



# SICKKIDS FOUNDATION FINANCIAL STATEMENTS MARCH 31, 2017

**SickKids**<sup>®</sup>  
FOUNDATION

# INDEPENDENT AUDITORS' REPORT

To the Members of  
**The Hospital for Sick Children Foundation**

## **Report on the financial statements**

We have audited the accompanying consolidated financial statements of **The Hospital for Sick Children Foundation**, which comprise the consolidated balance sheet as at March 31, 2017, the consolidated statements of operations and changes in fund balances and cash flows for the year then ended, along with 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 consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of **The Hospital for Sick Children Foundation** as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## **Report on other legal and regulatory requirements**

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Toronto, Canada  
June 15, 2017

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants  
Licensed Public Accountants

# CONSOLIDATED BALANCE SHEET

As at March 31  
(thousands of dollars)

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	7,450	9,687
Investments, at market (note 3)	1,161,770	1,051,410
Other assets (notes 4 and 9)	14,974	10,604
Capital assets (note 5)	1,693	1,340
<b>Total assets</b>	<b>1,185,887</b>	<b>1,073,041</b>

## LIABILITIES AND FUND BALANCES

### Liabilities

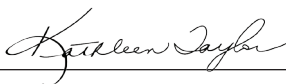
Deferred revenues (note 6)	814	377
Other liabilities (notes 9 and 14)	14,489	7,104
<b>Total liabilities</b>	<b>15,303</b>	<b>7,481</b>

Commitments and contingencies (notes 9 and 15)

### FUND BALANCES

General Fund	398	297
Restricted Fund	157,186	139,342
Endowment Fund (note 7)	1,013,000	925,921
<b>Total fund balances</b>	<b>1,170,584</b>	<b>1,065,560</b>
<b>Total liabilities and fund balances</b>	<b>1,185,887</b>	<b>1,073,041</b>

On behalf of the Board:



Kathleen Taylor  
Chair, Board of Directors



Sonia Baxendale  
Chair, Audit and Finance Committee

# CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

year ended March 31  
(thousands of dollars)

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND		TOTAL FUNDS	
	2017	2016	2017	2016	2017	2016	2017	2016
Fundraising programs (note 11)	61,889	58,771	61,796	61,605	13,060	12,952	136,745	133,328
Fundraising program costs (notes 12 and 14)	34,708	31,232	2,874	1,892	–	–	37,582	33,124
<b>Net fundraising</b>	<b>27,181</b>	<b>27,539</b>	<b>58,922</b>	<b>59,713</b>	<b>13,060</b>	<b>12,952</b>	<b>99,163</b>	<b>100,204</b>
Lottery (note 13)	24,025	24,849	–	–	–	–	24,025	24,849
Lottery costs (note 13)	21,933	22,512	–	–	–	–	21,933	22,512
<b>Net lottery</b>	<b>2,092</b>	<b>2,337</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,092</b>	<b>2,337</b>
Parking (note 9)	36	–	7,138	7,084	–	–	7,174	7,084
Parking costs (note 9)	–	–	5,672	5,450	–	–	5,672	5,450
<b>Net parking</b>	<b>36</b>	<b>–</b>	<b>1,466</b>	<b>1,634</b>	<b>–</b>	<b>–</b>	<b>1,502</b>	<b>1,634</b>
<b>Total net revenue</b>	<b>29,309</b>	<b>29,876</b>	<b>60,388</b>	<b>61,347</b>	<b>13,060</b>	<b>12,952</b>	<b>102,757</b>	<b>104,175</b>
Investment income (loss) (notes 3 and 7)	61,719	(7,243)	24,044	(1,634)	27,829	(11,798)	113,592	(20,675)
Other income (expense) (note 9)	36	217	699	(23)	–	–	735	194
<b>Net revenue, including investment and other income</b>	<b>91,064</b>	<b>22,850</b>	<b>85,131</b>	<b>59,690</b>	<b>40,889</b>	<b>1,154</b>	<b>217,084</b>	<b>83,694</b>
<b>Expenses (notes 9, 12 and 14)</b>	<b>6,894</b>	<b>6,223</b>	<b>134</b>	<b>48</b>	<b>–</b>	<b>–</b>	<b>7,028</b>	<b>6,271</b>
General and administrative	6,894	6,223	134	48	–	–	7,028	6,271
<b>Excess of revenue over expenses before grants and charitable activity</b>	<b>84,170</b>	<b>16,627</b>	<b>84,997</b>	<b>59,642</b>	<b>40,889</b>	<b>1,154</b>	<b>210,056</b>	<b>77,423</b>
Grants and charitable activity (notes 9, 12 and 14)	37,420	34,767	67,612	51,779	–	–	105,032	86,546
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>46,750</b>	<b>(18,140)</b>	<b>17,385</b>	<b>7,863</b>	<b>40,889</b>	<b>1,154</b>	<b>105,024</b>	<b>(9,123)</b>
Fund balances, beginning of year	297	222	139,342	115,118	925,921	959,343	1,065,560	1,074,683
Interfund transfers (note 8)	(46,649)	18,215	459	16,361	46,190	(34,576)	–	–
<b>Fund balances, end of year</b>	<b>398</b>	<b>297</b>	<b>157,186</b>	<b>139,342</b>	<b>1,013,000</b>	<b>925,921</b>	<b>1,170,584</b>	<b>1,065,560</b>

See accompanying notes

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31  
(thousands of dollars)

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenue over expenses for the year	105,024	(9,123)
Add item not involving cash		
Amortization of capital assets	1,486	1,339
Changes in non-cash working capital balances related to operations		
Other assets	(4,370)	(1,146)
Deferred revenues	437	5
Other liabilities	7,385	(21,473)
Reinvested investment loss (income)	(113,592)	20,675
<b>Cash used in operating activities</b>	<b>(3,630)</b>	<b>(9,723)</b>
<b>INVESTING ACTIVITIES</b>		
Withdrawals from externally managed investments, net	3,232	8,888
Additions to capital assets	(1,839)	(1,156)
<b>Cash provided by investing activities</b>	<b>1,393</b>	<b>7,732</b>
<b>Net decrease in cash and cash equivalents during the year</b>	<b>(2,237)</b>	<b>(1,991)</b>
Cash and cash equivalents, beginning of year	9,687	11,678
<b>Cash and cash equivalents, end of year</b>	<b>7,450</b>	<b>9,687</b>

See accompanying notes

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

## 1. PURPOSE OF THE ORGANIZATION

The Hospital for Sick Children Foundation, also known as SickKids Foundation (the "Foundation"), is incorporated under the laws of Ontario as a corporation without share capital. The Foundation receives, accumulates and distributes funds and/or the income therefrom for the benefit of The Hospital for Sick Children (the "Hospital"), any other hospital, university, medical association, foundation or person, in respect of medical research and other activities related to the health of children.

The Foundation is a public foundation registered under the Income Tax Act (Canada) (the "Act") and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared 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 and includes the significant accounting policies summarized below.

### BASIS OF PRESENTATION

The consolidated financial statements of the Foundation reflect the assets, liabilities and activities of the Foundation and its controlled not-for-profit organization, the SickKids Charitable Giving Fund ("SKCGF") (note 10). All significant transactions between the organizations have been eliminated.

### FUND ACCOUNTING

For financial reporting purposes, the accounts of the Foundation have been classified into funds. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

The General Fund accounts for the Foundation's general fundraising, granting and administrative activities. This fund reports unrestricted resources available for immediate purposes.

The Restricted Fund reports resources that are to be used for specific purposes as specified by the donor or donor appeal.

The Endowment Fund reports resources where either external or internal restrictions require that the principal must be maintained permanently.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and short-term investments with maturities of less than 90 days at the date of purchase held for operating purposes. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than operating purposes are classified as investments.

### FINANCIAL INSTRUMENTS

Investments and derivative financial instruments, which include forward foreign exchange contracts, are recorded at fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Other financial instruments, are initially recorded at fair value, which represents cost, and subsequently measured at amortized cost, less any provision for impairment.

## CAPITAL ASSETS

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

### Tangible

Computer hardware	3 years
Furniture and other equipment	3 – 5 years
Leasehold improvements	Term of lease

### Intangible

Computer software	3 – 6 years
-------------------	-------------

## REVENUE RECOGNITION

The Foundation follows the restricted fund method of accounting for contributions. Contributions are recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions are recorded in the accounts when there is an enforceable right to the underlying asset that can be reliably valued. Unrestricted contributions are recognized as revenue in the General Fund. Donor restricted contributions for specific purposes are recognized as revenue in the Restricted Fund unless the principal is to be maintained permanently, in which case the contributions are recognized as revenue in the Endowment Fund.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, net of safekeeping and investment management and other investment expenses, is recorded in the consolidated statement of operations and changes in fund balances. Investment income (loss) on Endowment Fund resources that must be spent on donor restricted activities is recognized in the Restricted Fund. Investment income (loss) subject to donor restrictions stipulating that it be added to (deducted from) the principal amount of the endowment is recognized in the Endowment Fund. Unrestricted investment income (loss) is recognized in the General Fund.

Lottery revenue and revenue from special events are recognized in the fiscal year in which the program is concluded. Revenue related to lotteries for which prize draws and events take place subsequent to the year-end is deferred.

## GRANT RECOGNITION

Grants are recognized when approved for payment and the grantee has complied with all terms and conditions.

## FOREIGN CURRENCY TRANSLATION

Monetary assets, liabilities, revenue and expense items denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing on the following dates: monetary assets and liabilities at the balance sheet date and revenue and expenses at the transaction date. Translation gains and losses are recorded in the consolidated statement of operations and changes in fund balances.

## CONTRIBUTED MATERIALS AND SERVICES

Because of the difficulty in determining their fair value, only contributions of materials and services that can be reliably valued and are for the use of the Hospital are recognized in the consolidated financial statements. Volunteers contribute a substantial number of hours each year to assist the Foundation in carrying out its fundraising activities; however, those services cannot be readily valued and are therefore not recognized in the consolidated financial statements.

## EMPLOYEE FUTURE BENEFIT PLANS

Contributions to a defined contribution plan are expensed on an accrual basis.

The Foundation has an obligation to provide supplemental pension benefits to certain former and current employees. The Foundation accounts for this plan using the immediate recognition approach and recognizes the amount of the accrued benefit obligation in the consolidated balance sheet. Actuarial gains and losses and past service costs, if any, are recorded directly in fund balances. The accrued benefit obligation is determined based on an actuarial valuation using accounting assumptions that are prepared at least every three years. During those years where an actuarial valuation is not prepared, the Foundation estimates the obligation.

### ALLOCATION OF EXPENSES

The costs of certain general support departments considered to be primarily related to fundraising programs, such as gift administration and information technology, are allocated to fundraising programs. Costs considered to be related primarily to supporting granting are allocated to charitable activities. The costs of other support departments, such as public relations and finance, are included in general and administrative expenses.

## 3. INVESTMENTS

Investments consist of the following:

	<b>2017</b>	%	<b>2016</b>	%
	(\$000's)		(\$000's)	
<b>Short-term investments</b>	373,119	32	245,132	23
<b>Fixed income</b>				
Government – Canada	86,204	7	84,853	8
Corporate – Canada	54,964	5	50,476	5
Government – U.S.	–		253,528	24
Mortgages – Global	–		501	<1
<b>Equities</b>				
Canadian	57,106	5	28,378	3
U.S.	143,323	12	76,608	7
Japanese	16,292	1	13,800	1
European	22,381	2	21,774	2
Global pooled	333,024	29	217,004	21
Other international	76,007	7	50,622	5
<b>Forward foreign exchange contracts, net</b>	(650)	<1	8,734	1
	<b>1,161,770</b>	<b>100</b>	<b>1,051,410</b>	<b>100</b>

As at March 31, 2017, bond holdings have a weighted average term of 5.28 years (2016 – 20.62 years) to maturity and a weighted average yield of 1.9% (2016 – 2.54%).

In order to manage foreign currency exposure, the Foundation has entered into three forward foreign exchange contracts. As at March 31, 2017, these forward foreign exchange contracts with a Canadian chartered bank allow the Foundation to sell US\$180.0 million on June 23, 2017 at an exchange rate of 1.3247 (fair value of (\$0.7) million), to sell ¥3,000 million on June 23, 2017 at an exchange rate of 84.395 (fair value of (\$0.4) million), and to sell €25.0 million on June 23, 2017 at an exchange rate of 1.43845 (fair value of \$0.4 million). The total fair market value of these contracts at March 31, 2017 is a loss of \$0.7 million.

As at March 31, 2016, these forward foreign exchange contracts with a Canadian chartered bank allowed the Foundation to sell US\$210 million on June 17, 2016 at an exchange rate of 1.33583 (fair value of \$7.8 million), to sell ¥2,400 million on June 17, 2016 at an exchange rate of 84.0 (fair value of \$0.8 million), and to sell €17.0 million on June 17, 2016 at an exchange rate of 1.4877 (fair value of \$0.1 million). The fair market value of these contracts at March 31, 2016 was a gain of \$8.7 million.

Fees of \$3.0 million (2016 – \$3.3 million) were paid to investment managers and deducted from investment income (loss).



## 4. OTHER ASSETS

	<b>2017</b> <b>(\$000's)</b>	<b>2016</b> <b>(\$000's)</b>
Accounts receivable (note 9(c))	6,844	4,091
Prepaid expenses	587	575
Life insurance policies	7,464	5,860
Miscellaneous	79	78
	<b>14,974</b>	<b>10,604</b>

The life insurance policies represent the discounted present value of the proceeds of policies owned by the Foundation.

## 5. CAPITAL ASSETS

	<b>COST</b>		<b>ACCUMULATED AMORTIZATION</b>		<b>NET BOOK VALUE</b>	
	<b>2017</b> <b>(\$000's)</b>	<b>2016</b> <b>(\$000's)</b>	<b>2017</b> <b>(\$000's)</b>	<b>2016</b> <b>(\$000's)</b>	<b>2017</b> <b>(\$000's)</b>	<b>2016</b> <b>(\$000's)</b>
<b>Tangible</b>						
Computer hardware	2,999	2,686	2,535	2,215	464	471
Furniture and other equipment	843	772	701	623	142	149
Leasehold improvements	3,230	3,193	3,188	3,108	42	85
<b>Intangible</b>						
Computer software	3,481	2,564	2,436	1,929	1,045	635
<b>Total capital assets</b>	<b>10,553</b>	<b>9,215</b>	<b>8,860</b>	<b>7,875</b>	<b>1,693</b>	<b>1,340</b>

During 2017, fully amortized assets of \$0.5 million (2016 – \$0.5 million) were written-off.

## 6. DEFERRED REVENUES

As at March 31, 2017, \$0.8 million (2016 – \$0.4 million) in revenue has been received for events and lotteries that are due to occur in fiscal 2018.

## 7. ENDOWMENT FUND

- a) The Endowment Fund consists of externally restricted contributions received by the Foundation where the endowment principal is required to be maintained intact. The Endowment Fund also includes internal resources transferred by the Board of Directors (the "Board") with the intention that the principal be maintained intact, but may be drawn down to fund operating activities and grants as required.
- b) Investment income (loss) is allocated among the funds based on the Foundation's Fund Unitization and Capital Preservation Policy. This policy has the objective of protecting the real value of the endowments over time by limiting the amount of income made available for spending and requiring the reinvestment of income not made available. The policy establishes a payout amount based on 6.0% (2016 – 5.0%) of the average of the previous 3 fiscal years' fund balances, of which 1.5% (2016 – 0.5%) is credited to the General Fund for administration.

In any year, should net investment income not be sufficient to fund the payout calculated in accordance with the Foundation's policy, an amount is transferred to the Restricted and General Funds.

The preservation of capital (i.e. any excess investment income earned above the payout rate) is recorded as revenue of the Endowment Fund for externally endowed funds. For Board endowed funds, the preservation of capital is recorded as income of the General Fund or Restricted Fund and transferred to the Endowment Fund in the consolidated statement of operations and changes in fund balances.

- c) In 2017, investment income of \$97.2 million was earned on investments held for endowed funds. Of this amount, \$55.0 million represents an allocation of payout and \$42.2 million represents the allocation for the preservation of capital in the Endowment Fund. Of the \$42.2 million amount, \$27.8 million related to externally endowed funds was recorded as investment income in the Endowment Fund. Capital preservation of \$10.3 million related to Board endowed funds where the income is unrestricted or internally restricted was recorded as income in the General Fund and then transferred to the Endowment Fund (note 8(ii)). Capital preservation of \$4.1 million related to Board endowed funds where the income is externally restricted for specific purposes was recorded as income in the Restricted Fund and then transferred to the Endowment Fund (note 8(ii)). Of the total payout of \$55.0 million, \$35.0 million was recorded in the General Fund and \$20.0 million was recorded in the Restricted Fund. The payout of \$4.1 million related to Board endowed internally restricted funds recorded as income in the General Fund was transferred to the Restricted Fund (note 8(iii)).

In 2016, \$62.9 million was recorded as a reduction to the Endowment Fund. Of this amount, \$45.0 million represents an allocation for payout and \$17.9 million represents the allocation of investment losses. Of the amount of \$17.9 million, \$11.8 million related to externally endowed funds was recorded as an investment loss in the Endowment Fund, \$4.5 million related to Board endowed funds where the loss is unrestricted or internally restricted was recorded as a loss in the General Fund and \$1.6 million related to Board endowed funds where the loss is externally restricted for specific purposes was recorded as a loss in the Restricted Fund. Transfers were recorded from the Endowment Fund to these two funds to offset these reductions (note 8(i)). The payout of \$45.0 million was transferred from the Endowment Fund. Of this amount, \$21.8 million was transferred to the General Fund and \$23.2 million was transferred to the Restricted Fund (note 8(iii)).

- d) The Endowment Fund consists of the following accumulated balances:

	<b>2017</b> <b>(\$000's)</b>	<b>2016</b> <b>(\$000's)</b>
<b>Externally endowed</b>		
Income restricted for specific purposes	375,335	347,230
Income unrestricted	262,597	247,339
<b>Board endowed</b>		
Income externally restricted for specific purposes	93,492	89,410
Income internally restricted for specific purposes	116,337	97,323
Income unrestricted	165,239	144,619
	<b>1,013,000</b>	<b>925,921</b>

## 8. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND	
	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)
i) Loss allocation re: Board Endowed Funds (note 7(c))	–	4,526	–	1,638	–	(6,164)
ii) Preservation of capital re: Board Endowed Funds (note 7(c))	(10,357)	–	(4,077)	–	14,434	–
iii) Payout allocation in accordance with Board Policy (note 7(c))	(4,080)	21,766	4,080	23,186	–	(44,952)
iv) Board and donor approved re: fund designations (see below)	(17,712)	(1,177)	456	(8,463)	17,256	9,640
v) Surplus in General Fund (see below)	(14,500)	(6,900)	–	–	14,500	6,900
	<b>(46,649)</b>	<b>18,215</b>	<b>459</b>	<b>16,361</b>	<b>46,190</b>	<b>(34,576)</b>

### INTERFUND TRANSFER FOR BOARD AND DONOR APPROVED FUND DESIGNATIONS (IV)

In 2017, the Board approved net transfers from the General Fund of \$17.7 million to the Restricted and Endowment Fund. In 2016, the Board approved net transfers from the General Fund of \$1.2 million and from the Restricted Fund of \$8.4 million to the Endowment Fund.

### TRANSFER OF EXCESS FROM THE GENERAL FUND (V)

It is generally the practice of the Board to maintain a small surplus in the General Fund by transferring any excess to the Board endowed unrestricted fund or by covering any deficits in the General Fund with a transfer from the Board endowed unrestricted fund. In 2017, \$14.5 million (2016 – \$6.9 million) in interfund transfers were recorded from the General Fund to the Board endowed unrestricted fund.

## 9. THE HOSPITAL FOR SICK CHILDREN

- a) The Hospital is a Canadian public hospital and an independent corporation that has its own Board of Trustees. The Foundation is responsible for all fundraising activities carried out on behalf of the Hospital. During the year, the Foundation granted \$98.4 million (2016 – \$81.5 million) to the Hospital for various purposes including research, education, capital and debenture operating expense.
- b) The Hospital provides certain services to the Foundation and pays certain expenses on behalf of the Foundation. The Foundation reimburses the Hospital for all direct costs associated with services provided and expenses paid except for office space and related expenses, which are provided at no cost. In addition, the Foundation paid the Hospital \$80,462 (2016 – \$79,793) related to participation of current and former employees of the Foundation in the supplemental pension plan (note 14).
- c) As at March 31, 2017, the Foundation had a balance payable to the Hospital of \$4.3 million (2016 – \$3.7 million). This amount includes \$2.4 million (2016 – \$2.4 million) related to the accrued benefits obligation and is included in other liabilities (note 14). In addition, there is a balance receivable from the Hospital of \$3.0 million (2016 – \$1.3 million) included in other assets (note 4). The amounts due to/from the Hospital are non-interest bearing and due on demand.
- d) On April 1, 2011, the Foundation entered into a 10-year agreement to lease the parking facilities of the Hospital. For the first five years, the lease payments are \$0.3 million per month, increasing to \$0.4 million per month for the last five years of the term. The Foundation has also entered into an agreement with the Hospital for the Hospital 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, pursuant to the agreement, the Foundation incurred \$4.4 million (2016 – \$4.2 million) in lease expense to the Hospital and \$1.3 million (2016 – \$1.2 million) in management fees.
- e) Coinciding with the integration of the Hospital and the Hincks-Dellcrest Centre, on February 1, 2017, the Hospital for Sick Children Foundation and the Hincks-Dellcrest Foundation (“HDF”) entered into an Asset Transfer Agreement whereby HDF transferred to the Foundation as a gift, certain assets which will be used solely in support of child and youth community mental health. The transfer of \$0.7 million is recorded in other income in the restricted fund on the consolidated statement of operations and changes in fund balances.

## 10. SICKKIDS CHARITABLE GIVING FUND

SKCGF, incorporated under the laws of Canada in 2005 as a corporation without share capital, is controlled by the Foundation. SKCGF is a public foundation registered under the Act and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

SKCGF receives, accumulates and distributes funds and/or the income therefrom for the benefit of SickKids Foundation and other registered Canadian charities.

The Foundation is responsible for fundraising and investment management activities carried on behalf of SKCGF. The investments of SKCGF of \$4.3 million (2016 – \$4.1 million) are pooled together with the investments of the Foundation. The Foundation pays all expenses on behalf of SKCGF and, in return, the Foundation receives an annual management fee of 1.5% (2016 – 1%) of the value of SKCGF’s invested funds, which in 2017 amounted to \$58,448 (2016 – \$41,000).

## 11. GROSS FUNDRAISING PROGRAMS REVENUE

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND		TOTAL FUND	
	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)
Events	4,457	3,908	13,637	11,665	290	553	18,384	16,126
Corporate partnerships	16,069	14,919	10,497	11,599	949	155	27,515	26,673
Direct marketing	30,426	28,159	1,634	1,798	48	63	32,108	30,020
Individual giving	10,937	11,785	36,028	36,543	11,773	12,181	58,738	60,509
<b>Gross fundraising revenue</b>	<b>61,889</b>	<b>58,771</b>	<b>61,796</b>	<b>61,605</b>	<b>13,060</b>	<b>12,952</b>	<b>136,745</b>	<b>133,328</b>

Effective April 1, 2016, pursuant to the Foundation Philanthropy Policy, 10% (2016 – 5%) of all new restricted and endowed gifts not exceeding \$5.0 million is allocated to the General Fund. In 2017, \$3.9 million (2016 – \$2.2 million) of fundraising for restricted purposes and \$0.5 million (2016 – \$0.3 million) of fundraising for endowed purposes were allocated to the General Fund.

## 12. ALLOCATION OF EXPENSES

General support costs of \$15.3 million (2016 – \$13.5 million) have been allocated as follows:

	DIRECT COSTS		ALLOCATED COSTS		TOTAL COSTS	
	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)
Fundraising program costs	22,494	19,960	15,088	13,164	37,582	33,124
Grants and charitable activity	104,789	86,234	243	312	105,032	86,546

## 13. LOTTERIES

During the years ended March 31, 2017 and 2016, the Foundation held two lotteries. Financial results included in the consolidated statement of operations and changes in fund balances are as follows:

	2017 (\$000's)	2016 (\$000's)
<b>Revenue</b>		
Ticket sales	23,675	24,525
Other	350	324
	<b>24,025</b>	<b>24,849</b>
<b>Costs</b>		
Prizes	8,513	8,376
Other direct	13,001	13,677
Indirect	419	459
	<b>21,933</b>	<b>22,512</b>
<b>Net lottery proceeds</b>	<b>2,092</b>	<b>2,337</b>

## 14. EMPLOYEE FUTURE BENEFITS

Certain employees of the Foundation participated in the Hospital for Sick Children Supplemental Employee Retirement Plan (the "Supplemental Plan"), which is an unfunded pension arrangement. The Foundation has assumed responsibility for the obligation related to benefits to be provided to these current and former employees. The most recent valuation of these benefits for funding purposes was as at March 31, 2017.

As at March 31, 2017, other liabilities include \$2.4 million (2016 – \$2.4 million) representing the amount payable to the Hospital in connection with the accrued benefit obligation related to the benefits to be provided to Foundation employees who participated in the Supplemental Plan (note 9(c)).

## 15. COMMITMENTS AND CONTINGENCIES

- a) Concurrent with the issuance of \$200 million Series A Senior Unsecured Debentures (the "Debentures"), the Hospital entered into two funding agreements with the Foundation, the Research Tower Funding Agreement and the Core Funding Agreement.

The Research Tower Funding Agreement provides that the Foundation will conduct a capital fundraising campaign in respect of the Peter Gilgan Centre for Research and Learning and will provide, 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 will take 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 intends to use a portion to support the Hospital's interest and principal obligations related to the Debentures. Subject to certain provisions for termination, the Research Tower Funding Agreement will remain in effect for as long as any Debentures are outstanding.

The Core Funding Agreement, effective April 1, 2009, provides for the terms and conditions under which the Foundation will, on a best efforts basis, make grants to the Hospital with respect to the 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 which provides for mandatory renegotiation if the Board endowed income unrestricted portion of the Endowment Fund (note 7) is reduced to \$70 million or less.

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. Commitments to the Hospital and other grantees for multi-year commitments in connection with the National Grants Program are as follows:

2018 – \$59.9 million

2019 – \$14.9 million

2020 – \$14.9 million

- b) The Foundation has standby letters of credit outstanding at March 31, 2017 of \$0.4 million, \$0.3 million and \$4.5 million, issued on September 19, 2016 and expiring on June 14, 2017, May 8, 2017 and May 15, 2017. The Foundation also has letters of credit outstanding at March 31, 2017 of \$0.1 million, \$0.3 million and \$3.8 million, issued on March 20, 2017 and expiring January 15, 2018 and December 4, 2017 respectively in connection with a lottery that will be completed October 2017.

## **16. FINANCIAL INSTRUMENTS**

The Foundation is exposed to various financial risks through transactions in financial instruments.

### **CURRENCY RISK**

The Foundation is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar. The Foundation manages this risk by entering into forward foreign exchange contracts (note 3).

### **CREDIT RISK**

The Foundation is exposed to credit risk in connection with its short-term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation.

### **INTEREST RATE RISK**

The Foundation is exposed to interest rate risk with respect to its investments in fixed income investments and a pooled fund that holds fixed income securities because the fair value will fluctuate due to changes in market interest rates.

### **OTHER PRICE RISK**

The Foundation is exposed to other price risk through changes in market prices (other than changes arising from interest rate or currency risks) in connection with its investments in equity securities and pooled funds.

## **17. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2017 financial statements.

## **About SickKids**

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

