

Financial Statements

**The Baycrest Centre Foundation**

March 31, 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 statement of financial position as at March 31, 2012, 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 generally accepted accounting principles, 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, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian generally accepted accounting principles have been applied, except for the change in accounting policies as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada,  
June 13, 2012.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

# The Baycrest Centre Foundation

## STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2012	2011
	\$	\$
<b>ASSETS</b>		
Cash and cash equivalents	17,138	28,552
Investments <i>[note 3]</i>	105,453	99,278
Due from Baycrest Centre for Geriatric Care <i>[note 4[b]]</i>	5,454	3,492
Prepaid expenses and other assets	1,171	529
	<b>129,216</b>	<b>131,851</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accrued liabilities	600	1,303
Deferred revenue	2,551	1,975
<b>Total liabilities</b>	<b>3,151</b>	<b>3,278</b>
<b>Fund balances</b>		
Endowment Fund <i>[note 5]</i>	85,023	85,907
Restricted Fund <i>[note 6]</i>	41,042	42,666
<b>Total fund balances</b>	<b>126,065</b>	<b>128,573</b>
	<b>129,216</b>	<b>131,851</b>

*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		Restricted		Endowment		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUE</b>								
Contributions	5,605	5,481	4,154	4,929	3,204	2,330	12,963	12,740
Events	2,058	2,703	5,078	5,009	—	—	7,136	7,712
Investment income (loss) <i>[notes 4[b] and 5]</i>	—	—	2,921	4,809	(212)	6,016	2,709	10,825
	<b>7,663</b>	<b>8,184</b>	<b>12,153</b>	<b>14,747</b>	<b>2,992</b>	<b>8,346</b>	<b>22,808</b>	<b>31,277</b>
<b>EXPENSES</b>								
Salaries and benefits	2,648	2,935	592	—	—	—	3,240	2,935
Other	1,285	1,046	456	1,141	—	—	1,741	2,187
Events	687	819	2,461	2,393	—	—	3,148	3,212
	<b>4,620</b>	<b>4,800</b>	<b>3,509</b>	<b>3,534</b>	<b>—</b>	<b>—</b>	<b>8,129</b>	<b>8,334</b>
Excess of revenue over expenses before grants	3,043	3,384	8,644	11,213	2,992	8,346	14,679	22,943
Grants <i>[notes 4[a] and 7]</i>	—	—	(17,187)	(16,832)	—	—	(17,187)	(16,832)
<b>(Deficiency) excess of revenue over expenses for the year</b>	<b>3,043</b>	<b>3,384</b>	<b>(8,543)</b>	<b>(5,619)</b>	<b>2,992</b>	<b>8,346</b>	<b>(2,508)</b>	<b>6,111</b>
Fund balances, beginning of year	—	4,000	42,666	39,912	85,907	78,550	128,573	122,462
Interfund transfers <i>[note 8]</i>	(3,043)	(7,384)	6,919	8,373	(3,876)	(989)	—	—
<b>Fund balances, end of year</b>	<b>—</b>	<b>—</b>	<b>41,042</b>	<b>42,666</b>	<b>85,023</b>	<b>85,907</b>	<b>126,065</b>	<b>128,573</b>

See accompanying notes

## The Baycrest Centre Foundation

### STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2012	2011
	\$	\$
<b>OPERATING ACTIVITIES</b>		
(Deficiency) excess of revenue over expenses for the year	(2,508)	6,111
Deduct item not affecting cash		
Unrealized gain on investments	(1,305)	(9,732)
Changes in non-cash working capital balances		
Due from Baycrest Centre for Geriatric Care	(1,962)	9,733
Prepaid expenses and other assets	(642)	(11)
Accrued liabilities	(703)	844
Deferred revenue	576	7
<b>Cash provided by (used in) operating activities</b>	<b>(6,544)</b>	<b>6,952</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments, net	(4,870)	(11,102)
<b>Cash used in investing activities</b>	<b>(4,870)</b>	<b>(11,102)</b>
<b>Net decrease in cash during the year</b>	<b>(11,414)</b>	<b>(4,150)</b>
Cash, beginning of year	28,552	32,702
<b>Cash, end of year</b>	<b>17,138</b>	<b>28,552</b>

*See accompanying notes*

## **The Baycrest Centre Foundation**

# **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars]

March 31, 2012

## **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**

The financial statements of the Foundation have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

### **Fund accounting**

The Foundation follows the restricted fund method of accounting for contributions.

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 designated by the Board of Directors 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 of the General Fund is transferred annually to the Restricted Fund and held at the discretion of the Board of Directors.

### **Investments and investment income**

Publicly traded securities are valued based on the latest bid prices, pooled funds are valued based on reported unit values, and private company securities are valued based on third party valuations. Fixed income securities not publicly traded include State of Israel bonds and debentures which are

## **The Baycrest Centre Foundation**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars]

March 31, 2012

valued based on cost plus accrued income since these securities are intended to be held to maturity. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment income, which consists of interest, dividends, income distributions from pooled funds, realized gains and losses, and unrealized gains and losses, is recorded in the statement of operations and changes in fund balances.

#### **Revenue recognition**

Contributions are recorded as revenue in the year the cash is received.

Event revenues are recorded in the statement of operations and changes in fund balances in the year the event occurs.

Donor-restricted contributions for endowment purposes are recognized as revenue in the Endowment Fund. Other donor-restricted contributions are recognized as revenue of the Restricted Fund. Unrestricted contributions are recognized as revenue of the General Fund.

#### **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.

#### **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 long-term investments.



## The Baycrest Centre Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2012

#### Prepaid expenses and other assets

Costs directly related to the development of future fundraising events are presented as other assets when there is a future economic benefit associated with these costs. The costs are expensed when the fundraising event is held. Such costs are expensed immediately when there is insufficient evidence that the costs are recoverable.

#### 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.

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Financial instruments

The Foundation has chosen to apply the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3861: *Financial Instruments – Disclosure and Presentation*, in place of CICA 3862: *Financial Instruments - Disclosures* and CICA 3863: *Financial Instruments - Presentation*.

The Foundation has classified its financial instruments as follows:

- Fixed income securities not publicly traded as held to maturity
- All other investments as held for trading

#### Future changes in accounting policies

The Accounting Standards Board of the CICA has issued Part III of the CICA Handbook that sets out the accounting standards for not-for-profit organizations that are effective for fiscal years beginning on or after January 1, 2012. The Foundation will transition to these standards in fiscal 2013. The Board of Directors is currently evaluating the impact of these standards.

## The Baycrest Centre Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2012

### 3. INVESTMENTS

Investments consist of the following:

	2012	2011
	\$	\$
Cash and cash equivalents	4,135	3,177
Canadian equities	41,516	45,060
Canadian bonds	48,270	39,762
International bonds	346	1,040
International equity fund	7,328	6,965
Fixed income securities not publicly traded	3,340	2,897
Other	518	377
	<b>105,453</b>	<b>99,278</b>

The foreign content mix of the international equity fund is as follows:

	2012	2011
	%	%
Europe	66	61
Japan	16	20
Other	18	19
	<b>100</b>	<b>100</b>

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

	2012	
	Weighted average yield	Average term to maturity
	%	[years]
Canadian bonds	2.80	10.0
International bonds	4.33	5.40

## The Baycrest Centre Foundation

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2012

#### 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 7]*.
- [b] Due from the Centre represents an interest-bearing advance at prime, advanced to the Centre for operating purposes on which interest of \$251 [2011 - \$98] 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.
- [c] The Centre provides the Foundation with office space, furniture and equipment at no cost. Salaries, benefits, including pension contributions for the Hospitals of Ontario Pension Plan, and certain other expenses are paid by the Centre and are reimbursed by the Foundation.

#### 5. 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% [2011 - 4%]. 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. This amount is expected to be recovered from future investment income.

In 2012, there was an investment loss of \$212 on endowments which was recorded in the Endowment Fund. The amount made available for spending of \$2,478, calculated in accordance with the Foundation's Income Distribution Policy, has been transferred from the Endowment Fund to the Restricted Fund as part of inter-fund transfers *[note 8[b]]*.

In 2011, there was investment income of \$8,602 of which \$2,586 was made available for spending and recorded in the Restricted Fund and the difference of \$6,016, representing preservation of capital, was recorded in the Endowment Fund.

Infrastructure support costs are covered by a transfer from the Endowment Fund based on 1% of the fund balances.

## The Baycrest Centre Foundation

### NOTES TO FINANCIAL STATEMENTS

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#### 6. RESTRICTED FUND

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

	2012 \$	2011 \$
Restricted at the discretion of the Board of Directors	15,839	15,697
Restricted at the discretion of the donors	25,203	26,969
	<b>41,042</b>	<b>42,666</b>

#### 7. GRANTS

The Foundation transferred grants during the year of \$16,874 [2011 - \$16,517] to the Centre and \$313 [2011 - \$315] to a third party.

#### 8. INTERFUND TRANSFERS

[a] An interfund transfer of \$3,043 from the General Fund to the internally restricted portion of the Restricted Fund represents the excess of revenue over expenses in the General Fund [2011 - \$7,384 which represents the opening balance and the excess of revenue over expenses].

[b] Interfund transfers between the Restricted Fund and the Endowment Fund consist of the following:

	Restricted Fund		Endowment Fund	
	2012 \$	2011 \$	2012 \$	2011 \$
Amount made available for spending	2,478	—	(2,478)	—
Investment management fees	342	—	(342)	—
Infrastructure fees	735	694	(735)	(694)
Donor-directed closures	881	884	(881)	(884)
Donor-directed new funds	(560)	(589)	560	589
	<b>3,876</b>	989	<b>(3,876)</b>	(989)

## **The Baycrest Centre Foundation**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars]

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#### **9. FINANCIAL INSTRUMENTS**

The Foundation is subject to market risk, interest rate price risk, and foreign currency risk with respect to its investments. To manage these risks, the Foundation has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

#### **10. CAPITAL MANAGEMENT**

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2012, the Foundation has met its objective of having sufficient liquid resources to meet its current objectives.

#### **11. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 financial statements.