

SICKKIDS FOUNDATION

FINANCIAL

STATEMENTS

MARCH 31, 2020

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, 2020, and the consolidated statements of operations and changes in fund balances and 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as at March 31, 2020, and its consolidated results of operations and its consolidated 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 consolidated 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.

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 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 consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Foundation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 23, 2020


Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEET

As at March 31
(thousands of dollars)

	2020	2019
	\$	\$
ASSETS		
Cash and cash equivalents	11,101	5,231
Investments, at market (note 3)	1,015,672	1,180,891
Other assets (note 4)	12,634	8,068
Capital assets (note 5)	1,884	1,907
Total assets	1,041,291	1,196,097
LIABILITIES AND FUND BALANCES		
Liabilities		
Deferred revenue (note 6)	727	1,169
Other liabilities (notes 9 and 14)	20,161	11,047
Total liabilities	20,888	12,216
<i>Commitments and contingencies (notes 9 and 15)</i>		
Fund balances		
General Fund	558	782
Restricted Fund	213,043	201,443
Endowment Fund (note 7)	806,802	981,656
Total fund balances	1,020,403	1,183,881
Total liabilities and fund balances	1,041,291	1,196,097

See accompanying notes

On behalf of the Board:



Kathleen Taylor
Chair, Board of Directors



Derek Neldner
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	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Fundraising programs (note 11)	100,477	77,996	81,234	70,894	9,187	9,666	190,898	158,556
Fundraising program costs (notes 12 and 14)	43,957	40,791	3,107	2,767	—	—	47,064	43,558
Net fundraising	56,520	37,205	78,127	68,127	9,187	9,666	143,834	114,998
Lottery (note 13)	16,034	7,899	—	—	—	—	16,034	7,899
Lottery costs (note 13)	12,278	5,785	—	—	—	—	12,278	5,785
Net lottery	3,756	2,114	—	—	—	—	3,756	2,114
Parking (note 9)	34	35	6,747	6,894	—	—	6,781	6,929
Parking costs (note 9)	—	—	5,621	5,689	—	—	5,621	5,689
Net parking	34	35	1,126	1,205	—	—	1,160	1,240
Total net revenue	60,310	39,354	79,253	69,332	9,187	9,666	148,750	118,352
Investment income (loss) (notes 3 and 7)	(79,884)	7,126	—	112	(80,716)	30	(160,600)	7,268
Other income	483	199	—	—	—	—	483	199
Net revenue (loss), including investment income (loss) and other income	(19,091)	46,679	79,253	69,444	(71,529)	9,696	(11,367)	125,819
Expenses (notes 9, 12 and 14)								
General fundraising and administrative	7,073	7,208	116	79	—	—	7,189	7,287
Excess (deficiency) of revenue over expenses before grants and charitable activity	(26,164)	39,471	79,137	69,365	(71,529)	9,696	(18,556)	118,532
Grants and charitable activity (notes 9, 12 and 14)	53,852	46,379	91,041	77,068	29	—	144,922	123,447
Excess (deficiency) of revenue over expenses for the year	(80,016)	(6,908)	(11,904)	(7,703)	(71,558)	9,696	(163,478)	(4,915)
Fund balances, beginning of year	782	497	201,443	182,642	981,656	1,005,657	1,183,881	1,188,796
Interfund transfers (note 8)	79,792	7,193	23,504	26,504	(103,296)	(33,697)	—	—
Fund balances, end of year	558	782	213,043	201,443	806,802	981,656	1,020,403	1,183,881

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31
(thousands of dollars)

	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Deficiency of revenue over expenses for the year	(163,478)	(4,915)
Add item not involving cash		
Amortization of capital assets	1,241	1,267
Changes in non-cash working capital balances related to operations		
Other assets	(4,566)	5,537
Deferred revenue	(442)	351
Other liabilities	9,114	(17,153)
Reinvested investment (income) loss	160,600	(7,268)
Cash provided by (used in) operating activities	2,469	(22,181)
INVESTING ACTIVITIES		
Withdrawals from externally managed investments, net	4,619	26,157
Additions to capital assets	(1,218)	(852)
Cash provided by investing activities	3,401	25,305
Net increase in cash and cash equivalents during the year	5,870	3,124
Cash and cash equivalents, beginning of year	5,231	2,107
Cash and cash equivalents, end of year	11,101	5,231

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020

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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Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the Foundation's ability to provide goods and services. Any impairment results in a write-down of the asset and an expense in the consolidated statement of operations and changes in fund balances. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

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 consolidated 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 as at the consolidated 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 fundraising and administrative expenses.

New Accounting Standards

During the year, the Foundation adopted the new accounting standards *Section 4433, Tangible Capital Assets*, and *Section 4434, Intangible Capital Assets* as of January 1, 2019. *Section 4433, Tangible Capital Assets* replaces the previous *Section 4431* and provides additional guidance on contributed assets and the write-down (partial impairment) of assets. *Section 4434, Intangible Capital Assets* replaces the previous *Section 4432* and provides additional guidance on contributed assets and the write-down (partial impairment) of assets. The changes did not have any impact on these consolidated financial statements.

3. INVESTMENTS

Investments consist of the following:

	2020		2019	
	(\$000's)	%	(\$000's)	%
Short-term investments	153,615	15	203,542	17
Fixed income				
Corporate – Global	163,524	16	160,640	14
Equities				
Canadian	59,336	6	70,344	6
U.S.	132,908	13	181,650	15
Japanese	18,654	2	19,056	2
European	30,227	3	40,128	3
Global pooled	357,649	35	381,907	32
Other international	96,898	10	124,120	11
Forward foreign exchange				
Contracts, net	2,861	<1	(496)	<1
	1,015,672	100	1,180,891	100

As at March 31, 2020, bond holdings have a weighted average term of 4.6 years (2019 – 4.4 years) to maturity and a weighted average yield of 3.06% (2019 – 2.59%).

In order to manage foreign currency exposure, the Foundation has entered into three forward foreign exchange contracts. As at March 31, 2020, these forward foreign exchange contracts with a Canadian chartered bank allow the Foundation to sell US\$160.0 million on June 19, 2020 at an exchange rate of 1.41953 (fair value of \$2.1 million), to sell ¥2,200 million on June 19, 2020 at an exchange rate of 75.305 (fair value of \$0.4 million), and to sell €35.0 million on June 19, 2020 at an exchange rate of 1.56563 (fair value of \$0.4 million). The total fair market value of these contracts as at March 31, 2020 is a gain of \$2.9 million.

As at March 31, 2019, these forward foreign exchange contracts with a Canadian chartered bank allowed 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 as at March 31, 2019 was a loss of \$0.5 million.

Fees of \$4.5 million (2019 – \$4.2 million) were paid to investment managers and deducted from investment income (loss).

4. OTHER ASSETS

	2020 (\$000's)	2019 (\$000's)
Accounts receivable (note 9(c))	5,599	1,848
Prepaid expenses	676	1,341
Life insurance policies	6,359	4,879
	12,634	8,068

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	
	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)
Tangible						
Computer hardware	4,012	3,551	3,388	3,108	624	443
Furniture and other equipment	1,462	1,205	1,029	876	433	329
Leasehold improvements	3,930	3,930	3,393	3,318	537	612
Intangible						
Computer software	3,676	3,676	3,386	3,153	290	523
Total capital assets	13,080	12,362	11,196	10,455	1,884	1,907

During 2020, \$0.5 million (2019 – \$0.5 million) of fully amortized assets that are no longer in use were written-off.

6. DEFERRED REVENUE

As at March 31, 2020, \$0.7 million (2019 – \$1.2 million) in revenue has been received for events that are due to occur in fiscal 2021.

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% multiplied by the average of the current and two previous fiscal years' unit values multiplied by the number of units in the Endowment Fund, of which 1.5% is credited to the General Fund for administration.

In any year, should net investment income (loss) 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 (loss) 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 and transferred to the Endowment Fund in the consolidated statement of operations and changes in fund balances.

- c) Overall in 2020, \$180.5 million was recorded as a reduction to the Endowment Fund. Of this amount, \$55.5 million represents an allocation for payout and \$125 million represents investment loss incurred on investments held for endowed funds. Of the amount of \$125 million, \$80.7 million related to externally endowed funds was recorded as an investment loss in the Endowment Fund, \$44.3 million related to Board endowed funds where the loss is unrestricted or internally restricted was recorded as a loss in the General Fund. An amount of \$44.3 million was transferred from the Endowment Fund to the General Fund to cover this loss (*note 8(i)*). Of the total allocation of payout of \$55.5 million, \$4.7 million related to Board endowed internally restricted funds, was transferred to the Restricted Fund from the Endowment Fund (*note 8(ii)*). The payout of \$50.8 million was transferred from the Endowment Fund. Of this amount, \$31.5 million was transferred to the General Fund and \$19.2 million was transferred to the Restricted Fund (*note 8(iii)*).

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 (*note 8(ii)*). 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(ii)*). 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(iii)*).

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

	2020 (\$000's)	2019 (\$000's)
Externally endowed		
Income restricted for specific purposes	318,346	373,491
Income unrestricted	203,173	248,005
Board endowed		
Income externally restricted for specific purposes	70,746	86,377
Income internally restricted for specific purposes	82,535	110,237
Income unrestricted	132,002	163,546
	806,802	981,656

8. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	General Fund		Restricted Fund		Endowment Fund	
	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)
i) Loss allocation on Board endowed funds in accordance with Board Policy (note 7(c))	44,314	—	—	—	(44,314)	—
ii) Payout allocation on Board endowed funds in accordance with Board Policy (note 7(c))	—	1,716	4,721	4,414	(4,721)	(6,130)
iii) Payout not covered by investment income (loss) in accordance with Board Policy (note 7(c))	31,511	25,377	19,240	21,595	(50,751)	(46,972)
iv) Board and donor approved re: fund designations (see below)	2,467	(400)	(457)	495	(2,010)	(95)
v) Surplus in General Fund (see below) Board endowed unrestricted	14,000	(10,805)	—	—	(14,000)	10,805
Campaign endowed unrestricted	(12,500)	(8,695)	—	—	12,500	8,695
	79,792	7,193	23,504	26,504	(103,296)	(33,697)

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

In 2020, the Board approved net transfers to the General Fund of \$2.5 million made up of Endowed funds of \$2.0 million and Restricted funds of \$0.5 million.

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.

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 2020, \$14.0 million was transferred from Board endowed unrestricted fund to the General Fund and \$12.5 million was transferred to the Campaign endowed unrestricted fund from the General 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 unrestricted fund from the General 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 \$134.8 million (2019 – \$115.7 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 \$95,466 (2019 – \$60,260) related to participation of current and former employees of the Foundation in the supplemental pension plan (*note 14*).
- c) As at March 31, 2020, the Foundation had a balance payable to the Hospital of \$8.6 million (2019 – \$7.5 million). This amount includes \$2.4 million (2019 – \$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 \$2.8 million (2019 – \$1.3 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 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 (2019 – \$4.4 million) in lease expense to the Hospital and \$1.2 million (2019 – \$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 the 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 \$3.6 million (2019 – \$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% (2019 – 1.5%) of the value of SKCGF's invested funds, which in 2020 amounted to \$63,058 (2019 – \$63,760).

11. GROSS FUNDRAISING PROGRAMS REVENUE

	General Fund		Restricted Fund		Endowment Fund		Total Fund	
	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)
Events	6,153	6,816	16,522	14,768	313	377	22,988	21,961
Corporate partnerships	18,844	19,491	13,148	11,741	2,508	365	34,500	31,597
Direct and digital marketing	37,983	35,255	1,730	1,861	146	121	39,859	37,237
Individual giving	37,497	16,434	49,834	42,524	6,220	8,803	93,551	67,761
Gross fundraising revenue	100,477	77,996	81,234	70,894	9,187	9,666	190,898	158,556

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 2020, \$5.6 million (2019 – \$5.0 million) of fundraising for restricted purposes and \$0.5 million (2019 – \$0.6 million) of fundraising for endowed purposes were allocated to the General Fund.

12. ALLOCATION OF EXPENSES

General support costs of \$22.7 million (2019 – \$19.9 million) have been allocated as follows:

	Direct costs		Allocated costs		Total costs	
	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)	2020 (\$000's)	2019 (\$000's)
Fundraising program costs	24,371	23,847	22,693	19,711	47,064	43,558
Grants and charitable activity	144,675	123,207	247	240	144,922	123,447

13. LOTTERIES

During the year ended 2020, the Foundation held two lotteries (2019 – one lottery). Financial results included in the consolidated statement of operations and changes in fund balances are as follows:

	2020 (\$000's)	2019 (\$000's)
Revenue		
Ticket sales	15,767	7,767
Other	267	132
	16,034	7,899
Costs		
Prizes	6,827	3,389
Other direct	4,875	2,028
Indirect	576	368
	12,278	5,785
Net lottery proceeds	3,756	2,114

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, 2020.

As at March 31, 2020, other liabilities include \$2.4 million (2019 – \$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 to the Patient Support Centre Funding Agreement. Grants under this agreement will also 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 Funding Agreement and the Core Funding Agreement contains a provision that provides for renegotiation if the Board endowed income unrestricted portion of the Endowment Fund (*note 7*) is reduced to below the board approved limit and is not expected to be restored within a reasonable period of time.

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 Series B debentures.

Commitments to the Hospital and other grantees for multi-year commitments in connection with the National Grants Program are as follows:

2021 – \$26.7 million
2022 – \$22.5 million
2023 – \$22.5 million

- b) The Foundation has standby letters of credit outstanding as at March 31, 2020 of \$0.2 million, \$0.3 million and \$3.8 million, issued on October 11, 2019 and expiring May 16, 2020, April 19, 2020 and April 19, 2020, respectively, in connection with a lottery that was completed February 20, 2020.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk and other price risk. Significant volatility in interest rates, equity values and the fair value of the Canadian dollar against the foreign currencies in which the Foundation's investments are held can significantly impact the value of the investments. The Foundation manages market risk by using various strategies such as diversification and foreign currency hedging to mitigate the risk as set out in its Statement of Investment Policies and Objectives. In addition, investment exposure in various assets and markets is monitored regularly.

Foreign 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 through a foreign currency hedging program as set out in its Statement of Investment Policies and Objectives whereby it hedges its foreign currency exposure to the U.S. dollar, the Japanese yen and the euro through the use of foreign exchange forward contracts. The maximum hedging policy is 90% for the U.S. dollar, Japanese yen and euro contracts (*note 3*).

Interest Rate Risk

Interest rate risk refers to the effect on the fair value or future cash flows of a financial instrument due to fluctuations in interest rates. The Foundation's interest-bearing investments are exposed to interest rate risk. The most significant exposure to interest rate risk is the Foundation's investment in bonds. The bond portfolio has guidelines on duration and concentration, which are designed to mitigate the risk of interest rate volatility.

Other Price Risk

Other price risk is the risk that the fair value of equity or pooled fund investments will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The Foundation manages other price risk through diversification as set out in its Statement of Investment Policies and Objectives. In addition, assets and markets are monitored regularly.

Credit Risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligations to the Foundation. The Foundation's investments in debt securities are exposed to credit risk. Credit risk is managed by the Foundation's investment manager whose responsibility it is to regularly monitor credit exposures and follow guidelines on credit quality. The credit quality of financial assets is generally assessed by reference to external credit ratings where available, or to historical information about counterparty default rates.

17. COVID-19

In March 2020, the outbreak of the Coronavirus disease ("COVID-19") was declared a pandemic by the World Health Organization and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus.

As a result of this pandemic, the economy and the financial markets have changed significantly and continue to evolve. These events caused a change in the economy as volatility is high around the world at this time. This situation generated significant adjustments in the financial markets, which impacted the fair value of the investments and the Foundation's net assets as at March 31, 2020. As the markets continue to evolve, there is still a lot of volatility and as such, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Foundation in future periods especially as it relates to the valuation of the investment portfolio.

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.

SickKids[®]
FOUNDATION