

The Baycrest Centre Foundation

Financial statements
March 31, 2022



Independent auditor's report

To the Members of
The Baycrest Centre Foundation

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **The Baycrest Centre Foundation** [the "Foundation"], which comprise the statement of financial position as at March 31, 2022, and the statement of operations and changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other 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 financial statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

Ernst & Young LLP

Toronto, Canada
June 28, 2022

Chartered Professional Accountants
Licensed Public Accountants



The Baycrest Centre Foundation

Statement of financial position

[in thousands of dollars]

As at March 31

	2022	2021
	\$	\$
Assets		
Cash and cash equivalents	47,258	40,116
Investments, fair value <i>[note 3]</i>	134,616	130,075
Investments, amortized cost <i>[note 3]</i>	9,743	11,706
Due from Baycrest Seniors Care group <i>[note 4[c]]</i>	—	3,826
Prepaid expenses and other assets	913	596
Capital assets, net <i>[note 5]</i>	127	224
	192,657	186,543
Liabilities and fund balances		
Liabilities		
Due to Baycrest Seniors Care group <i>[note 4[c]]</i>	552	—
Accrued liabilities	567	296
Deferred revenue	341	60
Total liabilities	1,460	356
Commitments <i>[note 3]</i>		
Fund balances		
Endowment Fund <i>[note 6]</i>	138,023	135,578
Restricted Fund <i>[note 7]</i>	53,174	50,609
Total fund balances	191,197	186,187
	192,657	186,543

See accompanying notes

On behalf of the Board:



Director



Director

The Baycrest Centre Foundation

Statement of operations and changes in fund balances

[in thousands of dollars]

Year ended March 31

	General Fund		Restricted Fund		Endowment Fund		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Contributions <i>[notes 6 and 7]</i>	5,141	4,345	10,393	13,460	816	707	16,351	18,512
Events	799	520	2,083	639	—	14	2,882	1,173
Investment income <i>[notes 3, 4[b] and 6]</i>	2,816	2,542	4,249	3,849	1,629	19,906	8,694	26,297
	8,756	7,407	16,725	17,948	2,445	20,627	27,927	45,982
Expenses <i>[note 4[d]]</i>								
Salaries and benefits	4,715	4,838	267	235	—	—	4,982	5,073
Other	2,490	1,206	—	—	—	—	2,490	1,206
Events	807	141	153	63	—	—	960	204
Amortization	97	97	—	—	—	—	97	97
	8,109	6,282	420	298	—	—	8,529	6,580
Excess of revenue over expenses before grants	647	1,125	16,305	17,650	2,445	20,627	19,398	39,402
Grants <i>[note 8]</i>	—	—	(14,387)	(10,394)	—	—	(14,387)	(10,394)
Excess of revenue over expenses for the year	647	1,125	1,918	7,256	2,445	20,627	5,011	29,008
Fund balances, beginning of year	—	—	50,609	42,228	135,578	114,951	186,187	157,179
Interfund transfers <i>[note 9]</i>	(647)	(1,125)	647	1,125	—	—	—	—
Fund balances, end of year	—	—	53,174	50,609	138,023	135,578	191,198	186,187

See accompanying notes

The Baycrest Centre Foundation

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2022	2021
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	5,011	29,008
Add (deduct) items not affecting cash		
Unrealized loss (gain) on investments	2,029	(2,454)
Amortization	97	97
Changes in non-cash working capital balances related to operations		
Due from/to Baycrest Seniors Care group	4,378	(6,101)
Prepaid expenses and other assets	(317)	(246)
Accrued liabilities	271	15
Deferred revenue	281	(181)
Cash provided by operating activities	11,749	20,138
Investing activities		
Line of credit repaid by Baycrest Seniors Care group	—	3,000
Transfers to external investment managers	(4,607)	(6,042)
Cash used in investing activities	(4,607)	(3,042)
Net increase in cash during the year	7,142	17,096
Cash and cash equivalents, beginning of year	40,116	23,020
Cash and cash equivalents, end of year	47,259	40,116

See accompanying notes

The Baycrest Centre Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2022

1. Description of organization

The Baycrest Centre Foundation [the "Foundation"] is incorporated under the laws of Ontario as a corporation without share capital. The Foundation is a public foundation registered under the *Income Tax Act* (Canada) and, accordingly, is exempt from income taxes. The purpose of the Foundation is to raise and provide funds to the Baycrest Seniors Care group of companies ["BSC"]. BSC is recognized as a global leader in innovative care delivery and cutting-edge cognitive neuroscience. BSC has the ability to elect the majority of the Foundation's directors.

2. Summary of significant accounting policies

Basis of presentation

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

Fund accounting

For financial reporting purposes, the Foundation's funds have been classified as follows:

The Endowment Fund accumulates contributions, which are held in perpetuity at the request of the donors, with investment income thereon available to be granted to BSC.

The Restricted Fund accumulates contributions for purposes specified by the donor, amounts restricted at the discretion of the Board of Directors or as stipulated by the fundraising appeal. These funds are available to be granted to BSC for care initiatives, program development, education, research and capital expenditures.

Unrestricted revenue and expenses are recorded in the General Fund. The excess or deficiency of the General Fund is transferred annually from/to the portion of the Restricted Fund restricted at the discretion of the Board of Directors.

Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions, which include grants, bequests and other donations. Grants and bequests are recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received. Unrestricted contributions are recognized as revenue in the General Fund when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are recognized in the Restricted Fund when initially recorded in the accounts. Externally restricted endowment contributions are recognized in the Endowment Fund when initially recorded in the accounts.

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Notes to financial statements

[in thousands of dollars]

March 31, 2022

Investment income (loss) consists of interest, dividends, income distributions from pooled funds and alternative funds, and realized and unrealized gains and losses, net of investment management fees. Investment income earned on the Endowment Fund or Restricted 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 endowment is recognized as revenue of the Endowment Fund. Unrestricted investment income earned on Endowment Fund, Restricted Fund and General Fund resources is recognized as revenue of the General Fund. Investment losses are allocated in a manner consistent with investment income.

Revenue other than donations in connection with events, including sponsorships, is recognized when earned. Donations received related to an event are recognized consistent with the recognition of contribution revenue.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of less than 90 days. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as investments.

Financial instruments

Investments reported at fair value consist of equity instruments that are quoted in an active market, as well as investments in pooled funds and any investments in fixed income securities and private equities that the Foundation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations and changes in fund balances in the period during which they are incurred.

Alternative investments are valued by the investment managers of these investments who perform valuations on the underlying investments on a quarterly basis. The value of these investments is recorded using the most recently available quarterly information from the fund manager adjusted for transactions to the year-end date, which approximates fair value. Because these interests are not readily traded, their estimated values are subject to uncertainty and, therefore, may differ from the values that would have been used had a ready market for such interests existed.

Investments in fixed income and other securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

All transactions are recorded on a trade date basis.

Other financial instruments, including accounts receivable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

The Baycrest Centre Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2022

Capital assets

Purchased capital assets are recorded at acquisition cost. Contributed capital assets are recorded at fair value at the date of the contribution. Amortization is determined using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	10 years
Furniture and equipment	3–5 years

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 statement of operations and changes in fund balances. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

Grants

Grants are recorded when approved and when the recipient has met all terms and conditions.

Contributed materials and services

Contributed materials to be transferred to BSC are recognized in the financial statements at fair market value. A grant to BSC equal to this amount is recorded when contributed materials are transferred to BSC. Contributed services are not recognized in the financial statements.

Expense allocations

Direct costs of fundraising programs are allocated between the General Fund and Restricted Fund based on the fund in which the related revenue is recorded. In addition, all salaries and benefits are allocated to the General Fund, unless there is a special fundraising campaign, in which case salaries and benefits are allocated to the Restricted Fund based on an estimate of time spent on the campaign.

Foreign currency translation

Monetary assets and liabilities that are to be settled in a foreign currency are translated into Canadian dollars at the prevailing year-end rates of exchange. Transactions in foreign currencies are translated into Canadian dollars at the appropriate rate of exchange in effect when the transactions occurred. Exchange gains and losses are recorded in the statement of operations and changes in fund balances.

The Baycrest Centre Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2022

3. Investments

Investments consist of the following:

	Carrying value	2022 \$	2021 \$
Cash and cash equivalents	Fair value	2,234	1,326
Publicly traded securities			
Canadian equities	Fair value	31,098	31,475
US equities	Fair value	34,748	40,735
International equities	Fair value	19,033	22,134
Canadian bonds	Fair value	21,270	20,613
International bonds	Fair value	10,863	8,131
Other fixed income	Fair value	262	—
Investments in Canadian private companies			
Equities	Fair value	6,909	597
Investment in alternative funds	Fair value	8,199	5,064
		134,616	130,075
Investments in Canadian private companies			
Debentures	Amortized cost	3,173	2,221
Guaranteed investment certificates	Amortized cost	5,857	8,622
State of Israel bonds	Amortized cost	713	863
		9,743	11,706
		144,359	141,781

Investments in pooled funds have been allocated among the asset classes based on the underlying investments in the pooled funds.

Investment income of \$8,694 [2021 – \$26,297] is net of investment management fees of \$1,127 [2021 – \$929].

The weighted average yield and average term to maturity for the publicly traded fixed income securities are as follows:

	2022		2021	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Guaranteed investment certificates	1.42	0.32	1.84	0.94
Canadian bonds	3.72	12.72	2.33	14.59
International bonds	4.98	6.56	3.51	5.09

As at March 31, 2022, the unfunded commitments relating to alternative fund investments were US\$4,954 [2021 – US\$4,913].

The Baycrest Centre Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2022

4. Related party transactions

- [a] The Foundation provides grants, as approved by the Board of Directors, to BSC, which operates as an academic health science centre [note 8].
- [b] The Foundation advanced BSC \$3,000 on August 22, 2019. The line of credit receivable bears interest at 5% and is payable quarterly. Repayments of principal were due at the earlier of [i] no later than two years from the date the funds were disbursed; and [ii] once alternative financing arrangements have been secured. Amounts were collateralized by parking revenue. The advance was repaid in 2021.
- [c] Advances to/from BSC are unsecured with no fixed terms of repayment.
- [d] BSC provides the Foundation with office space at no cost. Salaries, benefits and certain other expenses are paid by BSC and are reimbursed by the Foundation.

5. Capital assets

Capital assets consist of the following:

	2022		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Leasehold improvements	572	514	58
Furniture and equipment	410	341	69
	982	855	127

	2021		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Leasehold improvements	572	460	112
Furniture and equipment	410	298	112
	982	758	224

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March 31, 2022

6. Endowment Fund

The Endowment Fund consists of restricted contributions received by the Foundation where the endowment principal is required to be maintained intact.

Investment income is allocated among the funds based on the Foundation's Income Distribution Policy. This policy has the objective of protecting the real value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of income not made available. The preservation of capital is recorded as investment income of the Endowment Fund. The Income Distribution Policy establishes a spending rate that is currently 4% [2021 – 4%]. In addition, 1% [2021 – 1%] of the fund balance is made available for infrastructure support costs and recorded in the General Fund.

In any particular year, should net investment income be insufficient to fund the amount to be made available for spending or the return on investments is a net investment loss, the amount that is to be made available for spending is funded by the accumulated reinvested income. However, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income.

In 2022, there was investment income in the amount of \$8,154 earned on investments held for endowments, of which \$5,340 was made available for spending, with \$4,214 recorded in the Restricted Fund and \$1,126 recorded in the General Fund. \$1,185 was made available for infrastructure support costs and recorded in the General Fund, and the difference of \$1,629, representing preservation of capital, was recorded in the Endowment Fund.

In 2021, there was investment income in the amount of \$25,656 earned on investments held for endowments, of which \$4,686 was made available for spending, with \$3,713 recorded in the Restricted Fund and \$973 recorded in the General Fund. \$1,064 was made available for infrastructure support costs and recorded in the General Fund, and the difference of \$19,906, representing preservation of capital, was recorded in the Endowment Fund.

Unless otherwise specified in a gift agreement, 10% of the first \$100,000 and 5% thereafter of all endowed donations are recorded in the General Fund. In 2022, there was \$120 [2021 – \$112] of endowed donations recorded in the General Fund.

7. Restricted Fund

The Restricted Fund includes amounts internally and externally restricted as noted below:

	2022 \$	2021 \$
Restricted at the discretion of the Board of Directors	6,058	6,095
Restricted at the discretion of the donors	47,116	44,514
	53,174	50,609

Unless otherwise specified in a gift agreement, 10% of all restricted donations are recorded in the General Fund. In 2022, there was \$1,325 [2021 – \$1,476] of restricted donations recorded in the General Fund.

The Baycrest Centre Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2022

8. Grants

During the year, the Foundation transferred grants of \$14,387 [2021 – \$10,394] to BSC [note 4[a]]. No amounts were transferred to third parties.

9. Interfund transfers

Interfund transfers between the General Fund, Restricted Fund and the Endowment Fund consist of the following:

	2022		
	General Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
Board-directed transfers	(647)	647	—

	2022		
	General Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
Board-directed transfers	(1,125)	1,125	—

The Board approved a transfer of \$647 from the General Fund to the Restricted Fund [2021 – \$1,125] related to the excess funds in the General Fund.

10. Financial instruments

The Foundation is exposed to various financial and market risks through investments and transactions in financial instruments. Most of these risks are related to investments. To manage the risks related to investments, the Foundation has determined an investment strategy and asset mix that reflects a total investment return consistent with capital preservation, risk tolerance and liquidity needs of the Foundation. An investment policy was established to monitor and limit risks across asset classes, as well as the total portfolio. If the measured risk of the portfolio exceeds the limits set by the policy, actions will be taken to reduce the portfolio's risk.

Currency risk

The Foundation is exposed to 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 mitigates some of its foreign currency risk exposure by investing in pooled funds, which hedge underlying foreign currency exposure to the Canadian dollar.

Credit risk

The Foundation is exposed to credit risk in connection with its 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. The Foundation manages credit risk by defining allowable credit rating requirements and restricting the types of financial instruments and issuer exposure limits that are permitted in the portfolio.

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Notes to financial statements

[in thousands of dollars]

March 31, 2022

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income securities and pooled funds that hold fixed income securities, because the fair value will fluctuate due to changes in market interest rates. Duration is the most common measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. The Foundation's portfolio managers limit the duration of the fixed income holdings in their portfolios in order to accommodate possible changes in interest rate.

Other price risk

The Foundation is exposed to other market risks, including, but not limited to, changes in market prices in connection with its investments in securities, underlying investments within pooled funds, private equity and alternative investments. The Foundation manages this risk by monitoring against its benchmark asset mix, which reflects the Foundation's risk appetite.