

Toronto General & Western Hospital Foundation

Financial statements
March 31, 2018



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, 2018, 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, 2018, 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 19, 2018

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

	2018	2017
	\$	\$
	[000s]	
Assets		
Cash and cash equivalents	43,610	51,458
Accounts receivable	287	324
Prepaid expenses	98	267
Due from University Health Network, net [notes 9[e] and [g]]	7,084	7,507
Investments [note 3]	518,533	484,200
Capital assets, net [note 4]	73	95
	569,685	543,851
Liabilities and fund balances		
Current		
Accounts payable and accrued liabilities	1,825	1,805
Deferred revenue	650	868
Total current liabilities	2,475	2,673
Fund balances		
General Fund	313	635
Expendable Restricted Fund [note 5]	312,666	290,423
Endowment Fund [note 6]	254,231	250,120
Total fund balances	567,210	541,178
	569,685	543,851

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

	General Fund		Expendable Restricted Fund		Endowment Fund		Total	
	2018 \$	2017 \$	2018 \$	2017 \$	2018 \$	2017 \$	2018 \$	2017 \$
	[000s]		[000s]		[000s]		[000s]	
Revenue								
Donations <i>[notes 9[f], [g] and 10]</i>	2,633	3,295	87,186	106,061	6,801	4,033	96,620	113,389
Special events	—	—	9,520	9,631	—	125	9,520	9,756
Bequests	926	1,741	3,073	2,639	177	221	4,176	4,601
Total fundraising revenue	3,559	5,036	99,779	118,331	6,978	4,379	110,316	127,746
Investment income <i>[notes 6 and 7]</i>	8,011	13,772	4,938	10,428	1,239	17,647	14,188	41,847
	11,570	18,808	104,717	128,759	8,217	22,026	124,504	169,593
Expenses								
Fundraising and administrative <i>[notes 9[c] and 11]</i>	11,990	11,593	5,799	5,391	—	—	17,789	16,984
Excess (deficiency) of revenue over expenses before grants	(420)	7,215	98,918	123,368	8,217	22,026	106,715	152,609
Grants to University Health Network <i>[note 9[b]]</i>	—	—	(76,858)	(76,777)	—	—	(76,858)	(76,777)
Grants to other qualified donees	—	—	(3,825)	(1,742)	—	—	(3,825)	(1,742)
Total grants	—	—	(80,683)	(78,519)	—	—	(80,683)	(78,519)
Excess (deficiency) of revenue over expenses and grants for the year	(420)	7,215	18,235	44,849	8,217	22,026	26,032	74,090
Fund balances, beginning of year	635	674	290,423	238,308	250,120	228,106	541,178	467,088
Transfers between funds <i>[note 8]</i>	98	(7,254)	4,008	7,266	(4,106)	(12)	—	—
Fund balances, end of year	313	635	312,666	290,423	254,231	250,120	567,210	541,178

See accompanying notes

Toronto General & Western Hospital Foundation

Statement of cash flows

Year ended March 31

	2018	2017
	\$	\$
	[000s]	
Operating activities		
Excess of revenue over expenses and grants for the year	26,032	74,090
Add item not involving cash		
Amortization of capital assets	26	35
Changes in non-cash working capital balances related to operations		
Accounts receivable	37	(28)
Prepaid expenses	169	(30)
Due from/to University Health Network	423	(18,910)
Accounts payable and accrued liabilities	20	(619)
Deferred revenue	(218)	(238)
Reinvested investment income	(14,188)	(41,847)
Cash provided by operating activities	12,301	12,453
Investing activities		
Transfer to externally managed investments	(30,000)	—
Transfer from externally managed investments	9,855	6,639
Additions to capital assets	(4)	(12)
Cash provided by (used in) investing activities	(20,149)	6,627
Net increase (decrease) in cash during the year	(7,848)	19,080
Cash and cash equivalents, beginning of year	51,458	32,378
Cash and cash equivalents, end of year	43,610	51,458

See accompanying notes

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

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. Summary of significant accounting policies

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

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 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.

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

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 cash and cash equivalents, accounts receivable, short-term investments and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost.

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.

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

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.

3. Investments

Investments are measured at fair value and consist of the following:

	2018 \$	2017 \$
Cash and term deposits	33,624	24,999
Fixed income		
Canada/Provincial	174,395	162,518
Corporate	109,157	94,952
	<u>283,552</u>	<u>257,470</u>
Equities		
Canadian	70,136	71,598
U.S.	61,132	60,576
Pooled funds – global	70,089	69,557
	<u>201,357</u>	<u>201,731</u>
	<u>518,533</u>	<u>484,200</u>

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

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

	2018		2017	
	Weighted average yield %	Average term to maturity [years]	Weighted average yield %	Average term to maturity [years]
Cash and term deposits	1.73	0.72	0.63	0.08
Canada/Provincial bonds	2.32	6.07	1.76	6.24
Corporate bonds	2.82	5.03	1.97	6.57

Investments are managed as two pools:

- [i] Investments related to the Endowment Fund are invested as follows: short-term investments – 2% [2017 – 4%]; equities – 61% [2017 – 62%]; and fixed income securities – 37% [2017 – 34%].
- [ii] Investments related to the Expendable Restricted Fund are invested primarily in fixed income securities, with the exception of \$57,949 [2017 – \$42,064], 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:

	2018		2017	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Furniture and equipment	314	275	312	266
Computer equipment	482	448	480	431
	796	723	792	697
Less accumulated amortization	723		697	
Net book value	73		95	

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

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:

	2018 \$	2017 \$
Externally restricted		
Research	196,670	188,477
Equipment, building and renovation	36,088	28,136
Education and other	63,048	56,950
	<u>295,806</u>	<u>273,563</u>
Internally restricted <i>[note 8[b]]</i>	16,860	16,860
	<u>312,666</u>	<u>290,423</u>

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:

	2018 \$	2017 \$
Funds externally restricted for endowment purposes		
Income from which must be used for a restricted purpose	213,776	209,885
Income from which is unrestricted	22,142	22,022
Externally restricted funds restricted for endowment purposes by the Board of Directors	13,878	13,802
Unrestricted funds restricted for endowment purposes by the Board of Directors	4,435	4,411
	<u>254,231</u>	<u>250,120</u>

[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 1.5%.

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.

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

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 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 2018, investment income of \$12,672 [2017 – \$29,769] was earned on investments held for the Endowment Fund. An amount of \$1,338 [2017 – \$19,052] was allocated for the preservation of capital. Of this amount, \$1,239 [2017 – \$17,647] related to donor-designated funds was recorded as investment income in the Endowment Fund. Capital preservation of \$99 [2017 – \$1,405] related to Board-designated funds was recorded as income in the General and Expendable Restricted Funds then transferred to the Endowment Fund [note 8[a]].

In 2018, \$7,655 [2017 – \$7,319] 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, \$3,679 [2017 – \$3,398] related to donor-designated and Board-designated funds was recorded as investment income in the General Fund for administration in accordance with the Board policy.

7. Investment income (loss)

Investment income (loss) earned on the Foundation's assets consists of the following:

	2018	2017
	\$	\$
Interest and dividends	8,575	11,397
Realized gains (losses)	12,339	11,854
Net change in unrealized gains (losses) on investments	(5,434)	19,927
	15,480	43,178
Less investment management and custodial fees	(1,292)	(1,331)
	14,188	41,847

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

8. Interfund transfers

Transfers between funds consist of the following:

	General Fund		Expendable Restricted Fund		Endowment Fund	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
[a] Allocation of investment income in accordance with Board policy [note 6[c]]	(2)	(388)	(97)	(1,017)	99	1,405
[b] Stabilization Reserve transfers [note 5]	—	(4,200)	—	4,200	—	—
[c] Other Board/donor approved transfers	100	(2,666)	4,105	4,083	(4,205)	(1,417)
	98	(7,254)	4,008	7,266	(4,106)	(12)

9. Related party transactions

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

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

	General Fund		Expendable Restricted Fund		Endowment Fund	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Equipment, building and renovation	—	—	8,731	16,698	—	—
Research, education and patient care	—	—	68,127	60,079	—	—
	—	—	76,858	76,777	—	—

[c] The Foundation reimburses UHN for salaries and benefits of \$11,530 [2017 – \$11,269] recorded in fundraising and administrative expenses associated with UHN staff working at the Foundation. In addition, UHN charged the Foundation \$375 [2017 – \$410] 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.

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

- [e] Amounts due to/from UHN are interest free and due on demand.
- [f] The Foundation received grants of \$1,083 [2017 – \$1,170] from The American Friends of UHN, Inc., an affiliated United States tax-exempt charitable organization.
- [g] During the year ended March 31, 2018, UHN agreed to transfer \$594 [2017 – \$23,635] to the Foundation, which is recorded as revenue in the Expendable Restricted Fund. The amounts due to/from UHN consist of the following:

	2018	2017
	\$	\$
Due from UHN	19,029	20,853
Due to UHN	(11,945)	(13,346)
Due from (to) UHN, net	7,084	7,507

10. Lottery

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

	2018	2017
	\$	\$
Lottery funds revenue	356	316
Expenses	191	171
Net proceeds	165	145

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

The Foundation has a standby letter of credit of \$270 [2017 – \$270] obtained in connection with the lottery.

11. Allocation of expenses

General fundraising and support expenses of \$848 [2017 – \$816] have been included in fundraising and administrative expenses recorded in the Expendable Restricted Fund.

Toronto General & Western Hospital Foundation

Notes to financial statements

[in thousands of dollars, unless otherwise indicated]

March 31, 2018

12. Financial instruments

The Foundation is exposed to various financial risks through 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 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.

13. Comparative financial information

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2018 financial statements.