



Believe

SickKids Foundation
Healthier Children. A Better World.™

Financial Statements
2007-08



Management's Responsibility for Financial Reporting

The accompanying financial statements of **The Hospital for Sick Children Foundation** are the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Foundation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, accurate and complete, in all material respects, and that the Foundation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, whose members are appointed by the Board.

The Audit Committee meets with management and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the members in the annual report.



John Francis
Chair, Audit & Finance Committee
May 14, 2008



Gary J Funderlich
Vice President

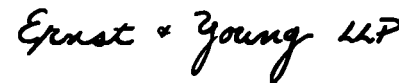
Auditors' Report

To the Members of The Hospital for Sick Children Foundation

We have audited the balance sheet of **The Hospital for Sick Children Foundation** as at March 31, 2008 and the statement of operations and changes in fund balances for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



Chartered Accountants
Licensed Public Accountants
Toronto, Canada,
May 14, 2008

Balance Sheet

as at March 31

(thousands of dollars)

	2008	2007
ASSETS		
Cash and cash equivalents	5,501	3,960
Investments, at market (notes 3 and 4(c))	553,316	549,205
Deferred expenses	1,248	950
Other assets	3,164	3,920
Total assets	563,229	558,035
LIABILITIES AND FUND BALANCES		
Deferred revenues	152	255
Other liabilities (note 6)	11,410	2,858
Total liabilities	11,562	3,113
FUND BALANCES		
General Fund	232	508
Restricted Fund	60,950	52,404
Endowment Fund (note 4)	490,485	502,010
Total fund balances	551,667	554,922
Total liabilities and fund balances	563,229	558,035

See accompanying notes

On behalf of the Board



John Francis
Chair, Audit and Finance Committee



Reza Satchu
Member, Audit and Finance Committee

Statement of Operations and Changes in Fund Balances

year ended March 31

(thousands of dollars)	General Fund		Restricted Fund		Endowment Fund		Total Fund	
	2008	2007	2008	2007	2008	2007	2008	2007
REVENUES								
Investment Income (loss) (notes 3 and 4)	(564)	24,863	(19)	8,480	(860)	14,284	(1,443)	47,627
Fundraising, net (note 9)	48,455	41,241	33,418	27,236	16,277	12,972	98,150	81,449
Total revenues	47,891	66,104	33,399	35,716	15,417	27,256	96,707	129,076
GRANTS AND CHARITABLE ACTIVITIES								
The Hospital for Sick Children (note 6)	34,295	45,540	29,470	26,590	—	—	63,765	72,130
National Grants Program	2,938	3,920	203	203	—	—	3,141	4,123
HealthyKids International (note 8)	22	—	310	81	—	—	332	81
Total grants	37,255	49,460	29,983	26,874	—	—	67,238	76,334
Net, revenues over grants	10,636	16,644	3,416	8,842	15,417	27,256	29,469	52,742
OPERATING EXPENSES (notes 6 and 9)								
	31,695	27,728	1,029	228	—	—	32,724	27,956
Excess (deficiency) of revenues over expenses and grants	(21,059)	(11,084)	2,387	8,614	15,417	27,256	(3,255)	24,786
Fund balances at beginning of the year	508	524	52,404	45,343	502,010	484,269	554,922	530,136
Interfund transfers (note 5)	20,783	11,068	6,159	(1,553)	(26,942)	(9,515)	—	—
Fund Balances at End of the Year	232	508	60,950	52,404	490,485	502,010	551,667	554,922

See accompanying notes

Notes to Financial Statements

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 (the “Act”) and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a public foundation registered under the Act, the Foundation must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation reflect the assets, liabilities and activities of the Foundation, and the following corporations without share capital, controlled by the Foundation, SickKids Charitable Giving Fund (note 7) and HealthyKids International (note 8). All significant intercompany transactions have been eliminated.

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.

Change in Accounting Policies

Effective April 1, 2007, the Foundation adopted the recommendations of CICA 3855: Financial Instruments – Recognition and Measurement and CICA 3861: Financial Instruments – Disclosure and Presentation. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As required by CICA 3855, and consistent with the accounting policy for investments and derivative financial instruments used to prepare the prior year’s financial statements, investments and derivative financial instruments continue to be presented at fair value. As permitted by CICA 3855, the Foundation’s financial assets and liabilities continue to be presented at amortized cost which approximates fair value.

The adoption of CICA 3855 and 3861 did not have an impact on the financial statements in the prior or current year.

Notes to Financial Statements

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.

Investments and Investment Income

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 as revenue in the statement of operations and changes in fund balances.

Financial Instruments

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.

Revenue Recognition

Unrestricted contributions are recognized as revenue of the General Fund in the year received. Donor restricted contributions for specific purposes are recognized as revenue of the Restricted Fund unless the capital is to be maintained permanently, in which case the contributions are recognized as revenue of the Endowment Fund.

Investment income earned on Endowment Fund resources that must be spent on donor restricted activities is recognized as revenue of the Restricted Fund. Investment income subject to donor restrictions stipulating that it be added to the principal amount of the endowment is recognized as revenue of the Endowment Fund. Unrestricted investment income is recognized as revenue of the General Fund.

Lottery revenue and revenue from other events are recognized in the fiscal year in which the program is concluded. Revenue and expenses related to lotteries for which prize draws take place and events that take place subsequent to the year end are deferred.

Notes to Financial Statements

Grant Recognition

Grants are recognized when payable.

Foreign Exchange Translation

Monetary assets, liabilities, revenue and expense items denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing on the following dates:

- Monetary assets and liabilities at balance sheet date
- Revenue and expenses at transaction date

Contributed Materials and Services

Volunteers contribute a substantial number of hours each year to assist the Foundation in carrying out its fundraising activities. Because of the difficulty in determining their fair value, contributed materials and services are not recognized in the financial statements except for contributions of capital assets that are for the use of the Hospital.

Employee Future Benefit Plans

The Foundation participates in defined benefit pension plans sponsored by the Hospital. Contributions to these plans are expensed when due.

Future Changes in Accounting Policies

The CICA has issued two new standards, CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

The CICA has also issued a new accounting standard, CICA 1535: Capital Disclosures, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

These changes in accounting policies, which will be adopted effective April 1, 2008 will only require additional disclosures in the financial statements.

Notes to Financial Statements

3. INVESTMENTS

Investments consist of the following:

	2008		2007	
	(\$000s)	Market Value %	(\$000s)	Market Value %
Short-term investments	34,620	6%	42,426	8%
Canadian bonds				
Government	310,100	56%	193,773	35%
Corporate	4,686	1%	3,727	1%
Equities				
Canadian	30,964	6%	52,442	9%
U.S.	16,632	3%	39,443	7%
Hedge fund	28,209	5%	30,381	6%
Japanese	28,343	5%	45,552	8%
European	28,292	5%	57,813	11%
Global pooled	48,062	9%	51,163	9%
Other international	24,194	4%	31,697	6%
Forward foreign exchange contracts	(786)	—	788	—
	553,316	100%	549,205	100%

Bond holdings have a weighted average term of 7.96 years (2007 – 9.34 years) to maturity and a weighted average yield of 4.21% (2007 – 4.05%) at March 31, 2008.

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 \$35 million U.S. on June 30, 2008 at an exchange rate of 1.0203, to sell 2,800 million Japanese Yen on June 30, 2008 at an exchange rate of 97.375, and to sell 18 million Euros on June 30, 2008 at an exchange rate of 1.6026. The fair market value of these contracts at March 31, 2008 is a loss of \$786,000 (2007 – a gain of \$788,000).

Fees of \$2.6 million (2007 - \$2.8 million) were paid to investment managers and deducted from investment income.

Notes to Financial Statements

4. 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 Preservation of Capital and Payout 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 rate that is currently 4.5% of the monthly market values of the fund during the year.

The preservation of capital (i.e., any excess investment revenue 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. In any year, should net investment income not be sufficient to fund the payout calculated in accordance with the Foundation's policy, endowment capital is transferred to the Restricted Fund and General Fund. This amount is expected to be recovered by future net investment income.

- c) In 2008, there was an investment loss of \$1.4 million. The loss on externally endowed funds of \$0.9 million was recorded as a reduction of the Endowment Fund. The balance of the loss was recorded as a \$19K deduction in the Restricted Fund and the \$234K deduction in the General Fund. Transfers were recorded from the Endowment Fund to these two funds to offset these deductions. An amount of \$22.3 million was transferred from the Endowment Fund to the General Fund and Restricted Fund (note 5(ii)) to make funds available for spending in accordance with the Foundation's Preservation of Capital and Payout Policy.

Notes to Financial Statements

In 2007, investment income of \$22.2 million was allocated for the preservation of capital. Of this amount, \$14.3 million related to externally endowed funds was recorded as investment income in the Endowment Fund. Capital preservation of \$7.0 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 5(i)). Capital preservation of \$0.5 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 5(i)). The payout of \$0.9 million related to Board endowed, internally restricted funds was recorded as income in the General Fund and then transferred to the Restricted Fund (note 5(ii)).

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

	2008 (\$000s)	2007 (\$000s)
Externally endowed		
Income restricted for specific purposes	161,307	155,812
Income unrestricted	171,284	174,332
Board endowed		
Income externally restricted for specific purposes	12,140	12,545
Income internally restricted for specific purposes	23,461	22,668
Income unrestricted	122,293	136,653
	490,485	502,010

Notes to Financial Statements

5. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	General Fund		Restricted Fund		Endowment Fund	
	2008	2007	2008	2007	2008	2007
	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)
i) Allocation re: Investment loss (note 4(c))	234	(6,965)	19	(547)	(253)	7,513
ii) Payout allocation in accordance with Board Policy (note 4(c))	13,621	(925)	8,699	925	(22,320)	—
iii) Board and donor approved re: fund designations (see below)	778	(672)	(2,559)	(1,931)	1,781	2,602
iv) Fund deficit in General Fund (see below)	6,150	19,630	—	—	(6,150)	(19,630)
	20,783	11,068	6,159	(1,553)	(26,942)	(9,515)

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

The Board approved net transfers of \$0.8 million to the General Fund and \$1.8 million to the Endowment Fund for a total amount transferred from the Restricted Fund of \$2.6 million in 2008 (2007 - net transfers of \$2.6 million to the Endowment Fund) relating to the application of restricted funds to research support and to matching endowed funds as well as changes in the designation of funds as directed by donors or the Board.

Interfund Transfer to Fund Deficit in 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 unrestricted fund or by covering any deficits in the General Fund with a transfer from the Board endowed unrestricted fund. In 2008, \$6.2 million in interfund transfers (2007 - \$19.6 million) from the Board endowed unrestricted fund to the General Fund were required.

Notes to Financial Statements

6. OTHER LIABILITIES

The Hospital for Sick Children

The Hospital is a Canadian public hospital and an independent corporation which has its own Board of Trustees. The Foundation is responsible for all fundraising activities carried out on behalf of the Hospital. During the year, the Foundation granted \$63.3 million (2007 - \$72.1 million) to the Hospital for research, education, capital and other projects.

The Hospital provides certain services to the Foundation and pays certain expenses on behalf of the Foundation. The Foundation reimburses the Hospital for all direct costs associated with services provided and expenses paid. In addition, the Foundation pays the Hospital a fee of \$713,000 (2007 - \$540,000) in connection with the licensing of office space and the reimbursement to the Hospital of \$67,000 (2007 - \$66,000) related to participation of current and former employees of the Foundation in the supplemental pension plan. As at March 31, 2008, the Foundation has a balance payable to the Hospital of \$481,000 (2007 - \$86,000) included in other liabilities.

Loan

Included in other liabilities is an interest free loan of \$7 million repayable on July 1, 2010.

7. SICKKIDS CHARITABLE GIVING FUND

SickKids Charitable Giving Fund ("SKCGF"), incorporated under the laws of Canada in 2005 as a corporation without share capital, is controlled by the Foundation. SKCGF is a public foundation registered under the Act and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

SKCGF receives, accumulates and distributes funds and/or the income therefrom for the benefit of SickKids Foundation and other registered Canadian charities.

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

8. HEALTHYKIDS INTERNATIONAL

HealthyKids International ("HKI"), incorporated under the laws of Canada in 2007 as a corporation without share capital, is controlled by the Foundation. HKI is a not-for-profit organization pending charitable status.

HKI will receive, accumulate and distribute funds and/or income therefrom for the benefit of The Hospital for Sick Children and other registered charities.

The Foundation is responsible for fundraising and investment management activities carried out on behalf of HKI. The Foundation also pays all expenses on behalf of HKI.

Notes to Financial Statements

9. FUNDRAISING

For the year ended March 31, 2008, \$11.8 million (2007 – \$17.8 million) in fundraising expenses, primarily related to lotteries conducted during the year, have been netted against fundraising revenues.

10. COMMITMENTS AND CONTINGENCY

a) The Foundation has grant commitments to the Hospital and multi-year commitments for the National Grants Program as follows:

2009	\$26.2 million
2010	\$1.5 million
2011	\$1.3 million

b) The Foundation has a standby letter of credit of \$4.4 million as at March 31, 2008 that expired on April 16, 2008 issued in connection with a lottery that was completed in March 2008. The Foundation also has an additional standby letter of credit of \$5.1 million issued on March 17, 2008 and expiring on September 15, 2008 for the current lottery that will be completed in August 2008.

c) The Board has approved an advance of \$20 million to the Hospital for the pre-construction costs of the SickKids Redevelopment Project until such time as permanent financing arrangements are in place. As at March 31, 2008, no amount has been advanced to the Hospital.

d) Certain employees of the Foundation participate in The Hospital for Sick Children Supplemental Employee Retirement Plan (the “Supplemental Plan”), which is an unfunded pension arrangement. Historically, these pension obligations have been recognized in the Hospital’s financial statements. In the future, the Foundation may assume responsibility for the portion of the Supplemental Plan related to the current and former employees of the Foundation. If a decision is made to transfer these obligations to the Foundation, they will be recognized in the financial statements at that time. The liability as at April 1, 2007 was estimated to be approximately \$2.0 million.

11. 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.



hope

In a perfect world, every child would be healthy.

SickKids®

FOUNDATION

525 University Avenue
Toronto, ON, Canada M5G 2L3

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