



SickKids®

THE HOSPITAL FOR SICK CHILDREN FINANCIAL STATEMENTS

March 31, 2024

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



Young Lee
Vice President Finance & Chief Financial Officer

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, 2024, 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, 2024, 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.

Toronto, Canada
June 3, 2024

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants



The Hospital for Sick Children

Balance sheet

[in thousands of dollars]


As at March 31

	2024	2023
	\$	\$
Assets		
Current		
Cash <i>[note 8]</i>	333,758	291,568
Accounts receivable <i>[notes 3, 14[f] and 16]</i>	141,347	151,589
Inventories	11,558	12,120
Prepaid expenses	19,294	14,339
Total current assets	505,957	469,616
Long-term investments <i>[notes 4, 5 and 9[b]]</i>	417,979	398,858
Capital assets, net <i>[note 6]</i>	1,065,901	972,508
Accrued pension benefits <i>[note 7]</i>	389,482	414,743
Other non-current assets <i>[note 14[g]]</i>	10,728	12,628
	2,390,047	2,268,353
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[notes 6[c], 9[d], 14[f], 17, 18[d] and 18[f]]</i>	212,970	241,017
Amounts held for other organizations	41,641	48,096
Deferred contributions <i>[notes 10 and 14[e]]</i>	321,092	304,553
Total current liabilities	575,703	593,666
Deferred capital contributions <i>[notes 11 and 14[e]]</i>	532,435	506,321
Long-term debt <i>[note 9]</i>	597,837	498,472
Pension and other employee benefit obligations <i>[note 7]</i>	209,369	208,446
Long-term deferred contributions <i>[notes 10 and 14[b]]</i>	33,400	30,282
Other non-current liabilities <i>[notes 6[c], 18[d] and 18[f]]</i>	31,760	31,588
Asset retirement obligations <i>[note 12]</i>	35,403	39,249
Total liabilities	2,015,907	1,908,024
Commitments and contingencies <i>[notes 14[c] and 18]</i>		
Net assets		
Deficit	(242,542)	(339,849)
Internally restricted <i>[note 13]</i>	579,778	679,015
Accumulated remeasurement gains	36,904	21,163
Total net assets	374,140	360,329
	2,390,047	2,268,353

See accompanying notes

On behalf of the Board of Trustees:


Kathleen Taylor
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

	2024	2023
	\$	\$
Revenue		
Patient care		
Ministry of Health/Ontario Health	865,970	808,624
Other	90,261	75,836
Research <i>[note 14[e]]</i>	273,460	263,110
Commercial <i>[note 14[d]]</i>	53,144	47,415
Amortization of deferred capital contributions <i>[note 11]</i>	38,082	37,205
	<u>1,320,917</u>	<u>1,232,190</u>
Expenses		
Compensation <i>[note 7]</i>	855,971	806,132
Clinical supplies and drugs	205,258	194,338
Other operating	152,205	128,066
Administrative and general	37,366	38,455
Interest <i>[note 9[d]]</i>	22,134	20,729
Depreciation and accretion <i>[notes 6 and 12]</i>	78,304	74,111
	<u>1,351,238</u>	<u>1,261,831</u>
Deficiency of revenue over expenses before investment income	(30,321)	(29,641)
Investment income <i>[note 5]</i>	28,391	22,035
Deficiency of revenue over expenses for the year	<u>(1,930)</u>	<u>(7,606)</u>

See accompanying notes

The Hospital for Sick Children

Statement of changes in net assets

[in thousands of dollars]

Year ended March 31

	2024		2023	
	Deficit	Internally restricted	Total	Total
	\$	\$	\$	\$
Net assets (deficit), beginning of year,	(339,849)	679,015	339,166	346,772
Deficiency of revenue over expenses for the year	(1,930)	—	(1,930)	(7,606)
Interfund transfers <i>[note 13]</i>	99,237	(99,237)	—	—
Net assets (deficit), end of year	(242,542)	579,778	337,236	339,166

See accompanying notes

The Hospital for Sick Children

Statement of remeasurement gains

[in thousands of dollars]

Year ended March 31

	2024	2023
	\$	\$
Accumulated remeasurement gains, beginning of year	21,163	27,169
Net unrealized gains (losses) attributable to		
Portfolio investments	19,606	3,962
Derivatives <i>[note 5]</i>	(93)	(4,997)
	19,513	(1,035)
Net realized losses (gains) reclassified to statement of operations		
Portfolio investments	(3,083)	(9,209)
Derivatives <i>[note 5]</i>	(689)	4,238
	(3,772)	(4,971)
Accumulated remeasurement gains, end of year	36,904	21,163

See accompanying notes

The Hospital for Sick Children

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2024	2023
	\$	\$
Operating activities		
Deficiency of revenue over expenses for the year	(1,930)	(7,606)
Add (deduct) items not involving cash		
Depreciation and accretion	78,304	74,111
Amortization of deferred capital contributions	(38,082)	(37,205)
Amortization of debenture transaction fees	51	47
Pension and other post-employment benefit expense	41,298	19,127
	<u>79,641</u>	<u>48,474</u>
Net change in non-cash working capital balances related to operations	(11,359)	55,341
Employer benefit contributions	(15,114)	(39,377)
Cash provided by operating activities	<u>53,168</u>	<u>64,438</u>
Investing activities		
Net decrease (increase) in long-term investments	(3,383)	109,603
Net decrease (increase) in other non-current assets	1,900	(652)
Cash provided by (used in) investing activities	<u>(1,483)</u>	<u>108,951</u>
Capital activities		
Acquisition of capital assets	(173,470)	(219,713)
Cash used in capital activities	<u>(173,470)</u>	<u>(219,713)</u>
Financing activities		
Contributions received for capital purposes	64,196	124,189
Issuance of long-term debt, net of transaction fees	99,314	—
Investment income on Patient Support Centre Series B		
Debenture Retirement Fund	3,118	413
Net decrease in other non-current liabilities	(2,653)	(12,314)
Cash provided by financing activities	<u>163,975</u>	<u>112,288</u>
Net increase in cash during the year	<u>42,190</u>	<u>65,964</u>
Cash, beginning of year	291,568	225,604
Cash, end of year	<u>333,758</u>	<u>291,568</u>
Supplemental cash flow information		
Net increase in accounts payable and accrued liabilities and other long-term liabilities, related to capital asset transactions	1,773	7,144

See accompanying notes

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

1. Purpose of the organization

The Hospital for Sick Children [the “Hospital”] is a Canadian public hospital dedicated to improving children’s health locally and globally through the integration of patient 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 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 14]

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”] [note 16]

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 [“KHA”] [note 15]
- The Centre for Phenogenomics [“TCP”] [note 17]

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.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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 collectibility thereof, the useful lives of capital assets, accounts payable and accrued liabilities, deferred contributions, pension and other employee benefit obligations and asset retirement 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 the year ended March 31, 2024.

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 MOH and Ontario Health supported Ontario hospitals with a series of different funding envelopes, including incremental operating expense reimbursements for the outbreak of COVID-19. The Hospital tracked and reported expenses related to the COVID-19 response and received 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 are 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.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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 respective balances.

Cash and cash equivalents.

Cash and cash equivalents include cash on deposit and held as guaranteed investment certificates. Cash held for investing rather than liquidity purposes is 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. Inventory is reviewed for obsolete, damaged and expired items on a regular basis, and any items that are found to be obsolete, damaged or expired are written off when such determination is made.

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.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

Other financial instruments, including cash, 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 as follows:

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 are 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.

Asset retirement obligations

Asset retirement obligations are recorded in the period during which a legal obligation associated with the retirement of a capital asset is incurred and when a reasonable estimate of this amount can be made. The asset retirement obligation is initially measured at the best estimate of the amount required to retire a capital asset at the financial statement date. A corresponding amount is added to the carrying amount of the related capital asset and is then amortized over its remaining useful life. Changes in the liability due to the passage of time are recognized as accretion expense and are recorded within depreciation and accretion expense in the statement of operations, with a corresponding increase in the liability.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

The estimated amounts of future costs to retire the assets are reviewed annually and adjusted to reflect the then current best estimate of the liability. Adjustments may result from changes in the assumptions used to estimate the undiscounted cash flows required to settle the obligation, including changes in estimated probabilities, amounts and timing of settlement, as well as changes in the legal requirements of the obligation and in the discount rate. These changes are recognized as an increase or decrease in the carrying amount of the asset retirement obligation, with a corresponding adjustment to the carrying amount of the related asset. If the related capital asset is no longer in productive use, all subsequent changes in the estimate of the liability for asset retirement obligations are recognized as an expense in the period incurred.

Asset retirement obligations are based on internal expert assessments and/or third-party estimates and engineering reports. Asset retirement obligations relate to the following categories of Hospital equipment and building components and are depreciated over their estimated useful lives on a straight-line basis as follows:

Asbestos, fuel tanks and lead shielding in buildings	6–50 years
Leased space restoration	over the lease term
Magnetic imaging equipment containing hazardous substances	5–15 years

A liability continues to be recognized until it is settled or otherwise extinguished.

Contributed services and materials

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

Employee benefit plans

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

- The cost of pensions and other post-employment benefits earned by employees is actuarially determined using the projected unit credit actuarial cost method prorated on service and management's best estimate assumptions.
- For the purpose of measuring plan assets, a market-related value of assets is used, whereby all investment gains and losses are recognized over five years.
- For the registered pension plan and the supplemental 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.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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 is expensed as contributions are due.

Adoption of new accounting standard

During the year, the Hospital adopted the new accounting standard, Section PS 3400, *Revenue*, on a prospective basis. This standard establishes how to account for and report on revenue, specifically differentiating between revenue arising from transactions that include performance obligations, referred to as “exchange transactions”, and transactions that do not have performance obligations, referred to as “non-exchange transactions”. The adoption of this new standard had no impact on these financial statements.

3. Accounts receivable

Accounts receivable consist of the following:

	2024	2023
	\$	\$
Ministry of Health/Ontario Health	28,412	31,639
Patient care	11,629	10,148
Research	60,485	68,635
Other [note 14[f]]	40,821	41,167
	<u>141,347</u>	<u>151,589</u>

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

4. Investments

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

	2024	2023
	\$	\$
Cash and cash equivalents	80,837	109,229
Fixed income	63,847	44,545
Canadian equities	50,379	45,442
Foreign equities [note 5]	222,916	199,642
	<u>417,979</u>	<u>398,858</u>

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

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

Fixed income investments held through pooled funds have an average term to maturity of 5.13 years and an average yield of 5.04% as at March 31, 2024 based on market values.

Investments include \$45.2 million [2023 – \$41.0 million] for the Peter Gilgan Centre for Research and Learning [“PGCRL”] Series A Debenture Retirement Fund [note 9[a]], \$33.2 million [2023 – \$30.0 million] for the Patient Support Centre [“PSC”] Series B Debenture Retirement Fund [note 9[b]], \$10.4 million [2023 – nil] for the PSC Series C Debenture Retirement Fund [note 9[c]], \$238.8 million [2023 – \$227.3 million] in assets internally designated to fund unregistered pension obligations [note 7] and restricted trust funds. Investments also include \$60.6 million of unspent proceeds from Series C Senior Unsecured Debentures associated with the construction of the PSC [note 9[c]] [2023 – \$71.7 million of unspent proceeds from Series B Senior Unsecured Debentures associated with the construction of the PSC [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.

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

	2024			Total assets at fair value
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Investments				
Cash equivalents	—	27,358	—	27,358
Fixed income	—	63,847	—	63,847
Canadian equities	50,379	—	—	50,379
Foreign equities [note 4]	94,967	127,949	—	222,916
	145,346	219,154	—	364,500
Cash				53,479
				417,979

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

	2023			
	Level 1	Level 2	Level 3	Total assets at fair value
	\$	\$	\$	\$
Investments				
Cash equivalents	—	1,488	—	1,488
Fixed income	—	44,545	—	44,545
Canadian equities	45,442	—	—	45,442
Foreign equities <i>[note 4]</i>	84,357	115,285	—	199,642
	129,799	161,318	—	291,117
Cash				107,741
				398,858

During the years ended March 31, 2024 and 2023, there were no transfers of assets between Level 1, Level 2 and Level 3.

Financial risks

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

[a] Market risk

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

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

[i] Foreign currency risk

Foreign currency exposure arises from holdings of foreign currency denominated investments. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments. The Hospital has a foreign currency hedging program as set out in the statement of investment policies and procedures whereby it hedges its foreign currency exposure to the US dollar and the euro through the use of foreign exchange forward contracts. The maximum hedging policy is 50% for US dollar contracts and 50% for euro contracts. Foreign currency hedges cannot be projected into the future due to the uncertainty of future asset mix.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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.

2024	Fair value	Hedging	Net exposure	Impact of 1% absolute change in foreign exchange rates on net assets
Foreign currency denominated assets	CAD\$	CAD\$	CAD\$	CAD\$
Cash and cash equivalents and short-term notes	2,360	921	1,439	14
Equities	179,963	70,243	109,720	1,097
	182,323	71,164	111,159	1,111

2023	Fair value	Hedging	Net exposure	Impact of 1% absolute change in foreign exchange rates on net assets
Foreign currency denominated assets	CAD\$	CAD\$	CAD\$	CAD\$
Cash and cash equivalents and short-term notes	2,116	801	1,315	13
Equities	159,285	60,273	99,012	990
	161,401	61,074	100,327	1,003

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 for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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

	Total exposure	Hedging	Net exposure	Foreign currency contract	Notional amount	Fair value of contracts	Foreign currency contract expiry date
2024	CAD\$	CAD\$	CAD\$			CAD\$	
United States	119,563	57,841	61,722	USD	43,000	(223)	June 13, 2024
Europe	27,441	13,297	14,144	EUR	9,000	110	June 13, 2024
Other	35,319	26	35,293	—	—	—	
	182,323	71,164	111,159			(113)	

	Total exposure	Hedging	Net exposure	Foreign currency contract	Notional amount	Fair value of contracts	Foreign currency contract expiry date
2023	CAD\$	CAD\$	CAD\$			CAD\$	
United States	102,890	49,989	52,901	USD	37,000	895	June 14, 2023
Europe	22,684	11,085	11,599	EUR	7,500	(107)	June 14, 2023
Other	35,827	—	35,827	—	—	—	
	161,401	61,074	100,327			788	

The fair value of these contracts as at March 31, 2024 is a loss of \$0.1 million [2023 – gain of \$0.8 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, 2024, the impact on the accumulated remeasurement gains of a 1% absolute change in bond yields on investments is \$2.4 million [2023 – \$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.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

[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, 2024, 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 \$3.4 million [2023 – \$2.9 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, 2024, 92% [2023 – 93%] of fixed income securities held are of investment grade.

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

[c] Liquidity risk

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, including its available lines of credit *[note 8]*. 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.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

6. Capital assets

Capital assets consist of the following:

	2024	2023
	\$	\$
Cost		
Land	5,411	5,411
Buildings and building service equipment <i>[note 12]</i>	1,193,240	854,863
Other equipment and systems <i>[note 12]</i>	620,187	609,487
Construction-in-progress	133,953	368,092
	1,952,791	1,837,853
Accumulated depreciation		
Buildings and building service equipment	429,887	400,571
Other equipment and systems	457,003	464,774
	886,890	865,345
Net book value	1,065,901	972,508

[a] During 2024, the Hospital wrote off \$58.6 million [2023 – \$41.7 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 PSC, began in 2018 and achieved substantial completion in August 2023. Planning for the Patient Care Centre ["PCC"], which includes 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, 2024, \$183.0 million [2023 – \$183.0 million] in funding towards Project Horizon has been approved by the MOH, of which \$47.3 million [2023 – \$23.1 million] of this funding has been utilized to date.

Once construction and projects-in-progress are complete, the assets are transferred to their respective category of capital assets and amortization is recorded. As at March 31, 2024, total construction-in-progress for PCC totals \$71.2 million [2023 – \$42.7 million]. PSC construction is funded through Series B Senior Unsecured Debentures issued in December 2017 *[note 9[b]]*, and Series C Senior Unsecured Debentures issued in December 2023 *[note 9[c]]*, both of which are supported by the Foundation *[note 14[b]]*. PCC planning has been funded by the MOH and the Foundation.

[c] Other equipment and systems include \$9.0 million [2023 – \$6.3 million] of costs and \$4.0 million [2023 – \$2.2 million] of accumulated depreciation related to assets under capital lease obligations *[note 18[d]]*. They also include \$3.6 million [2023 – \$3.6 million] of costs and \$1.1 million [2023 – \$0.4 million] of accumulated depreciation related to assets financed through a promissory note.

The balance of capital lease obligations and liability related to the promissory note as at March 31, 2024, is included in other non-current liabilities.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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 pension plan. The Board of Trustees [the "Board"] has internally designated a certain amount of investments to fund these benefits.
- *Other post-employment benefit plans:* These defined benefit plans, which are vested, consist of medical, dental and life insurance coverage for certain groups of retired employees.
- *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.

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 September 1, 2023. The most recent actuarial valuation for accounting purposes was as at May 1, 2022 for the supplemental pension plan, as at January 1, 2024 for the other post-employment benefit plans and as at January 1, 2022 for the non-vesting sick leave benefit plan.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

Information about the Hospital's defined benefit plans as at and for the year ended March 31, 2024 is as follows:

	2024				Total \$
	Registered pension plan \$	Supplemental pension plan \$	Other post- employment benefit plans \$	Non-vesting sick leave benefit plan \$	
Accrued benefit obligation*	(1,656,225)	(213,040)	(1,152)	(17,431)	(1,887,848)
Plan assets*	1,859,464	—	—	—	1,859,464
Funded status – plan surplus (deficit)*	203,239	(213,040)	(1,152)	(17,431)	(28,384)
Unamortized net actuarial loss (gain)*	186,243	14,599	(309)	2,983	203,516
Adjustment for off-fiscal measurement date	—	4,421	56	504	4,981
Accrued pension benefit asset (liability)	389,482	(194,020)	(1,405)	(13,944)	180,113
Employer contributions	—	13,056	200	1,858	15,114
Employee contributions	18,906	—	47	—	18,953
Benefits paid	(68,745)	(12,735)	(253)	(1,849)	(83,582)

The expense for the year ended March 31, 2024 related to pension and other post-employment benefit plans is calculated as follows:

	2024				Total \$
	Registered pension plan \$	Supplemental pension plan \$	Other post- employment benefit plans \$	Non-vesting sick leave benefit plan \$	
Current year benefit cost	35,358	1,809	—	1,528	38,695
Interest on accrued benefit obligation	81,647	10,402	49	686	92,784
Amortization of actuarial loss (gain)	2,606	1,474	(26)	115	4,169
Expected return on plan assets	(94,350)	—	—	—	(94,350)
Expense for the year**	25,261	13,685	23	2,329	41,298

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

Information about the Hospital's defined benefit plans as at and for the year ended March 31, 2023 is as follows:

	2023				Total \$
	Registered pension plan \$	Supplemental pension plan \$	Other post- employment benefit plans \$	Non-vesting sick leave benefit plan \$	
Accrued benefit obligation*	(1,544,277)	(201,918)	(1,313)	(16,316)	(1,763,824)
Plan assets*	1,821,056	—	—	—	1,821,056
Funded status – plan surplus (deficit)*	276,779	(201,918)	(1,313)	(16,316)	57,232
Unamortized net actuarial loss (gain)*	137,964	4,427	(331)	2,348	144,408
Adjustment for off-fiscal measurement date	—	4,100	62	495	4,657
Accrued pension benefit asset (liability)	414,743	(193,391)	(1,582)	(13,473)	206,297
Employer contributions	23,946	11,993	210	3,228	39,377
Employee contributions	15,584	—	45	—	15,629
Benefits paid	(53,233)	(10,609)	(219)	(3,113)	(67,174)

The expense for the year ended March 31, 2023 related to pension and other post-employment benefit plans is calculated as follows:

	2023				Total \$
	Registered pension plan \$	Supplemental pension plan \$	Other post- employment benefit plans \$	Non-vesting sick leave benefit plan \$	
Current year benefit cost	29,994	1,663	—	1,600	33,257
Interest on accrued benefit obligation	75,534	10,092	32	368	86,026
Amortization of actuarial loss (gain)	(7,268)	1,024	54	72	(6,118)
Expected return on plan assets	(94,038)	—	—	—	(94,038)
Expense for the year**	4,222	12,779	86	2,040	19,127

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

Included in long-term investments is \$238.8 million [2023 – \$227.3 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 relates to the defined benefit element only and excludes the defined contribution assets and liabilities of \$130.5 million as at December 31, 2023 [2023 – \$124.0 million as at December 31, 2022]. Otherwise, results shown relate to the defined benefit and defined contribution elements combined.

** Excludes expense of \$4.6 million [2023 – \$4.2 million] relating to the registered pension plan's defined contribution element.

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

	2024 %	2023 %
Discount rate	5.25	5.25
Increase in pension payments	2.91	5.18
Inflation increases	2.00	2.00
Salary escalation	3.00	2.50

The expected annual increase in health care costs applicable to the other post-employment benefit plans is at the ultimate rate of 5.0% at the end of 2024 [2023 – 5.0%].

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

	2024 %	2023 %
Discount rate	5.25	5.25
Expected long-term rate of return on plan assets	5.25	5.25
Increase in pension payments	5.18	1.50
Inflation increases	2.00	2.00
Salary escalation	2.50	2.50

The expected annual increase in health care costs applicable to the other post-employment benefit plans is at the ultimate rate of 5.0% at the beginning of 2024 [2023 – 5.0%].

The estimated average remaining service periods of the active employees for which actuarial gains (losses) are amortized over are as follows: 11.5 years for the registered and supplemental pension plans, 8.1 years for other post-employment benefit plans and 11 years for the non-vesting sick leave benefit plan.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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

	2024	2023
	%	%
Cash and cash equivalents	6	14
Equity securities	73	71
Debt securities	21	15
	100	100

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

	2024	2023
	%	%
Discount rate	3.80	4.07
Salary escalation	3.00	2.50

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

	2024	2023
	%	%
Discount rate	4.07	2.09
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. For the year ended March 31, 2024, the Hospital has \$5.3 million [2023 – \$5.3 million] for letters of credit provided for the construction of the PSC, which reduces the lines of credit.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

9. Long-term debt

Long-term debt consists of the following:

	2024	2023
	\$	\$
Series A Senior Unsecured Debentures – principal <i>[note 9[a]]</i>	200,000	200,000
Series B Senior Unsecured Debentures – principal <i>[note 9[b]]</i>	300,000	300,000
Series C Senior Unsecured Debenture – principal <i>[note 9[c]]</i>	100,000	—
Transaction fees	(2,163)	(1,528)
	597,837	498,472

[a] On December 16, 2009, the Hospital issued \$200.0 million of Series A Senior Unsecured Debentures associated with the construction of the 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, \$24.0 million in unspent proceeds from the Series A Senior Unsecured Debentures was internally designated as the PGCRL Debenture Retirement Fund. As at March 31, 2024, \$45.2 million [2023 – \$41.0 million] is included in investments *[note 4]*.

[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 at March 31, 2024, nil [2023 – \$71.7 million] in unused proceeds, plus any accumulated investment income from the debentures, is included in investments *[note 4]*.

On December 20, 2017, the Foundation granted \$26.5 million for the establishment of the PSC Series B Debenture Retirement Fund *[note 14[b]]*. As at March 31, 2024, \$33.2 million [2023 – \$30.0 million] is included in investments *[note 4]*.

[c] On December 8, 2023, the Hospital issued \$100.0 million of Series C Senior Unsecured Debentures associated with the construction of the PSC *[note 6[b]]*. The debentures bear interest at 4.487%, which is payable semi-annually on June 8 and December 8, with the principal to be repaid on December 8, 2063. Proceeds of the debentures are for the construction of the PSC. As at March 31, 2024, unused proceeds, plus any accumulated investment income, from the debentures of \$60.6 million [2023 – nil] are included in investments *[note 4]*.

In 2024, the Hospital established the PSC Series C Debenture Retirement Fund with \$10 million in available cash. As at March 31, 2024, \$10.4 million [2023 – nil] is included in investments *[note 4]*.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

[d] For the year ended March 31, 2024, interest payable to bondholders of \$22.1 million [2023 – \$20.7 million] was expensed in the statement of operations. Of the amount payable to bondholders, \$7.6 million [2023 – \$6.2 million] has not been paid as at March 31, 2024 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:

	2024	2023
	\$	\$
Balance, beginning of year	334,835	332,181
Amounts received during the year, including investment income allocated [notes 14[b] and 14[e]]	304,933	274,623
Amounts recognized as revenue during the year	(285,276)	(271,969)
Balance, end of year	354,492	334,835

The presentation on the balance sheet is as follows:

	2024	2023
	\$	\$
Short-term deferred contributions	321,092	304,553
Long-term deferred contributions related to the Series B Senior Unsecured Debentures [note 14[b]]	33,400	30,282
	354,492	334,835

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:

	2024	2023
	\$	\$
Balance, beginning of year	506,321	419,337
Amounts received during the year [notes 14[b] and 14[e]]	64,196	124,189
Amortization recognized as revenue during the year	(38,082)	(37,205)
Balance, end of year	532,435	506,321

As at March 31, 2024, the deferred capital contributions include funds received but not yet spent of \$58.3 million [2023 – \$70.4 million].

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

12. Asset retirement obligations

The estimated total undiscounted expenditures for all asset retirement obligations are \$36.7 million [2023 – \$42.3 million] and they are expected to be incurred and settled at the end of the equipment or building's useful life. The liability is calculated using a range of discount rates between 3.80% and 4.85% [2023 – 4.05%]. Settlement amounts of \$1.2 million [2023 – \$0.3 million] were paid during the year towards the liability. The Hospital does not anticipate that it will be able to recover any asset retirement costs from a third party. In addition, it has no legal requirement to fund this obligation and, as such, has not set aside any assets designated for payment of this liability.

The changes in the asset retirement obligations are as follows:

	2024	2023
	\$	\$
Balance, beginning of year	39,249	37,906
Accretion expense	1,596	1,519
New liabilities incurred during the year	284	77
Revisions in estimates	(4,493)	—
Settlements during the year	(1,233)	(253)
Balance, end of year	35,403	39,249

13. Internally restricted net assets

Internally restricted net assets consist of the following:

	2024	2023
	\$	\$
Capital assets internally funded	134,949	223,538
Series A and C Senior Unsecured Debenture Retirement Funds	55,347	40,734
Accrued pension benefits	389,482	414,743
	579,778	679,015

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

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

14. 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, 2024, the Foundation holds \$1.50 billion [2023 – \$1.39 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 [“PSC”] Funding Agreement, the Patient Care Tower [“PCT”] Funding Agreement and the Core Funding Agreement. Subsequent to March 31, 2024, the Hospital entered into the Second Patient Support Centre [“PSC”] Funding Agreement with the Foundation.

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 PSC Funding Agreement provides the terms and conditions under which the Foundation will, on a best efforts basis, make grants to the Hospital with 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, 2024, the Debenture Retirement Fund for this is \$33.4 million [2023 – \$30.3 million] [note 9]. 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]].

The Second PSC Funding Agreement provides the terms and conditions under which the Foundation will, on a best efforts basis, make grants to the Hospital with respect to the PSC. The grants under this agreement will be used to support the Hospital’s interest obligations related to the Series C Senior Unsecured Debentures [note 9[c]]. During the year, the Hospital and Foundation entered into a temporary loan agreement where the Foundation provided a non-interest bearing demand loan for \$91 million to the Hospital. \$25.6 million [2023 – nil] was drawn and fully repaid using the proceeds from the Series C Senior Unsecured Debentures [note 9[c]].

The PCT 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.

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.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

In general, the Foundation's grants under the Research Tower Funding Agreement, the PSC Funding Agreement, the Second PSC Funding Agreement and the PCT Funding Agreement take precedence over any other commitments of the Foundation to the Hospital.

Each of the Research Tower Funding Agreement, the PSC Funding Agreement, the Second PSC Funding Agreement, the PCT 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, 2024, the Foundation holds \$292.5 million [2023 – \$258.7 million] in the Board Unrestricted Endowment Fund.

- [c] The Hospital has agreed to indemnify the Foundation and its directors, officers, employees, members and agents against losses arising out of or resulting from the offering of the debentures.
- [d] On April 1, 2011, the Hospital entered into a 10-year agreement to lease its parking facilities to the Foundation. The Hospital holds three additional, successive rights to renew this lease for periods of 10 years each, of which the Hospital has exercised its first renewal option. At the time of renewal on April 1, 2021, the lease payments were \$0.6 million per month, increasing by 1% each year. 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 \$4.5 million [2023 – \$4.5 million] in leasing revenue and \$1.4 million [2023 – \$1.4 million] in management fees, which are recorded in commercial revenue in the statement of operations.
- [e] During the year, the Foundation granted \$168.9 million [2023 – \$181.0 million] to the Hospital for research, education, capital and debenture operating interest expense. These grants are recorded as revenue, deferred contributions or deferred capital contributions in the Hospital's financial statements.
- [f] As at March 31, 2024, accounts receivable include a receivable from the Foundation of \$15.0 million [2023 – \$13.0 million]. Accounts payable and accrued liabilities include an amount payable to the Foundation of \$0.7 million [2023 – \$0.7 million] related to parking revenue [note 14[d]] and other. These current amounts due to/from the Foundation are non-interest bearing and due on demand.
- [g] Some former Foundation staff participate in the Hospital's 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 \$2.4 million [2023 – \$2.5 million] related to an amount receivable from the Foundation for those staff participating in the Hospital's benefit plan.
- [h] These transactions occur in the normal course of business and are recorded at their exchange amounts, which is the amount agreed upon by both parties.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

15. 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 health care 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, 2024, net assets amount to \$0.2 million [2023 – \$0.3 million].

16. The SickKids Centre for Community Mental Health

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 Centre also provides training, research and community consultation in a wide range of disciplines connected to children's mental health.

An Amalgamation Agreement was approved between the Centre and the SickKids Centre for Community Mental Health Learning Institute [the "Institute"] to amalgamate to form one corporation in order to simplify management and governance. Under the terms of the *Not-for-Profit Corporations Act, 2010* (Ontario), the amalgamated entity continued under the name of SickKids Centre for Community Mental Health. The Certificate of Amalgamation was approved by the Ministry of Public and Business Service Delivery of Ontario with an effective date as of April 1, 2023. Effective April 1, 2023, the assets, liabilities and obligations of the Institute were transferred to the Centre.

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

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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

	2024	2023
	\$	\$
	<i>[unaudited]</i>	
Financial position		
Total assets	15,555	11,371
Total liabilities	5,515	4,141
Internally restricted funds	6,685	5,497
Unrestricted funds	3,355	1,733
Total net assets	10,040	7,230
Total liabilities and net assets	15,555	11,371
	<i>[unaudited]</i>	
	2024	2023
	\$	\$
Results of operations		
Total revenue	17,698	15,181
Total expenses	16,854	14,518
Excess of revenue over expenses for the year	844	663
	<i>[unaudited]</i>	
	2024	2023
	\$	\$
Cash flows		
Operating activities	590	464
Capital activities	(722)	(86)
Financing activities	676	—
Cash balance transferred to the Centre	1,813	—
Net increase in cash flows for the year	2,357	378

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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

	2024	2023
	\$	\$
Financial position		
Total assets	—	2,781
Total liabilities	—	815
Internally restricted funds	—	581
Unrestricted funds	—	1,385
Total net assets	—	1,966
Total liabilities and net assets	—	2,781
	2024	2023
	\$	\$
Results of operations		
Total revenue	—	1,645
Total expenses	—	1,513
Excess of revenue over expenses for the year	—	132
	2024	2023
	\$	\$
Cash flows		
Operating activities	—	346
Net increase in cash flows for the year	—	346

The Hospital maintains a service agreement with the Centre, 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 \$0.7 million [2023 – \$0.6 million] in management and administrative fees from the Centre, which are recorded in other revenue in the statement of operations. As at March 31, 2024, the Centre owed the Hospital \$0.2 million [2023 – \$0.1 million] relating to managed service fees and other expenses paid for on behalf of the Centre.

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

17. The Centre for Phenogenomics

The Centre for Phenogenomics ["TCP"] is a contractual joint venture between the Hospital and Sinai Health System, consisting of 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 [2023 – 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, the summarized assets, liabilities and results of operations for TCP are as follows:

	2024 \$ [unaudited]	2023 \$ [unaudited]
Financial position		
Total assets	1,748	2,082
Total liabilities	1,748	1,920
Total capital reserve	—	162
Total liabilities and capital reserve	1,748	2,082
	2024 \$ [unaudited]	2023 \$ [unaudited]
Results of operations		
Total revenue	10,751	9,558
Total expenses	10,751	9,558
Excess of revenue over expenses for the year	—	—
	2024 \$ [unaudited]	2023 \$ [unaudited]
Cash flows		
Operating activities	504	364
Capital activities	(371)	(37)
Net increase in cash flows for the year	133	327

As at March 31, 2024, accounts payable and accrued liabilities include an amount payable to TCP of \$0.1 million [2023 – \$0.1 million]. This current amount due to TCP is non-interest bearing and due on demand.

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

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

18. 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, 2024, 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, 2024.
- [c] The future minimum annual payments under various operating leases are as follows:

	\$
2025	4,174
2026	4,504
2027	4,614
2028	4,707
2029	4,807
Thereafter	4,915

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

The Hospital for Sick Children

Notes to financial statements

[in thousands of dollars, except where otherwise noted]

March 31, 2024

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

	\$
2025	2,029
2026	1,034
2027	1,034
2028	561
Minimum lease payments	<u>4,658</u>
Less amounts representing interest [at 0.7%]	37
Less amounts representing interest [at 2.5%]	24
Less amounts representing interest [at 2.9%]	79
Present value of net minimum capital lease payments	<u>4,518</u>
Less current portion of capital lease obligation	<u>1,951</u>
	<u>2,567</u>

Total interest on the lease for the year was less than \$0.1 million [2023 – \$0.1 million].

[e] The Hospital has committed to finalizing the building of the PSC, which is currently funded by the Series B *[note 9[b]]* and Series C *[note 9[c]]* Senior Unsecured Debentures. A construction manager has been retained and the three guaranteed price maximum contracts have been executed with a total construction price not to exceed \$311.9 million, with corresponding construction manager's fees of no more than \$8.3 million. The remaining amounts to be paid in 2025 under these contracts total \$27.0 million.

[f] The future minimum annual payments under the promissory note arrangement *[note 6[c]]* are as follows:

	\$
2025	963
2026	963
2027	963
2028	482
Minimum annual payments	<u>3,371</u>
Less amounts representing interest [at 7.8%]	430
Present value of minimum annual payments	<u>2,941</u>
Less current portion of principal payment	<u>760</u>
	<u>2,181</u>

19. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2024 financial statements.