

Financial Statements

The Baycrest Centre Foundation

March 31, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Directors 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 statements of financial position as at March 31, 2013 and 2012 and April 1, 2011 and the statements of operations and changes in fund balances and cash flows for the years ended March 31, 2013 and 2012, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits 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, 2013 and 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and 2012 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 13, 2013.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

The Baycrest Centre Foundation

STATEMENTS OF FINANCIAL POSITION

[in thousands of dollars]

As at

	March 31, 2013	March 31, 2012	April 1, 2011
	\$	\$	\$
ASSETS			
Cash and cash equivalents	11,748	17,138	28,552
Investments <i>[note 3]</i>	110,051	105,453	99,278
Due from Baycrest Centre for Geriatric Care <i>[note 4[b]]</i>	3,440	5,454	3,492
Accounts receivable <i>[note 5]</i>	2,078	225	188
Prepaid expenses and other assets	648	474	227
Capital assets, net <i>[note 6]</i>	678	—	—
	128,643	128,744	131,737
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued liabilities	529	597	1,303
Deferred revenue	91	602	453
	620	1,199	1,756
Fund balances			
Endowment Fund <i>[note 7]</i>	90,558	85,023	85,907
Restricted Fund <i>[note 8]</i>	37,465	42,522	44,074
	128,023	127,545	129,981
	128,643	128,744	131,737

See accompanying notes

On behalf of the Board:



Director



Director

The Baycrest Centre Foundation

STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCES

[in thousands of dollars]

Years ended March 31

	General		Restricted		Endowment		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Contributions	4,842	5,605	8,279	4,154	2,224	3,204	15,345	12,963
Events	829	2,058	4,170	5,545	—	—	4,999	7,603
Investment income (loss) [notes 4[b] and 7]	1,951	—	2,641	2,579	3,314	(212)	7,906	2,367
	7,622	7,663	15,090	12,278	5,538	2,992	28,250	22,933
EXPENSES								
Salaries and benefits	4,195	2,648	584	592	—	—	4,779	3,240
Other	2,311	1,285	12	114	—	—	2,323	1,399
Events	332	687	2,912	2,856	—	—	3,244	3,543
Amortization	25	—	—	—	—	—	25	—
	6,863	4,620	3,508	3,562	—	—	10,371	8,182
Excess of revenue over expenses before grants	759	3,043	11,582	8,716	5,538	2,992	17,879	14,751
Grants [notes 4[a] and 9]	—	—	(17,401)	(17,187)	—	—	(17,401)	(17,187)
Excess (deficiency) of revenue over expenses for the year	759	3,043	(5,819)	(8,471)	5,538	2,992	478	(2,436)
Fund balances, beginning of year	—	—	42,522	44,074	85,023	85,907	127,545	129,981
Interfund transfers [note 10]	(759)	(3,043)	762	6,919	(3)	(3,876)	—	—
Fund balances, end of year	—	—	37,465	42,522	90,558	85,023	128,023	127,545

See accompanying notes

The Baycrest Centre Foundation

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended March 31

	2013	2012
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	478	(2,436)
Add (deduct) items not affecting cash		
Unrealized gain on investments	(7,293)	(1,305)
Amortization	25	—
Changes in non-cash working capital balances		
Accounts receivable	(1,853)	(37)
Prepaid expenses and other assets	(174)	(247)
Accrued liabilities	(68)	(706)
Deferred revenue	(511)	149
Cash used in operating activities	(9,396)	(4,582)
INVESTING ACTIVITIES		
Net change in due from Baycrest Centre for Geriatric Care	2,014	(1,962)
Capital expenditures	(703)	—
Sale (purchase) of investments, net	2,695	(4,870)
Cash provided by (used in) investing activities	4,006	(6,832)
Net decrease in cash and cash equivalents during the year	(5,390)	(11,414)
Cash and cash equivalents, beginning of year	17,138	28,552
Cash and cash equivalents, end of year	11,748	17,138

See accompanying notes

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2013

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 the 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 Canadian Institute of Chartered Accountants' ["CICA"] 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 the Restricted Fund and held at the discretion of the Board of Directors.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2013

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 statements 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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2013

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

Effective November 17, 2011, contributed materials are recognized in the financial statements at fair market value. An offsetting expense is recorded as a grant to the Centre, representing the transfer of the contributed materials. 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, 2013

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 statements of operations and changes in fund balances.

3. INVESTMENTS

Investments consist of the following:

	Carrying value	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$
Cash and cash equivalents	Fair value	7,486	4,653	3,554
Canadian equities	Fair value	44,691	41,516	45,060
Canadian bonds	Fair value	45,546	48,270	39,762
International bonds	Fair value	552	346	1,040
International equities				
Europe	Fair value	5,821	4,837	4,249
Japan	Fair value	1,434	1,172	1,393
Other	Fair value	1,181	1,319	1,323
Fixed income securities not publicly traded	Amortized cost	3,340	3,340	2,897
		110,051	105,453	99,278

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.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2013

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

	2013		2012	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Canadian bonds	2.41	8.77	2.80	10.0
International bonds	2.79	5.33	4.33	5.40

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] Due from the Centre represents an interest-bearing advance at prime, advanced to the Centre for operating purposes, on which interest of \$334 [2012 - \$251] was earned and included in investment income in the statements of operations and changes in fund balances. Amounts are unsecured with no fixed terms of repayment.
- [c] 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

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, 2013

6. CAPITAL ASSETS

	March 31, 2013			March 31, 2012	April 1, 2011
	Cost	Accumulated amortization	Net book value	Net book value	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 4% [2012 - 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.

In 2013, there was investment income of \$6,579 earned on investments held for endowments, of which \$2,514 was made available for spending and recorded in the Restricted Fund, \$751 was made available for infrastructure support costs and recorded in the General Fund and the difference of \$3,314, representing preservation of capital, was recorded in the Endowment Fund.

In 2012, there was an investment loss of \$212 on endowments which was recorded in the Endowment Fund. The amount made available for spending and infrastructure support costs of \$3,555, calculated in accordance with the Foundation's Income Distribution Policy, was transferred from the Endowment Fund to the Restricted Fund as part of interfund transfers [note 10].

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2013

8. RESTRICTED FUND

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

	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$
Restricted at the discretion of the Board of Directors	11,224	15,839	15,697
Restricted at the discretion of the donors	26,241	26,683	28,377
	37,465	42,522	44,074

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

9. GRANTS

The Foundation transferred grants during the year of \$17,030 [2012 - \$16,874] to the Centre and \$371 [2012 - \$313] to a third party.

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	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Amount made available for spending and infrastructure fee <i>[note 7]</i>	—	—	—	3,555	—	(3,555)
Donor-directed transfers	—	—	3	321	(3)	(321)
Transfer (to) from Board restricted	(759)	(3,043)	759	3,043	—	—
	(759)	(3,043)	762	6,919	(3)	(3,876)

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2013

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.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its investments in fixed income instruments, securities and pooled funds, 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.

12. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

These financial statements are the first financial statements which the Foundation has prepared in accordance with Part III of the CICA Handbook – Accounting, which constitutes generally accepted accounting principles for not-for-profit organizations in Canada ["GAAP"]. In preparing its opening balance sheet as at April 1, 2011 [the "Transition Date"], the Foundation has applied CICA Handbook Section 1501, *First-time Adoption for Not-for-Profit Organizations*.

The Baycrest Centre Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2013

The accounting policies that the Foundation has used in the preparation of its statement of financial position have resulted in certain adjustments to balances which were presented in the statement of financial position prepared in accordance with Part V of the CICA Handbook – Accounting ["Previous GAAP"]. These adjustments were recorded directly to the Foundation's fund balances at the Transition Date using the transitional provisions set out in Section 1501 and are described below.

Reconciliation

The following table provides a reconciliation of fund balances as at April 1, 2011 and the deficiency of revenue over expenses for the year ended March 31, 2012 as presented under Previous GAAP with those computed under GAAP.

	Deficiency of revenue over expenses for the year ended March 31, 2012	Total fund balances as at April 1, 2011
	\$	\$
Deficiency of revenue over expenses, and fund balances, Previous GAAP	(2,508)	128,573
Costs directly related to events [a]	(358)	(114)
Recognition of event revenue [b]	430	1,522
Deficiency of revenue over expenses, and fund balances, GAAP	(2,436)	129,981

[a] Costs directly related to future events

Under Previous GAAP, advertising and promotional costs directly related to the development of future events were recognized as assets when the Foundation could demonstrate that there was future economic benefit associated with these costs. These costs were expensed over their useful life. Under GAAP, these costs do not qualify as assets.

[b] Recognition of event revenue

The Foundation previously deferred donation revenue received in connection with events to be held subsequent to year-end. Donation revenue is now recorded when received.

