THE HOSPITAL FOR SICK CHILDREN

FINANCIAL STATEMENTS

MARCH 31, 2016

SickKids®

TABLE OF CONTENTS

MANAGEMENT'S REPORT

The accompanying financial statements of **The Hospital for Sick Children** [the "Hospital"] are the responsibility of management and have been approved by the members of the Board of Trustees [the "Board"].

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

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

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

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

Michael Apkon
President & Chief Executive Officer

Laurie A. Harrison
Vice President Finance & Chief Financial Officer

June 18, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **The Hospital for Sick Children**, which comprise the balance sheet as at March 31, 2015, and the statements of operations and changes in unrestricted net assets (deficit), changes in net assets, remeasurement gains and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Hospital for Sick Children** as at March 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 16, 2016

BALANCE SHEET

As at March 31, 2016
(in thousands of dollars)

	2016 $	2015 $
ASSETS		
Current		
Cash and cash equivalents	167,509	179,740
Accounts receivable *(notes 3 and 13 [f])*	72,350	84,308
Short-term investments *(note 4)*	33,168	47,926
Inventories	8,050	7,408
Prepaid expenses	11,678	4,214
Total current assets	**292,755**	**323,596**
Long-term investments *(notes 4 and 5)*	254,542	259,134
Capital assets, net *(note 6)*	719,832	686,511
Accrued pension benefits *(note 7)*	240,512	235,063
Other non-current assets *(note 13 [g])*	7,963	8,791
Total assets	**1,515,604**	**1,513,095**
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *(notes 9 and 13 [f])*	132,316	124,637
Amounts held for other organizations	30,883	35,644
Deferred contributions *(note 10)*	145,032	148,889
Total current liabilities	**308,231**	**309,170**
Deferred capital contributions *(note 11)*	430,806	431,008
Long-term debt *(note 9)*	200,055	200,109
Pension and other employee benefit obligations *(note 7)*	179,520	171,432
Other non-current liabilities	19,558	19,732
Total liabilities	**1,138,170**	**1,131,451**
Commitments and contingencies *(notes 13 [c] and 14)*		
NET ASSETS		
Unrestricted (deficit)	(22,833)	(4,316)
Internally restricted *(note 12)*	381,074	352,862
Accumulated remeasurement gains	19,193	33,098
Total net assets	**377,434**	**381,644**
Total liabilities and net assets	**1,515,604**	**1,513,095**

See accompanying notes

On behalf of the Board of Trustees:

Rose Patten
Chair, Board of Trustees

Lawrence W. Scott
Chair, Finance and Audit Committee

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS (DEFICIT)

Year ended March 31, 2016
(in thousands of dollars)

	2016 $	2015 $
REVENUE		
Patient Care		
Ministry of Health and Long-Term Care/Toronto	465,214	446,375
Central Local Health Integration Network		
Other	69,902	73,410
Research *(note 13 [e])*	189,949	181,466
Commercial *(note 13 [d])*	53,499	59,258
Amortization of deferred capital contributions *(note 11)*	33,857	31,405
	812,421	**791,914**
EXPENSES		
Compensation *(note 7)*	488,212	482,057
Clinical supplies and drugs	80,765	73,605
Cost of goods sold	25,601	25,669
Other operating	100,176	102,209
Administrative and general	38,378	39,368
Interest *(note 9)*	10,434	10,434
Depreciation	70,511	63,101
	814,077	**796,443**
Deficiency of revenue over expenses before investment income	(1,656)	(4,529)
Investment income *(note 5)*	11,351	25,466
Excess of revenue over expenses for the year	9,695	20,937
Transfer to internally restricted net assets *(note 12)*	(28,212)	(352,862)
Net change in unrestricted net assets in the year	**(18,517)**	**(331,925)**
Unrestricted net assets (deficit), beginning of year	(4,316)	327,609
Unrestricted net assets (deficit), end of year	**(22,833)**	**(4,316)**

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS (DEFICIT)

Year ended March 31, 2016
(in thousands of dollars)

	UNRESTRICTED (DEFICIT) $	INTERNALLY RESTRICTED $	TOTAL 2016 $	TOTAL 2015 $
Net Assets, beginning of year	(4,316)	352,862	348,546	327,609
Excess (deficiency) of revenue over expenses for the year	9,695	–	9,695	20,937
Interfund transfers *(note 12)*	(28,212)	28,212	–	–
Net assets (deficit), end of year	**(22,833)**	**381,074**	**358,241**	**348,546**

See accompanying notes

STATEMENT OF REMEASUREMENT GAINS

Year ended March 31, 2016
(in thousands of dollars)

	2016 $	2015 $
Accumulated remeasurement gains, beginning of year	**33,098**	**16,144**
Unrealized gains (losses) attributable to		
Portfolio investments	6,000	44,603
Derivatives *(note 5)*	(2,782)	(8,712)
	(8,782)	**35,891**
Realized (gains) losses reclassified to statement of operations		
Portfolio investments	(9,669)	(28,180)
Derivatives *(note 5)*	4,546	9,243
	(5,123)	**(18,937)**
Accumulated remeasurement gains, end of year	**19,193**	**33,098**

See accompanying notes

STATEMENT OF CASH FLOWS

Year ended March 31, 2016
(in thousands of dollars)

	2016 $	2015 $
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	9,695	20,937
Add (deduct) items not affecting cash		
Depreciation	70,511	63,101
Amortization of deferred capital contributions	(33,857)	(31,405)
Pension and other post-employment benefit expense	12,392	16,302
Loss on disposal of capital assets	–	1,349
Write-off of deferred capital contributions on disposal of capital assets	–	(1,593)
Realized gains on investments and derivatives	(5,123)	(18,937)
	53,618	**49,754**
Net change in other non-cash working capital balances	4,503	1,219
Employer benefit contributions	(9,753)	(8,490)
Cash provided by operating activities	**48,368**	**42,483**
INVESTING ACTIVITIES		
Decrease (increase) in short-term investments, net	14,758	(20,912)
Decrease (increase) in long-term investments, net	(4,190)	3,557
Net change in other non-current assets	828	275
Cash used in provided by (used in) investing activities	**(11,396)**	**(17,080)**
CAPITAL ACTIVITIES		
Acquisition of capital assets	(105,422)	(89,656)
Proceeds from sale of capital assets	–	243
Cash used in capital activities	**(105,422)**	**(89,413)**
FINANCING ACTIVITIES		
Contributions received for capital purposes	33,655	50,215
Repayment of long-term debt	(54)	(55)
Net change in other non-current liabilities	(174)	98
Cash provided by financing activities	**33,427**	**50,258**
Net decrease in cash and cash equivalents during the year	**(12,231)**	**(13,752)**
Cash and cash equivalents, beginning of year	179,740	193,492
Cash and cash equivalents, end of year	**167,509**	**179,740**
Cash and cash equivalents represented by		
Cash	81,075	108,556
Cash equivalents	86,434	71,184
	167,509	**179,740**
Supplemental cash flow information		
Decrease in accounts payable, accrued liabilities and other non-current liabilities related to capital asset transactions, net	1,590	9,497
Decrease in accounts receivable related to capital asset transactions, net	–	(542)

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars, except where otherwise noted)

March 31, 2016

1. PURPOSE OF THE ORGANIZATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with the Chartered Professional Accountants of Canada ["CPA Canada"] Public Sector 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 following non-controlled not-for-profit entities:

- The Hospital for Sick Children Foundation [the "Foundation"] *(note 13)*
- The Women's Auxiliary of the Hospital for Sick Children

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, accrued liabilities, deferred revenue, and employee future benefits. Actual results could differ from those estimates.

The amount of revenue recognized from the Ontario Ministry of Health and Long-Term Care [the "MOHLTC"] and Toronto Central Local Health Integration Network [the "TC-LHIN"] requires a number of estimates. The Hospital has entered into a number of accountability agreements with the TC-LHIN that set out the rights and obligations of the two parties in respect of funding provided to the Hospital by the TC-LHIN for fiscal year 2016.

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

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

REVENUE RECOGNITION

The Hospital follows the deferral method of accounting for contributions, which include grants. Unrestricted contributions are recorded as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are initially deferred when recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized. Contributions externally restricted for capital assets are recorded as deferred capital contributions and are amortized to operations on the same basis as the related asset is depreciated.

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

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

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL INSTRUMENTS

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

Portfolio investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds, derivative contracts and any other investments where the investments are managed on a fair value basis and the fair value option is elected. Transaction costs are recognized in the statement of operations and changes in unrestricted net assets (deficit) 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 and changes in unrestricted net assets (deficit) 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 and changes in unrestricted net assets (deficit) 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 and changes in unrestricted net assets (deficit) is not reversed until the investment is sold.

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

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 instrument.

Other financial instruments, including 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. Operating revenue and expenses are translated at exchange rates prevailing on the transaction dates. Realized gains or losses arising from these translations are included in the statement of operations and changes in unrestricted net assets (deficit). Unrealized gains or losses are included in the statement of remeasurement gains, except to the extent they relate to deferred contributions and amounts held for other, in which case they are added to the balances.

CAPITAL ASSETS

Purchased capital assets are recorded at original cost. Donated capital assets are recorded at fair value at the date of contribution. Depreciation of cost and any corresponding deferred capital contribution is calculated on a straight-line basis using the following annual rates:

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

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

Capital assets that are fully amortized and no longer in use are removed from the records.

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

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

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	March 31, 2016 $	March 31, 2015 $
MOHLTC / TC-LHIN	10,923	7,565
Patient care	10,377	10,326
Research	37,949	30,666
Other *(note 13 [f])*	13,101	35,751
	72,350	**84,308**

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

4. INVESTMENTS

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

	March 31, 2016 $	March 31, 2015 $
Cash and cash equivalents	47,528	48,651
Fixed income	169,667	165,678
Canadian equities	5,986	14,080
Foreign equities *(note 5)*	64,529	78,651
	287,710	**307,060**

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 21 years and an average yield of 2.6% as at March 31, 2016 based on market values.

Investments include $32.6 million [2015 – $33.4 million] for the Debenture Retirement Fund *(note 9).*

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

	March 31, 2016 $	March 31, 2015 $
Short-term investments	33,168	47,926
Long-term investments	254,542	259,134
	287,710	**307,060**

The amount classified as long-term is equal to the investments held for certain obligations classified as long-term liabilities, including pension obligations *(note 7),* the Debenture Retirement Fund *(note 9)*, and restricted trust funds. The balance of the investments is classified as short-term.

5. FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

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

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

The fair value hierarchy requires the use of observable data in the market each time such data exists. A financial instrument is classified at the lowest level of 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:

	FAIR VALUE AT MARCH 31, 2016 ACCORDING TO THE FOLLOWING LEVELS			TOTAL ASSETS AT FAIR VALUE
	LEVEL 1	LEVEL 2	LEVEL 3	
	$	$	$	$
Investments				
Cash equivalents	–	40,982	–	40,982
Fixed income	–	169,667	–	169,667
Canadian equities	5,986	–	–	5,986
Foreign equities *(note 4)*	44,526	20,003	–	64,529
	50,512	230,652		**281,164**
Cash				6,546
Total investments				**287,710**

	FAIR VALUE AT MARCH 31, 2015 ACCORDING TO THE FOLLOWING LEVELS			TOTAL ASSETS AT FAIR VALUE
	LEVEL 1	LEVEL 2	LEVEL 3	
	$	$	$	$
Investments				
Cash equivalents	–	39,800	–	39,800
Fixed income	–	165,678	–	165,678
Canadian equities	14,080	–	–	14,080
Foreign equities *(note 4)*	46,107	32,544	–	78,651
	60,187	238,022	**–**	**298,209**
Cash				8,851
Total investments				**307,060**

During the years ended March 31, 2016 and 2015, there were no transfers of assets between Level 1, Level 2 and Level 3.

FINANCIAL RISKS

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

(a) Market risk

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

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

(i) Foreign currency risk

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

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

2016 Foreign currency denominated assets	**Fair value**	**Hedging**	**Net exposure**	**Impact of 1% absolute change in foreign exchange rates on net assets**
	CAD$	**CAD$**	**CAD$**	**CAD$**
Cash and cash equivalents and short term notes	42,051	19,880	22,171	222
Fixed income	113,589	53,701	59,888	599
Equities	61,857	29,846	32,011	320
Total	**217,497**	**103,427**	**114,070**	**1,141**

2015 Foreign currency denominated assets	**Fair value**	**Hedging**	**Net exposure**	**Impact of 1% absolute change in foreign exchange rates on net assets**
	CAD$	**CAD$**	**CAD$**	**CAD$**
Cash and cash equivalents and short term notes	42,733	19,708	23,025	230
Fixed income	110,298	50,869	59,429	594
Equities	77,717	35,842	41,875	419
Total	**230,748**	**106,419**	**124,329**	**1,243**

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:

2016	Total exposure	Hedging	Net exposure	Foreign currency Foreign national amount		Fair value of contracts	Foreign currency contract expiry date
	CAD$	CAD$	CAD$			CAD$	
United States	183,260	89,501	93,759	USD$	67,000	2,490	17-Jun-16
Japan	5,731	5,000	731	JPY¥	420,000	143	17-Jun-16
Europe	12,809	8,926	3,883	EUR€	6,000	40	17-Jun-16
Other	15,697	–	15,597		–	–	
Total	**217,497**	**103,427**	**114,070**		**638,000**	**2,673**	

2015	Total exposure	Hedging	Net exposure	Foreign currency Foreign national amount		Fair value of contracts	Foreign currency contract expiry date
	CAD$	CAD$	CAD$			CAD$	
United States	190,007	89,667	100,340	USD$	70,000	911	19-Jun-15
Japan	7,336	5,911	1,425	JPY	560,000	(15)	19-Jun-15
Europe	11,660	10,841	819	EUR	8,000	(74)	19-Jun-15
Other	21,745	–	21,745		–	–	
Total	**230,748**	**106,419**	**124,329**		**638,000**	**822**	

The fair value of these contracts as at March 31, 2016 is a gain of $2.67 million [2015 – gain of $0.82 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, 2016, the impact on the accumulated remeasurement gains of a 1% absolute change in bond yields on investments is $25.2 million [2015 – $25.2 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, 2016, 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 $0.7 million [2015 – $0.9 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, 2016, 97% [2015 – 96%] of fixed income securities held were of investment grade.

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

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

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

6. CAPITAL ASSETS

Capital assets consist of the following:

	March 31, 2016 $	March 31, 2015 $
Cost		
Land	5,673	5,673
Buildings and building service equipment	777,026	751,225
Other equipment and systems	436,730	521,147
Construction-in-progress	60,923	54,678
	1,280,352	**1,332,723**
Accumulated depreciation		
Buildings and building service equipment	273,221	247,417
Other equipment and systems	287,299	398,795
	560,520	**646,212**
Net book value	**719,832**	**686,511**

In the current year, the Hospital has written off fully depreciated assets in the amount of $157,501 [2015 – $16,271].

In September 2015, the Hospital made a submission to MOHLTC for Project Horizon. This project includes the demolition of the McMaster Building, which resulted in a change to the building's estimated useful life. The Hospital accounted for these changes in accordance with PS 2120, Change in Accounting Estimate, which requires a change in accounting estimate to be applied prospectively from the date of the decision. The Hospital has used the submission date of September 2015 as the effective date. For the year ended March 31, 2016, the statement of operations and changes in unrestricted net assets (deficit) reflects an increase in depreciation of $1,603, as a result of the change in accounting estimate.

7. PENSION AND EMPLOYEE BENEFIT OBLIGATIONS

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

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

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

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

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

All retirement benefit computations and disclosures are determined using a measurement date for accounting purposes three months prior to the fiscal year-end. The most recent actuarial valuation of the registered pension plan for funding purposes was as of December 31, 2014, and the next required valuation is as of December 31, 2016. The most recent actuarial valuation of the supplemental pension for accounting purposes was as of December 31, 2014 and as of January 1, 2015 for the other post-employment pension plan and the non-vesting sick leave benefit plan.

Information about the Hospital's defined benefit plans as at and for the year ended March 31, 2016 is as follows:

	2016			
	Registered pension plan $	Supplemental pension plan $	Other post-employment benefit plans $	Non-vesting sick leave benefit plan $
Accrued benefit obligation*	(937,009)	(175,462)	(3,419)	(12,441)
Plan assets*	1,419,018	–	–	–
Funded status – plan surplus (deficit)*	482,009	(175,462)	(3,419)	(12,441)
Unamortized net actuarial loss (gain)*	(241,497)	11,736	653	(3,140)
Adjustment for off-fiscal measurement date	–	2,092	117	344
Accrued benefit asset (liability)	**240,512**	**(161,634)**	**(2,649)**	**(15,237)**
Employer contributions	–	8,026	488	1,239
Employee contributions	17,015	–	146	–
Benefits paid	37,134	8,026	634	1,239

The expense for the year ended March 31, 2016 related to pension and other post-employment benefit plans is calculated as follows:

	2016			
	Registered pension plan $	Supplemental pension plan $	Other post-employment benefit plans $	Non-vesting sick leave benefit plan $
Current year benefit cost	27,651	3,800	–	1,574
Interest on accrued benefit obligation	59,163	10,753	98	423
Expected return on plan assets	(80,163)	(153)	–	–
Amortization of actuarial loss (gain)	(12,100)	1,300	79	(33)
Expense for the year**	**(5,449)**	**15,700**	**177**	**1,964**

Information about the Hospital's defined benefit plans as at and for the year ended March 31, 2015 is as follows:

	2014			
	Registered pension plan $	**Supplemental pension plan $**	**Other post-employment benefit plans $**	**Non-vesting sick leave benefit plan $**
Accrued benefit obligation*	(948,202)	(170,297)	(3,744)	(12,784)
Plan assets*	1,317,690	–	–	–
Funded status - plan surplus (deficit)*	369,488	(170,297)	(3,744)	(14,399)
Unamortized net actuarial loss (gain) *	(134,425)	14,379	672	(468)
Adjustment for off-fiscal measurement date	–	1,958	112	355
Accrued benefit asset (liability)	**235,063**	**(153,960)**	**(2,960)**	**(14,512)**
Employer contributions	–	6,738	518	1,234
Employee contributions	17,135	–	155	–
Benefits paid	36,325	6,738	673	1,230

The expense for the year ended March 31, 2014 related to pension and other post-employment benefit plans is calculated as follows:

	2014			
	Registered pension plan $	**Supplemental pension plan $**	**Other post-employment benefit plans $**	**Non-vesting sick leave benefit plan $**
Current year benefit cost	26,646	3,800	–	1,378
Interest on accrued benefit obligation	60,802	10,248	137	511
Expected return on plan assets	(79,702)	(148)	–	–
Amortization of actuarial loss (gain)	(8,600)	1,300	43	(113)
Expense for the year**	**(854)**	**15,200**	**180**	**1,776**

Included in long-term investments is $202.4 million [2015 – $205.9 million] that the Board has designated to fund the supplemental pension plan liability *(note 4)*.

* By its nature, the defined contribution element is exactly fully funded. Accordingly, information shown for the value at year-end of plan obligations, assets, funded status and unamortized amounts all relate to the defined benefit element only and exclude the defined contribution assets and liabilities of $64.1 million [2015 – $61.3 million]. Otherwise, results shown relate to the defined benefit and defined contribution elements combined.

** Includes an expense of $2.8 million [2015 – $2.8 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:

	March 31, 2016	March 31,2015
	%	%
Discount rate	6.25	6.25
Increases to pension payments	1.50	1.50
Inflation increases	2.00	2.00
Salary escalation	3.00	3.00

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

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

	For the years ended March 31	
	2016	2015
	%	%
Discount rate	6.25	6.25
Expected long-term rate of return on plan assets	6.25	6.25
Increases to pension payments	1.50	1.50
Inflation increases	2.00	2.00
Salary escalation	3.00	3.00

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

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

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

	March 31, 2016	March 31, 2015
	%	%
Cash and cash equivalents	20	17
Equity securities	40	46
Debt securities	40	37
	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:

	March 31, 2016	March 31, 2015
	%	%
Discount rate	2.51	2.77
Salary escalation	3.00	3.00

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:

	For the years ended March 31	
	2016	2015
	%	%
Discount rate	2.77	3.80
Salary escalation	3.00	3.00

8. LINES OF CREDIT

The Hospital has a concentration account arrangement with its bankers. In addition, there are two operating lines of credit totalling $125.0 million that can be utilized through a net overdraft paying interest at prime or through bankers' acceptances. When the Hospital has a net cash balance, interest is earned at prime less 1.75%. The Hospital did not draw from the operating lines of credit for the years ended March 31, 2016 and 2015.

9. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2016 $	March 31, 2015 $
Series A Senior Unsecured Debentures - principal	200,000	200,000
Interest-free long-term borrowing agreement	109	164
	200,109	**200,164**
Current portion included in accounts payable and accrued liabilities	(54)	(55)
	200,055	**200,109**

In 2009, associated with the construction of the Peter Gilgan Centre for Research and Learning, the Hospital issued the Debentures. The Debentures bear interest at 5.217%, which is payable semi-annually on June 16 and December 16, with the principal amount to be repaid on December 16, 2049.

As at March 31, 2016, unspent proceeds from the Debentures of $32.6 million [2015 – $33.4 million] have been invested with external investment managers and designated as the Debenture Retirement Fund *(note 4).*

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

	$
2017	54
2018	55
2019	–
2020	–
2021	–
Thereafter	200,000
	200,109

For the year ended March 31, 2016, interest payable to bondholders was $10.4 million [2015 – $10.4 million], of which $10.4 million [2015 – $10.4 million] was expensed in the statement of operations and changes in unrestricted net assets (deficit). Of the amount payable to bondholders, $3.0 million [2015 – $3.0 million] had not been paid as at March 31, 2016 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:

	2016 $	2015 $
Balance, beginning of year	**148,889**	**147,037**
Amounts received during the year *(note 13 [e])*	195,313	203,818
Amounts recognized as revenue during the year	(199,170)	(201,966)
Balance, end of year	**145,032**	**148,889**

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:

	2016 $	2015 $
Balance, beginning of year	**431,008**	**414,333**
Contributions received during the year *(note 13 [e])*	33,655	49,673
Write-off related to sale of capital assets	–	(1,593)
Amortization	(33,857)	(231,405)
Balance, end of year	**430,806**	**431,008**

As at March 31, 2016, the deferred capital contributions include funds received but not yet spent of $19.5 million [2015 – $13.9 million].

12. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets consist of the following:

	2016 $	2015 $
Capital assets internally funded	108,443	87,400
Debenture retirement fund	32,119	30,399
Accrued pension benefits	240,512	235,063
	381,074	**352,862**

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

- Capital assets internally funded represents capital assets funded using internal resources;
- Debenture retirement fund represents funds set aside to retire the debenture *(note 9)*; and
- Accrued pension benefits represents the asset recorded on the balance sheet related to the pension plan *(note 7)*.

13. THE HOSPITAL FOR SICK CHILDREN FOUNDATION

(a) The Hospital for Sick Children Foundation [the "Foundation"] is an independent corporation without share capital which has its own Board of Directors. As at March 31, 2016, the Foundation holds $1.066 billion [2015 – $1.075 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) Concurrent with the issuance of the Debentures [note 9], the Hospital entered into two funding agreements with the Foundation: the Research Tower Funding Agreement and the Core Funding Agreement. The Research Tower Funding Agreement provided for the capital fundraising campaign in respect of the Peter Gilgan Centre for Research and Learning and provided, on a best efforts basis, certain grants to the Hospital in respect of the Peter Gilgan Centre for Research and Learning. In general, the Foundation's grants under the Research Tower Funding Agreement took precedence over any other commitments of the Foundation to the Hospital. The Hospital used a portion of the grants toward the design and construction costs of the Peter Gilgan Centre for Research and Learning and a portion to support the Hospital's interest and principal obligations related to the Debentures. Subject to certain provisions for termination, the Research Tower Funding Agreement will remain in effect for as long as any of the Debentures are outstanding.

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

Each of the Research Tower Funding Agreement 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 $70.0 million or lower. 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, 2016, the Foundation holds $144.6 million [2015 – $158.5 million] in the Board Unrestricted Endowment Fund.

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

(d) On April 1, 2011, the Hospital entered into a 10-year agreement to lease its parking facilities to the Foundation. For the first five years, the lease payments are $0.3 million per month, increasing to $0.4 million per month in the last five years of the term. The Hospital has also entered into an agreement with the Foundation to manage the facilities for a fee equivalent to costs incurred by the Hospital to operate the facilities and a portion of the parking fees. During the year, the Hospital earned $4.2 million [2015 – $4.2 million] in leasing revenue and $1.2 million [2015 – $1.1 million] in management fees, which are recorded in commercial services revenue in the statement of operations and changes in unrestricted net assets (deficit).

(e) During the year, the Foundation granted $81.5 million [2015 – $103.5 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, 2016, accounts receivable include a receivable from the Foundation of $1.3 million [2015 – $21.7 million]. Accounts payable and accrued liabilities include an amount payable to the Foundation of $1.3 million [2015 – $0.7 million] related to parking revenue *(note 13[d])*. These current amounts due to/from the Foundation are non-interest bearing and due on demand.

(g) Some former Foundation staff participate in the Hospital's benefit plans. The Foundation reimburses the Hospital for any contributions related to the Foundation employees' participation in these benefit plans. Other non-current assets include $2.4 million [2015 – $2.4 million] related to an amount receivable from the Foundation for those staff participating in the Hospital's benefit plan.

14. 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. 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, 2016.

(c) The minimum annual payments under various operating leases are as follows:

	$
2017	4,647
2018	3,447
2019	3,073
2020	3,151
2021	3,195
Thereafter	16,201

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