

Financial statements

Toronto Foundation

March 31, 2017



**Building a better
working world**

Independent auditors' report

To the Members of the
Toronto Foundation

Report on the financial statements

We have audited the accompanying financial statements of the **Toronto Foundation**, which comprise the statement of financial position as at March 31, 2017 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 Foundation** as at March 31, 2017 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 13, 2017

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Toronto Foundation

Statement of financial position

[in thousands of dollars]

As at March 31

	2017	2016
	\$	\$
Assets		
Cash and cash equivalents	998	2,955
Short-term investments [note 3[b]]	19,045	16,543
Investments [note 3[c]]	327,901	298,328
Other assets [note 7]	657	512
	<u>348,601</u>	<u>318,338</u>
Liabilities and fund balances		
Liabilities		
Grants and accounts payable	707	410
Funds held on behalf of other parties [note 4]	64,027	59,151
Other funds [note 5]	77,837	76,213
Total liabilities	<u>142,571</u>	<u>135,774</u>
Commitments [note 15]		
Fund balances		
Endowment Fund [note 8]	161,949	148,343
Restricted Fund [note 9]	40,241	31,264
Operating Fund	3,840	2,957
Total fund balances	<u>206,030</u>	<u>182,564</u>
	<u>348,601</u>	<u>318,338</u>

See accompanying notes

On behalf of the Board:


Director


Director

Statement of revenue and expenses and changes in fund balances

[in thousands of dollars]

Year ended March 31

	Endowment Fund		Restricted Fund		Operating Fund		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Donations and grants	2,110	1,634	18,868	16,838	768	30	21,746	18,502
Investment income (loss) [notes 3[e] and 10]	3,649	(3,746)	14,278	3,849	863	435	18,790	538
Administrative fees	—	—	(3,134)	(2,986)	4,086	3,840	952	854
	5,759	(2,112)	30,012	17,701	5,717	4,305	41,488	19,894
Expenses								
General and administrative [note 13]	—	—	—	—	3,136	2,584	3,136	2,584
Community program	—	—	237	414	632	799	869	1,213
External investment management and custody fees	—	—	140	133	1,092	997	1,232	1,130
	—	—	377	547	4,860	4,380	5,237	4,927
Excess (deficiency) of revenue over expenses before grants and transfer	5,759	(2,112)	29,635	17,154	857	(75)	36,251	14,967
Grants [note 11]	—	—	12,045	14,380	4	—	12,049	14,380
Transfer (to) from another Foundation	(736)	569	—	—	—	—	(736)	569
Excess (deficiency) of revenue over expenses for the year	5,023	(1,543)	17,590	2,774	853	(75)	23,466	1,156
Fund balances, beginning of year	148,343	151,974	31,264	26,507	2,957	2,927	182,564	181,408
Interfund transfers [note 12]	8,583	(2,088)	(8,613)	1,983	30	105	—	—
Fund balances, end of year	161,949	148,343	40,241	31,264	3,840	2,957	206,030	182,564

See accompanying notes

Toronto Foundation

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2017	2016
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	23,466	1,156
Add (deduct) items not involving cash		
Reinvested investment income	(18,173)	(93)
External investment management and custody fees	973	675
Changes in non-cash working capital balances related to operations		
Other assets	(145)	64
Grants and accounts payable	297	157
Funds held on behalf of other parties	4,876	(5,576)
Other funds	1,624	1,215
Cash provided by (used in) operating activities	12,918	(2,402)
Investing activities		
Net increase in short-term investments	(2,502)	(355)
Net transfers from (to) external money managers	(12,373)	2,720
Cash provided by (used in) investing activities	(14,875)	2,365
Net decrease in cash and cash equivalents during the year	(1,957)	(37)
Cash and cash equivalents, beginning of year	2,955	2,992
Cash and cash equivalents, end of year	998	2,955

See accompanying notes

Toronto Foundation

Notes to financial statements [in thousands of dollars]

March 31, 2017

1. Purpose of the foundation

The Toronto 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

The Foundation follows the restricted fund method of accounting for contributions. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with restricted purposes 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

The Endowment Fund comprises the resources that are required by the donor to be maintained by the Foundation on a permanent basis. In addition, the Board of Directors [the "Board"] has a policy of transferring to the Endowment Fund donations designated by the donor to be held for a term of at least ten years, as well as donations where there is no current intention of making the original donation available for grants.

[b] Restricted Fund

The Restricted Fund comprises the resources that are to be used for specific purposes as specified by the donor or project funder. This includes the administrative expenses, grants and related investment revenues associated with the Endowment Fund.

[c] Operating Fund

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

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2017

Revenue recognition

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

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 investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost, net of a provision for impairment when applicable.

All transactions are recorded on a trade date basis.

Other financial instruments, including 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 they have been duly approved in accordance with the Foundation's Board policies 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 hand 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.

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 monetary assets and liabilities resulting from translation of foreign

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Notes to financial statements

[in thousands of dollars]

March 31, 2017

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 manages its investment strategy through an outsourced Chief Investment Officer.

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 361 days [2016 – 316 days] and a weighted average yield of 1.4% [2016 – 1.12%].
- [c] Total investments, which include funds held on behalf of other parties invested by the Foundation [note 4], consist of the following:

	2017		2016	
	\$	%	\$	%
Cash and cash equivalents	12,724	4	15,685	5
Fixed income securities	57,835	18	70,198	23
Canadian equities	55,610	17	44,523	15
U.S. equities	37,025	11	35,357	12
Other foreign equities	103,873	32	91,438	31
Canadian commercial mortgage funds	18,014	5	17,724	6
U.S. and other foreign floating rate income funds	14,793	4	10,860	4
Short-term high yield bond funds	11,594	4	—	—
Emerging markets local currency bond funds	11,474	3	—	—
Other investments [note 3[d]]	4,959	2	12,543	4
Total investments	327,901	100	298,328	100

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

- [d] Other investments include the fair market value of certain alternative investments, including short positions, forward currency contracts and options, and amortized cost of social impact investments.
- [e] During fiscal 2017, there was a final cash distribution in connection with a hedge fund investment of \$320 [2016 – \$550] which is included in investment income. The book value of this investment was written down in 2006, and was fully recovered in fiscal 2014.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2017

4. Funds held on behalf of other parties

- [a] Funds held on behalf of other parties represent funds included in the investment assets of the Foundation invested on behalf of these parties. There is an offsetting liability amount, as these funds may be withdrawn at any time.
- [b] Funds of the following organizations are invested with the Foundation's funds:

	2017	2016
	\$	\$
Niagara Community Foundation	19,203	17,655
Boys & Girls Clubs of Canada	6,710	7,001
Campbellford/Seymour Community Foundation	6,393	6,158
Helen McCrea Peacock Foundation	5,289	4,987
Toronto Zoo Development Funds	4,121	3,685
Napanee District Community Foundation	3,657	3,408
Ontario Society for the Prevention of Cruelty to Animals	3,644	2,783
United Way of St. Catharines and District	3,019	2,743
Huron Community Foundation	3,013	2,521
Durham Community Foundation	2,564	2,336
Unison Health & Community Services Fund	1,706	1,556
Credit Counselling of Regional Niagara	960	899
Amici Camping Charity	878	861
Muskoka Community Foundation	877	732
Haynes-Connell Foundation	721	646
Metropolitan Community Church	565	517
Writers' Union of Canada	310	299
AFP Foundation for Philanthropy – Canada	288	264
Centre for internationally educated nurses	109	100
Total funds held on behalf of other parties	64,027	59,151

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

5. Other funds

- [a] Other funds represent funds included in the investment assets of the Foundation that have been contributed to the Foundation. There is an offsetting liability as these funds may be withdrawn at any time and/or the disbursement of the funds is not at the discretion of the Foundation.

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Notes to financial statements [in thousands of dollars]

March 31, 2017

[b] Other funds consist of the following:

	2017	2016
	\$	\$
Toronto TO2015 Legacy Fund [note 5[c]]	70,679	69,348
IPIL residual funds [note 5[d]]	7,158	6,865
Total other funds	77,837	76,213

[c] Through contribution agreements entered into between the Government of Canada and the Government of Ontario in 2015 [the "Contribution Agreements"], the Foundation received a total of \$77,000 to establish a legacy fund [the "Legacy Fund"].

The Foundation is responsible for managing and disbursing funds from the Legacy Fund towards Eligible Costs [as defined in the Contribution Agreements] based on recommendations from representatives appointed by the Government of Canada, the Government of Ontario, the City of Toronto, the Canadian Olympic Committee and the Canadian Paralympic Committee. The facilities that will benefit from distributions from the Legacy Fund include: the Toronto Pan Am Sports Centre; the Pan Am and Parapan Am Athletics Stadium and the Pan Am and Parapan Am Velodrome. In fiscal 2017, legacy distributions to the facilities totalled \$5,100 [2016 – \$5,100].

[d] 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 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 as at March 31, 2017 amounted to \$7,158 [2016 – \$6,865].

The investment income realized from these assets is recognized in the Operating Fund as revenue. Unrealized gains and losses, as well as claims and investment management fees related to these funds, are added to or deducted from other funds and are not reflected in the Foundation's statement of revenue and expenses and changes in fund balances.

6. United Way Toronto

The Foundation acts as trustee for investments that it holds in the name of the United Way Toronto, which, as at March 31, 2017, totalled \$99,341 [2016 – \$90,113]. These investments are not recorded in these financial statements.

7. Other assets

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

As at March 31, 2017, the carrying value of donated assets intended to be sold included in other assets amounted to \$204 [2016 – \$189].

Toronto Foundation

Notes to financial statements
[in thousands of dollars]

March 31, 2017

8. Endowment Fund

[a] The Endowment Fund consists of the following:

	2017	2016
	\$	\$
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	128,596	120,050
Community Funds		
Funds where grants are distributed at the discretion of the Foundation's Board	11,377	10,462
Funds where grants are distributed for use in a field of interest at the discretion of the Foundation's Board	18,308	14,337
Funds where grants have been designated for operations by the donor	3,668	3,494
	161,949	148,343

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

	2017	2016
	\$	\$
Externally endowed in perpetuity	73,327	68,656
Board endowed	13,608	12,930
Term endowed	75,014	66,757
	161,949	148,343

[c] 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% [2016 – 3.5%] of the market value of most of the fund balances was made available for granting purposes. Further, an amount representing 1.5% to 2.0% [2016 – 1.5% to 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 that net investment income is insufficient to fund grants or expenses, an amount is transferred from the Endowment Fund to the Restricted and Operating Funds to cover them.

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Notes to financial statements
[in thousands of dollars]

March 31, 2017

9. Restricted Fund

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

	2017	2016
	\$	\$
Unspent amounts available for grants attributable to externally endowed funds	1,089	893
Unspent amounts available for grants attributable to Board and term endowed funds	1,693	1,621
Other unspent Restricted Funds	37,459	28,750
Total Restricted Fund balance	40,241	31,264

10. Investment income

The following tables summarize the allocation of investment income (loss) according to the Foundation's investment policy:

	2017			
	Endowment Fund	Restricted Fund	Operating Fund	Total
	\$	\$	\$	\$
Allocation for granting	—	6,891	—	6,891
Allocation for administrative fees	—	3,134	—	3,134
Allocation for capital preservation	3,649	4,253	—	7,902
Allocation for operations	—	—	863	863
Total investment income	3,649	14,278	863	18,790

	2016			
	Endowment Fund	Restricted Fund	Operating Fund	Total
	\$	\$	\$	\$
Allocation for granting	—	5,286	—	5,286
Allocation for administrative fees	—	2,986	—	2,986
Draw down from prior year's capital preservation	(3,746)	(4,423)	—	(8,169)
Allocation for operations	—	—	435	435
Total investment income	(3,746)	3,849	435	538

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Notes to financial statements

[in thousands of dollars]

March 31, 2017

11. Grants

Grants were funded as follows:

	2017	2016
	\$	\$
Grants from Endowment Fund earnings	3,710	3,411
Grants from Restricted Fund	8,335	10,969
Grants from Operating Fund	4	—
	<u>12,049</u>	<u>14,380</u>

Included in 2016 grants from the Restricted Fund is \$1,194 for tickets to the 2015 Pan American and Parapan American Games, granted to youth through charitable agencies that provide services to at-risk children.

12. Interfund transfers

Interfund transfers consist of the following:

	2017		
	Endowment Fund	Restricted Fund	Operating Fund
	\$	\$	\$
Transfer of new donations to be managed as endowments	4,389	(4,389)	—
Investment income allocation for capital preservation for Board and term endowed funds	4,217	(4,217)	—
Other transfers	(23)	(7)	30
	<u>8,583</u>	<u>(8,613)</u>	<u>30</u>
	2016		
	Endowment Fund	Restricted Fund	Operating Fund
	\$	\$	\$
Transfer of new donations to be managed as endowments	2,399	(2,399)	—
Investment loss drawn down from capital preservation for Board and term endowed funds	(4,469)	4,469	—
Other transfers	(18)	(87)	105
	<u>(2,088)</u>	<u>1,983</u>	<u>105</u>

Toronto Foundation

Notes to financial statements
[in thousands of dollars]

March 31, 2017

13. General and administrative expenses

General and administrative expenses consist of the following:

	2017	2016
	\$	\$
Salaries and wages	1,629	1,469
Office and other	829	517
Consultants and contracted services	329	187
Marketing and advertising	325	361
Fundraising	24	50
	3,136	2,584

14. Interest in life insurance policies

The Foundation is the assignee and owner of life insurance policies with a cash surrender value of \$528 [2016 – \$596]. No value related to these policies is included in these financial statements.

15. Commitments

[a] The Foundation has outstanding investment commitments relating to social impact investments that are expected to be drawn on in 2018. As at March 31, 2017, the committed amount is \$2,300.

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

	\$
2018	67
2019	28
	95

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2017

16. Credit facility

On March 31, 2011, the Foundation entered into a demand operating facility agreement with a commercial bank for a \$750 revolving demand loan bearing interest at the bank's prime lending rate plus 0.5%, against which the assets held for the Operating Fund balance have been pledged as security. As at March 31, 2017, the bank's prime rate was 2.7% [2016 – 2.7%] and no amounts have been drawn on this facility.

17. 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.

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.

18. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2017 financial statements.