

The Baycrest Centre Foundation

Financial statements
March 31, 2019



Independent auditor's report

To the Members of
The Baycrest Centre Foundation

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, 2019 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, 2019 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.

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 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 generally accepted 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.

Toronto, Canada
May 29, 2019

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

	2019	2018
	\$	\$
Assets		
Cash and cash equivalents	20,629	25,144
Investments, fair value <i>[note 3]</i>	122,269	121,059
Investments, amortized cost <i>[note 3]</i>	21,342	15,596
Due from Baycrest Centre for Geriatric Care <i>[note 4[c]]</i>	79	357
Line of credit receivable from Baycrest Centre for Geriatric Care <i>[note 4[b]]</i>	—	250
Accounts receivable	—	100
Prepaid expenses and other assets	811	839
Capital assets, net <i>[note 5]</i>	386	350
	165,516	163,695
Liabilities and fund balances		
Liabilities		
Accrued liabilities	227	369
Deferred revenue	100	115
Total liabilities	327	484
Commitments <i>[note 3]</i>		
Fund balances		
Endowment Fund <i>[note 6]</i>	122,239	118,251
Restricted Fund <i>[note 7]</i>	42,950	44,960
Total fund balances	165,189	163,211
	165,516	163,695

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	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Contributions <i>[notes 6 and 7]</i>	3,813	6,561	7,212	16,184	1,002	1,135	12,027	23,880
Events	1,924	1,527	5,286	2,421	6	13	7,216	3,961
Investment income, net <i>[notes 3, 4[c] and 6]</i>	2,474	2,546	3,405	3,828	2,982	1,231	8,861	7,605
	8,211	10,634	15,903	22,433	3,990	2,379	28,104	35,446
Expenses <i>[note 4[d]]</i>								
Salaries and benefits	4,704	4,502	236	298	—	—	4,940	4,800
Other	1,453	1,602	—	—	—	—	1,453	1,602
Events	614	865	3,063	900	—	—	3,677	1,765
Amortization	75	98	—	—	—	—	75	98
	6,846	7,067	3,299	1,198	—	—	10,145	8,265
Excess of revenue over expenses before grants	1,365	3,567	12,604	21,235	3,990	2,379	17,959	27,181
Grants <i>[note 8]</i>	—	—	(15,981)	(14,391)	—	—	(15,981)	(14,391)
Excess (deficiency) of revenue over expenses for the year	1,365	3,567	(3,377)	6,844	3,990	2,379	1,978	12,790
Fund balances, beginning of year	—	—	44,960	34,517	118,251	115,904	163,211	150,421
Interfund transfers <i>[note 9]</i>	(1,365)	(3,567)	1,367	3,599	(2)	(32)	—	—
Fund balances, end of year	—	—	42,950	44,960	122,239	118,251	165,189	163,211

See accompanying notes

The Baycrest Centre Foundation

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2019	2018
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	1,978	12,790
Add (deduct) items not affecting cash		
Unrealized gain on investments	(2,619)	(3,631)
Amortization	75	98
Changes in non-cash working capital balances related to operations		
Due to/from Baycrest Centre for Geriatric Care	278	278
Accounts receivable	100	62
Prepaid expenses and other assets	28	(506)
Accrued liabilities	(142)	144
Deferred revenue	(15)	115
Cash provided by (used in) operating activities	(317)	9,350
Investing activities		
Repayment of line of credit advance to Baycrest Centre for Geriatric Care	250	250
Transfers to/from external investment managers	(4,337)	(5,746)
Capital asset addition	(111)	(65)
Cash used in investing activities	(4,198)	(5,561)
Net increase (decrease) in cash and cash equivalents during the year	(4,515)	3,789
Cash and cash equivalents, beginning of year	25,144	21,355
Cash and cash equivalents, end of year	20,629	25,144

See accompanying notes

The Baycrest Centre Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2019

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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[in thousands of dollars]

March 31, 2019

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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[in thousands of dollars]

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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.

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[in thousands of dollars]

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3. Investments

Investments consist of the following:

	Carrying value	2019 \$	2018 \$
Cash and cash equivalents	Fair value	1,134	678
Publicly traded securities			
Canadian equities	Fair value	31,096	27,136
US equities	Fair value	34,172	33,248
International equities	Fair value	18,148	22,499
Canadian bonds	Fair value	26,163	26,206
International bonds	Fair value	9,582	7,936
Investments in Canadian private companies			
Equities	Fair value	—	2,950
Investment in alternative funds	Fair value	1,974	406
		122,269	121,059
Investments in Canadian private companies			
Debentures	Amortized cost	1,500	1,500
Guaranteed investment certificates	Amortized cost	18,971	13,205
State of Israel bonds	Amortized cost	871	891
		21,342	15,596
		143,611	136,655

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

Investment income of \$8,861 [2018 – \$7,605] is net of investment management fees of \$901 [2018 – \$852].

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

	2019		2018	
	Weighted average yield	Average term to maturity	Weighted average yield	Average term to maturity
	%	[years]	%	[years]
Guaranteed investment certificates	2.07	1.54	1.88	2.49
Canadian bonds	2.65	12.09	2.68	9.99
International bonds	5.74	5.19	6.44	6.09

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March 31, 2019

As at March 31, 2019, the unfunded commitments relating to alternative fund investments were US\$1,580 dollars [2018 – US\$1,700].

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 Foundation had a line of credit receivable from the Centre that bore interest at 5% and was advanced to the Centre on March 28, 2014. Repayments of principal were due in four annual instalments beginning no later than December 31, 2015, which were required to be completed by no later than December 31, 2018. Amounts were collateralized by parking revenue. All repayments were made by December 31, 2018 and the agreement expired.
- [c] Advances to/from the Centre bear interest at prime. Net interest income of \$58 [2018 – \$83] 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.

5. Capital assets

Capital assets consist of the following:

	2019		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Leasehold improvements	571	349	222
Furniture and equipment	378	214	164
	949	563	386

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

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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% [2018 – 4%]. In addition, 1% [2018 – 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 2019, there was investment income in the amount of \$8,365 earned on investments held for endowments, of which \$4,387 was made available for spending, with \$3,581 recorded in the Restricted Fund and \$806 recorded in the General Fund. \$996 was made available for infrastructure support costs and recorded in the General Fund, and the difference of \$2,982, representing preservation of capital, was recorded in the Endowment Fund.

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.

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 2019, there was \$154 [2018 – \$138] of endowed donations recorded in the General Fund.

7. Restricted Fund

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

	2019	2018
	\$	\$
Restricted at the discretion of the Board of Directors	5,846	6,062
Restricted at the discretion of the donors	37,104	38,898
	<u>42,950</u>	<u>44,960</u>

Unless otherwise specified in a gift agreement, 10% of all restricted donations are recorded in the General Fund. In 2019, there was \$1,110 [2018 – \$1,451] of restricted donations recorded in the General Fund.

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[in thousands of dollars]

March 31, 2019

8. Grants

During the year, the Foundation transferred grants of \$15,981 [2018 – \$14,370] to the Centre [note 4[a]] and nil [2018 – \$21] to third parties.

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	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Donor-directed transfers	—	—	2	32	(2)	(32)
Board-directed transfers	(1,365)	(3,567)	1,365	3,567	—	—
	(1,365)	(3,567)	1,367	3,599	(2)	(32)

The Board approved a transfer of \$1,365 from the General Fund to the Restricted Fund [2018 – \$3,567] 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.

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[in thousands of dollars]

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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.

11. Comparative figures

Certain comparative figures have been reclassified from financial statements previously presented to conform to the current year's presentation.