

FINANCIAL STATEMENTS

MARCH 31, 2019

SickKids[®]
FOUNDATION



INDEPENDENT AUDITOR'S REPORT

To the Members of
The Hospital for Sick Children Foundation

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **The Hospital for Sick Children Foundation** [the "Foundation"], which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of operations and changes in fund balances and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2019, 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.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian generally accepted 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.

In preparing the consolidated financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

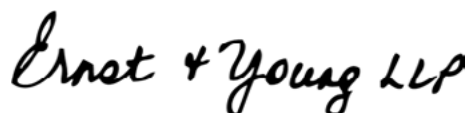
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 13, 2019

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered Professional Accountants
Licensed Public Accountants


CONSOLIDATED BALANCE SHEET

As at March 31
(thousands of dollars)

	2019	2018
	\$	\$
ASSETS		
Cash and cash equivalents	5,231	2,107
Investments, at market (note 3)	1,180,891	1,199,780
Other assets (note 4)	8,068	13,605
Capital assets (note 5)	1,907	2,322
Total assets	1,196,097	1,217,814
LIABILITIES AND FUND BALANCES		
Liabilities		
Deferred revenues (note 6)	1,169	818
Other liabilities (notes 9 and 14)	11,047	28,200
Total liabilities	12,216	29,018
<i>Commitments and contingencies (notes 9 and 15)</i>		
Fund balances		
General Fund	782	497
Restricted Fund	201,443	182,642
Endowment Fund (note 7)	981,656	1,005,657
Total fund balances	1,183,881	1,188,796
Total liabilities and fund balances	1,196,097	1,217,814

See accompanying notes

On behalf of the Board:



Kathleen Taylor
Chair, Board of Directors



Richard Nesbitt
Chair, Audit and Finance Committee

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

As at March 31
(thousands of dollars)

	General Fund		Restricted Fund		Endowment Fund		Total Funds	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Fundraising programs (note 11)	77,996	69,435	70,894	68,184	9,666	8,827	158,556	146,446
Fundraising program costs (notes 12 and 14)	40,791	38,814	2,767	2,673	—	—	43,558	41,487
Net fundraising	37,205	30,621	68,127	65,511	9,666	8,827	114,998	104,959
Lottery (note 13)	7,899	—	—	—	—	—	7,899	—
Lottery costs (note 13)	5,785	—	—	—	—	—	5,785	—
Net lottery	2,114	—	—	—	—	—	2,114	—
Parking (note 9)	35	35	6,894	6,946	—	—	6,929	6,981
Parking costs (note 9)	—	—	5,689	5,612	—	—	5,689	5,612
Net parking	35	35	1,205	1,334	—	—	1,240	1,369
Total net revenue	39,354	30,656	69,332	66,845	9,666	8,827	118,352	106,328
Investment income (notes 3 and 7)	7,126	37,911	112	22,028	30	215	7,268	60,154
Other income (expense)	199	158	—	(14)	—	—	199	144
Net revenue, including investment and other income (expense)	46,679	68,725	69,444	88,859	9,696	9,042	125,819	166,626
Expenses (notes 9, 12 and 14)								
General fundraising and administrative	7,208	6,893	79	89	—	—	7,287	6,982
Excess of revenue over expenses before grants and charitable activity	39,471	61,832	69,365	88,770	9,696	9,042	118,532	159,644
Grants and charitable activity (notes 9, 12 and 14)	46,379	71,357	77,068	70,075	—	—	123,447	141,432
Excess (deficiency) of revenue over expenses for the year	(6,908)	(9,525)	(7,703)	18,695	9,696	9,042	(4,915)	18,212
Fund balances, beginning of year	497	398	182,642	157,186	1,005,657	1,013,000	1,188,796	1,170,584
Interfund transfers (note 8)	7,193	9,624	26,504	6,761	(33,697)	(16,385)	—	—
Fund balances, end of year	782	497	201,443	182,642	981,656	1,005,657	1,183,881	1,188,796

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

As at March 31
(thousands of dollars)

	2019	2018
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(4,915)	18,212
Add item not involving cash		
Amortization of capital assets	1,267	1,328
Changes in non-cash working capital balances related to operations		
Other assets	5,537	1,369
Deferred revenues	351	4
Other liabilities	(17,153)	13,711
Reinvested investment income	(7,268)	(60,154)
Cash used in operating activities	(22,181)	(25,530)
INVESTING ACTIVITIES		
Withdrawals from externally managed investments, net	26,157	22,144
Additions to capital assets	(852)	(1,957)
Cash provided by investing activities	25,305	20,187
Net increase (decrease) in cash and cash equivalents during the year	3,124	(5,343)
Cash and cash equivalents, beginning of year	2,107	7,450
Cash and cash equivalents, end of year	5,231	2,107

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

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. 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 cash and cash equivalents, other assets and other liabilities, 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 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 fundraising and administrative expenses.

3. INVESTMENTS

Investments consist of the following:

	2019		2018	
	(\$000's)	%	(\$000's)	%
Short-term investments	203,542	17	260,746	22
Fixed income				
Corporate – Global	160,640	14	150,746	13
Equities				
Canadian	70,344	6	65,216	5
U.S.	181,650	15	177,216	15
Japanese	19,056	2	19,414	2
European	40,128	3	27,522	2
Global pooled	381,907	32	384,932	32
Other international	124,120	11	113,670	9
Forward foreign exchange Contracts, net	(496)	<1	318	<1
	1,180,891	100	1,199,780	100

As at March 31, 2019, bond holdings have a weighted average term of 4.4 years (2018 – 4.74 years) to maturity and a weighted average yield of 2.59% (2018 – 2.73%).

In order to manage foreign currency exposure, the Foundation has entered into three forward foreign exchange contracts. As at March 31, 2019, these forward foreign exchange contracts with a Canadian chartered bank allow the Foundation to sell US\$170.0 million on June 21, 2019 at an exchange rate of 1.32867 (fair value of (\$0.9) million), to sell ¥3,200 million on June 21, 2019 at an exchange rate of 83.037 (fair value of (\$0.2) million), and to sell €42.0 million on June 21, 2019 at an exchange rate of 1.51962 (fair value of \$0.6 million). The total fair market value of these contracts at March 31, 2019 is a loss of \$0.5 million.

As at March 31, 2018, these forward foreign exchange contracts with a Canadian chartered bank allow the Foundation to sell US\$200.0 million on June 22, 2018 at an exchange rate of 1.28755 (fair value of (\$0.1) million), to sell ¥3,200 million on June 22, 2018 at an exchange rate of 81.69 (fair value of \$0.2 million), and to sell €30.0 million on June 22, 2018 at an exchange rate of 1.5971 (fair value of \$0.2 million). The total fair market value of these contracts at March 31, 2018 is a gain of \$0.3 million.

Fees of \$4.2 (2018 – \$4.7 million) were paid to investment managers and deducted from investment income.

4. OTHER ASSETS

	2019 (\$000's)	2018 (\$000's)
Accounts receivable (note 9(c))	1,848	8,500
Prepaid expenses	1,341	635
Life insurance policies	4,879	4,397
Miscellaneous	—	73
	8,068	13,605

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	
	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)
Tangible						
Computer hardware	3,551	3,321	3,108	2,827	443	494
Furniture and other equipment	1,205	1,170	876	765	329	405
Leasehold improvements	3,930	3,912	3,318	3,245	612	667
Intangible						
Computer software	3,676	3,607	3,153	2,851	523	756
Total capital assets	12,362	12,010	10,455	9,688	1,907	2,322

During 2019, \$0.5 million (2018 – \$0.5 million) of fully amortized assets that are no longer in use were written-off.

6. DEFERRED REVENUES

As at March 31, 2019, \$1.2 million (2018 – \$0.8 million) in revenue has been received for events that are due to occur in fiscal 2020.

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% of the average of the previous three fiscal years' fund balances, of which 1.5% 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 from the Endowment Fund to the Restricted and General Funds, as required.

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) Overall in 2019, investment income was not sufficient to fund the payout. A total of \$5.04 million was earned on investments held for endowed funds. Of this amount, \$5.01 million represents allocation of payout and \$30,000 represents the allocation of the preservation of capital for two endowments that fall outside of the Board approved Fund Unitization and Capital Preservation policy. Of the total payout of \$58.1 million, \$5.01 million was recorded in the General Fund and the remaining administration amount of \$1.7 million was transferred to the General Fund from the Endowment Fund. The payout of \$4.4 million related to Board endowed internally restricted funds, was transferred to the Restricted Fund from the Endowment Fund (*note 8 (i)*). In order to fund the remaining portion of the payout, \$25.4 million was transferred to the General Fund and \$21.6 million to the Restricted fund from the Endowment Fund (*note 8(ii)*).

Overall in 2018, investment income was not sufficient to fund the payout, except for two endowments that fall outside of the Board approved Fund Unitization and Capital Preservation policy. A total of \$51.5 million was earned on investments held for endowed funds. Of this amount, \$51.3 million represents allocation of payout and \$0.2 million represents the allocation of the preservation of capital for the 2 exceptions. Of the total payout of \$59.5 million, \$29.5 million was recorded in the General Fund and \$21.8 million was recorded in the Restricted Fund, representing the \$51.3 million of income earned in the year. The payout of \$4.9 million related to Board endowed internally restricted funds recorded as income in the General and Endowment Funds was transferred to the Restricted Fund (*note 8 (i)*). In order to fund the remaining portion of the payout, \$8.2 million was transferred from the Endowment Fund to the General Fund (*note 8(ii)*).

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

	2019 (\$000's)	2018 (\$000's)
Externally endowed		
Income restricted for specific purposes	373,491	380,186
Income unrestricted	248,005	261,085
Board endowed		
Income externally restricted for specific purposes	86,377	92,001
Income internally restricted for specific purposes	110,237	116,872
Income unrestricted	163,546	155,513
	981,656	1,005,657

8. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	General Fund		Restricted Fund		Endowment Fund	
	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)
i) Payout allocation on Board endowed funds in accordance with Board Policy (note 7(c))	1,716	(4,979)	4,414	4,979	(6,130)	—
ii) Payout not covered by investment income in accordance with Board Policy (note 7(c))	25,377	8,207	21,595	—	(46,972)	(8,207)
iii) Board and donor approved re: fund designations (see below)	(400)	(2,104)	495	1,782	(95)	322
iv) Surplus in General Fund (see below)						
Board Endowed unrestricted	(10,805)	8,500	—	—	10,805	(8,500)
Campaign Endowed Unrestricted	(8,695)	—	—	—	8,695	—
	7,193	9,624	26,504	6,761	(33,697)	(16,385)

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

In 2019, the Board approved net transfers from the General Fund of \$0.4 million and Board endowed internally restricted funds of \$0.09 million to the Restricted and Endowment Fund. In 2018, the Board approved net transfers from the General Fund of \$2.1 million to the Restricted and Endowment Fund.

Transfer of Excess (Deficiency) to (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 2019, \$10.8 million was transferred to the Board endowed unrestricted fund from the General fund and \$8.7 million was transferred to the Campaign Endowed fund from the General fund. In 2018, \$8.5 million in interfund transfers were recorded to the General Fund from 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 \$115.7 million (2018 – \$135.4 million) to the Hospital for various purposes including research, education, capital and debenture financing (note 15) and operating expenses.

- 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 \$60,260 (2018 – \$63,040) related to participation of current and former employees of the Foundation in the supplemental pension plan (*note 14*).
- c) As at March 31, 2019, the Foundation had a balance payable to the Hospital of \$7.5 million (2018 – \$6.5 million). This amount includes \$2.4 million (2018 – \$2.5 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 (2018 – \$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 \$4.4 million (2018 – \$4.4 million) in lease expense to the Hospital and \$1.3 million (2018 – \$1.2 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 \$4.3 million (2018 – \$4.2 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% (2018 – 1.5%) of the value of SKCGF's invested funds, which in 2019 amounted to \$63,760 (2018 – \$63,516).

11. GROSS FUNDRAISING PROGRAMS REVENUE

	General Fund		Restricted Fund		Endowment Fund		Total Fund	
	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)
Events	6,816	5,422	14,768	14,978	377	426	21,961	20,826
Corporate partnerships	19,491	16,668	11,741	9,645	365	262	31,597	26,575
Direct and digital marketing	35,255	33,067	1,861	1,763	121	195	37,237	35,025
Individual giving	16,434	14,278	42,524	41,798	8,803	7,944	67,761	64,020
Gross fundraising revenue	77,996	69,435	70,894	68,184	9,666	8,827	158,556	146,446

Effective April 1, 2016, pursuant to the Foundation Designated Giving Policy, 10% of all new restricted and endowed gifts not exceeding \$2.5 million is allocated to the General Fund. In 2019, \$5.0 million (2018 – \$4.8 million) of fundraising for restricted purposes and \$0.6 million (2018 – \$0.4 million) of fundraising for endowed purposes were allocated to the General Fund.

12. ALLOCATION OF EXPENSES

General support costs of \$19.9 million (2018 – \$18.7 million) have been allocated as follows:

	Direct costs		Allocated costs		Total costs	
	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)	2019 (\$000's)	2018 (\$000's)
Fundraising program costs	23,847	23,008	19,711	18,479	43,558	41,487
Grants and charitable activity	123,207	141,182	240	250	123,447	141,432

13. LOTTERIES

During the year ended 2019, the Foundation held one lottery. During the year ended March 31, 2018, the Foundation did not hold a lottery. Financial results included in the consolidated statement of operations and changes in fund balances are as follows:

	2019 (\$000's)	2018 (\$000's)
Revenue		
Ticket sales	7,767	-
Other	132	-
	<u>7,899</u>	<u>-</u>
Costs		
Prizes	3,389	-
Other direct	2,028	-
Indirect	368	-
	<u>5,785</u>	<u>-</u>
Net lottery proceeds	<u>2,114</u>	<u>-</u>

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, 2019.

As at March 31, 2019, other liabilities include \$2.4 million (2018 – \$2.5 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) The Foundation entered into three funding agreements with the Hospital: the Research Tower Funding Agreement, the Patient Support Centre Funding Agreement and the Core Funding Agreement. The Research Tower Funding Agreement provided for the capital fundraising campaign in respect of the Peter Gilgan Centre for Research and Learning and provided, on a best efforts basis, certain grants to the Hospital in respect of the Peter Gilgan Centre for Research and Learning. The Hospital used a portion of the grants toward the design and construction costs of the Peter Gilgan Centre for Research and Learning and a portion to support the Hospital's interest and principal obligations related to the Series A debentures. Subject to certain provisions for termination, the Research Tower Funding Agreement will remain in effect for as long as any of the Series A debentures are outstanding.

The Patient Support Centre Funding Agreement provides the terms and conditions under which the Foundation will, on a best efforts basis, make grants to the Hospital in respect to the Patient Support Centre. On December 20, 2017, the Foundation granted \$26.5 million (*note 9(a)*), for the purposes of establishing a Debenture Retirement fund, whereby the Hospital will invest such funds for the retirement of the debentures upon maturity. Other grants under this agreement will be used to support the Hospital's interest obligations related to the Series B debentures.

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

Each of the Research Tower Funding Agreement, the Patient Support Centre Agreement and the Core Funding Agreement contains a provision that provides for mandatory renegotiation if the

Board endowed income unrestricted portion of the Endowment Fund (*note 7*) is reduced to \$150.0 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:

2020 -	\$26.6 million
2021 -	\$25.1 million
2022 -	\$20.9 million

- b) The Foundation has standby letters of credit outstanding as at March 31, 2019 of \$0.2 million, \$0.3 million and \$4.0 million, issued on March 15, 2019 and expiring December 16, 2019, November 18, 2019 and November 18, 2019 respectively, in connection with a lottery that will be completed October 3, 2019.

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 consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2019 consolidated financial statements.

B+H is the architect responsible for designing SickKids' new Patient Support Centre. Conceptual only and subject to change.

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.

