SickKids
FOUNDATION

FINANCIAL STATEMENTS

March 31, 2011

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, 2011 and the statement of operations and changes in fund balances 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 generally accepted accounting principles, 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 Children Foundation as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 14, 2011.

BALANCE SHEET

as at March 31
(thousands of dollars)

	2011	2010
ASSETS		
Cash and cash equivalents	7,815	7,850
Investments, at market *(note 3)*	713,838	659,318
Other assets *(note 4)*	10,127	1,392
Capital assets *(note 5)*	2,232	1,658
Total assets	734,012	670,218
LIABILITIES AND FUND BALANCES		
Liabilities		
Deferred revenues *(note 6)*	326	1,791
Other liabilities *(note 9)*	15,237	8,248
Total liabilities	15,563	10,039
Commitments and contingencies (notes 9 and 14)		
Fund Balances		
General Fund	428	304
Restricted Fund	107,183	75,045
Endowment Fund *(note 7)*	610,838	584,830
Total fund balances	718,449	660,179
Total liabilities and fund balances	734,012	670,218

See accompanying notes

On behalf of the Board:

John Francis
Chair, Audit and Finance Committee

Reza Satchu
Member, 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 Fund	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Fundraising programs *(note 11)*	**43,330**	41,400	**52,849**	37,574	**7,696**	7,378	**103,875**	86,352
Fundraising program costs *(notes 12 and 13)*	**23,760**	22,742	**961**	2,159	**-**	-	**24,721**	24,901
Net fundraising	**19,570**	18,658	**51,888**	35,415	**7,696**	7,378	**79,154**	61,451
Lottery	**19,126**	16,213	**-**	-	**-**	-	**19,126**	16,213
Lottery costs	**16,173**	14,686	**-**	-	**-**	-	**16,173**	14,686
Net lottery	**2,953**	1,527	**-**	-	**-**	-	**2,953**	1,527
Total net revenue	**22,523**	20,185	**51,888**	35,415	**7,696**	7,378	**82,107**	62,978
Investment income *(notes 3 and 7)*	**24,770**	63,319	**9,830**	14,369	**7,076**	95,479	**41,676**	173,167
Revenue, including investment income	**47,293**	83,504	**61,718**	49,784	**14,772**	102,857	**123,783**	236,145
Expenses *(notes 12 and 13)*								
General fundraising and administrative	**3,647**	2,789	**-**	-	**-**	-	**3,647**	2,789
Excess of revenue over expenses before grants and charitable activity	**43,646**	80,715	**61,718**	49,784	**14,772**	102,857	**120,136**	233,356
Grants and charitable activity *(notes 9, 12 and 13)*	**33,165**	15,951	**28,701**	35,929	**-**	645	**61,866**	52,525
Excess of revenue over expenses for the year	**10,481**	64,764	**33,017**	13,855	**14,772**	102,212	**58,270**	180,831
Fund balances, beginning of year	**304**	437	**75,045**	65,951	**584,830**	412,960	**660,179**	479,348
Interfund transfers *(note 8)*	**(10,357)**	(64,897)	**(879)**	(4,761)	**11,236**	69,658	**-**	-
Fund balances, end of year	**428**	304	**107,183**	75,045	**610,838**	584,830	**718,449**	660,179

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

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

Basis of Presentation

The financial statements of the Foundation reflect the assets, liabilities and activities of the Foundation and SickKids Charitable Giving Fund *(note 10)*. All significant transactions between the organizations have been eliminated.

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

Future Changes in Accounting Policies

In November 2010, the Accounting Standards Board of the CICA issued Part III of the CICA Handbook that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012, with an option to early-adopt. The Foundation is currently evaluating the impact of these standards.

Fund Accounting

The Foundation follows the restricted fund method of accounting for contributions. 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 liquidity purposes are classified as investments.

Investments and Investment Income (Loss)

Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Derivative financial instruments include forward foreign exchange contracts. These contracts are marked to market, with gains and losses recognized in income in the year in which the changes in market value occur.

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.

Financial Instruments

The Foundation applies CICA 3861, *Financial Instruments - Disclosure and Presentation* in place of CICA 3862, *Financial Instruments - Disclosures* and CICA 3863, *Financial Instruments - Presentation*.

The Foundation is subject to market risk, foreign currency risk and interest rate price risk with respect to its investment portfolio. To manage these risks, the Foundation has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances. In addition, forward foreign exchange contracts are used to manage foreign currency risk.

Other Assets

Costs directly related to the development of future lotteries and special events are presented as other assets when there is a future economic benefit associated with these costs. These costs are expensed over their useful life, which is when the lottery or special event is held. Such costs are expensed immediately when there is insufficient evidence that the costs are recoverable.

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:

Hardware and software	3 years
Furniture and other equipment	3 - 5 years
Leasehold improvements	Term of lease

Revenue Recognition

Unrestricted contributions are recognized as revenue in the General Fund in the year received. 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. Contributions are considered received when there is an enforceable right to the underlying asset which can be reliably valued.

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 the principal amount of the endowment is recognized in the Endowment Fund. Unrestricted investment income 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 are deferred.

Grant Recognition

Grants are recognized when payable.

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 balance sheet date and revenue and expenses at 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 when due.

The Foundation has an obligation to provide supplemental pension benefits to certain former and current employees. The cost of these pension benefits is determined using the projected unit credit method and management's best estimate assumptions. Liabilities are determined using discount rates that are consistent with the market yields of high quality debt instruments, with cash flows that match the expected benefit payments. Past service costs and the excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the accrued benefit obligation is amortized over the average remaining life expectancy of the members.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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:

	2011		2010	
	Market Value		Market Value	
	($000s)	%	($000s)	%
Short-term investments	97,484	14	123,789	19
Fixed Income				
Government – Canada	64,846	9	28,188	4
Corporate – Canada	38,083	5	35,851	5
Government – U.S.	152,502	21	2,954	<1
Corporate – U.S.	46,024	6	42,271	6
Mortgages – Canada	-	-	719	<1
Mortgages – Global	318	<1	305	<1
Equities				
Canadian	23,273	3	34,122	5
U.S.	51,583	7	94,072	14
Hedge fund	15,432	2	28,105	4
Japanese	15,495	2	21,646	3
European	22,238	3	43,113	7
Global pooled	156,196	22	164,653	25
Other international	28,456	4	38,036	6
Forward foreign exchange contracts	1,908	<1	1,494	<1
	713,838	100	659,318	100

Bond holdings have a weighted average term of 14.74 years (2010 – 5.55 years) to maturity and a weighted average yield of 4.89% (2010 – 5.95%) at March 31, 2011.

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$300 million on June 15, 2011 at an exchange rate of 0.977740, to sell ¥1,700 million on June 15, 2011 at an exchange rate of 83.750000, and to sell €20 million on June 15, 2011 at an exchange rate of 1.350250. The fair market value of these contracts at March 31, 2011 is a gain of $1,908 million (2010 – gain of $1,494 million).

Fees of $3.0 million (2010 - $3.1 million) were paid to investment managers and deducted from investment income.

4. OTHER ASSETS

	2011 (000's)	2010 (000's)
Accounts receivable *(note 9)*	1,660	722
Prepaid expenses	651	169
Irrevocable Charitable Trust	7,576	-
Costs related to		
Future lotteries	153	179
Future special events	87	322
	10,127	1,392

During 2011, the Foundation was named a beneficiary of an irrevocable charitable trust which has been established by a donor to provide a prescribed series of payments to designated beneficiaries. The trust is administered by a third party and has been recorded by the Foundation at the present value of the estimated future cash flows.

5. CAPITAL ASSETS

	Amortization Period	Cost		Accumulated Amortization		Net Book Value	
		2011 ($000's)	2010 ($000's)	2011 ($000's)	2010 ($000's)	2011 ($000's)	2010 ($000's)
Hardware and software	3 years	1,393	1,266	1,223	1,117	170	149
System under development	See below	870	-	-	-	870	-
Leasehold improvements	Term of lease	2,968	2,963	1,934	1,598	1,034	1,365
Furniture and other equipment	3-5 years	473	383	315	239	158	144
Total capital assets		5,704	4,612	3,472	2,954	2,232	1,658

Amortization expense recorded in the accounts is $518,000 (2010 - $610,415). Capital asset purchases were $1.1 million (2010 - $70,443). In 2011, the Foundation began development of a donor management system. Costs associated with the development have been capitalized and will be amortized once the system is available for use.

6. DEFERRED REVENUES

As at March 31, 2011, $0.3 million (2010 - $1.8 million) in revenue has been received for events and lotteries which are due to occur in 2012. These revenues have been deferred and recorded on the balance sheet. Costs associated with these future events are recognized as other assets (note 4).

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") to the Endowment Fund, 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 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. For fiscal 2010 the policy established a payout rate of 4.5% of fund balances. Effective April 1, 2010, the Foundation changed its Fund Unitization and Capital Preservation Policy to pay out an amount based on 5% of 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 2011, investment income of $36.3 million (2010 – $153.8 million) was earned on investments held for endowed funds of which $10.2 million (2010 – $131.5 million) was allocated for the preservation of capital. Of this amount, $7.1 million (2010 – $95.5 million) related to externally endowed funds was recorded as investment income in the Endowment Fund. Capital preservation of $2.9 million (2010 – $32.7 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(i)*). Capital preservation of $0.2 million (2010 – $3.3 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(i)*). Of the total payout of $26.1 million (2010 – $22.3 million), $16.1 million (2010 – $13.6 million) was recorded in the General Fund and $10.0 million (2010 – $8.7 million) was recorded in the Restricted Fund. The payout of $0.7 million (2010 – $0.7 million) related to Board endowed internally restricted funds recorded as income in the General Fund was transferred to the Restricted Fund (*note 8(ii)*).

d) The Endowment Fund consists of the following accumulated balances, expressed at market value:

	2011 ($000s)	2010 ($000s)
Externally endowed		
Income restricted for specific purposes	**214,203**	200,642
Income unrestricted	**201,234**	197,631
Board endowed		
Income externally restricted for specific purposes	**13,609**	13,520
Income internally restricted for specific purposes	**24,287**	24,260
Income unrestricted	**157,505**	148,777
	610,838	584,830

8. INTERFUND TRANSFERS

Transfers between funds consist of the following:

		General Fund		Restricted Fund		Endowment Fund	
		2011	2010	**2011**	2010	**2011**	2010
		($000s)	($000s)	**($000s)**	($000s)	**($000s)**	($000s)
i)	Preservation of Capital re: Board Endowed Funds *(note 7(c))*	**(2,915)**	(32,709)	**(238)**	(3,260)	**3,153**	35,969
ii)	Payout allocation re: Internally Restricted Funds *(note 7(c))*	**(667)**	(675)	**667**	675	**-**	-
iii)	Board and donor approved re: fund designations *(see below)*	**(775)**	(513)	**(1,308)**	(2,176)	**2,083**	2,689
iv)	Surplus in General Fund *(see below)*	**(6,000)**	(31,000)	**-**	-	**6,000**	31,000
		(10,357)	(64,897)	**(879)**	(4,761)	**11,236**	69,658

Interfund Transfer for Board and Donor Approved Fund Designations *(iii)*

The Board approved net transfers of $0.8 million from the General Fund and $1.3 million from the Restricted Fund for a total amount transferred to the Endowment Fund of $2.1 million in 2011 (2010 - net transfers of $2.7 million to the Endowment Fund).

Transfer of Excess from the General Fund *(iv)*

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 2011, $6.0 million (2010 – $31.0 million) in interfund transfers were recorded from the General Fund to the Board endowed unrestricted fund.

9. THE HOSPITAL FOR SICK CHILDREN

The Hospital is a Canadian public hospital and an independent corporation which 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 $57.9 million (2010 - $47.9 million) to the Hospital for research, education, capital and other projects.

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. In addition, the Foundation paid the Hospital a fee of $0.4 million (2010 – $0.3 million) in connection with Hospital leased space occupied by the Foundation and the reimbursement to the Hospital of $69,000 (2010 - $69,000) related to participation of current and former employees of the Foundation in the supplemental pension plan. As at March 31, 2011, the Foundation has a balance payable to the Hospital of $10.4 million (2010 - $2.9 million) included in other liabilities.

As at March 31, 2011, the Foundation had a balance receivable from the Hospital of $0.2 million (2010 - $0.4 million) included in other assets.

On April 1, 2011, the Hospital leased its parking facilities to the Foundation. The term of the lease is 10 years with three optional renewal terms of 10 years each. Monthly lease payments for the first five years are $333,713 per month and $350,399 per month for the ensuing five years. In addition, the Hospital entered into a management agreement with the Foundation whereby the Hospital was appointed manager of the parking facility.

10. SICKKIDS CHARITABLE GIVING FUND

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 out on behalf of SKCGF. The investments of SKCGF are pooled together with the investments of the Foundation. The Foundation also pays all expenses on behalf of SKCGF. In return, the Foundation receives an annual management fee of 1% of the value of SKCGF's funds.

11. GROSS FUNDRAISING PROGRAMS REVENUE

	General Fund		Restricted Fund		Endowment Fund		Total Fund	
	2011 ($000's)	2010 ($000's)	2011 ($000's)	2010 ($000's)	2011 ($000's)	2010 ($000's)	2011 ($000's)	2010 ($000's)
Community Involvement	1,901	2,472	12,678	9,702	704	720	15,283	12,894
Corporate Partnerships	8,310	8,782	7,224	6,640	3,011	932	18,545	16,354
Direct Marketing	23,334	23,550	1,097	1,478	68	85	24,499	25,113
Individual Giving	9,785	6,596	31,850	15,553	3,913	5,641	45,548	27,790
Brazilian Ball	-	-	-	4,201	-	-	-	4,201
Gross fundraising revenue	43,330	41,400	52,849	37,574	7,696	7,378	103,875	86,352

12. ALLOCATION OF EXPENSES

General support costs of $9.8 million (2010 - $8.9 million) have been allocated as follows:

	Direct costs		Allocated costs		Total costs	
	2011 ($000's)	2010 ($000's)	2011 ($000's)	2010 ($000's)	**2011 ($000's)**	2010 ($000's)
Fundraising program costs	15,309	16,258	9,412	8,643	24,721	24,901
Grants and charitable activity	61,505	52,269	361	256	61,866	52,525

13. EMPLOYEE FUTURE BENEFITS

a) 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. Historically, these pension obligations were recognized in the Hospital's financial statements. In 2010, the Foundation assumed responsibility for the portion of the Supplemental Plan related to the current and former employees of the Foundation. The most recent actuarial valuation of the Supplemental Plan was as of March 31, 2011.

As at March 31, 2011, other liabilities include $230,200 (2010 - $90,000) related to this liability, net of the unamortized past service costs and actuarial loss totalling $2.2 million (2010 - $1.5 million). An expense of $0.2 million (2010 - $0.1 million) related to the liability assumed by the Foundation, has been recorded in the statement of operations and changes in fund balances. Contributions to the Supplemental Plan and benefit payments were equal to $118,200 (2010 - $28,000). The discount rate used in measuring the Foundation's liability was 5.50% (2010 – 5.75%) and expense was 5.75% (2010 - 6.00%).

b) The Foundation recorded an expense of $0.5 million (2010 - $0.2 million) in the statement of operations and changes in fund balances in connection with contributions to a defined contribution plan.

14. 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 Research & Learning Tower and will provide, on a best efforts basis, certain grants to the Hospital in respect of The Research & Learning Tower. 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 intends to use a portion of the grants toward the design and construction costs of The Research & Learning Tower 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 Debentures are outstanding.

The Core Funding Agreement, effective April 1, 2009, 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 Research & Learning Tower.

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 for 2012 and multi-year commitments for the National Grants Program are as follows:

2012	$36.2 million
2013	$ 5.0 million
2014	$ 4.3 million
2015	$ 4.0 million

Because the payments due to the Hospital under the aforementioned agreements are contingent on future events, payments beyond 2012 cannot be reasonably estimated and have therefore not been included in the above amounts.

b) The Foundation has standby letters of credit outstanding at March 31, 2011 in the amounts of:
   i) $2.4 million, issued on October 19, 2010 and expiring on May 9, 2011 issued in connection with a lottery that was completed in March, 2011; and
   ii) $2.5 million, issued on February 24, 2011 and expiring on August 22, 2011 issued in connection with a lottery to be completed in July, 2011.

c) As at March 31, 2011, there is a 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.

15. STATEMENT OF CASH FLOWS

A separate statement of cash flows is not presented since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

16. CAPITAL MANAGEMENT

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2011, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

17. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified to conform to the presentation of the 2011 financial statements.