

Financial Statements

Toronto Community Foundation

March 31, 2014



INDEPENDENT AUDITORS' REPORT

To the Members of the
Toronto Community Foundation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the **Toronto Community Foundation**, which comprise the statement of financial position as at March 31, 2014 and the statements of revenue and 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 the **Toronto Community 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 18, 2014.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto Community Foundation

STATEMENT OF FINANCIAL POSITION

As at March 31

	2014	2013
	\$	\$
		[000's]
ASSETS		
Cash and cash equivalents	450	460
Short-term investments <i>[note 3[b]]</i>	9,753	8,272
Investments <i>[note 3[c]]</i>	208,181	196,576
Other assets <i>[note 5]</i>	456	472
	218,840	205,780
LIABILITIES AND FUND BALANCES		
Liabilities		
Grants and accounts payable	829	737
Funds held on behalf of other parties <i>[note 4]</i>	59,265	64,041
Total liabilities	60,094	64,778
Fund balances		
Endowment Fund <i>[note 6]</i>	137,475	121,737
Restricted Fund <i>[note 7]</i>	19,245	17,573
Operating Fund	2,026	1,692
Total fund balances	158,746	141,002
	218,840	205,780

See accompanying notes

On behalf of the Board:

Director

Director



Toronto Community Foundation

STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES

Year ended March 31

	Endowment Fund		Restricted Term Fund		Restricted Flowthrough Fund		Total Restricted Fund		Operating Fund		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	[000's]											
Revenue												
Donations	1,539	3,065	4,410	4,582	3,862	4,057	8,272	8,639	42	79	9,853	11,783
Investment income [notes 3[f] and 8[a]]	5,792	4,261	10,932	8,094	1,720	1,191	12,652	9,285	550	509	18,994	14,055
Administrative fees	(1,143)	(998)	(1,193)	(1,066)	(215)	(200)	(1,408)	(1,266)	3,013	2,795	462	531
	6,188	6,328	14,149	11,610	5,367	5,048	19,516	16,658	3,605	3,383	29,309	26,369
Expenses												
General and administrative [note 9]	—	—	—	—	—	3	—	3	2,202	1,830	2,202	1,833
Community program	—	—	—	—	162	228	162	228	495	588	657	816
External investment management and custody fees	30	30	3	20	65	46	68	66	657	715	755	811
	30	30	3	20	227	277	230	297	3,354	3,133	3,614	3,460
Excess of revenue over expenses before grants and transfer	6,158	6,298	14,146	11,590	5,140	4,771	19,286	16,361	251	250	25,695	22,909
Grants [note 7[b]]	—	—	3,545	2,414	3,706	3,811	7,251	6,225	—	—	7,251	6,225
Transfer to another Community Foundation	700	—	—	—	—	—	—	—	—	—	700	—
Excess of revenue over expenses for the year	5,458	6,298	10,601	9,176	1,434	960	12,035	10,136	251	250	17,744	16,684
Fund balances beginning of year	121,737	106,779	2,207	1,557	15,366	14,634	17,573	16,191	1,692	1,348	141,002	124,318
Interfund transfers [note 8[b]]	10,280	8,660	(10,946)	(8,526)	583	(228)	(10,363)	(8,754)	83	94	—	—
Fund balances end of year	137,475	121,737	1,862	2,207	17,383	15,366	19,245	17,573	2,026	1,692	158,746	141,002

See accompanying notes



Toronto Community Foundation

STATEMENT OF CASH FLOWS

Year ended March 31

	2014	2013
	\$	\$
		[000's]
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	17,744	16,684
Add (deduct) items not involving cash		
Amortization of capital assets	9	9
Reinvested investment income	(18,734)	(13,547)
External investment management and custody fees	584	812
Changes in non-cash working capital balances related to operations		
Other assets	43	—
Grants and accounts payable	92	(45)
Funds held on behalf of other parties	(4,776)	(5,454)
Cash used in operating activities	(5,038)	(1,541)
INVESTING ACTIVITIES		
Purchase of capital assets	(16)	(17)
Net increase in short-term investments	(1,481)	(1,378)
Withdrawals from external investment managers	6,525	2,859
Cash provided by investing activities	5,028	1,464
Net decrease in cash and cash equivalents during the year	(10)	(77)
Cash and cash equivalents, beginning of year	460	537
Cash and cash equivalents, end of year	450	460

See accompanying notes



Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

1. PURPOSE OF THE FOUNDATION

The Toronto Community Foundation [the "Foundation"] is incorporated without share capital under the laws of Ontario. The objective of the Foundation is to connect philanthropy with community needs and opportunities to make Toronto the best place to live, work, learn, and grow.

The Foundation is a public foundation registered under the Income Tax Act (Canada) [the "Act"] and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

All donations received by the Foundation are classified into Funds, according to the restrictions placed on them by the donors or by the Board of Directors [the "Board"] of the Foundation. 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 are provided.

For financial reporting purposes, the accounts have been classified into the following funds:

[a] Endowment Fund

Endowment Funds are established for gifts where the capital is required to remain at the Foundation in perpetuity. The Endowment Fund is increased by the proportionate share of investment returns allocated to Endowment Fund capital, less amounts allocated to grants and administrative and investment fees. The Board also has a policy to transfer certain donations to the Endowment Fund where there is no current intention of making the original donation available for grants [internally endowed Restricted Term funds].

[b] Restricted Fund

There are two types of Restricted Funds [note 7]. The first type is Funds where the capital may not be granted for a specified period of time, generally 10 years [Restricted Term Funds]. At the expiry of the restriction period, the capital may be granted according to the terms of the Fund. Restricted Term Funds are increased by the proportionate share of investment returns allocated to

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Restricted Fund capital, less grants and administrative and investment fees. In these financial statements, transactions related to Restricted Term Funds are shown in the Restricted Term Fund, and new donations and investment income not allocated to grants or administrative fees in any year are transferred to the Endowment Fund.

The second type of Restricted Funds is not restricted as to the timeframe in which capital may be spent [Restricted Flowthrough Funds]. It is generally expected that the capital of these Funds will be granted within one to two years of its donation, although it may be granted at any time, in whole or in part. In these financial statements, transactions related to Restricted Flowthrough Funds are shown in the Restricted Flowthrough Fund.

Amounts designated to various projects undertaken by the Foundation in partnership with third parties [unspent project funds] are also included in the Restricted Flowthrough Fund.

[c] Operating Fund

The Operating Fund comprises the unrestricted resources available for the Foundation's immediate operating purposes. The use of these funds is at the discretion of the Foundation's Board.

Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions. Grants and 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. Contributions which the donor has required to be held in perpetuity are recognized as revenue in the Endowment Fund. Restricted contributions are recognized as revenue in the Restricted Fund. Unrestricted contributions are recognized as revenue in the Operating Fund.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized capital gains and losses, is recorded in the statement of revenue and expenses and changes in fund balances.

The Foundation has a policy with the objective of protecting the real value of the endowments by limiting the amount of income made available for spending [granting and operating costs] and requiring the reinvestment into the Endowment Fund of income not made available. During the year, 3.5% [2013 - 3.5%] of the market value of most of the Fund balances was made available for granting purposes. Further, an amount representing 1.5% - 2.0% [2013 - 1.5% - 2.0%] of the market value of most of the Fund balances was made available to cover investment management fees, and program and administrative expenses. In any year, should net investment income not be sufficient to fund grants or expenses, an amount is transferred from the Endowment Fund to the Restricted and Operating Funds to cover them.

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

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 that the Foundation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of revenue and 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 and equity instruments not quoted in an active market 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 and grants and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Grants

Grants are recorded when approved by the Foundation's Board and any terms and conditions have been met by the grantee.

Contributed goods and services

Volunteers contribute a substantial number of hours each year to assist the Foundation in carrying out its activities. Because of the difficulty in determining fair value, contributed goods and services are not recognized in the financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term deposits with a term to maturity of 90 days or less at the date of purchase. Cash and cash equivalents held for investing rather than liquidity purposes are classified as investments.

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Foreign currency translation

Foreign currency denominated monetary assets and liabilities have been translated into Canadian dollars at the rate of exchange prevailing at the statement of financial position date. Foreign currency denominated revenue and expenses are translated at the rates prevailing on the transaction date. Gains and losses on current monetary assets and liabilities resulting from translation of foreign currencies are recognized in the statement of revenue and expenses and changes in fund balances during the year in which they arise.

3. INVESTMENTS

[a] The Foundation's objective for investments under its management is to generate a total return that achieves the granting objectives of the Foundation as set each year by its Board, recovers the cost of administering the funds, protects the purchasing power of the capital, and establishes a reserve for future market declines. The Foundation has adopted an active investment approach, whereby the investments referred to below are currently managed by one active manager and one index fund manager.

The Foundation holds a significant portion of its investments in a pool that invests in pooled funds managed by external investment managers. Investment income (loss) earned on investments held by the Foundation in this pool is allocated to the Funds based on monthly market values. Certain endowed and restricted Funds are invested outside the Foundation's main investment pool.

[b] Short-term investments, which are valued at amortized cost, consist of fixed income securities with a weighted average term to maturity of 217 days [2013 - 175 days] and a weighted average yield of 1.4% [2013 - 1.4%].

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[c] Total investments, which include funds held on behalf of other parties invested by the Foundation [note 4], consist of the following:

	2014		2013	
	\$	%	\$	%
	[000's]		[000's]	
Cash and cash equivalents	3,487	2	7,364	4
Fixed income securities	71,310	34	37,963	19
Canadian equities	26,371	13	52,476	26
U.S. equities	41,017	20	42,868	22
Other foreign equities	54,994	26	39,087	20
Other investments [note 3[d]]	11,002	5	15,121	8
Hedge Fund [notes 3[e]and [f]]	—	—	1,697	1
	208,181	100	196,576	100

Investments in pooled funds have been allocated to the appropriate asset classes.

[d] The Foundation has an investment in a diversified pooled fund with Grantham Mayo van Otterloo ["GMO"]. A component of the diversified pooled fund, which is classified as other investments, is invested in mutual funds with GMO that are primarily invested in equity and fixed income securities, and as at February 28, 2014 are also invested in futures contracts, short-term investments, forward currency contracts, and swap agreements.

[e] As at March 31, 2014, all investments are measured at fair value. As at March 31, 2013, the Hedge Fund was valued at cost, net of a provision for impairment.

[f] During the current fiscal year, there was a cash distribution in connection with the Hedge Fund investment of \$1,717,526. The book value of the investment of \$1,697,171 was reduced to zero and the difference of \$20,355 was included in investment income.

4. FUNDS HELD ON BEHALF OF OTHER PARTIES

[a] Asset balances held for other parties are included as investment assets of the Foundation, with an offsetting liability amount, as these funds may be withdrawn at any time.

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[b] Funds of the following organizations are invested with the Foundation's funds:

	2014	2013
	\$	\$
		[000's]
Niagara Community Foundation	18,488	16,218
Boys & Girls Clubs of Canada	7,066	6,891
Helen McCrea Peacock Foundation	4,828	4,459
Campbellford/Seymour Municipal Foundation	3,210	2,963
Campbellford/Seymour Community Foundation	3,008	2,805
Napanee District Community Foundation	2,754	2,447
Ontario Society for the Prevention of Cruelty to Animals	2,509	2,224
United Way of St. Catharines and District	2,429	2,139
Huron Community Foundation	2,136	1,941
Community Foundation of Durham Region	2,097	1,862
Unison Health & Community Services Fund	1,042	513
Amici Camping Charity	827	755
Haynes-Connell Foundation	532	484
Imagine Canada	407	417
Metropolitan Community Church	365	604
Muskoka Community Foundation	358	315
AFP Foundation for Philanthropy – Canada	238	—
Mississauga Community Foundation	—	8,275
Canadian Lyford Cay Foundation	—	1,288
Hope for Children Fund	—	576
	52,294	57,176
Funds held for holders of IPIL shares <i>[note 4[c]]</i>	6,971	6,865
Total funds held on behalf of other parties	59,265	64,041

The receipts and disbursements of these Funds are not reflected in the statement of revenue and expenses and changes in fund balances.

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

[c] By Court Order dated June 1, 2007, the Foundation was named the Residual Beneficiary of a trust which held the remaining assets of Investment Properties International Limited ["IPIL"]. Effective December 31, 2011, assets with a value of US\$6,000,000 were transferred to the Foundation, and the Foundation became entitled to all of the investment income realized from these assets, including interest, dividends, and realized gains. Until December 31, 2021, the Foundation is prohibited from using the capital for any reason other than to pay out legitimate claims of the remaining holders of shares in IPIL. On January 1, 2022, the Foundation will become entitled absolutely to all income and the capital that remains undistributed on that date. The market value of these funds at March 31, 2014 is \$6,970,528 [2013 - \$6,864,784].

The investment income realized from these assets is recognized in the Operating Fund as revenue. Unrealized gains and losses, as well as expenses of these funds, are not reflected in the Foundation's statement of revenue and expenses and changes in fund balances.

[d] In June 2007, a separate account in the name of the United Way Toronto was established to hold investments which had been previously held in the Foundation's account. The Foundation acts as trustee for these investments which, as at March 31, 2014, totalled \$79,640,928 [2013 - \$70,171,970]. These investments are not recorded in these financial statements.

5. OTHER ASSETS

Other assets include accounts receivable, prepaid expenses, capital equipment, and donated assets intended to be sold.

As at March 31, 2014, the carrying value of donated assets intended to be sold included in other assets is \$186,335 [2013 - \$186,601].

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

6. ENDOWMENT FUND

[a] The Endowment Fund consists of the following:

	2014 \$	2013 \$
	[000's]	
Donor Advised Funds		
Funds where grants are distributed to charitable organizations designated by donors at the time the Fund is established or advised annually by donors	106,945	97,200
Community Funds		
Funds where grants are distributed at the discretion of the Foundation's Board	9,643	8,777
Funds where grants are distributed for use in a field of interest at the discretion of the Foundation's Board	16,958	12,677
Funds where grants have been designated for operations by the donor	3,929	3,083
	137,475	121,737

[b] The restrictions on the Endowment Fund are as follows:

	2014 \$	2013 \$
	[000's]	
Externally endowed in perpetuity	63,120	56,847
Internally endowed Restricted Term Funds	74,355	64,890
	137,475	121,737

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

7. RESTRICTED FUND

[a] The Restricted Fund balance consists of the following amounts available for restricted purposes:

	2014 \$	2013 \$
		[000's]
Unspent amounts available for grants attributable to externally endowed Funds	826	838
Unspent amounts available for grants attributable to Restricted Term Funds	1,036	1,369
Unspent Restricted Flowthrough Funds	17,383	15,030
Unspent project funds	—	336
Total Restricted Fund balance	19,245	17,573

[b] Grants were funded as follows:

	2014 \$	2013 \$
		[000's]
Grants from Endowment Fund earnings	3,545	2,414
Grants from Restricted Flowthrough Funds	3,583	3,804
Grants from project funds	123	7
	7,251	6,225

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

8. TRANSFERS BETWEEN FUNDS

[a] The following summarizes the allocation of investment income according to the Foundation's investment policy:

	2014					
	Endowment Fund	Restricted Fund			Operating Fund	Total
		Term	Flowthrough	Total		
\$	\$	\$	\$	\$	\$	
	[000's]					
Allocation for granting	—	4,273	1,505	5,778	—	5,778
Allocation for administrative fees	1,143	1,193	215	1,408	—	2,551
Allocation for capital preservation	4,649	5,466	—	5,466	—	10,115
Allocation for operations	—	—	—	—	550	550
Total investment income	5,792	10,932	1,720	12,652	550	18,994

	2013					
	Endowment Fund	Restricted Fund			Operating Fund	Total
		Term	Flowthrough	Total		
\$	\$	\$	\$	\$	\$	
	[000's]					
Allocation for granting	—	3,890	991	4,881	—	4,881
Allocation for administrative fees	998	1,066	200	1,266	—	2,264
Allocation for capital preservation	3,263	3,138	—	3,138	—	6,401
Allocation for operations	—	—	—	—	509	509
Total investment income	4,261	8,094	1,191	9,285	509	14,055

[b] Interfund transfers consist of the following:

	2014				
	Endowment Fund	Restricted Fund			Operating Fund
		Term	Flowthrough	Total	
\$	\$	\$	\$	\$	
	[000's]				
Transfer of new donations to be managed as endowments	4,410	(4,410)	—	(4,410)	—
Transfer for capital preservation	5,466	(5,466)	—	(5,466)	—
Other transfers	404	(1,070)	583	(487)	83
	10,280	(10,946)	583	(10,363)	83

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

	2013				Operating Fund
	Endowment Fund	Restricted Fund		Total	
	\$	Term \$	Flowthrough \$	\$	
	[000's]				
Transfer of new donations to be managed as endowments	4,582	(4,582)	—	(4,582)	—
Transfer for capital preservation	3,138	(3,138)	—	(3,138)	—
Other transfers	940	(806)	(228)	(1,034)	94
	8,660	(8,526)	(228)	(8,754)	94

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
	\$	\$
	[000's]	
Salaries and wages	1,078	980
Consultants	57	28
Office	431	303
Marketing and advertising	120	106
Fundraising	358	352
Other	158	64
	2,202	1,833

10. INTEREST IN LIFE INSURANCE POLICIES

The Foundation is the assignee and owner of life insurance policies with a cash surrender value of \$730,484 [2013 - \$656,112]. No value related to these policies is included in these financial statements.

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

11. COMMITMENTS

The Foundation is required to make future minimum annual lease payments for its premises as follows:

	\$
2015	63,607
2016	26,832
	<u>90,439</u>

12. CREDIT FACILITY

On March 31, 2011, the Foundation entered into a demand operating facility agreement with a commercial bank for a \$750,000 revolving demand loan bearing interest at the bank's prime lending rate plus 0.5% [March 31, 2014 – 3.5%], against which the assets held for the Operating Fund balance have been pledged as security. As at March 31, 2014, no amounts had been drawn on this facility.

13. 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 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.

Toronto Community Foundation

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its short-term and fixed income investments 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 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.

