

Financial Statements

The Baycrest Centre Foundation

March 31, 2016



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, 2016 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, 2016 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 16, 2016

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

	2016	2015
	\$	\$
ASSETS		
Cash and cash equivalents	8,309	19,211
Investments <i>[note 3]</i>	116,000	118,262
Due from Baycrest Centre for Geriatric Care <i>[notes 4[c] and [e]]</i>	8,813	—
Line of credit receivable from Baycrest Centre for Geriatric Care <i>[note 4[b]]</i>	750	1,000
Accounts receivable	237	88
Prepaid expenses and other assets	943	558
Capital assets, net <i>[note 5]</i>	477	570
	135,529	139,689
LIABILITIES AND FUND BALANCES		
Liabilities		
Due to Baycrest Centre for Geriatric Care <i>[note 4[c]]</i>	—	1,928
Accrued liabilities	504	489
Deferred revenue	240	108
	744	2,525
Fund balances		
Endowment Fund <i>[note 6]</i>	102,464	106,003
Restricted Fund <i>[note 7]</i>	32,321	31,161
	134,785	137,164
	135,529	139,689

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Contributions <i>[note 4[e]]</i>	4,900	4,963	10,963	5,845	1,872	2,294	17,735	13,102
Events	655	1,626	2,061	1,041	6	—	2,722	2,667
Investment income (loss), net <i>[notes 3, 4[c] and 6]</i>	541	3,545	38	5,412	(1,984)	7,121	(1,405)	16,078
	6,096	10,134	13,062	12,298	(106)	9,415	19,052	31,847
EXPENSES <i>[note 4[d]]</i>								
Salaries and benefits	4,217	4,422	233	338	—	—	4,450	4,760
Other	1,282	2,675	—	—	—	—	1,282	2,675
Events	200	1,039	1,940	673	—	—	2,140	1,712
Amortization	93	91	—	—	—	—	93	91
	5,792	8,227	2,173	1,011	—	—	7,965	9,238
Excess (deficiency) of revenue over expenses before grants	304	1,907	10,889	11,287	(106)	9,415	11,087	22,609
Grants <i>[note 8]</i>	—	—	(13,466)	(13,237)	—	—	(13,466)	(13,237)
Excess (deficiency) of revenue over expenses for the year	304	1,907	(2,577)	(1,950)	(106)	9,415	(2,379)	9,372
Fund balances, beginning of year	—	—	31,161	30,743	106,003	97,049	137,164	127,792
Interfund transfers <i>[note 9]</i>	(304)	(1,907)	3,737	2,368	(3,433)	(461)	—	—
Fund balances, end of year	—	—	32,321	31,161	102,464	106,003	134,785	137,164

See accompanying notes

The Baycrest Centre Foundation

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(2,379)	9,372
Add (deduct) items not affecting cash		
Unrealized gain on investments	1,932	(15,602)
Amortization	93	91
Changes in non-cash working capital balances		
Due to/from Baycrest Centre for Geriatric Care	(10,741)	(1,668)
Accounts receivable	(149)	(50)
Prepaid expenses and other assets	(385)	(117)
Accrued liabilities	15	18
Deferred revenue	132	(31)
Cash used in operating activities	(11,482)	(7,987)
INVESTING ACTIVITIES		
Line of credit advance to Baycrest Centre for Geriatric Care	250	—
Capital asset additions	—	(22)
Proceeds from sale of investments, net	330	14,437
Cash provided by investing activities	580	14,415
Net increase (decrease) in cash and cash equivalents during the year	(10,902)	6,428
Cash and cash equivalents, beginning of year	19,211	12,783
Cash and cash equivalents, end of year	8,309	19,211

See accompanying notes

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

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, 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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

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 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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

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

Grants

Grants are recorded when approved and 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.

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NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

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 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	2016 \$	2015 \$
Cash and cash equivalents	Fair value	1,922	2,196
Publically traded securities			
Canadian equities	Fair value	22,556	27,336
US equities	Fair value	25,614	22,341
International equities	Fair value	15,987	17,019
Canadian bonds	Fair value	25,646	25,785
International bonds	Fair value	7,180	8,090
Investments in Canadian private companies			
Equities	Fair value	4,480	4,480
Debentures	Amortized cost	1,600	1,600
Guaranteed investment certificates	Amortized cost	10,599	8,400
State of Israel bonds	Amortized cost	416	1,015
		116,000	118,262

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

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NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

Investment loss of \$1,405 [2015 – investment income of \$16,078] is net of investment management fees of \$823 [2015 – \$962].

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

	2016		2015	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Guaranteed investment certificates	1.76	2.68	1.66	2.91
Canadian bonds	2.28	11.09	2.28	13.75
International bonds	9.43	7.26	7.79	7.73

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 \$750 [2015 – \$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 \$125 [2015 – \$55] was earned and included in investment income (loss) 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.
- [e] Included in the receivable from the Centre is a bequest of \$5,000 [2015 – nil] that was recognized in restricted contributions revenue in fiscal 2016. The bequest will be paid to the Centre and immediately transferred to the Foundation by way of a deed of trust.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

5. CAPITAL ASSETS

Capital assets consist of the following:

	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Leasehold improvements	571	182	389
Furniture and equipment	202	114	88
	773	296	477

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

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% [2015 – 5%]. In addition, 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

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

capital is used in the current year. This amount is expected to be recovered by future net investment income.

In 2016, there was an investment loss of \$1,984 on endowments which was recorded in the Endowment Fund. The amounts made available for spending of \$3,879, calculated in accordance with the Foundation's Income Distribution Policy, related to donor designated funds for unrestricted purposes of \$717 and donor designated funds for restricted purposes of \$3,162 has been transferred from the Endowment Fund to the General Fund and the Restricted Fund respectively as part of the interfund transfers [note 9]. \$934 was made available for infrastructure supports costs and was transferred from the Endowment Fund to the General Fund as part of the interfund transfers [note 9].

In 2015, there was investment income \$12,930 earned on investments held for endowments, of which \$4,902 was made available for spending, with \$4,017 recorded in the Restricted Fund and \$885 recorded in the General Fund. \$907 was made available for infrastructure support costs and recorded in the General Fund, and the difference of \$7,121, 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 2016, there was \$230 [2015 – \$156] of endowed donations recorded in the General Fund.

7. RESTRICTED FUND

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

	2016	2015
	\$	\$
Restricted at the discretion of the Board of Directors	6,289	9,217
Restricted at the discretion of the donors	26,032	21,944
	32,321	31,161

Unless otherwise specified in a gift agreement, 10% of all restricted donations are recorded in the General Fund. In 2016, there was \$605 [2015 – \$487] of restricted donations recorded in the General Fund.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

8. GRANTS

During the year, the Foundation transferred grants of \$13,466 [2015 – \$13,227] to the Centre [note 4[a]] and nil [2015 – \$10] to a third party.

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	
	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$
Donor-directed transfers	—	—	(1,380)	461	1,380	(461)
Amounts available for spending and infrastructure support in accordance with Board policy [note 6]	1,651	—	3,162	—	(4,813)	—
Board-directed transfers	(1,955)	(1,907)	1,955	1,907	—	—
	(304)	(1,907)	3,737	2,368	(3,433)	(461)

The Board approved a transfer of \$1,955 from the General Fund to the Restricted Fund [2015 – \$1,907] 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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2016

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.

