

A photograph of a clown with a large red nose and a white hat with a blue pom-pom, wearing a blue jacket with a rainbow stripe on the sleeve. He is holding a blue water bottle and looking towards a baby. The baby, wearing a red shirt, is sitting in a white hospital crib and pointing its finger at the clown's nose. The background shows a hospital room with a computer monitor and medical equipment.

SickKids®

FINANCIAL STATEMENTS

MARCH 31, 2016

SickKids®
FOUNDATION

INDEPENDENT AUDITORS' REPORT

To the Members of
The Hospital for Sick Children Foundation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **The Hospital for Sick Children Foundation**, which comprise the balance sheet as at March 31, 2016, and the statements of operations and changes in fund balances 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 accounting standards for not-for-profit organizations, 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 Foundation** as at March 31, 2016 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.

The logo for Ernst & Young LLP is written in a cursive, handwritten style.

Chartered Professional Accountants
Licensed Public Accountants

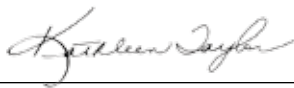
Toronto, Canada
June 15, 2016

BALANCE SHEET

As at March 31
(thousands of dollars)

	2016	2015
ASSETS		
Cash and cash equivalents	9,687	11,678
Investments, at market (note 3)	1,051,410	1,080,973
Other assets (note 4)	10,604	9,458
Capital assets (note 5)	1,340	1,523
Total assets	1,073,041	1,103,632
LIABILITIES AND FUND BALANCES		
Liabilities		
Deferred revenues (note 6)	377	372
Other liabilities (notes 9 and 14)	7,104	28,577
Total liabilities	7,481	28,949
<i>Commitments and contingencies (notes 9 and 15)</i>		
FUND BALANCES		
General Fund	297	222
Restricted Fund	139,342	115,118
Endowment Fund (note 7)	925,921	959,343
Total fund balances	1,065,560	1,074,683
Total liabilities and fund balances	1,073,041	1,103,632

On behalf of the Board:



Kathleen Taylor
Chair, Board of Directors



Sonia Baxendale
Chair, Audit and Finance Committee

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

year ended March 31
(thousands of dollars)

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND		TOTAL FUNDS	
	2016	2015	2016	2015	2016	2015	2016	2015
Fundraising programs (note 11)	58,771	55,565	61,605	57,730	12,952	17,998	133,328	131,293
Fundraising program costs (notes 12 and 14)	31,232	28,656	1,892	2,117	–	–	33,124	30,773
Net fundraising	27,539	26,909	59,713	55,613	12,952	17,998	100,204	100,520
Lottery (note 13)	24,849	23,148	–	–	–	–	24,849	23,148
Lottery costs (note 13)	22,512	19,852	–	–	–	–	22,512	19,852
Net lottery	2,337	3,296	–	–	–	–	2,337	3,296
Parking (note 9)	–	–	7,084	6,724	–	–	7,084	6,724
Parking costs (note 9)	–	–	5,450	5,336	–	–	5,450	5,336
Net parking	–	–	1,634	1,388	–	–	1,634	1,388
Total net revenue	29,876	30,205	61,347	57,001	12,952	17,998	104,175	105,204
Investment income (loss) (notes 3 and 7)	(7,243)	60,184	(1,634)	22,667	(11,798)	51,447	(20,675)	134,298
Other income (expense) (notes 4 and 9)	217	449	(23)	–	–	–	194	449
Net revenue, including investment and other income	22,850	90,838	59,690	79,668	1,154	69,445	83,694	239,951
Expenses (notes 9, 12 and 14)								
General fundraising and administrative	6,223	5,747	48	34	–	–	6,271	5,781
Excess of revenue over expenses before grants and charitable activity	16,627	85,091	59,642	79,634	1,154	69,445	77,423	234,170
Grants and charitable activity (notes 9, 12 and 14)	34,767	54,715	51,779	53,644	–	–	86,546	108,359
Excess (deficiency) of revenue over expenses for the year	(18,140)	30,376	7,863	25,990	1,154	69,445	(9,123)	125,811
Fund balances, beginning of year	222	225	115,118	107,666	959,343	840,981	1,074,683	948,872
Interfund transfers (note 8)	18,215	(30,379)	16,361	(18,538)	(34,576)	48,917	–	–
Fund balances, end of year	297	222	139,342	115,118	925,921	959,343	1,065,560	1,074,683

See accompanying notes

STATEMENT OF CASH FLOWS

Year ended March 31

(thousands of dollars)

	2016	2015
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(9,123)	125,811
Add item not involving cash		
Amortization of capital assets	1,339	1,333
Changes in non-cash working capital balances related to operations		
Other assets	(1,146)	4,217
Deferred revenues	5	9
Other liabilities	(21,473)	15,830
Reinvested investment loss (income)	20,675	(134,298)
Cash (used in) provided by operating activities	(9,723)	12,902
INVESTING ACTIVITIES		
(Contributions to) withdrawals from externally managed investments	8,888	(12,501)
Additions to capital assets	(1,156)	(930)
Cash provided by (used in) investing activities	7,732	(13,431)
Net decrease in cash and cash equivalents during the year	(1,991)	(529)
Cash and cash equivalents, beginning of year	11,678	12,207
Cash and cash equivalents, end of year	9,687	11,678

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

March 31, 2015

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 financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada ("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 financial statements of the Foundation reflect the assets, liabilities and activities of the Foundation and its controlled not-for-profit organizations, including the SickKids Charitable Giving Fund ("SKCGF") (note 10). All significant transactions between the organizations have been eliminated.

Organizations that are partially or primarily intended to benefit the Foundation that the Foundation does not control, including Friends of SickKids and Healthy Kids International US and UK, are not included in these financial statements.

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, including the interest in an irrevocable charitable trust, 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
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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 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 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 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 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 balance sheet. Actuarial gains and losses and past service costs, if any, are recorded differently 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 fundraising and administrative expenses.

3. INVESTMENTS

Investments consist of the following:

	2016	%	2015	%
	(\$000's)		(\$000's)	
Short-term investments	245,132	23	208,427	19
Fixed income				
Government – Canada	84,853	8	83,763	8
Corporate – Canada	49,714	5	50,588	5
Government – U.S.	253,528	24	246,317	23
Corporate – U.S.	762	<1	–	
Mortgages – Global	501	<1	584	<1
Equities				
Canadian	28,378	3	30,036	3
U.S.	76,608	7	79,298	7
Hedge fund	–		26,466	2
Japanese	13,800	1	11,662	1
European	21,774	2	23,142	2
Global pooled	217,004	21	263,462	24
Other international	50,622	5	54,558	5
Forward foreign exchange contracts	8,734	1	2,670	<1
	1,051,410	100	1,080,973	100

As at March 31, 2016, bond holdings have a weighted average term of 20.62 years (2015 – 21.58 years) to maturity and a weighted average yield of 2.54% (2015 – 2.39%).

In order to manage foreign currency exposure, the Foundation has entered into three forward foreign exchange contracts. These forward foreign exchange contracts with a Canadian chartered bank allow the Foundation to sell US\$210 million on June 17, 2016 at an exchange rate of 1.33583, to sell ¥2,400 million on June 17, 2016 at an exchange rate of 84.0, and to sell €17.0 million on June 17, 2016 at an exchange rate of 1.4877. The fair market value of these contracts at March 31, 2016 is a gain of \$8.7 million (2015 – gain of \$2.7 million).

Fees of \$3.3 million (2015 – \$3.9 million) were paid to investment managers and deducted from investment income (loss).

4. OTHER ASSETS

	2016 (\$000's)	2015 (\$000's)
Accounts receivable (note 9(c))	4,091	5,827
Prepaid expenses	575	700
Life insurance policy	5,860	2,794
Miscellaneous	78	137
	10,604	9,458

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

5. CAPITAL ASSETS

	COST		ACCUMULATED AMORTIZATION		NET BOOK VALUE	
	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)
Tangible						
Computer hardware	2,686	2,314	2,215	1,884	471	430
Furniture and other equipment	772	712	623	547	149	165
Leasehold improvements	3,193	3,175	3,108	3,049	85	126
Intangible						
Computer software	2,564	2,358	1,929	1,556	635	802
Total capital assets	9,215	8,559	7,875	7,036	1,340	1,523

6. DEFERRED REVENUES

As at March 31, 2016, \$0.4 million (2015 – \$0.4 million) in revenue has been received for events and lotteries that are due to occur in fiscal 2017.

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 5% of the average of the previous 3 fiscal years' fund balances, of which 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 statement of operations and changes in fund balances.

- c) In 2016, \$62.9 million was recorded as a reduction to the Endowment Fund. Of this amount, \$45 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)).

In 2015, investment income of \$118.4 million was earned on investments held for endowed funds, of which \$77.9 million was allocated for the preservation of capital. Of this amount, \$51.4 million related to externally endowed funds was recorded as investment income in the Endowment Fund. Capital preservation of \$20.3 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 \$6.2 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 \$40.5 million, \$24.0 million was recorded in the General Fund and \$16.5 million was recorded in the Restricted Fund. The payout of \$3.2 million related to Board endowed internally restricted funds recorded as income in the General Fund was transferred to the Restricted Fund (note 8(iii)).

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

	2016 (\$000's)	2015 (\$000's)
Externally endowed		
Income restricted for specific purposes	347,230	354,734
Income unrestricted	247,339	264,039
Board endowed		
Income externally restricted for specific purposes	89,410	88,226
Income internally restricted for specific purposes	97,323	93,873
Income unrestricted	144,619	158,471
	925,921	959,343

8. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND	
	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$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))	–	(20,263)	–	(6,227)	–	26,490
iii) Payout allocation in accordance with Board Policy (note 7(c))	21,766	(3,248)	23,186	3,248	(44,952)	–
iv) Board and donor approved re: fund designations (see below)	(1,177)	(6,218)	(8,463)	(15,559)	9,640	21,777
v) Surplus in General Fund (see below)	(6,900)	(650)	–	–	6,900	650
	18,215	(30,379)	16,361	(18,538)	(34,576)	48,917

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

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. In 2015, the Board approved net transfers from the General Fund of \$6.2 million and from the Restricted Fund of \$15.6 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 2016, \$6.9 million in interfund transfers were recorded from the General Fund to the Board endowed unrestricted fund. In 2015, \$650 thousand 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 \$81.5 million (2015 – \$103.5 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 \$79,793 (2015 – \$78,668) related to participation of current and former employees of the Foundation in the supplemental pension plan (note 14).
- c) As at March 31, 2016, the Foundation had a balance payable to the Hospital of \$3.7 million (2015 – \$24.1 million). This amount includes \$2.4 million (2015 – \$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 \$1.3 million (2015 – \$0.7 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 \$4.2 million (2015 – \$4.2 million) in lease expense to the Hospital and \$1.2 million (2015 – \$1.1 million) in management fees.

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 \$4.1 million (2015 – \$2.0 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% of the value of SKCGF's invested funds, which in 2016 amounted to \$41,000 (2015 – \$20,000).

11. GROSS FUNDRAISING PROGRAMS REVENUE

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND		TOTAL FUND	
	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)
Events	3,908	4,487	11,665	11,630	553	594	16,126	16,711
Corporate partnerships	14,919	13,561	11,599	10,001	155	1,185	26,673	24,747
Direct marketing	28,159	26,782	1,798	1,328	63	66	30,020	28,176
Individual giving	11,785	10,735	36,543	34,771	12,181	16,153	60,509	61,659
Gross fundraising revenue	58,771	55,565	61,605	57,730	12,952	17,998	133,328	131,293

Effective April 1, 2011, pursuant to the Foundation Philanthropy Policy, 5% of all new restricted and endowed gifts not exceeding \$5.0 million is allocated to the General Fund. In 2016, \$2.2 million (2015 – \$2.6 million) of fundraising for restricted purposes and \$0.3 million (2015 – \$0.3 million) of fundraising for endowed purposes were allocated to the General Fund.

12. ALLOCATION OF EXPENSES

General support costs of \$13.5 million (2015 – \$11.7 million) have been allocated as follows:

	DIRECT COSTS		ALLOCATED COSTS		TOTAL COSTS	
	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)	2016 (\$000's)	2015 (\$000's)
Fundraising program costs	19,960	19,362	13,164	11,411	33,124	30,773
Grants and charitable activity	86,234	108,029	312	330	86,546	108,359

13. LOTTERIES

During the years ended March 31, 2016 and 2015, the Foundation held two lotteries. Financial results included in the statement of operations and changes in fund balances are as follows:

	2016 (\$000's)	2015 (\$000's)
Revenue		
Ticket sales	24,525	22,872
Other	324	276
	24,849	23,148
Costs		
Prizes	8,376	7,660
Other direct	13,677	11,733
Indirect	459	459
	22,512	19,852
Net lottery proceeds	2,337	3,296

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 December 31, 2014.

As at March 31, 2016, other liabilities include \$2.4 million (2015 – \$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:

2017 – \$ 57.3 million

2018 – \$ 15.5 million

2019 – \$ 14.9 million

- b) The Foundation has standby letters of credit outstanding at March 31, 2016 of \$0.3 million and \$5.2 million, issued on September 29, 2015 and expiring on May 10, 2016, issued in connection with a lottery that was completed in March 2016. The Foundation also has letters of credit outstanding at March 31, 2016 of \$0.5 million, \$1.0 million and \$6.7 million, issued on February 22, 2016 and expiring November 25, 2016, January 17, 2017 and December 5, 2016 respectively issued in connection with a lottery that will be completed October 2016.
- c) As at March 31, 2015, there is one claim outstanding against the Foundation that arose in the ordinary course of business. It is management's position that the Foundation has a valid defense against the claim. In the unlikely event the claim is successful, it is not expected to have a material effect on the Foundation's financial position.

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 2016 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.

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