

# Financial Statements 2011-2012

**SickKids<sup>®</sup>**  
FOUNDATION



## INDEPENDENT AUDITORS' REPORT

To the Members of

### **The Hospital for Sick Children Foundatlon**

## 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, 2012, 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.

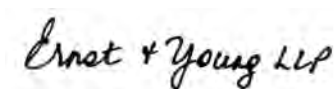
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Hospital for Sick Children Foundation as at March 31, 2012 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.



Chartered Accountants  
Licensed Public Accountants

Toronto, Canada,  
June 12, 2012

**BALANCE SHEET**

as at March 31  
(thousands of dollars)

**2012**

2011

**ASSETS**

Cash and cash equivalents	<b>7,786</b>	7,815
Investments, at market (note 3)	<b>823,274</b>	713,838
Other assets (notes 4 and 9)	<b>10,768</b>	10,127
Capital assets (note 5)	<b>2,259</b>	2,232
<b>Total assets</b>	<b>844,087</b>	734,012

**LIABILITIES AND FUND BALANCES**

**Liabilities**

Deferred revenues (note 6)	<b>255</b>	326
Other liabilities (notes 9 and 14)	<b>20,653</b>	15,237
<b>Total liabilities</b>	<b>20,908</b>	15,563

*Commitments and contingencies (notes 9 and 15)*

**Fund balances**

General Fund	<b>98</b>	428
Restricted Fund	<b>136,364</b>	107,183
Endowment Fund (note 7)	<b>686,717</b>	610,838
<b>Total fund balances</b>	<b>823,179</b>	718,449
<b>Total liabilities and fund balances</b>	<b>844,087</b>	734,012

See accompanying notes

On behalf of the Board:



John Francis

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	
	2012	2011	2012	2011	2012	2011	2012	2011
Fundraising programs (note 11)	44,822	43,330	57,860	52,849	5,275	7,696	107,957	103,875
Fundraising program costs (notes 12 and 14)	25,287	23,760	502	961	-	-	25,789	24,721
Net fundraising	19,535	19,570	57,358	51,888	5,275	7,696	82,168	79,154
Lottery (note 13)	20,786	19,126	7	-	-	-	20,793	19,126
Lottery costs (note 13)	18,134	16,173	-	-	-	-	18,134	16,173
Net lottery	2,652	2,953	7	-	-	-	2,659	2,953
Parking (note 9)	-	-	6,265	-	-	-	6,265	-
Parking costs (note 9)	-	-	5,216	-	-	-	5,216	-
Net parking	-	-	1,049	-	-	-	1,049	-
<b>Total net revenue</b>	<b>22,187</b>	<b>22,523</b>	<b>58,414</b>	<b>51,888</b>	<b>5,275</b>	<b>7,696</b>	<b>85,876</b>	<b>82,107</b>
Investment income (notes 3 and 7)	41,934	24,770	11,965	9,830	30,136	7,076	84,035	41,676
<b>Revenue, including investment income</b>	<b>64,121</b>	<b>47,293</b>	<b>70,379</b>	<b>61,718</b>	<b>35,411</b>	<b>14,772</b>	<b>169,911</b>	<b>123,783</b>
<b>Expenses</b> (notes 9, 12 and 14)								
General fundraising and administrative	3,879	3,647	-	-	-	-	3,879	3,647
<b>Excess of revenue over expenses before grants and charitable activity</b>	<b>60,242</b>	<b>43,646</b>	<b>70,379</b>	<b>61,718</b>	<b>35,411</b>	<b>14,772</b>	<b>166,032</b>	<b>120,136</b>
Grants and charitable activity (notes 9, 12 and 14)	29,226	33,165	32,076	28,701	-	-	61,302	61,866
<b>Excess of revenue over expenses for the year</b>	<b>31,016</b>	<b>10,481</b>	<b>38,303</b>	<b>33,017</b>	<b>35,411</b>	<b>14,772</b>	<b>104,730</b>	<b>58,270</b>
Fund balances, beginning of year	428	304	107,183	75,045	610,838	584,830	718,449	660,179
Interfund transfers (note 8)	(31,346)	(10,357)	(9,122)	(879)	40,468	11,236	-	-
<b>Fund balances, end of year</b>	<b>98</b>	<b>428</b>	<b>136,364</b>	<b>107,183</b>	<b>686,717</b>	<b>610,838</b>	<b>823,179</b>	<b>718,449</b>

See accompanying notes

## NOTES TO FINANCIAL STATEMENTS

March 31, 2012

### 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 Healthy Kids International US and UK, are not included in these financial statements.

#### Future Changes in Accounting Policies

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has 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. The Foundation will adopt the new standards in fiscal 2013.

#### 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 - 5 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 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 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:

	2012		2011	
	Market Value		Market Value	
	(\$000's)	%	(\$000's)	%
Short-term investments	116,259	14	97,484	14
Fixed Income				
Government – Canada	79,267	10	64,846	9
Corporate – Canada	43,051	5	38,083	5
Government – U.S.	202,860	25	152,502	21
Corporate – U.S.	49,343	6	46,024	6
Mortgages – Global	1,063	<1	318	<1
Equities				
Canadian	19,806	2	23,273	3
U.S.	59,046	7	51,583	7
Hedge fund	16,366	2	15,432	2
Japanese	17,080	2	15,495	2
European	22,891	3	22,238	3
Global pooled	170,438	21	156,196	22
Other international	29,102	4	28,456	4
Forward foreign exchange contracts	(3,298)	<(1)	1,908	<1
	<b>823,274</b>	<b>100</b>	<b>713,838</b>	<b>100</b>

Bond holdings have a weighted average term of 15.09 years (2011 – 14.74 years) to maturity and a weighted average yield of 3.97% (2011 – 4.89%) at March 31, 2012.

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\$270 million on June 15, 2012 at an exchange rate of 0.989460, to sell ¥1,000 million on June 15, 2012 at an exchange rate of 83.020000, and to sell €20.5 million on June 15, 2012 at an exchange rate of 1.299200. The fair market value of these contracts at March 31, 2012 is a loss of \$3.3 million (2011 – gain of \$1.9 million).

Fees of \$2.8 million (2011 - \$3.0 million) were paid to investment managers and deducted from investment income.



**4. OTHER ASSETS**

	2012	2011
	(\$000's)	(\$000's)
Accounts receivable (note 9)	2,173	1,660
Prepaid expenses	667	651
Irrevocable Charitable Trust	7,919	7,576
Costs related to		
Future lotteries (note 6)	-	153
Future special events (note 6)	9	87
	<b>10,768</b>	10,127

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 was originally recorded by the Foundation at the present value of the estimated future cash flows. In subsequent years it is recorded at the amortized cost.

**5. CAPITAL ASSETS**

	Amortization Period	Cost		Accumulated Amortization		Net Book Value	
		2012	2011	2012	2011	2012	2011
		(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Hardware and software	3-5 years	2,934	1,393	1,456	1,223	1,478	170
System under development	See below	-	870	-	-	-	870
Leasehold improvements	Term of lease	2,968	2,968	2,272	1,934	696	1,034
Furniture and other equipment	3-5 years	485	473	400	315	85	158
<b>Total capital assets</b>		<b>6,387</b>	5,704	<b>4,128</b>	3,472	<b>2,259</b>	2,232

Amortization expense recorded in the accounts is \$0.6 million (2011 - \$0.5 million). Capital asset purchases were \$0.6 million (2011 - \$1.1 million). In 2011, the Foundation began development of a donor management system. Costs associated with the development were capitalized throughout 2011 and 2012 and began being amortized in 2012 when the system was available for use.

**6. DEFERRED REVENUES**

As at March 31, 2012, \$0.3 million (2011 - \$0.3 million) in revenue has been received for events and lotteries which are due to occur in 2013. 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. The policy establishes a payout 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 2012, investment income of \$72.4 million (2011 – \$36.3 million) was earned on investments held for endowed funds of which \$44.1 million (2011 – \$10.2 million) was allocated for the preservation of capital. Of this amount, \$30.1 million (2011 – \$7.1 million) related to externally endowed funds was recorded as investment income in the Endowment Fund. Capital preservation of \$12.5 million (2011 – \$2.9 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 \$1.5 million (2011 – \$0.2 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(i)*). Of the total payout of \$28.3 million (2011 – \$26.1 million), \$18.3 million (2011 – \$16.1 million) was recorded in the General Fund and \$10.0 million (2011 – \$10.0 million) was recorded in the Restricted Fund. The payout of \$0.6 million (2011 – \$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:

	2012 (\$000's)	2011 (\$000's)
<b>Externally endowed</b>		
Income restricted for specific purposes	235,701	214,203
Income unrestricted	216,058	201,234
<b>Board endowed</b>		
Income externally restricted for specific purposes	23,153	13,609
Income internally restricted for specific purposes	75,147	24,287
Income unrestricted	136,658	157,505
	<b>686,717</b>	<b>610,838</b>

**8. INTERFUND TRANSFERS**

Transfers between funds consist of the following:

	General Fund		Restricted Fund		Endowment Fund	
	2012	2011	2012	2011	2012	2011
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
i) Preservation of Capital re: Board Endowed Funds (note 7(c))	(12,513)	(2,915)	(1,512)	(238)	14,025	3,153
ii) Payout allocation re: Internally Restricted Funds (note 7(c))	(650)	(667)	650	667	-	-
iii) Board and donor approved re: fund designations (see below)	(683)	(775)	(8,260)	(1,308)	8,943	2,083
iv) Surplus in General Fund (see below)	(17,500)	(6,000)	-	-	17,500	6,000
	(31,346)	(10,357)	(9,122)	(879)	40,468	11,236

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

The Board approved net transfers of \$0.7 million from the General Fund and \$8.3 million from the Restricted Fund to the Endowment Fund. In 2011, there were board approved net transfers from the General Fund of \$0.8 million and from the Restricted Fund of \$1.3 million for a total net transfer of \$2.1 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 2012, \$17.5 million (2011 - \$6.0 million) in interfund transfers were recorded from the General Fund to the Board endowed unrestricted fund.

**9. THE HOSPITAL FOR SICK CHILDREN**

- a) The Hospital is a Canadian public hospital and an independent corporation 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 \$59.3 million (2011 - \$57.9 million) to the Hospital for research, education, capital and other projects.
- 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. In addition, the Foundation paid the Hospital a fee of \$0.4 million (2011 - \$0.4 million) in connection with Hospital leased space occupied by the Foundation and the reimbursement to the Hospital of \$85,000 (2011 - \$69,000) related to participation of current and former employees of the Foundation in the supplemental pension plan.
- c) As at March 31, 2012, the Foundation had a balance payable to the Hospital of \$15.3 million (2011 - \$10.4 million) included in other liabilities and a balance receivable from the Hospital of \$0.1 million (2011 - \$0.2 million) included in other assets. 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 ten-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 in 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. Pursuant to the agreement, the Foundation incurred \$4.0 million in lease expense to the Hospital and \$1.2 million in management fees during the year.

#### 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 the 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 of \$0.9 million (2011 - \$0.6 million) 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 invested funds.

#### 11. GROSS FUNDRAISING PROGRAMS REVENUE

	General Fund		Restricted Fund		Endowment Fund		Total Fund	
	2012	2011	2012	2011	2012	2011	2012	2011
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Events	2,897	1,901	13,445	12,678	572	704	16,914	15,283
Corporate partnerships	10,134	8,310	7,642	7,224	1,040	3,011	18,816	18,545
Direct marketing	23,516	23,334	1,526	1,097	56	68	25,098	24,499
Individual giving	8,275	9,785	35,247	31,850	3,607	3,913	47,129	45,548
<b>Gross fundraising revenue</b>	<b>44,822</b>	43,330	<b>57,860</b>	52,849	<b>5,275</b>	7,696	<b>107,957</b>	103,875

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 2012, \$1.8 million of fundraising for restricted purposes and \$0.1 million of fundraising for endowed purposes were allocated to the General Fund.

#### 12. ALLOCATION OF EXPENSES

General support costs of \$10.7 million (2011 - \$9.8 million) have been allocated as follows:

	Direct costs		Allocated costs		Total costs	
	2012	2011	2012	2011	2012	2011
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Fundraising program costs	15,525	15,309	10,264	9,412	25,789	24,721
Grants and charitable activity	60,905	61,505	397	361	61,302	61,866

**13. LOTTERIES**

During each of the years ended March 31, 2012 and 2011, the Foundation held three lotteries. Financial results included in the statement of operations and changes in fund balances are as follows:

	2012 (\$000's)	2011 (\$000's)
<b>Revenue</b>		
Ticket sales	20,601	18,989
Other	192	137
	<b>20,793</b>	19,126
<b>Costs</b>		
Prizes	6,992	6,614
Other direct	8,775	7,223
Indirect	2,367	2,336
	<b>18,134</b>	16,173
Net Lottery Proceeds	<b>2,659</b>	2,953

**14. 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, 2012.

As at March 31, 2012, other liabilities include \$0.4 million (2011 - \$0.2 million) related to this liability, net of the unamortized past service costs and actuarial loss totaling \$2.4 million (2011 - \$2.2 million). An expense of \$0.3 million (2011 - \$0.2 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 \$93,700 (2011 - \$118,200). The discount rate used in measuring the Foundation's liability was 4.40% (2011 - 5.50%) and expense was 5.50% (2011 - 5.75%).

- b) The Foundation recorded an expense of \$0.5 million (2011 - \$0.5 million) in the statement of operations and changes in fund balances in connection with contributions to a defined contribution plan.

**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 SickKids Centre for Research and Learning Agreement and the Core Funding Agreement.

The SickKids Centre for Research and Learning Funding Agreement provides that the Foundation will conduct a capital fundraising campaign in respect of the SickKids Centre for Research and Learning and will provide, on a best efforts basis, certain grants to the Hospital in respect of the SickKids Centre for Research and Learning. In general, the Foundation's grants under the SickKids Centre for Research and Learning 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 SickKids Centre for Research and Learning and a portion to support the Hospital's interest and principal obligations related to the Debentures. Subject to certain provisions for termination, the SickKids Centre for Research and Learning 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 SickKids Centre for Research and Learning.

Each of the SickKids Centre for Research and Learning 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 2013 and multi-year commitments for the National Grants Program are as follows:

2013	\$ 35.0 million
2014	\$ 4.8 million
2015	\$ 4.0 million

Because the payments due to the Hospital under the aforementioned agreements are contingent on future events, payments beyond 2013 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, 2012 of \$3.1 million, issued on November 7, 2011 and expiring on May 11, 2012, issued in connection with a lottery that was completed in March 2012.
- c) As at March 31, 2012, there are claims 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. 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.

## 17. 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, 2012, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

## 18. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified to conform to the presentation of the 2012 financial statements.

For more information about  
SickKids Foundation:

[www.sickkidsfoundation.com](http://www.sickkidsfoundation.com)

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**SickKids**<sup>®</sup>  
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