

Financial Statements

**Toronto General & Western Hospital
Foundation**
March 31, 2016



INDEPENDENT AUDITORS' REPORT

To the Members of
Toronto General & Western Hospital Foundation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Toronto General & Western Hospital Foundation**, which comprise the balance sheet as at March 31, 2016, and the statements of revenue, expenses 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 **Toronto General & Western Hospital 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 28, 2016

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto General & Western Hospital Foundation
 Incorporated without share capital under the laws of Ontario

BALANCE SHEET

As at March 31

	2016 \$	2015 \$
		[000's]
ASSETS		
Cash and cash equivalents	32,378	23,108
Accounts receivable	296	227
Prepaid expenses	237	255
Short-term investments <i>[note 3[a]]</i>	10,060	10,096
Other investments <i>[note 3[b]]</i>	438,932	436,035
Capital assets, net <i>[note 4]</i>	118	90
	482,021	469,811
LIABILITIES AND FUND BALANCES		
Current		
Accounts payable and accrued liabilities	2,424	1,547
Due to University Health Network <i>[note 8[e]]</i>	11,403	9,851
Deferred revenue	1,106	860
Total current liabilities	14,933	12,258
Fund balances		
General Fund	674	589
Expendable Restricted Fund <i>[note 5]</i>	238,308	211,508
Endowment Fund <i>[note 6]</i>	228,106	245,456
Total fund balances	467,088	457,553
	482,021	469,811

See accompanying notes

On behalf of the Board:

Director

Director

Toronto General & Western Hospital Foundation

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES

Year ended March 31

	<u>General Fund</u>		<u>Expendable 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>
	\$	\$	\$	\$	\$	\$	\$	\$
	[000's]		[000's]		[000's]		[000's]	
REVENUE								
Donations <i>[notes 8[f] and 9]</i>	2,213	1,659	84,569	79,734	4,243	8,260	91,025	89,653
Special events	—	—	8,654	6,980	300	—	8,954	6,980
Bequests	1,014	1,204	2,361	1,874	943	1,620	4,318	4,698
Total fundraising revenue	3,227	2,863	95,584	88,588	5,486	9,880	104,297	101,331
Investment income (loss) <i>[note 6]</i>	1,604	15,066	(1,535)	6,422	(6,345)	18,062	(6,276)	39,550
	4,831	17,929	94,049	95,010	(859)	27,942	98,021	140,881
EXPENSES								
Fundraising and administrative <i>[notes 8[c] and 10]</i>	12,047	11,034	4,883	4,181	—	—	16,930	15,215
Excess (deficiency) of revenue over expenses before grants	(7,216)	6,895	89,166	90,829	(859)	27,942	81,091	125,666
Grants to University Health Network <i>[note 8[b]]</i>	—	—	(69,803)	(64,615)	—	—	(69,803)	(64,615)
Grants to other qualified donees	—	—	(1,753)	(1,072)	—	—	(1,753)	(1,072)
Total grants	—	—	(71,556)	(65,687)	—	—	(71,556)	(65,687)
Excess (deficiency) of revenue over expenses and grants for the year	(7,216)	6,895	17,610	25,142	(859)	27,942	9,535	59,979
Fund balances, beginning of year	589	450	211,508	181,693	245,456	215,431	457,553	397,574
Interfund transfers <i>[note 7]</i>	7,301	(6,756)	9,190	4,673	(16,491)	2,083	—	—
Fund balances, end of year	674	589	238,308	211,508	228,106	245,456	467,088	457,553

See accompanying notes

Toronto General & Western Hospital Foundation

STATEMENT OF CASH FLOWS

Year ended March 31

	2016	2015
	\$	\$
	[000's]	
OPERATING ACTIVITIES		
Excess of revenue over expenses and grants for the year	9,535	59,979
Item not involving cash		
Amortization of capital assets	22	25
Changes in non-cash balances related to operations		
Accounts receivable	(69)	73
Prepaid expenses	18	7
Accounts payable and accrued liabilities	877	(1,967)
Due to University Health Network	1,552	(1,651)
Deferred revenue	246	351
Reinvested investment loss (income)	6,276	(39,550)
Cash provided by operating activities	18,457	17,267
INVESTING ACTIVITIES		
Contributions to externally managed investments, net	(9,173)	(4,110)
Net change in short-term investments	36	3
Additions to capital assets	(50)	(15)
Cash used in investing activities	(9,187)	(4,122)
Net increase in cash and cash equivalents during the year	9,270	13,145
Cash and cash equivalents, beginning of year	23,108	9,963
Cash and cash equivalents, end of year	32,378	23,108

See accompanying notes

Toronto General & Western Hospital Foundation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

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1. PURPOSE OF THE ORGANIZATION

Toronto General & Western Hospital Foundation [the “Foundation”] is incorporated under the laws of Ontario as a corporation without share capital. The Foundation raises, receives, accumulates and distributes funds and/or the income therefrom for charitable purposes and, in particular, for the benefit of University Health Network [“UHN”] in respect of medical research, education and other activities related to health care.

The Foundation is a public foundation registered under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes under Registration #12386 4068 RR 0001.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of 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

The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided. For financial reporting purposes, the Foundation’s funds have been classified as follows:

The General Fund comprises amounts available for immediate use for the general purposes of the Foundation as determined by the Board of Directors [the “Board”].

The Expendable Restricted Fund comprises amounts that are to be used for specific purposes as specified by the donors, the Board or as stipulated by the fundraising appeal.

The Endowment Fund comprises amounts to be maintained permanently as specified by the donors or the Board.

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

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revenue in the General Fund when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are recognized as revenue in the Expendable Restricted Fund when initially recorded in the accounts. Externally restricted endowment contributions are recognized as revenue 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. Investment income earned on the Endowment Fund or Expendable Restricted Fund resources that must be spent on donor-restricted activities is recognized as revenue of the Expendable 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, Expendable 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.

The Foundation recognizes revenue for special events when earned.

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term investments with an original term to maturity 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 that the Foundation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of revenue, expenses and changes in fund balances in the period during which they are incurred.

Investments in fixed income 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, short-term investments and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost.

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Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of contribution. Amortization is provided on a declining balance basis over the estimated useful lives of the assets at the following annual rates:

Furniture and equipment	20%
Computer equipment	30% - 50%

Grants

Grants are recognized when approved and the recipient has met all conditions.

Foreign currency translation

Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the transaction date. The market values of investments and other monetary items denominated in foreign currencies are translated at the year-end rate. Translation gains and losses are recorded in the statement of revenue, expenses and changes in fund balances.

Contributed goods and services

Contributed goods transferred to UHN are recognized at their fair market value. Other donated goods and services are not recognized in these financial statements.

Allocation of expenses

A portion of the salaries and benefits of employees engaged in fundraising activities is allocated to the Expendable Restricted Fund based on time spent on fundraising programs focused on raising restricted funds. In addition, general fundraising and support expenses equal to a percentage of special events revenue is allocated to the Expendable Restricted Fund when the revenue is recorded in this fund.

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3. INVESTMENTS

- [a] Short-term investments consist of a guaranteed investment certificate, measured at cost plus accrued interest, with a maturity date of less than one year.
- [b] Other investments, which represent amounts managed by external money managers, are measured at fair value and consist of the following:

	2016 \$	2015 \$
Term deposits	13,072	10,338
Bonds		
Canada/Provincial	151,917	144,978
Corporate	93,944	87,774
	245,861	232,752
Equities		
Canadian	69,128	67,728
U.S.	52,516	59,798
Pooled funds – global	58,355	65,419
	179,999	192,945
	438,932	436,035

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

	2016		2015	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Term deposits	0.64	0.13	0.49	0.08
Canada/Provincial bonds	1.51	5.50	1.34	6.60
Corporate bonds	2.23	4.34	1.87	3.97

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Investments are managed as two pools:

- Investments related to the Endowment Fund are invested as follows: short-term investments - 3% [2015 - 3%]; equities - 60% [2015 - 63%]; and fixed income securities - 37% [2015 - 34%].
- Investments related to the Expendable Restricted Fund are invested primarily in fixed income securities, with the exception of \$37,558 [2015 - \$33,000], which was invested in securities with an investment mix consistent with the mix of investments held for the Endowment Fund.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2016		2015	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Furniture and equipment	308	256	306	245
Computer equipment	472	406	424	395
	780	662	730	640
Less accumulated amortization	662		640	
	118		90	

5. EXPENDABLE RESTRICTED FUND

The Expendable Restricted Fund balance represents the excess of amounts received with external restrictions over expenses for the following purposes, together with funds internally restricted by the Board:

	2016	2015
	\$	\$
Externally restricted		
Research	171,516	149,411
Equipment, building and renovation	26,500	23,705
Education and other	27,632	26,692
	225,648	199,808
Internally restricted	12,660	11,700
	238,308	211,508

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The internally restricted balance represents amounts set aside by the Board in a Stabilization Reserve available for operational needs.

6. ENDOWMENT FUND

[a] Major categories of the Endowment Fund balance are as follows:

	2016	2015
	\$	\$
Funds externally restricted for endowment purposes		
Income from which must be used for a restricted purpose	189,597	199,356
Income from which is unrestricted	20,296	21,411
Externally restricted funds restricted for endowment purposes by the Board of Directors	14,144	15,167
Unrestricted funds restricted for endowment purposes by the Board of Directors	4,069	9,522
	228,106	245,456

During 2016, an amount of \$5,160 of the unrestricted funds restricted for endowment purposes, representing the Stabilization Reserve set aside by the Board for operational needs, was transferred to an expendable restricted fund [note 7 [c]].

[b] The Foundation has a policy designed to protect the real value of endowments by limiting the amount of investment income made available for spending and requiring the reinvestment of income not made available. The amount currently made available for spending is 3.5% and for administration is 1%.

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.

The preservation of capital [i.e., any excess investment income earned above the payout rate] is recorded as revenue of the Endowment Fund for donor-designated funds. For Board-designated unrestricted funds, the preservation of capital is recorded as income of the

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General Fund and transferred to the Endowment Fund in the statement of revenue, expenses and changes in fund balances. For Board-designated restricted funds, the preservation of capital is recorded as income in the Expendable Restricted Fund and transferred to the Endowment Fund in the statement of revenue, expenses and changes in fund balances.

- [c] In 2016, there was a loss of \$6,345 in investments held for externally restricted endowments. Losses of \$565 related to Board-designated funds were recorded in the General and Expendable Restricted Funds and offset by transfers from the Endowment Fund *[note 7[a]]*.

The amount of \$6,776 made available for spending as calculated in accordance with the Foundation's Endowment Fund policy was transferred to the Expendable Restricted and General Funds from the Endowment Fund. The amount of \$2,374 made available for administration in accordance with the Board policy was transferred from the Endowment Fund to the General Fund *[note 7[b]]*.

- [d] In 2015, investment income of \$28,682 was earned on investments held for the Endowment Fund. An amount of \$20,150 was allocated for the preservation of capital. Of this amount, \$18,062 related to donor-designated funds was recorded as investment income in the Endowment Fund. Capital preservation of \$2,088 related to Board-designated Expendable Restricted and General Funds was recorded as income in these funds and transferred to the Endowment Fund *[note 7[e]]*.

In 2015, \$6,371 made available for spending as calculated in accordance with the Foundation's Endowment Fund policy was recorded as investment income in the Expendable Restricted and General Funds. In addition, \$2,161 related to donor-designated funds was recorded as investment income to the General Fund for administration in accordance with the Board policy.

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7. INTERFUND TRANSFERS

Transfers between funds consist of the following:

	2016		
	General Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
a) Allocation of investment income in accordance with Board policy <i>[note 6[c]]</i>	126	439	(565)
b) Amount available for spending and administration in accordance with Board policy	2,881	6,269	(9,150)
c) Stabilization Reserve transfers <i>[notes 5 and 6[a]]</i>	4,200	960	(5,160)
d) Other Board/donor approved transfers	94	1,522	(1,616)
	7,301	9,190	(16,491)

	2015		
	General Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
e) Allocation of investment income in accordance with Board policy <i>[note 6[d]]</i>	(857)	(1,231)	2,088
f) Transfer to Stabilization Reserve <i>[notes 5 and 6[a]]</i>	(6,000)	6,000	—
g) Other Board/donor approved transfers	101	(96)	(5)
	(6,756)	4,673	2,083

8. RELATED PARTY TRANSACTIONS

[a] The Foundation, together with four other foundations affiliated with UHN, is responsible for fundraising activities carried out on behalf of UHN.

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[b] During the year, the Foundation funded the following projects carried out at UHN:

	<u>General Fund</u>		<u>Expendable Restricted Fund</u>		<u>Endowment Fund</u>	
	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$
Equipment, building and renovation	—	—	18,410	17,108	—	—
Research, education and patient care	—	—	51,393	47,507	—	—
	—	—	69,803	64,615	—	—

[c] The Foundation reimburses UHN for salaries and benefits of \$11,353 [2015 - \$10,077] recorded in fundraising and administrative expenses associated with UHN staff working at the Foundation. In addition, UHN charged the Foundation \$476 [2015 - \$388] for the use of office equipment and related technical support.

UHN provides the Foundation with space and other administrative support at no cost.

[d] The Foundation pays certain common expenses on behalf of other foundations affiliated with UHN and is reimbursed. The Foundation reimburses the other foundations affiliated with UHN for those common expenses incurred by them on the Foundation's behalf.

[e] Amounts due to UHN are interest free and due on demand.

[f] The Foundation received grants of \$1,968 [2015 - \$1,251] from The American Friends of UHN, Inc., an affiliated United States tax-exempt charitable organization.

9. LOTTERY

During the year, the Foundation operated a 50/50 Payday Raffle lottery under the Alcohol and Gaming Commission of Ontario license.

	\$
Lottery funds revenue	257
Expenses	140
Net proceeds	117

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Lottery funds raised have been used to support research projects at UHN.

The Foundation has a standby letter of credit of \$150 obtained in connection with the lottery.

10. ALLOCATION OF EXPENSES

General fundraising and support expenses of \$867 [2015 - \$546] have been included in fundraising and administrative expenses recorded in the Expendable Restricted Fund.

11. FINANCIAL INSTRUMENTS

The Foundation is exposed to various financial risks through transactions in financial instruments.

Currency risk

The Foundation is exposed to foreign 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 short-term and 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 a pooled fund that holds 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 price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in equity securities and pooled funds.

