

Financial Statements

The Baycrest Centre Foundation

March 31, 2014



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, 2014 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, 2014 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 12, 2014.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

The Baycrest Centre Foundation

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2014	2013
	\$	\$
ASSETS		
Cash and cash equivalents	12,783	11,748
Investments <i>[note 3]</i>	117,097	110,051
Due from Baycrest Centre for Geriatric Care <i>[note 4[c]]</i>	—	3,440
Long-term receivable from Baycrest Centre for Geriatric Care <i>[note 4[b]]</i>	1,000	—
Accounts receivable <i>[note 5]</i>	38	2,078
Prepaid expenses and other assets	441	648
Capital assets, net <i>[note 6]</i>	639	678
	131,998	128,643
LIABILITIES AND FUND BALANCES		
Liabilities		
Due to Baycrest Centre for Geriatric Care <i>[note 4[c]]</i>	3,596	—
Accrued liabilities	471	529
Deferred revenue	139	91
	4,206	620
Fund balances		
Endowment Fund <i>[note 7]</i>	97,049	90,558
Restricted Fund <i>[note 8]</i>	30,743	37,465
	127,792	128,023
	131,998	128,643

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]

Years ended March 31

	General		Restricted		Endowment		Total	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
REVENUE								
Contributions <i>[note 5]</i>	3,429	4,842	7,441	8,279	5,259	2,224	16,129	15,345
Events	633	829	2,359	4,170	—	—	2,992	4,999
Investment income <i>[notes 4[c] and 7]</i>	2,012	1,951	3,435	2,641	5,638	3,314	11,085	7,906
	6,074	7,622	13,235	15,090	10,897	5,538	30,206	28,250
EXPENSES <i>[note 4[d]]</i>								
Salaries and benefits	5,894	4,195	275	584	—	—	6,169	4,779
Other	2,164	2,311	—	12	—	—	2,164	2,323
Events	162	332	1,100	2,912	—	—	1,262	3,244
Amortization	87	25	—	—	—	—	87	25
	8,307	6,863	1,375	3,508	—	—	9,682	10,371
Excess (deficiency) of revenue over expenses before grants	(2,233)	759	11,860	11,582	10,897	5,538	20,524	17,879
Grants <i>[note 9]</i>	—	—	(20,755)	(17,401)	—	—	(20,755)	(17,401)
Excess (deficiency) of revenue over expenses for the year	(2,233)	759	(8,895)	(5,819)	10,897	5,538	(231)	478
Fund balances, beginning of year	—	—	37,465	42,522	90,558	85,023	128,023	127,545
Interfund transfers <i>[note 10]</i>	2,233	(759)	2,173	762	(4,406)	(3)	—	—
Fund balances, end of year	—	—	30,743	37,465	97,049	90,558	127,792	128,023

See accompanying notes



The Baycrest Centre Foundation

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Years ended March 31

	2014	2013
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	(231)	478
Add (deduct) items not affecting cash		
Unrealized gain on investments	(10,711)	(7,293)
Amortization	87	25
Changes in non-cash working capital balances		
Accounts receivable	2,040	(1,853)
Prepaid expenses and other assets	207	(174)
Accrued liabilities	(58)	(68)
Deferred revenue	48	(511)
Cash used in operating activities	(8,618)	(9,396)
INVESTING ACTIVITIES		
Net change in due to/from Baycrest Centre for Geriatric Care	7,036	2,014
Long-term advance to Baycrest Centre for Geriatric Care	(1,000)	—
Capital expenditures	(48)	(703)
Proceeds from sale of investments, net	3,665	2,695
Cash provided by investing activities	9,653	4,006
Net increase (decrease) in cash and cash equivalents during the year	1,035	(5,390)
Cash and cash equivalents, beginning of year	11,748	17,138
Cash and cash equivalents, end of year	12,783	11,748

See accompanying notes



The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

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"] in support of its vision to be a global leader in providing innovative and effective solutions to the challenges inherent in the process of aging through the integration of exemplary clinical care, education and scientific discovery. 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, 2014

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. Bequests are recognized 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 since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue in the General Fund when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are recorded in the Restricted Fund when initially recognized in the accounts. Externally restricted endowment contributions are recognized in the Endowment Fund when initially recognized in the accounts.

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NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

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 recorded when earned. Donations received related to an event are recorded 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, effective April 1, 2011, 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, 2014

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	2014 \$	2013 \$
Cash and cash equivalents	Fair value	4,386	7,486
Canadian equities	Fair value	45,944	38,474
US equities	Fair value	7,585	6,217
Canadian bonds	Fair value	42,620	45,546
International bonds	Fair value	3,635	552
International equities			
Europe	Fair value	7,057	5,821
Japan	Fair value	1,847	1,434
Other	Fair value	833	1,181
Fixed income securities not publicly traded	Amortized cost	3,190	3,340
		117,097	110,051

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

Fixed income securities not publicly traded include State of Israel bonds and debentures issued by private companies.

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NOTES TO FINANCIAL STATEMENTS

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March 31, 2014

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

	2014		2013	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Canadian bonds	2.69	9.48	2.41	8.77
International bonds	2.85	5.30	2.79	5.33

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 9]*.
- [b] The long-term receivable from the Centre of \$1,000 [2013 - nil] represents a line of credit bearing interest at 5%, advanced to the Centre on March 28, 2014 with repayments of principal in four annual instalments beginning no later than December 31, 2015. Amounts are collateralized by parking revenue. Principal repayments must begin no later than December 31, 2015 and must be completed no later than December 31, 2018.
- [c] Advances to/from the Centre bear interest at prime. Net interest income of \$162 [2013 - \$334] 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.

5. ACCOUNTS RECEIVABLE

As at March 31, 2013, accounts receivable include a bequest receivable of \$2,040 that was recognized as revenue in fiscal 2013.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

6. CAPITAL ASSETS

Capital assets consist of the following:

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

	2013		
	Cost \$	Accumulated amortization \$	Net book value \$
Leasehold improvements	554	17	537
Furniture and equipment	149	8	141
	703	25	678

7. 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% [2013 - 4%]. 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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In 2014, there was investment income of \$10,696 [2013 - \$6,579] earned on investments held for endowments, of which \$4,222 [2013 - \$2,514] was made available for spending, with \$3,421 [2013 - \$2,514] recorded in the Restricted Fund and \$801 [2013 - nil] was recorded in the General Fund; \$836 [2013 - \$751] was made available for infrastructure support costs and recorded in the General Fund; and the difference of \$5,638 [2013 - \$3,314], representing preservation of capital, was recorded in the Endowment Fund.

8. RESTRICTED FUND

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

	2014	2013
	\$	\$
Restricted at the discretion of the Board of Directors	8,334	11,224
Restricted at the discretion of the donors	22,409	26,241
	30,743	37,465

Unless otherwise specified in a gift agreement, 10% of all restricted donations are recorded in the General Fund.

9. GRANTS

During the year, the Foundation transferred grants of \$20,755 [2013 - \$17,030] to the Centre [note 4[a]]. During the year ended March 31, 2013, the Foundation also transferred \$371 to a third party.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

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10. INTERFUND TRANSFERS

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

	General Fund		Restricted Fund		Endowment Fund	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Donor-directed transfers	—	—	(61)	3	61	(3)
Board-directed transfers	2,233	(759)	2,234	759	(4,467)	—
	2,233	(759)	2,173	762	(4,406)	(3)

During the year, the Foundation determined that certain funds classified as endowments were not externally endowed. The Board approved the transfer of these funds with a total balance of \$4,467 to the Board restricted portion of the Restricted Fund.

The Board also approved a transfer of \$2,233 [2013 - \$759] between the General Fund and the Restricted Fund related to the excess (deficiency) of revenue over expenses in the General Fund.

11. 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]

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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 and liquidity in connection with its investments in securities and underlying investments within pooled funds.

