

Financial Statements

The Baycrest Centre Foundation

March 31, 2015



Building a better
working world

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, 2015 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, 2015 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 18, 2015

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

	2015	2014
	\$	\$
ASSETS		
Cash and cash equivalents	19,211	12,783
Investments <i>[note 3]</i>	118,262	117,097
Line of credit receivable from Baycrest Centre for Geriatric Care <i>[note 4[b]]</i>	1,000	1,000
Accounts receivable	88	38
Prepaid expenses and other assets	558	441
Capital assets, net <i>[note 5]</i>	570	639
	139,689	131,998
LIABILITIES AND FUND BALANCES		
Liabilities		
Due to Baycrest Centre for Geriatric Care <i>[note 4[c]]</i>	1,928	3,596
Accrued liabilities	489	471
Deferred revenue	108	139
	2,525	4,206
Fund balances		
Endowment Fund <i>[note 6]</i>	106,003	97,049
Restricted Fund <i>[note 7]</i>	31,161	30,743
	137,164	127,792
	139,689	131,998

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

	<u>General Fund</u>		<u>Restricted Fund</u>		<u>Endowment Fund</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Contributions	4,963	3,429	5,845	7,441	2,294	5,259	13,102	16,129
Events	1,626	633	1,041	2,359	—	—	2,667	2,992
Investment income <i>[notes 4[c] and 6]</i>	3,545	2,012	5,412	3,435	7,121	5,638	16,078	11,085
	10,134	6,074	12,298	13,235	9,415	10,897	31,847	30,206
EXPENSES <i>[note 4[d]]</i>								
Salaries and benefits	4,422	5,894	338	275	—	—	4,760	6,169
Other	2,675	2,164	—	—	—	—	2,675	2,164
Events	1,039	162	673	1,100	—	—	1,712	1,262
Amortization	91	87	—	—	—	—	91	87
	8,227	8,307	1,011	1,375	—	—	9,238	9,682
Excess (deficiency) of revenue over expenses before grants	1,907	(2,233)	11,287	11,860	9,415	10,897	22,609	20,524
Grants <i>[note 8]</i>	—	—	(13,237)	(20,755)	—	—	(13,237)	(20,755)
Excess (deficiency) of revenue over expenses for the year	1,907	(2,233)	(1,950)	(8,895)	9,415	10,897	9,372	(231)
Fund balances, beginning of year	—	—	30,743	37,465	97,049	90,558	127,792	128,023
Interfund transfers <i>[note 9]</i>	(1,907)	2,233	2,368	2,173	(461)	(4,406)	—	—
Fund balances, end of year	—	—	31,161	30,743	106,003	97,049	137,164	127,792

See accompanying notes

The Baycrest Centre Foundation

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	9,372	(231)
Add (deduct) items not affecting cash		
Unrealized gain on investments	(15,602)	(10,711)
Amortization	91	87
Changes in non-cash working capital balances		
Due to/from Baycrest Centre for Geriatric Care	(1,668)	7,036
Accounts receivable	(50)	2,040
Prepaid expenses and other assets	(117)	207
Accrued liabilities	18	(58)
Deferred revenue	(31)	48
Cash used in operating activities	(7,987)	(1,582)
INVESTING ACTIVITIES		
Line of credit advance to Baycrest Centre for Geriatric Care	—	(1,000)
Capital asset additions	(22)	(48)
Proceeds from sale of investments, net	14,437	3,665
Cash provided by investing activities	14,415	2,617
Net increase in cash and cash equivalents during the year	6,428	1,035
Cash and cash equivalents, beginning of year	12,783	11,748
Cash and cash equivalents, end of year	19,211	12,783

See accompanying notes

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

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 Chartered Professional Accountants of Canada [“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 and amounts restricted at the discretion of the Board of Directors. 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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

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.

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

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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

Investment income (loss) consists of interest, dividends, income distributions from pooled 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 donation revenue.

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.

Grants

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

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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

Foreign currency translation

Monetary assets and liabilities which 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	2015 \$	2014 \$
Cash and cash equivalents	Fair value	2,196	4,386
Publically traded securities			
Canadian equities	Fair value	27,336	42,859
US equities	Fair value	22,341	7,585
International equities	Fair value	17,019	9,737
Canadian bonds	Fair value	25,785	42,620
International bonds	Fair value	8,090	3,635
Investments in Canadian private companies			
Equities	Fair value	4,480	3,085
Debentures	Amortized cost	1,600	2,000
Guaranteed investment certificates	Amortized cost	8,400	—
State of Israel bonds	Amortized cost	1,015	1,190
		118,262	117,097

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

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

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

	2015		2014	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Guaranteed investment certificates	1.66	2.91	—	—
Canadian bonds	2.28	13.75	2.69	9.48
International bonds	7.79	7.73	2.85	5.30

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 \$1,000 [2014 - \$1,000] 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 \$55 [2014 - \$162] was earned and included in investment income 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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

5. CAPITAL ASSETS

Capital assets consist of the following:

	2015		
	Cost	Accumulated	Net book
	\$	amortization	value
		\$	\$
Leasehold improvements	571	127	444
Furniture and equipment	202	76	126
	773	203	570

	2014		
	Cost	Accumulated	Net book
	\$	amortization	value
		\$	\$
Leasehold improvements	568	72	496
Furniture and equipment	183	40	143
	751	112	639

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 5% [2014 - 5%]. In addition, 1% of the fund balance is made available for infrastructure support costs and recorded in the General Fund. In any year, should investment income not be sufficient to fund the payout in accordance with the Foundation's policy, an amount is transferred from the Endowment Fund.

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NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

In 2015, there was investment income of \$12,930 [2014 - \$10,696] earned on investments held for endowments, of which \$4,902 [2014 - \$4,222] was made available for spending, with \$4,017 [2014 - \$3,421] recorded in the Restricted Fund and \$885 [2014 - \$801] recorded in the General Fund; \$907 [2014 - \$836] was made available for infrastructure support costs and recorded in the General Fund; and the difference of \$7,121 [2014 - \$5,638], representing preservation of capital, was recorded in the Endowment Fund.

7. RESTRICTED FUND

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

	2015	2014
	\$	\$
Restricted at the discretion of the Board of Directors	9,217	8,334
Restricted at the discretion of the donors	21,944	22,409
	31,161	30,743

Unless otherwise specified in a gift agreement, 10% of all restricted donations are recorded in the General Fund. In 2015, there was \$487 [2014 - \$1,072] of restricted donations recorded in the General Fund.

8. GRANTS

During the year, the Foundation transferred grants of \$13,227 [2014 - \$20,755] to the Centre [note 4[a]] and \$10 [2014 - nil] to a third party.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

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	
	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$
Donor-directed transfers	—	—	461	(61)	(461)	61
Board-directed transfers	(1,907)	2,233	1,907	2,234	—	(4,467)
	(1,907)	2,233	2,368	2,173	(461)	(4,406)

The Board approved a transfer of \$1,907 from the General Fund to the Restricted Fund [2014 – \$2,233 from the Restricted Fund to the General Fund] related to the excess (deficiency) of revenue over expenses 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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2015

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.

