



FINANCIAL STATEMENTS

MARCH 31, 2018

SickKids[®]
FOUNDATION

INDEPENDENT AUDITORS' REPORT

To the Members of
The Hospital for Sick Children Foundation

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **The Hospital for Sick Children Foundation**, which comprise the consolidated balance sheet as at March 31, 2018, the consolidated statements of operations and changes in fund balances and cash flows for the year then ended, along with a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **The Hospital for Sick Children Foundation** as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on other legal and regulatory requirements

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

Toronto, Canada
June 14, 2018

The signature of Ernst & Young LLP is written in a black, cursive script.

Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEET

As at March 31
(thousands of dollars)

	2018	2017
ASSETS		
Cash and cash equivalents	2,107	7,450
Investments, at market (note 3)	1,199,780	1,161,770
Other assets (notes 4)	13,605	14,974
Capital assets (note 5)	2,322	1,693
Total assets	1,217,814	1,185,887

LIABILITIES AND FUND BALANCES

Liabilities

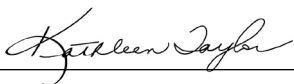
Deferred revenues (note 6)	818	814
Other liabilities (notes 9 and 14)	28,200	14,489
Total liabilities	29,018	15,303

Commitments and contingencies (notes 9 and 15)

FUND BALANCES

General Fund	497	398
Restricted Fund	182,642	157,186
Endowment Fund (note 7)	1,005,657	1,013,000
Total fund balances	1,188,796	1,170,584
Total liabilities and fund balances	1,217,814	1,185,887

On behalf of the Board:



Kathleen Taylor
Chair, Board of Directors



Sonia Baxendale
Chair, Audit and Finance Committee

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

Year ended March 31
(thousands of dollars)

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND		TOTAL FUNDS	
	2018	2017	2018	2017	2018	2017	2018	2017
Fundraising programs (note 11)	69,435	61,889	68,184	61,796	8,827	13,060	146,446	136,745
Fundraising program costs (notes 12 and 14)	38,814	34,708	2,673	2,874	–	–	41,487	37,582
Net fundraising	30,621	27,181	65,511	58,922	8,827	13,060	104,959	99,163
Lottery (note 13)	–	24,025	–	–	–	–	–	24,025
Lottery costs (note 13)	–	21,933	–	–	–	–	–	21,933
Net lottery	–	2,092	–	–	–	–	–	2,092
Parking (note 9)	35	36	6,946	7,138	–	–	6,981	7,174
Parking costs (note 9)	–	–	5,612	5,672	–	–	5,612	5,672
Net parking	35	36	1,334	1,466	–	–	1,369	1,502
Total net revenue	30,656	29,309	66,845	60,388	8,827	13,060	106,328	102,757
Investment income (loss) (notes 3 and 7)	37,911	61,719	22,028	24,044	215	27,829	60,154	113,592
Other income (expense) (note 9)	158	36	(14)	699	–	–	144	735
Net revenue, including investment and other income (expense)	68,725	91,064	88,859	85,131	9,042	40,889	166,626	217,084
Expenses (notes 9, 12 and 14)								
General and administrative	6,893	6,894	89	134	–	–	6,982	7,028
Excess of revenue over expenses before grants and charitable activity	61,832	84,170	88,770	84,997	9,042	40,889	159,644	210,056
Grants and charitable activity (notes 9, 12 and 14)	71,357	37,420	70,075	67,612	–	–	141,432	105,032
Excess (deficiency) of revenue over expenses for the year	(9,525)	46,750	18,695	17,385	9,042	40,889	18,212	105,024
Fund balances, beginning of year	398	297	157,186	139,342	1,013,000	925,921	1,170,584	1,065,560
Interfund transfers (note 8)	9,624	(46,649)	6,761	459	(16,385)	46,190	–	–
Fund balances, end of year	497	398	182,642	157,186	1,005,657	1,013,000	1,188,796	1,170,584

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31
(thousands of dollars)

	2018	2017
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	18,212	105,024
Add item not involving cash		
Amortization of capital assets	1,328	1,486
Changes in non-cash working capital balances related to operations		
Other assets	1,369	(4,370)
Deferred revenues	4	437
Other liabilities	13,711	7,385
Reinvested investment (income)	(60,154)	(113,592)
Cash used in operating activities	(25,530)	(3,630)
INVESTING ACTIVITIES		
Withdrawals from externally managed investments, net	22,144	3,232
Additions to capital assets	(1,957)	(1,839)
Cash provided by investing activities	20,187	1,393
Net decrease in cash and cash equivalents during the year	(5,343)	(2,237)
Cash and cash equivalents, beginning of year	7,450	9,687
Cash and cash equivalents, end of year	2,107	7,450

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

1. PURPOSE OF THE ORGANIZATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

BASIS OF PRESENTATION

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

FUND ACCOUNTING

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

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

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

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL INSTRUMENTS

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

Other financial instruments, 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 consolidated statement of operations and changes in fund balances.

CONTRIBUTED MATERIALS AND SERVICES

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

EMPLOYEE FUTURE BENEFIT PLANS

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

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

ALLOCATION OF EXPENSES

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

3. INVESTMENTS

Investments consist of the following:

	2018	%	2017	%
	(\$000's)		(\$000's)	
Short-term investments	260,746	22	373,119	32
Fixed income				
Government – Canada	32,075	3	86,204	7
Corporate – Canada	87,094	7	54,964	5
Corporate – U.S.	14,821	1	–	–
Corporate – International	1,375	<1	–	–
Foreign – Global	326	<1	–	–
Mutual Fund	15,055	1	–	–
Equities				
Canadian	65,216	5	57,106	5
U.S.	177,216	15	143,323	12
Japanese	19,414	2	16,292	1
European	27,522	2	22,381	2
Global pooled	384,932	32	333,024	29
Other international	113,670	9	76,007	7
Forward foreign exchange contracts, net	318	<1	(650)	<1
	1,199,780	100	1,161,770	100

As at March 31, 2018, bond holdings have a weighted average term of 4.74 years (2017 – 5.28 years) to maturity and a weighted average yield of 2.73% (2017 – 1.9%).

In order to manage foreign currency exposure, the Foundation has entered into three forward foreign exchange contracts. 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.

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

Fees of \$4.7 million (2017 – \$3.0 million) were paid to investment managers and deducted from investment income.

4. OTHER ASSETS

	2018	2017
	(\$000's)	(\$000's)
Accounts receivable (note 9(c))	8,500	6,844
Prepaid expenses	635	587
Life insurance policies	4,397	7,464
Miscellaneous	73	79
	13,605	14,974

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	
	2018 (\$000's)	2017 (\$000's)	2018 (\$000's)	2017 (\$000's)	2018 (\$000's)	2017 (\$000's)
Tangible						
Computer hardware	3,321	2,999	2,827	2,535	494	464
Furniture and other equipment	1,170	843	765	701	405	142
Leasehold improvements	3,912	3,230	3,245	3,188	667	42
Intangible						
Computer software	3,607	3,481	2,851	2,436	756	1,045
Total capital assets	12,010	10,553	9,688	8,860	2,322	1,693

During 2018, fully amortized assets of \$0.5 million (2017 - \$0.5 million) were written-off.

6. DEFERRED REVENUES

As at March 31, 2018, \$0.8 million (2017 – \$0.8 million) in revenue has been received for events that are due to occur in fiscal 2019.

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 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, \$51.3M represents allocation of payout and \$0.2M represents the allocation of the preservation of capital for the 2 exceptions. Of the total payout of \$59.5M, \$29.5 million was recorded in the General Fund and \$21.8 million was recorded in the Restricted Fund, representing the \$51.3M 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 (iii)). In order to fund the remaining portion of the payout, \$8.2M was transferred from the Endowment Fund to the General Fund (note 8(iii)).

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

d) The Endowment Fund consists of the following accumulated balances:	2018	2017
	(\$000's)	(\$000's)
Externally endowed		
Income restricted for specific purposes	380,186	375,335
Income unrestricted	261,085	262,597
Board endowed		
Income externally restricted for specific purposes	92,001	93,492
Income internally restricted for specific purposes	116,872	116,337
Income unrestricted	155,513	165,239
	1,005,657	1,013,000

8. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND	
	2018	2017	2018	2017	2018	2017
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
i) Preservation of capital re: Board Endowed Funds (note 7(c))	–	(10,357)	–	(4,077)	–	14,434
ii) Payout allocation in accordance with Board Policy (note 7(c))	(4,979)	(4,080)	4,979	4,080	–	–
iii) Payout not covered by investment income in accordance with Board Policy (note 7(c))	8,207	–	–	–	(8,207)	–
iv) Board and donor approved re: fund designations (see below)	(2,104)	(17,712)	1,782	456	322	17,256
v) Surplus in General Fund (see below)	8,500	(14,500)	–	–	8,500	14,500
	9,624	(46,649)	6,761	459	(16,385)	46,190

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

In 2018, the Board approved net transfers from the General Fund of \$2.1M to the Restricted and Endowment Fund. In 2017, the Board approved net transfers from the General Fund of \$17.7 million to the Restricted and Endowment Fund.

TRANSFER OF EXCESS (DEFICIENCY) TO/(FROM) THE GENERAL FUND (V)

It is generally the practice of the Board to maintain a small surplus in the General Fund by transferring any excess to the Board endowed unrestricted fund or by covering any deficits in the General Fund with a transfer from the Board endowed unrestricted fund. In 2018, \$8.5 million in interfund transfers were recorded to the General Fund from the Board endowed unrestricted fund. In 2017, \$14.5 million in interfund transfers were recorded from the General Fund to the Board endowed unrestricted fund.

9. THE HOSPITAL FOR SICK CHILDREN

- a) The Hospital is a Canadian public hospital and an independent corporation that has its own Board of Trustees. The Foundation is responsible for all fundraising activities carried out on behalf of the Hospital. During the year, the Foundation granted \$135.4 million (2017 – \$98.4 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 \$63,040 (2017 – \$80,462) related to participation of current and former employees of the Foundation in the supplemental pension plan (note 14).
- c) As at March 31, 2018, the Foundation had a balance payable to the Hospital of \$6.5 million (2017 – \$4.3 million). This amount includes \$2.5 million (2017 – \$2.4 million) related to the accrued benefits obligation and is included in other liabilities (note 14). In addition, there is a balance receivable from the Hospital of \$0.7 million (2017 – \$3.0 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 (2017 – \$4.4 million) in lease expense to the Hospital and \$1.2 million (2017 – \$1.3 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 \$4.2 million (2017 – \$4.3 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% (2017 – 1.5%) of the value of SKCGF's invested funds, which in 2018 amounted to \$63,516 (2017 – \$58,448).

11. GROSS FUNDRAISING PROGRAMS REVENUE

	GENERAL FUND		RESTRICTED FUND		ENDOWMENT FUND		TOTAL FUND	
	2018 (\$000's)	2017 (\$000's)	2018 (\$000's)	2017 (\$000's)	2018 (\$000's)	2017 (\$000's)	2018 (\$000's)	2017 (\$000's)
Events	5,422	4,457	14,978	13,637	426	290	20,826	18,384
Corporate partnerships	16,668	16,069	9,645	10,497	262	949	26,575	27,515
Direct and digital marketing	33,067	30,426	1,763	1,634	195	48	35,025	32,108
Individual giving	14,278	10,937	41,798	36,028	7,944	11,773	64,020	58,738
Gross fundraising revenue	69,435	61,889	68,184	61,796	8,827	13,060	146,446	136,745

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 2018, \$4.8 million (2017 – \$3.9 million) of fundraising for restricted purposes and \$0.4 million (2017 – \$0.5 million) of fundraising for endowed purposes were allocated to the General Fund.

12. ALLOCATION OF EXPENSES

General support costs of \$18.7 million (2017 – \$15.3 million) have been allocated as follows:

	DIRECT COSTS		ALLOCATED COSTS		TOTAL COSTS	
	2018 (\$000's)	2017 (\$000's)	2018 (\$000's)	2017 (\$000's)	2018 (\$000's)	2017 (\$000's)
Fundraising program costs	23,008	22,494	18,479	15,088	41,487	37,582
Grants and charitable activity	141,182	104,789	250	243	141,432	105,032

13. LOTTERIES

During the year ended March 31, 2018, the Foundation did not hold a lottery. During the year ended 2017, the Foundation held two lotteries. Financial results included in the consolidated statement of operations and changes in fund balances are as follows:

	2018 (\$000's)	2017 (\$000's)
Revenue		
Ticket sales	–	23,675
Other	–	350
	–	24,025
Costs		
Prizes	–	8,513
Other direct	–	13,001
Indirect	–	419
	–	21,933
Net lottery proceeds	–	2,092

14. EMPLOYEE FUTURE BENEFITS

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

As at March 31, 2018, other liabilities include \$2.5 million (2017 – \$2.4 million) representing the amount payable to the Hospital in connection with the accrued benefit obligation related to the benefits to be provided to Foundation employees who participated in the Supplemental Plan (*note 9(c)*).

15. COMMITMENTS AND CONTINGENCIES

- a) 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 of 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:

- 2019 – \$69.9 million
- 2020 – \$25.1 million
- 2021 – \$25.1 million

- b) The Foundation has standby letters of credit outstanding as at March 31, 2018 of \$0.2M, \$0.3M and \$4.3M, issued on March 29, 2018 and expiring January 14, 2019, December 14, 2018 and December 14, 2018 respectively, in connection with a lottery that will be completed October 2018.

16. FINANCIAL INSTRUMENTS

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

CURRENCY RISK

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

CREDIT RISK

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

INTEREST RATE RISK

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

OTHER PRICE RISK

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

17. COMPARATIVE FINANCIAL STATEMENTS

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



ABOUT SICKKIDS

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