SickKids®

THE HOSPITAL FOR SICK CHILDREN
FINANCIAL STATEMENTS
MARCH 31, 2022

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 system of internal controls includes formal written accounting and administrative policies and procedures and an organizational structure that provides an appropriate division of responsibilities and authority. Management recognizes the inherent risk in any system and believes the overall systems and controls provide reasonable assurance as to the integrity of the financial statements.

The Board is responsible for ensuring that management fulfils 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 auditor to review any significant accounting and auditing matters, to discuss the results of audit examinations, and to review the financial statements and the external auditor's 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 auditor, in accordance with Canadian generally accepted auditing standards.

Dr. Ronald Cohn
President & Chief Executive Officer

Laurie A. Harrison
Vice President Finance & Chief Financial Officer

June 13, 2022

Independent auditor’s report

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

Opinion

We have audited the financial statements of **The Hospital for Sick Children** [the “Hospital”], which comprise the balance sheet as at March 31, 2022, and the statement of operations, statement of changes in net assets, statement of remeasurement gains and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report. We are independent of the Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Those charged with governance are responsible for overseeing the Hospital’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Hospital to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 13, 2022

The Hospital for Sick Children

Balance sheet

[in thousands of dollars]

As at March 31

	2022	2021
	$	$
Assets		
Current		
Cash and cash equivalents *[note 8]*	**225,604**	190,409
Accounts receivable *[notes 3 and 13[g]]*	**149,881**	113,686
Inventories	**11,676**	8,843
Prepaid expenses	**17,796**	10,938
Total current assets	**404,957**	323,876
Long-term investments *[notes 4, 5 and 9[b]]*	**514,470**	588,451
Capital assets, net *[note 6]*	**813,221**	751,982
Accrued pension benefits *[note 7]*	**395,019**	363,269
Other non-current assets *[note 13[h]]*	**11,976**	12,841
	2,139,643	2,040,419
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities *[notes 6[c], 9[c], 13[g], 16 and 17[d]]*	**186,102**	180,742
Amounts held for other organizations	**48,617**	45,791
Deferred contributions *[notes 10 and 13[f]]*	**302,312**	268,847
Total current liabilities	**537,031**	495,380
Deferred capital contributions *[notes 11 and 13[f]]*	**419,337**	425,286
Long-term debt *[note 9]*	**498,425**	498,379
Pension and other employee benefit obligations *[note 7]*	**208,972**	208,551
Long-term deferred contributions *[notes 10 and 13[b]]*	**29,869**	28,227
Other non-current liabilities *[notes 6[c] and 17[d]]*	**40,703**	37,058
Total liabilities	**1,734,337**	1,692,881
Commitments and contingencies *[notes 13[d] and 17]*		
Net assets		
Deficit	**(179,683)**	(201,494)
Internally restricted *[note 12]*	**557,820**	520,422
Accumulated remeasurement gains	**27,169**	28,610
Total net assets	**405,306**	347,538
	2,139,643	2,040,419

See accompanying notes

On behalf of the Board of the Trustees:

J. Robert S. Prichard
Chair, Board of Trustees

Elizabeth Wilson
Chair, Finance and Audit Committee

The Hospital for Sick Children

Statement of operations

[in thousands of dollars]

Year ended March 31

	2022	2021
	$	$
Revenue		
Patient care		
Ministry of Health/Ontario Health	**753,776**	732,066
Ministry of Health structural relief funding	**30,000**	—
Other *[note 15]*	**81,303**	75,413
Research *[note 13[f]]*	**249,380**	196,577
Commercial *[note 13[e]]*	**39,590**	41,510
Amortization of deferred capital contributions *[note 11]*	**38,313**	43,201
	1,192,362	1,088,767
Expenses		
Compensation *[note 7]*	**728,529**	718,104
Clinical supplies and drugs	**170,334**	155,478
Other operating	**124,896**	116,849
Administrative and general	**33,157**	26,164
Interest *[note 9[c]]*	**20,730**	20,730
Depreciation of capital assets *[note 6]*	**76,568**	87,446
	1,154,214	1,124,771
Excess (deficiency) of revenue over expenses before investment income	**38,148**	(36,004)
Investment income *[note 5]*	**21,061**	15,887
Excess (deficiency) of revenue over expenses for the year	**59,209**	(20,117)

See accompanying notes

The Hospital for Sick Children

Statement of changes in net assets

[in thousands of dollars]

Year ended March 31

	2022			2021
	Deficit	Internally restricted	Total	Total
	$	$	$	$
Net assets (deficit), beginning of year	**(201,494)**	**520,422**	**318,928**	339,045
Excess (deficiency) of revenue over expenses for the year	**59,209**	**—**	**59,209**	(20,117)
Interfund transfers *[note 12]*	**(37,398)**	**37,398**	**—**	—
Net assets (deficit), end of year	**(179,683)**	**557,820**	**378,137**	318,928

See accompanying notes

The Hospital for Sick Children

Statement of remeasurement gains

[in thousands of dollars]

Year ended March 31

	2022	2021
	$	$
Accumulated remeasurement gains (losses), beginning of year	**28,610**	(20,710)
Net unrealized gains attributable to		
Portfolio investments	**8,242**	51,731
Derivatives *[note 5]*	**834**	6,114
	9,076	57,845
Net realized losses (gains) reclassified to statement of operations		
Portfolio investments	**(11,195)**	(1,751)
Derivatives *[note 5]*	**678**	(6,774)
	(10,517)	(8,525)
Accumulated remeasurement gains, end of year	**27,169**	28,610

See accompanying notes

The Hospital for Sick Children

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2022	2021
	$	$
Operating activities		
Excess (deficiency) of revenue over expenses for the year	**59,209**	(20,117)
Add (deduct) items not affecting cash		
Depreciation of capital assets	**76,568**	87,446
Amortization of deferred capital contributions	**(38,313)**	(43,201)
Amortization of debenture transaction fees	**47**	47
Pension and other post-employment benefit expense	**16,957**	20,938
	114,468	45,113
Net change in other non-cash working capital balances related to operations	**(3,318)**	104,307
Employer benefit contributions	**(48,285)**	(52,114)
Cash provided by operating activities	**62,865**	97,306
Investing activities		
Net decrease in long-term investments	**72,540**	2,470
Net increase (decrease) in other non-current assets	**865**	(1,495)
Cash provided by investing activities	**73,405**	975
Capital activities		
Acquisition of capital assets	**(138,726)**	(70,726)
Cash used in capital activities	**(138,726)**	(70,726)
Financing activities		
Contributions received for capital purposes	**32,364**	42,244
Investment income on Patient Support Centre Debenture Retirement Fund	**1,642**	6,110
Net increase in other non-current liabilities	**3,645**	2,919
Cash provided by financing activities	**37,651**	51,273
Net increase in cash and cash equivalents during the year	**35,195**	78,828
Cash and cash equivalents, beginning of year	**190,409**	111,581
Cash and cash equivalents, end of year	**225,604**	190,409
Cash and cash equivalents represented by		
Cash	**225,604**	189,385
Cash equivalents	**—**	1,024
	225,604	190,409
Supplemental cash flow information		
Net increase in accounts payable, accrued liabilities and other long-term liabilities, related to capital asset transactions	**264**	3,741

See accompanying notes

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

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 partner locally and globally to improve the health of children through the integration of care, research and education.

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.

The Hospital’s operations are funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry of Health [“MOH”] and Ontario Health.

2. Summary of significant accounting policies

These financial statements 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. 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 not disclose the required information:

- The SickKids Centre for Community Mental Health [the “Centre”] and the SickKids Centre for Community Mental Health Learning 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.

- Kids 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, accounts payable and accrued liabilities, deferred contributions, and pension and other employee benefit obligations. Actual results could differ from those estimates.

The amount of revenue recognized from the MOH and Ontario Health requires a number of estimates. The Hospital has entered into a number of accountability agreements with the MOH and Ontario Health that set out the rights and obligations of the two parties in respect of funding provided to the Hospital for year ended March 31, 2022.

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 MOH and Ontario Health have the right to adjust funding received by the Hospital. The MOH and Ontario Health 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 MOH and Ontario Health 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.

The Hospital's operations continue to be impacted by the outbreak of COVID-19, The MOH and Ontario Health have continued to support Ontario Hospitals through this time with a series of different funding envelopes, including incremental operating expense reimbursements. The Hospital is tracking and reporting expenses related to the COVID-19 response and has received confirmation of government reimbursement for certain hospital-incurred expenses in order to mitigate the financial impacts. The various funding envelopes are subject to a broader funding reconciliation and is subject to a high degree of uncertainty. The Hospital has made its best estimates based on the guidance received to recognize the amount of funding available and the outcomes of any funding reconciliations, which may be material to the financial statements, will be adjusted in the year of notification by the MOH and Ontario Health.

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.

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

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.

Cash and cash equivalents

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

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.

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 amounts held for other organizations and deferred contributions, 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 contributions is calculated on a straight-line basis over their estimated useful lives:

Buildings and building service equipment	10–50 years
Other equipment and systems	3–15 years

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

Capital lease obligations are recorded at the present value of the minimum lease payments. The discount rate used to determine the present value of the lease payments is the lower of the Hospital's rate for incremental borrowing or the interest rate implicit in the lease.

Capital assets in development is composed of construction and development costs 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.

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

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 pension 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 pension 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 pension plans are expensed as contributions are due.

3. Accounts receivable

Accounts receivable consist of the following:

	2022	**2021**
	$	$
MOH/Ontario Health	**62,204**	43,896
Patient care	**7,089**	9,196
Research	**45,868**	34,886
Other *[note 13[g]]*	**34,720**	25,708
	149,881	113,686

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

[in thousands of dollars, except where otherwise noted]

4. Investments

Investments are measured at fair value and consist of the following:

	2022 $	2021 $
Cash and cash equivalents	**225,642**	302,306
Fixed income	**44,115**	45,313
Canadian equities	**49,313**	76,109
Foreign equities *[note 5]*	**195,400**	164,723
	514,470	588,451

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 4.13 years and an average yield of 3.19% as at March 31, 2022 based on market values.

Investments include $40.4 million [2021 – $38.2 million] for the Peter Gilgan Centre for Research and Learning Debenture Retirement Fund *[note 9[a]]*, $29.6 million [2021 – $28.0 million] for the Patient Support Centre Debenture Retirement Fund *[note 9[b]],* $234.9 million [2021 – $230.3 million] in non-funded pension obligations *[note 7]*, and restricted trust funds. Investments also include $180.8 million [2021 – $264.5 million] of unspent proceeds from Series B Senior Unsecured Debentures associated with the construction of the Patient Support Centre *[note 9[b]]*.

5. Financial instruments and risk management

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.

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

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

	Fair value as at March 31, 2022 according to the following levels:			
	Level 1	**Level 2**	**Level 3**	**Total assets at fair value**
	$	$	$	$
Investments				
Cash equivalents	**—**	**1,469**	**—**	**1,469**
Fixed income	**—**	**44,115**	**—**	**44,115**
Canadian equities	**49,313**	**—**	**—**	**49,313**
Foreign equities *[note 4]*	**83,358**	**112,042**	**—**	**195,400**
	132,671	**157,626**	**—**	**290,297**
Cash				**224,173**
Total investments				**514,470**

	Fair value as at March 31, 2021 according to the following levels:			
	Level 1	**Level 2**	**Level 3**	**Total assets at fair value**
	$	$	$	$
Investments				
Cash equivalents	—	1,157	—	1,157
Fixed income	—	45,313	—	45,313
Canadian equities	76,109	—	—	76,109
Foreign equities *[note 4]*	164,148	575	—	164,723
	240,257	47,045	—	287,302
Cash				301,149
Total investments				588,451

During the years ended March 31, 2022 and 2021, there were no transfers of assets between Level 1, Level 2 and Level 3.

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

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 US dollar and the euro through the use of foreign exchange forward contracts. The maximum hedging policy is 50% for US dollar contracts and 90% for euro contracts. Foreign currency hedges cannot be projected into the future due to the uncertainty of future asset mix.

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

2022 **Foreign currency denominated assets**	**Fair value** CAD$	**Hedging** CAD$	**Net exposure** CAD$	**Impact of 1% absolute change in foreign exchange rates on net assets** CAD$
Cash and cash equivalents and short-term notes	**2,042**	**992**	**1,050**	**10**
Equities	**160,060**	**77,768**	**82,292**	**823**
Total	**162,102**	**78,760**	**83,342**	**833**

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

2021 **Foreign currency denominated assets**	**Fair value** CAD$	**Hedging** CAD$	**Net exposure** CAD$	**Impact of 1% absolute change in foreign exchange rates on net assets** CAD$
Cash and cash equivalents and short-term notes	5,746	3,064	2,682	27
Equities	164,723	87,832	76,891	769
Total	170,469	90,896	79,573	796

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:

2022	**Total exposure** CAD$	**Hedging** CAD$	**Net exposure** CAD$	**Foreign currency contract**	**Notional amount**	**Fair value of contracts** CAD$	**Foreign currency contract expiry date**
United States	**120,239**	**66,209**	**54,030**	**USD$**	**53,000**	**1,545**	**June 14, 2022**
Europe	**15,465**	**12,551**	**2,914**	**EUR€**	**9,000**	**100**	**June 14, 2022**
Other	**26,398**	—	**26,398**	—	—	—	
Total	**162,102**	**78,760**	**83,342**			**1,645**	

2021	**Total exposure** CAD$	**Hedging** CAD$	**Net exposure** CAD$	**Foreign currency contract**	**Notional amount**	**Fair value of contracts** CAD$	**Foreign currency contract expiry date**
United States	84,453	41,138	43,315	USD$	33,000	(333)	June 21, 2021
Europe	39,830	35,703	4,127	EUR€	24,000	191	June 21, 2021
Other	46,186	14,055	32,131		1,230,000	55	
Total	170,469	90,896	79,573			(87)	

The fair value of these contracts as at March 31, 2022 is a gain of $1.6 million [2021 – loss of less than $0.1 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, 2022, the impact on the accumulated remeasurement gains of a 1% absolute change in bond yields on investments is $1.4 million [2021 – $1.6 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, 2022, 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 $2.9 million [2021 – $2.0 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, 2022, 93% [2021 – 95%] 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]*.

[in thousands of dollars, except where otherwise noted]

[c] Liquidity risk

Liquidity risk is the risk that the Hospital 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:

	2022	2021
	$	$
Cost		
Land	**5,709**	5,709
Buildings and building service equipment	**832,675**	820,859
Other equipment and systems	**601,754**	600,097
Construction-in-progress	**194,185**	95,692
	1,634,323	1,522,357
Accumulated depreciation		
Buildings and building service equipment	**363,942**	343,033
Other equipment and systems	**457,160**	427,342
	821,102	770,375
Net book value	**813,221**	751,982

[a] During 2022, the Hospital has written off $25.8 million [2021 – $31.0 million] of fully depreciated assets that are no longer in use.

[b] Project Horizon is a campus-wide redevelopment plan, which includes the building of two new facilities. Construction on the first facility, the Patient Support Centre ["PSC"], began in 2018 and is anticipated to be operational in 2023. Planning for the second facility, the Peter Gilgan Family Patient Care Tower ["PCT"], began following the MOH announcement in March 2019 of support and commitment of up to $2.4 billion. As at March 31, 2022, $23.1 million [2021 – $22.0 million] of this funding has been utilized.

Spending on these projects is recorded under construction-in-progress and as of March 31, 2022 totals $138.7 million [2021 – $51.8 million] for the PSC, and $29.0 million [2021 – $22.0 million] for the PCT. PSC construction has been funded through Series B Senior Unsecured Debentures issued on December 2017 *[note 9[b]]*, which are supported by the Foundation *[note 13[c]]*. PCT planning has been funded by the MOH.

[c] Other equipment and systems include $4.1 million [2021 – $4.1 million] of costs and $1.2 million [2021 – $0.3 million] of accumulated amortization related to assets under capital lease obligations *[note 17[d]]*.

In 2021, the Hospital entered into a five-year commercial lease agreement to lease server and storage hardware equipment as related to the data centre refresh project with the option to purchase the equipment at a nominal amount at the end of the lease term. The Hospital made a lease payment of $1.0 million in 2022 [2021 – $0.5 million] and is committed to an annual payment of $1.0 million between 2023 and 2025 *[note 17[d]]*. As at March 31, 2022, the Hospital recognized a capital lease obligation of $2.8 million [2021 – $3.7 million], discounted at the Hospital's incremental borrowing rate of 2.5%, which is lower than the implicit interest rate in the lease of 3.4%.

7. Pension and other employee benefit obligations

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 on pension benefit payments 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 a supplemental defined benefit pension plan. The Board of Trustees [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 January 1, 2020. The most recent actuarial valuation for accounting purposes was as at January 1, 2020 for the supplemental pension plan, as at January 1, 2022 for the non-vesting sick leave benefit plan, and as at January 1, 2021 for the other post-employment benefit plans.

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

Information about the Hospital's defined benefit plans as at and for the year ended March 31, 2022 is as follows:

	2022				
	Registered pension plan	**Supplemental pension plan**	**Other post-employment benefit plans**	**Non-vesting sick leave benefit plan**	**Total**
	$	$	$	$	$
Accrued benefit obligation*	**(1,426,756)**	**(195,722)**	**(1,651)**	**(16,990)**	**(1,641,119)**
Plan assets*	**1,792,307**	**—**	**—**	**—**	**1,792,307**
Funded status – plan surplus (deficit)*	**365,551**	**(195,722)**	**(1,651)**	**(16,990)**	**151,188**
Unamortized net actuarial (gain) loss*	**20,915**	**277**	**(81)**	**1,949**	**23,060**
Adjustment for off-fiscal measurement date	**8,553**	**2,840**	**26**	**380**	**11,799**
Accrued pension benefit asset (liability)	**395,019**	**(192,605)**	**(1,706)**	**(14,661)**	**186,047**
Employer contributions	**34,267**	**10,461**	**218**	**3,339**	**48,285**
Employee contributions	**16,165**	**—**	**62**	**—**	**16,227**
Benefits paid	**(63,689)**	**(10,399)**	**(271)**	**(1,638)**	**(75,997)**

The expense for the year ended March 31, 2022 related to pension and other post-employment benefit plans is calculated as follows:

	2022				
	Registered pension plan	**Supplemental pension plan**	**Other post-employment benefit plans**	**Non-vesting sick leave benefit plan**	**Total**
	$	$	$	$	$
Current year benefit cost	**29,262**	**1,622**	**—**	**1,551**	**32,435**
Interest on accrued benefit obligation	**72,715**	**10,028**	**23**	**203**	**82,969**
Amortization of actuarial (gain) loss	**(8,726)**	**1,024**	**72**	**(83)**	**(7,713)**
Expected return on plan assets	**(90,734)**	**—**	**—**	**—**	**(90,734)**
Expense for the year**	**2,517**	**12,674**	**95**	**1,671**	**16,957**

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

Information about the Hospital's defined benefit plans as at and for the year ended March 31, 2021 is as follows:

	2021				
	Registered pension plan	**Supplemental pension plan**	**Other post-employment benefit plans**	**Non-vesting sick leave benefit plan**	**Total**
	$	$	$	$	$
Accrued benefit obligation*	(1,372,303)	(194,471)	(1,973)	(16,890)	(1,585,637)
Plan assets*	1,727,638	—	—	—	1,727,638
Funded status – plan surplus (deficit)*	355,335	(194,471)	(1,973)	(16,890)	142,001
Unamortized net actuarial (gain) loss*	(3,124)	1,301	127	157	(1,539)
Adjustment for off-fiscal measurement date	11,058	2,778	16	404	14,256
Accrued pension benefit asset (liability)	363,269	(190,392)	(1,830)	(16,329)	154,718
Employer contributions	40,908	11,010	196	—	52,114
Employee contributions	16,475	—	73	—	16,548
Benefits paid	53,973	10,960	319	—	65,252

The expense for the year ended March 31, 2021 related to pension and other post-employment benefit plans is calculated as follows:

	2021				
	Registered pension plan	**Supplemental pension plan**	**Other post-employment benefit plans**	**Non-vesting sick leave benefit plan**	**Total**
	$	$	$	$	$
Current year benefit cost	29,054	2,778	—	1,382	33,214
Interest on accrued benefit obligation	70,326	11,127	47	338	81,838
Amortization of actuarial (gain) loss	(9,819)	3,140	77	(174)	(6,776)
Expected return on plan assets	(87,338)	—	—	—	(87,338)
Expense for the year**	2,223	17,045	124	1,546	20,938

[in thousands of dollars, except where otherwise noted]

Included in long-term investments is $234.9 million [2021 – $230.3 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 the year-end of the 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 $121.6 million as at December 31, 2021 [2021 – $107.0 million as at December 31, 2020]. Otherwise, results shown relate to the defined benefit and defined contribution elements combined.

** Excludes expense of $4.0 million [2021 – $4.0 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 defined benefit pension plan and supplemental pension plan are as follows:

	2022	**2021**
	%	%
Discount rate	**5.25**	5.25
Increase in pension payments	**1.50**	1.50
Inflation increases	**2.00**	2.00
Salary escalation	**2.50**	2.50

The expected annual increase in healthcare costs applicable to the other post-employment benefit plans is at the ultimate rate of 5.0% at the end of 2022 [2021 – 5.0%].

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

	2022	**2021**
	%	%
Discount rate	**5.25**	5.25
Expected long-term rate of return on plan assets	**5.25**	5.25
Increase in pension payments	**1.50**	1.50
Inflation increases	**2.00**	2.00
Salary escalation	**2.50**	2.50

The expected annual increase in healthcare costs applicable to the other post-employment benefit plans is at the ultimate rate of 5.0.% at the beginning of 2022 [2021 – 5.0%].

The estimated average remaining service periods of the active employees for which actuarial gains (losses) are amortized over are as follows: 10.5 years for the registered and supplemental pension plans, 11 years for the non-vesting sick leave benefit plan, and 7.4 years for other post-employment benefit plans.

[in thousands of dollars, except where otherwise noted]

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

	2022	2021
	%	%
Cash and cash equivalents	**17**	11
Equity securities	**69**	74
Debt securities	**14**	15
	100	100

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

	2022	2021
	%	%
Discount rate	**2.09**	1.27
Salary escalation	**2.50**	2.50

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

	2022	2021
	%	%
Discount rate	**2.09**	1.27
Salary escalation	**2.50**	2.50

8. Lines of credit

There are two unsecured operating lines of credit totalling $125.0 million that can be utilized through a net overdraft. The Hospital did not draw from the operating lines of credit for the years ended March 31, 2022 and 2021.

9. Long-term debt

Long-term debt consists of the following:

	2022	2021
	$	$
Series A Senior Unsecured Debentures – principal *[note 9[a]]*	**200,000**	200,000
Series B Senior Unsecured Debentures – principal *[note 9[b]]*	**300,000**	300,000
Transaction fees	**(1,575)**	(1,621)
	498,425	498,379

[in thousands of dollars, except where otherwise noted]

[a] On December 16, 2009, the Hospital issued $200.0 million of Series A Senior Unsecured Debentures associated with the construction of the Peter Gilgan Centre for Research and Learning ["PGCRL"]. 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.

In 2012, $24 million in unspent proceeds from the Series A Senior Unsecured Debentures were designated as the Peter Gilgan Centre for Research and Learning Debenture Retirement Fund *[note 4]*. As of March 31, 2022, $40.4 million [2021 – $38.2 million] has been invested with external investment managers.

[b] On December 7, 2017, the Hospital issued $300.0 million of Series B Senior Unsecured Debentures associated with the construction of the PSC *[note 6[b]]*. 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. Proceeds of the debentures are for the construction of the PSC. As of March 31, 2022, unused proceeds, plus any accumulated investment income, from the debentures of $180.8 million [2020 – $264.5 million] are shown as long-term investments on the balance sheet.

On December 20, 2017, the Foundation granted $26.5 million for the establishment of the Patient Support Centre Debenture Retirement Fund *[note 13[c]]*. As at March 31, 2022, $29.6 million [2021 – $28.0 million] has been invested with external investment managers *[note 4]*.

[c] For the year ended March 31, 2022, interest payable to bondholders of $20.7 million [2021 – $20.7 million] was expensed in the statement of operations. Of the amount payable to bondholders, $6.2 million [2021 – $6.2 million] had not been paid as at March 31, 2022 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:

	2022 $	2021 $
Balance, beginning of year	**297,074**	227,595
Amounts received during the year, including investment income allocated *[notes 13[b] and 13[f]]*	**290,783**	270,320
Amounts recognized as revenue during the year	**(255,676)**	(200,841)
Balance, end of year	**332,181**	297,074

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

The presentation on the balance sheet is as follows:

	2022 $	2021 $
Short-term contributions	**302,312**	268,847
Long-term contributions related to the Series B Senior Unsecured Debentures *[note 13[c]]*	**29,869**	28,227
	332,181	297,074

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:

	2022 $	2021 $
Balance, beginning of year	**425,286**	426,243
Amounts received during the year *[notes 13[b] and 13[f]]*	**32,364**	42,244
Amortization recognized as revenue during the year	**(38,313)**	(43,201)
Balance, end of year	**419,337**	425,286

As at March 31, 2022, the deferred capital contributions include funds received but not yet spent of $14.7 million [2021 – $16.5 million].

12. Internally restricted net assets

Internally restricted net assets consist of the following:

	2022 $	2021 $
Capital assets internally funded	**122,622**	119,181
Series A Senior Unsecured Debenture Retirement Fund	**40,179**	37,972
Accrued pension benefits	**395,019**	363,269
	557,820	520,422

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 Senior Unsecured Debentures *[note 9[a]];* and
- Accrued pension benefits represent the asset recorded on the balance sheet related to the registered pension plan *[note 7]*.

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[in thousands of dollars, except where otherwise noted]

March 31, 2022

13. The Hospital for Sick Children Foundation

[a] The Hospital for Sick Children Foundation [the "Foundation"] is an independent corporation without share capital, which has its own Board of Directors. As at March 31, 2022, the Foundation holds $1.40 billion [2021 – $1.34 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 four funding agreements with the Foundation: the Research Tower Funding Agreement, the Patient Support Centre Funding Agreement, the Patient Care Tower Funding Agreement and the Core Funding Agreement. The Research Tower Funding Agreement provided for the capital fundraising campaign in respect of the PGCRL and provided, on a best efforts basis, certain grants to the Hospital in respect of the PGCRL. The Hospital used a portion of the grants toward the design and construction costs of the PGCRL 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 Senior Unsecured Debentures *[note 9[a]]* are outstanding.

The Patient Care Tower 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 capital costs of the PCT.

In general, the Foundation's grants under the Research Tower Funding Agreement, the Patient Support Centre Funding Agreement *[note 13[c]],* and the Patient Care Tower Funding Agreement take precedence over any other commitments of the Foundation to the Hospital.

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 PGCRL.

Each of the Research Tower Funding Agreement, the Patient Support Centre Funding Agreement, the Patient Care Tower 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, 2022, the Foundation holds $258.8 million [2021 – $250.0 million] in the Board Unrestricted Endowment Fund.

[c] 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 PSC. 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. As at March 31, 2022, the Debenture Retirement Fund for this is $30.1 million [2021 – $28.2 million] *[note 10].* Other grants under this agreement will be used to support the Hospital's interest obligations related to the Series B Senior Unsecured Debentures *[note 9[b]].*

[d] 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.

[e] 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 [2021 – $4.4 million] in leasing revenue and $1.3 million [2021 – $1.4 million] in management fees, which are recorded in commercial revenue in the statement of operations.

[f] During the year, the Foundation granted $133.5 million [2021 – $78.1 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.

[g] As at March 31, 2022, accounts receivable include a receivable from the Foundation of $7.7 million [2021 – $6.0 million]. Accounts payable and accrued liabilities include an amount payable to the Foundation of $0.7 million [2021 – $5.6 million] related to parking revenue *[note 13[e]]* and other. These current amounts due to/from the Foundation are non-interest bearing and due on demand.

[h] Some former Foundation staff participate in the Hospital's employee 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 [2021 – $2.4 million] related to an amount receivable from the Foundation for those staff participating in the Hospital's benefit plan.

[i] 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.

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 their 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 sets 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, 2022, net assets amounted to $0.4 million [2021 – $0.5 million].

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

15. The SickKids Centre for Community Mental Health and the SickKids Centre for Community Mental Health Learning Institute

The SickKids Centre for Community Mental Health [the "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 SickKids Centre for Community Mental Health Learning 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.

As at and for the years ended March 31, 2022 and 2021, the summarized assets, liabilities and results of operations for the Centre are as follows:

	2022	2021
	$	$
	[unaudited]	
Financial position		
Total assets	**10,545**	11,260
Total liabilities	**3,888**	4,791
Internally restricted funds	**4,976**	4,892
Unrestricted funds	**1,681**	1,577
Total net assets	**6,657**	6,469
Total liabilities and net assets	**10,545**	11,260

	2022	2021
	$	$
	[unaudited]	
Results of operations		
Total revenue	**14,248**	15,045
Total expenses	**14,061**	13,860
Excess of revenue over expenses for the year	**187**	1,185

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2022

	2022	2021
	$	$
	[unaudited]	
Cash flows		
Operating activities	**(983)**	319
Capital activities	**(15)**	1,084
Financing activities	**—**	103
Net (decrease) increase in cash flows for the year	**(998)**	1,506

As at and for the years ended March 31, 2022 and 2021, the summarized assets, liabilities and results of operations for the Institute are as follows:

	2022	2021
	$	$
	[unaudited]	
Financial position		
Total assets	**2,440**	2,384
Total liabilities	**548**	610
Internally restricted funds	**639**	723
Unrestricted funds	**1,253**	1,051
Total net assets	**1,892**	1,774
Total liabilities and net assets	**2,440**	2,384

	2022	2021
	$	$
	[unaudited]	
Results of operations		
Total revenue	**1,598**	1,692
Total expenses	**1,479**	1,254
Excess of revenue over expenses for the year	**119**	438

	2022	2021
	$	$
	[unaudited]	
Cash flows		
Operating activities	**590**	**1**
Capital activities	**—**	**—**
Net increase in cash flows for the year	**590**	**1**

[in thousands of dollars, except where otherwise noted]

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 $0.6 million [2021 – $0.7 million] 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, 2022, the Centre and the Institute owed the Hospital $0.1 million [2021 – $0.4 million] relating to managed service fees and other expenses paid for on behalf of the Centre and Institute.

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 [2021 – 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.

As at and for the years ended March 31, 2022 and 2021, the summarized assets, liabilities and results of operations for TCP are as follows:

	2022 $ *[unaudited]*	2021 $
Financial position		
Total assets	**3,947**	1,442
Total liabilities	**3,785**	1,280
Total capital reserve	**162**	162
Total liabilities and capital reserve	**3,947**	1,442

	2022 $ *[unaudited]*	2021 $
Results of operations		
Total revenue	**9,127**	9,028
Total expenses	**9,127**	9,028
Excess of revenue over expenses for the year	**—**	—

	2022	2021
	$	$
	[unaudited]	
Cash flows		
Operating activities	**57**	17
Capital activities	**(215)**	(17)
Net decrease in cash flows for the year	**(158)**	—

As at March 31, 2022, accounts payable and accrued liabilities include an amount payable to TCP of nil [2021 – payable of $0.4 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.

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, 2022, it is management's position that the Hospital has valid defences 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, 2022.

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

	$
2023	3,381
2024	3,030
2025	2,669
2026	2,744
2027	2,794
Thereafter	818

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

[in thousands of dollars, except where otherwise noted]

[d] The future minimum annual payments under the capital lease *[note 6[c]]* are as follows:

	$
2023	994
2024	994
2025	994
Total minimum lease payments	2,982
Less amounts representing interest [at 2.5%]	143
Present value of net minimum capital lease payments	2,839
Less current portion of capital lease obligation	923
	1,916

Total interest on the lease for the year was less than $0.1 million [2021 – $0.1 million].

[e] The Hospital has committed to building the PSC, which will be funded by the Series B Senior Unsecured Debentures *[note 9[b]]*. A construction management group has been retained and the three guaranteed price maximum contracts have been executed with a total construction price not to exceed $293.1 million, with corresponding construction manager's fees of no more than $8.2 million. The total price is currently estimated at $424.0 million.

18. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2022 financial statements.