments. Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over the average remaining service period of active employees.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and market-related value of assets is amortized over the average remaining service period of the active employees.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

	2010	2009
	\$	\$
Ministry / TC-LHIN	3,831	7,011
Patient care	8,096	8,137
Research	32,625	26,370
Other [note 11]	11,958	4,565
	<b>56,510</b>	<b>46,083</b>

**4. INVESTMENTS**

Investments consist of the following:

	2010	2009
	\$	\$
Short-term securities	41,498	6,564
Fixed income	210,400	60,090
Canadian equities	13,237	11,530
Foreign equities	72,522	67,917
	<b>337,657</b>	<b>146,101</b>

The Hospital for Sick Children

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, except where otherwise noted]

March 31, 2010

Investments include \$180.1 million of fixed income securities classified as available for sale. Investment income includes \$0.5 million of interest income related to these investments.

Fixed income investments have an average term to maturity of 2.79 years [2009 – 8.53 years] and an average yield of 2.41% as at March 31, 2010 [2009 – 2.85%] based on market values.

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

	2010	2009
	\$	\$
Short-term	63,556	69,927
Long-term	274,101	76,174
	<b>337,657</b>	<b>146,101</b>

The amount presented as short-term investments, together with appropriated cash and cash equivalents, relates to amounts internally restricted to cover amounts held for other organizations and deferred contributions [note 9]. Long-term investments represent investments held for certain amounts classified as long-term liabilities and equity, and unspent proceeds on the Series A Senior Unsecured Debentures [note 8].

Investments are primarily exposed to foreign currency, interest rate, market and credit risk. To manage these risks, the Hospital has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances. In addition, forward foreign exchange contracts are used to manage foreign currency risk.

The Hospital has the following forward foreign exchange contracts that mature on June 30, 2010:

- to sell a total of USD \$49.5 million in return for Canadian dollars at a rate of 1.020825 [2009 - USD \$28.5 million in return for Canadian dollars at a weighted average rate of 1.2356];
- to sell a total of Yen 446 million in return for Canadian dollars at a rate of 90.88 [2009 - Yen 470 million in return for Canadian dollars at a rate of 79.17]; and
- to sell a total of Euro 6.9 million in return for Canadian dollars at a rate of 1.3733 [2009 - Euro 5.1 million in return for Canadian dollars at a rate of 1.64302].

The fair value of these contracts at March 31, 2010 is a gain of \$0.31 million [2009 - \$0.91 million loss], which is included in the balance of foreign equity investments.

The Hospital for Sick Children

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, except where otherwise noted]

March 31, 2010

5. CAPITAL ASSETS

Capital assets consist of the following:

	2010	2009
	\$	\$
<b>Cost</b>		
Land	5,412	5,412
Buildings and building service equipment	390,017	374,742
Other equipment and systems	543,038	508,320
Construction-in-progress [note 8]	31,163	21,679
	<b>969,630</b>	<b>910,153</b>
<b>Accumulated depreciation</b>		
Buildings and building service equipment	171,877	159,381
Other equipment and systems	415,528	377,555
	<b>587,405</b>	<b>536,936</b>
	<b>382,225</b>	<b>373,217</b>

6. PENSION AND OTHER POST-EMPLOYMENT BENEFIT PLANS

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

*Registered pension plan:* Substantially all of the employees of the Hospital are members of the registered pension plan, the vast majority of whom participate in the plan's defined benefit, final average earnings element. The defined benefit element provides contractual indexing to pensions in pay for certain portions of employees' accrued pensions. Certain employees participate in the defined contribution element within the registered pension plan.

*Supplemental pension plan:* Some employees are also entitled to benefits under an unfunded supplemental defined benefit pension plan.

*Other post-employment benefit plans:* These defined benefit plans 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 of December 31, 2008, and the next required valuation is as of December 31, 2011.

The Hospital for Sick Children

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, except where otherwise noted]

March 31, 2010

	2010		
	Registered pension plan \$	Supplemental pension plan \$	Other post-employment benefit plans \$
Accrued benefit obligation *	766,025	135,041	6,295
Fair value of plan assets *	933,133	-	-
Funded status - plan surplus (deficit) *	167,108	(135,041)	(6,295)
Unamortized transitional asset *	(47,656)	(253)	(225)
Unamortized past service costs *	1,563	797	-
Unamortized net actuarial (gain) loss *	(88,728)	23,543	1,786
Adjustment for off-fiscal measurement date	-	1,023	122
<b>Accrued benefit asset (liability)</b>	<b>32,287</b>	<b>(109,931)</b>	<b>(4,612)</b>

The accrued pension and other post-employment benefit asset (liability) as at March 31, 2010 is recognized in the balance sheet as follows:

	2010		
	Registered pension plan \$	Supplemental pension plan \$	Other post-employment benefit plans \$
Other assets	32,287	-	-
Current liabilities	-	(3,861)	(462)
Long-term liabilities	-	(106,070)	(4,150)
<b>Accrued benefit asset (liability)</b>	<b>32,287</b>	<b>(109,931)</b>	<b>(4,612)</b>
<b>Expense (revenue) for the year **</b>	<b>(7,649)</b>	<b>11,648</b>	<b>422</b>
Employer contributions	-	3,793	462
Employee contributions	13,544	-	197
Benefits paid	21,485	3,793	659

The Hospital for Sick Children

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

	2009		
	Registered pension plan \$	Supplemental pension plan \$	Other post- employment benefit plans \$
Accrued benefit obligation *	618,405	102,572	6,051
Fair value of plan assets *	771,732	-	-
Funded status - plan surplus (deficit) *	153,327	(102,572)	(6,051)
Unamortized transitional asset *	(59,411)	(315)	(283)
Unamortized past service costs *	1,985	959	-
Unamortized net actuarial (gain) loss *	(71,263)	(1,062)	1,560
Adjustment for off-fiscal measurement date	-	915	121
<b>Accrued benefit asset (liability)</b>	<b>24,638</b>	<b>(102,075)</b>	<b>(4,653)</b>

The accrued pension and other post-employment benefit asset (liability) as at March 31, 2009 is recognized in the balance sheet as follows:

	2009		
	Registered pension plan \$	Supplemental pension plan \$	Other post- employment benefit plans \$
Other assets	24,638	-	-
Current liabilities	-	(3,666)	(462)
Long-term liabilities	-	(98,409)	(4,191)
<b>Accrued benefit asset (liability)</b>	<b>24,638</b>	<b>(102,075)</b>	<b>(4,653)</b>
<b>Expense for the year **</b>	<b>7,325</b>	<b>12,775</b>	<b>431</b>
Employer contributions	-	3,589	462
Employee contributions	13,971	-	197
Benefits paid	21,230	3,666	659

\* 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 \$25.5 million [2009 - \$17.8 million]. Otherwise, results shown relate to the defined benefit and defined contribution elements combined.

\*\* Includes an expense of \$1.9 million [2009 - \$1.7 million] relating to the registered pension plan's defined contribution element.

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligations for the defined benefit plans are as follows:

	<b>As at March 31</b>	
	<b>2010</b>	<b>2009</b>
	%	%
Discount rate	6.0	6.8
Increases to pension payments	1.7	1.7
Salary escalation	4.0	4.0

The expected annual increase in healthcare costs applicable to the other post-employment benefit plans was 9.0% at the end of 2010 [2009 - 9.5%] decreasing over eight years [2009 - nine years] to an ultimate level of 5% [2009 - 5%].

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

	<b>For the year ended March 31</b>	
	<b>2010</b>	<b>2009</b>
	%	%
Discount rate	6.8	5.3
Expected long-term rate of return on plan assets	6.5	6.5
Increases to pension payments	1.7	1.7
Salary escalation	4.0	4.0

The expected annual increase in healthcare costs applicable to the other post-employment benefit plans was 9.5% at the beginning of 2010 [2009 - 10.0%] decreasing over nine years [2009 - ten years] to an ultimate level of 5% [2009 - 5%].

The breakdown of plan assets held at measurement date was as follows:

	<b>As at March 31</b>	
	<b>2010</b>	<b>2009</b>
	%	%
Equity securities	67	54
Debt securities	19	36
Other	14	10
	<b>100</b>	<b>100</b>

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

**7. BANK INDEBTEDNESS**

The Hospital has two demand operating lines of credit totalling \$125 million which bear interest based on Bankers' Acceptance and Canadian prime rates. The Hospital is subject to interest rate cash flow risk in connection with this operating line of credit. As at March 31, 2010, the Hospital has utilized \$51.5 million [2009 - \$63.4 million] of the operating lines with an effective interest rate of 1.5% [2009 - 2.8%]. Interest expense of \$0.7 million [2009 - \$1.4 million] is included on the statement of operations.

**8. LONG-TERM DEBT**

Long-term debt consists of the following:

	2010	2009
	\$	\$
Series A Senior Unsecured Debentures	200,000	-
Interest-free long-term borrowing agreement	437	492
	200,437	492
Current portion	(55)	(55)
	<u>200,382</u>	<u>437</u>

On December 16, 2009, the Hospital issued Series A Senior Unsecured Debentures [the "Debentures"] in the amount of \$200 million at a price of 100.0 for proceeds of \$200 million. The Debentures bear interest at 5.217% which is payable semi-annually on June 16 and December 16 with the principal amount to be repaid on December 16, 2049. Transaction costs of \$2.0 million related to the issuance of the Debentures are included in administrative and general expenses on the statement of operations. The proceeds of this issuance will be used to finance a portion of the capital costs of a new building [the "Research & Learning Tower"], which will house the SickKids Research Institute, a division of the Hospital, and provide facilities for inter-professional training and learning programs.

As at March 31, 2010, the Hospital has \$180.5 million in unspent proceeds related to the Debentures [note 4].

The Hospital for Sick Children

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

Principal repayments on all long-term debt are due as follows:

	\$
2011	55
2012	55
2013	55
2014	55
2015	55
Thereafter	200,162
	<u>200,437</u>

For the year ended March 31, 2010, interest of \$3.0 million has been accrued on the Debentures, of which \$2.7 million is expensed in the statement of operations and \$0.3 million is capitalized in construction-in-progress *[note 5]*.

The Hospital is subject to interest rate price risk with respect to its long-term debt.

**9. 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:

	2010	2009
	\$	\$
<b>Balance, beginning of year</b>	<b>119,957</b>	<b>110,095</b>
Less amounts recognized as revenue during the year	<b>(163,753)</b>	<b>(154,732)</b>
Add amounts received during the year <i>[note 11]</i>	<b>157,141</b>	<b>164,594</b>
<b>Balance, end of year</b>	<b><u>113,345</u></b>	<b><u>119,957</u></b>

The Hospital for Sick Children

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

**10. DEFERRED CAPITAL CONTRIBUTIONS**

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

	2010	2009
	\$	\$
<b>Balance, beginning of year</b>	<b>230,861</b>	225,285
Add contributions received during the year <i>[note 11]</i>	24,924	28,670
Less amortization	(24,247)	(23,094)
<b>Balance, end of year</b>	<b>231,538</b>	230,861

**11. THE HOSPITAL FOR SICK CHILDREN FOUNDATION**

The Hospital for Sick Children Foundation [the "Foundation"] is an independent corporation without share capital which has its own Board of Directors. The Foundation holds \$660.2 million at March 31, 2010 [2009 - \$479.3 million] 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. During the year, the Foundation granted \$47.9 million to the Hospital [2009 - \$60.4 million] for research, educational activities and capital additions. These grants are recorded as revenue, deferred contributions or deferred capital contributions in the Hospital's financial statements. As at March 31, 2010, accounts receivable includes an amount due from the Foundation of \$2.5 million [2009 - \$0.6 million], which includes a \$2.2 million grant to offset net interest expense related to the Debentures.

Concurrent with the issuance of the Debentures *[note 8]*, the Hospital entered into two funding agreements with the Foundation, the Research Tower Funding Agreement and the Core Funding Agreement.

The Research Tower Funding Agreement provides that the Foundation will conduct a capital fundraising campaign in respect of the Research & Learning Tower and will provide, on a best efforts basis, certain grants to the Hospital in respect of the Research & Learning Tower. In general, the Foundation's grants under the Research Tower Funding Agreement will take precedence over any other commitments of the Foundation to the Hospital. The Hospital will use a portion of the grants toward the design and construction costs of the Research & Learning Tower 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 Debentures are outstanding.

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

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 fund the operating and maintenance costs of the Research & Learning Tower.

Each of the Research Tower Funding Agreement and the Core Funding Agreement contains a provision which provides for mandatory renegotiation if the Board Unrestricted Endowment of the Foundation falls below \$70 million. The Board Unrestricted Endowment 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, 2010, the Foundation holds \$148.8 million [2009 - \$87.2 million] in Board Unrestricted Endowments.

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.

Some Foundation staff and retirees participate in the Hospital's benefit plans. The Foundation reimburses the Hospital for any contributions related to Foundation employees' participation in these benefit plans.

**12. COMMITMENTS AND CONTINGENCIES**

- [a] The nature of the Hospital's activities is such that there is often litigation pending or in progress. With respect to claims as at March 31, 2010, it is management's position that the Hospital has valid defences and appropriate insurance coverage in place. In the unlikely event any claims are successful, such claims are not expected to have a material effect on the Hospital's financial position.
- [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, 2010.

**The Hospital for Sick Children**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, except where otherwise noted]

March 31, 2010

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

	\$
2010	6,528
2011	7,443
2012	5,684
2013	3,670
2014	3,734
Thereafter	8,649

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

**13. CAPITAL MANAGEMENT**

In managing capital, the Hospital focuses on liquid resources available for operations. The Hospital's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. In addition, the Hospital is required to achieve certain performance measures related to working capital set out in the H-SAA. The need for sufficient liquid resources and achieving the performance measures are considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2010, the Hospital met its objective of having sufficient liquid resources to meet its current obligations and the performance measures related to working capital set out in the H-SAA.

**14. RECLASSIFICATION OF FINANCIAL STATEMENTS**

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