

The Baycrest Centre Foundation

Financial statements
March 31, 2018



Independent auditors' report

To the Members of
The Baycrest Centre Foundation

Report on the financial statements

We have audited the accompanying financial statements of **The Baycrest Centre Foundation**, which comprise the statement of financial position as at March 31, 2018 and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Baycrest Centre 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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



The Baycrest Centre Foundation

Statement of financial position

[in thousands of dollars]

As at March 31

| | 2018 | 2017 |
|--|----------------|----------------|
| | \$ | \$ |
| Assets | | |
| Cash and cash equivalents | 25,144 | 21,355 |
| Investments <i>[note 3]</i> | 136,655 | 127,278 |
| Due from Baycrest Centre for Geriatric Care <i>[note 4[c]]</i> | 357 | 635 |
| Line of credit receivable from Baycrest Centre for Geriatric Care <i>[note 4[b]]</i> | 250 | 500 |
| Accounts receivable | 100 | 162 |
| Prepaid expenses and other assets | 839 | 333 |
| Capital assets, net <i>[note 5]</i> | 350 | 383 |
| | <u>163,695</u> | <u>150,646</u> |
| Liabilities and fund balances | | |
| Liabilities | | |
| Accrued liabilities | 369 | 225 |
| Deferred revenue | 115 | — |
| Total liabilities | <u>484</u> | <u>225</u> |
| Commitments <i>[note 3]</i> | | |
| Fund balances | | |
| Endowment Fund <i>[note 6]</i> | 118,251 | 115,904 |
| Restricted Fund <i>[note 7]</i> | 44,960 | 34,517 |
| Total fund balances | <u>163,211</u> | <u>150,421</u> |
| | <u>163,695</u> | <u>150,646</u> |

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 | |
|--|---------------|---------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | | | | | | | | |
| Contributions <i>[notes 6 and 7]</i> | 6,561 | 7,690 | 16,184 | 6,928 | 1,135 | 6,725 | 23,880 | 21,343 |
| Events | 1,527 | 1,503 | 2,421 | 2,152 | 13 | 9 | 3,961 | 3,664 |
| Investment income, net <i>[notes 3, 4[c] and 6]</i> | 2,546 | 2,148 | 3,828 | 5,105 | 1,231 | 6,704 | 7,605 | 13,957 |
| | 10,634 | 11,341 | 22,433 | 14,185 | 2,379 | 13,438 | 35,446 | 38,964 |
| Expenses <i>[note 4[d]]</i> | | | | | | | | |
| Salaries and benefits | 4,502 | 3,825 | 298 | 249 | — | — | 4,800 | 4,074 |
| Other | 1,602 | 1,344 | — | — | — | — | 1,602 | 1,344 |
| Events | 865 | 753 | 900 | 1,151 | — | — | 1,765 | 1,904 |
| Amortization | 98 | 94 | — | — | — | — | 98 | 94 |
| | 7,067 | 6,016 | 1,198 | 1,400 | — | — | 8,265 | 7,416 |
| Excess of revenue over expenses before grants | 3,567 | 5,325 | 21,235 | 12,785 | 2,379 | 13,438 | 27,181 | 31,548 |
| Grants <i>[note 8]</i> | — | — | (14,391) | (15,912) | — | — | (14,391) | (15,912) |
| Excess (deficiency) of revenue over expenses for the year | 3,567 | 5,325 | 6,844 | (3,127) | 2,379 | 13,438 | 12,790 | 15,636 |
| Fund balances, beginning of year | — | — | 34,517 | 32,321 | 115,904 | 102,464 | 150,421 | 134,785 |
| Interfund transfers <i>[note 9]</i> | (3,567) | (5,325) | 3,599 | 5,323 | (32) | 2 | — | — |
| Fund balances, end of year | — | — | 44,960 | 34,517 | 118,251 | 115,904 | 163,211 | 150,421 |

See accompanying notes

The Baycrest Centre Foundation

Statement of cash flows

[in thousands of dollars]

Year ended March 31

| | 2018 | 2017 |
|---|----------------|---------------|
| | \$ | \$ |
| Operating activities | | |
| Excess of revenue over expenses for the year | 12,790 | 15,636 |
| Add (deduct) items not affecting cash | | |
| Unrealized gain on investments | (3,631) | (13,529) |
| Amortization | 98 | 94 |
| Changes in non-cash working capital balances related to operations | | |
| Due to/from Baycrest Centre for Geriatric Care | 278 | 8,178 |
| Accounts receivable | 62 | 75 |
| Prepaid expenses and other assets | (506) | 610 |
| Accrued liabilities | 144 | (279) |
| Deferred revenue | 115 | (240) |
| Cash provided by operating activities | 9,350 | 10,545 |
| Investing activities | | |
| Repayment of line of credit advance to Baycrest Centre for Geriatric Care | 250 | 250 |
| Transfers to/from external investment managers | (5,746) | 2,251 |
| Capital asset addition | (65) | — |
| Cash (used in) provided by investing activities | (5,561) | 2,501 |
| Net increase in cash and cash equivalents during the year | 3,789 | 13,046 |
| Cash and cash equivalents, beginning of year | 21,355 | 8,309 |
| Cash and cash equivalents, end of year | 25,144 | 21,355 |

See accompanying notes

The Baycrest Centre Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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 Centre for Geriatric Care [the "Centre"]. The Centre is recognized as a global leader in innovative care delivery and cutting edge cognitive neuroscience. The Centre has the ability to elect the majority of the Foundation's directors.

2. 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 generally accepted 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 the Centre.

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 the Centre 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 to/from 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.

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

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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.

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 |

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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 the Centre are recognized in the financial statements at fair market value. A grant to the Centre equal to this amount is recorded when contributed materials are transferred to the Centre. 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.

3. Investments

Investments consist of the following:

| | Carrying value | 2018 \$ | 2017 \$ |
|---|-------------------|----------------|----------------|
| Cash and cash equivalents | Fair value | 678 | 1,912 |
| Publicly traded securities | | | |
| Canadian equities | Fair value | 27,136 | 25,759 |
| US equities | Fair value | 33,248 | 29,812 |
| International equities | Fair value | 22,499 | 18,138 |
| Canadian bonds | Fair value | 26,206 | 26,924 |
| International bonds | Fair value | 7,936 | 7,727 |
| Investments in Canadian private companies | | | |
| Equities | Fair value | 2,950 | 6,038 |
| Debentures | Amortized cost | 1,500 | 1,600 |
| Investment in alternative funds | Fair value | 406 | 273 |
| Guaranteed investment certificates | Amortized cost | 13,205 | 8,916 |
| State of Israel bonds | Amortized cost | 891 | 179 |
| | | 136,655 | 127,278 |

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

Investment income of \$7,605 [2017 – \$13,957] is net of investment management fees of \$852 [2017 – \$876].

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

| | 2018 | | 2017 | |
|------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| | Weighted average yield % | Average term to maturity [years] | Weighted average yield % | Average term to maturity [years] |
| Guaranteed investment certificates | 1.88 | 2.49 | 1.81 | 2.01 |
| Canadian bonds | 2.68 | 9.99 | 2.16 | 9.72 |
| International bonds | 6.44 | 6.09 | 6.56 | 5.20 |

As at March 31, 2018, the unfunded commitments relating to alternative fund investments were US\$1,700 dollars [2017 – US\$1,800].

4. Related party transactions

- [a] The Foundation provides grants, as approved by the Board of Directors, to the Centre, which operates as an academic health science centre [note 8].
- [b] The line of credit receivable from the Centre of \$250 [2017 – \$500] bears interest at 5% and was advanced to the Centre on March 28, 2014 with repayments of principal in four annual instalments beginning no later than December 31, 2015, which must be completed no later than December 31, 2018. Amounts are collateralized by parking revenue.
- [c] Advances to/from the Centre bear interest at prime. Net interest income of \$83 [2017 – \$88] was earned and included in investment income, net in the statement of operations and changes in fund balances. Amounts are unsecured with no fixed terms of repayment.
- [d] The Centre provides the Foundation with office space at no cost. Salaries, benefits and certain other expenses are paid by the Centre and are reimbursed by the Foundation.

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5. Capital assets

Capital assets consist of the following:

| | 2018 | | |
|-------------------------|------------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value |
| | \$ | \$ | \$ |
| Leasehold improvements | 571 | 293 | 278 |
| Furniture and equipment | 267 | 195 | 72 |
| | 838 | 488 | 350 |

| | 2017 | | |
|-------------------------|------------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value |
| | \$ | \$ | \$ |
| Leasehold improvements | 571 | 238 | 333 |
| Furniture and equipment | 202 | 152 | 50 |
| | 773 | 390 | 383 |

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% [2017 – 4%]. In addition, 1% [2017 – 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.

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In 2018, there was investment income in the amount of \$6,568 earned on investments held for endowments, of which \$4,349 was made available for spending, with \$3,549 recorded in the Restricted Fund and \$800 recorded in the General Fund. \$988 was made available for infrastructure support costs and recorded in the General Fund, and the difference of \$1,231, representing preservation of capital, was recorded in the Endowment Fund

In 2017, there was investment income in the amount of \$11,828 earned on investments held for endowments, of which \$4,185 was made available for spending, with \$3,434 recorded in the Restricted Fund and \$751 recorded in the General Fund. \$939 was made available for infrastructure support costs and recorded in the General Fund, and the difference of \$6,704, 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 2018, there was \$138 [2017 – \$147] of endowed donations recorded in the General Fund.

7. Restricted Fund

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

| | 2018 \$ | 2017 \$ |
|--|---------------|---------------|
| Restricted at the discretion of the Board of Directors | 6,062 | 4,893 |
| Restricted at the discretion of the donors | 38,898 | 29,624 |
| | 44,960 | 34,517 |

Unless otherwise specified in a gift agreement, 10% of all restricted donations are recorded in the General Fund. In 2018, there was \$1,451 [2017 – \$769] of restricted donations recorded in the General Fund.

8. Grants

During the year, the Foundation transferred grants of \$14,370 [2017 – \$15,787] to the Centre [note 4[a]] and \$21 [2017 – \$125] to third parties.

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Notes to financial statements

[in thousands of dollars]

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9. Interfund transfers

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

| | General Fund | | Restricted Fund | | Endowment Fund | |
|--------------------------|--------------|---------|-----------------|-------|----------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Donor-directed transfers | — | — | 32 | (2) | (32) | 2 |
| Board-directed transfers | (3,567) | (5,325) | 3,567 | 5,325 | — | — |
| | (3,567) | (5,325) | 3,599 | 5,323 | (32) | 2 |

The Board approved a transfer of \$3,567 from the General Fund to the Restricted Fund [2017 – \$5,325] 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.

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.

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.

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.

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 and underlying investments within pooled funds.