

Toronto Foundation

Financial statements

March 31, 2020



Independent auditor's report

To the Members of
Toronto Foundation

Opinion

We have audited the financial statements of **Toronto Foundation** [the "Foundation"], which comprise the statement of financial position as at March 31, 2020, and the statement of revenue and expenses and changes in fund balances, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Foundation as at March 31, 2020, and its results of operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 17, 2020

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Toronto Foundation

Statement of financial position

[in thousands of dollars]

As at March 31

	2020	2019
	\$	\$
Assets		
Cash and cash equivalents	2,983	634
Short-term investments <i>[note 3[b]]</i>	17,950	16,294
Investments recorded at fair market value <i>[notes 3[c] and [e]]</i>	343,893	370,827
Investments recorded at amortized cost <i>[notes 3[c] and [e]]</i>	7,641	6,241
Other assets <i>[note 4]</i>	2,131	3,123
Total assets	374,598	397,119
Liabilities and fund balances		
Liabilities		
Grants and other amounts payable	1,603	883
Funds held on behalf of other parties <i>[note 5]</i>	85,159	94,237
Other funds <i>[note 6]</i>	63,068	72,683
Total liabilities	149,830	167,803
Commitments <i>[note 13]</i>		
Fund balances		
Endowment Fund <i>[note 8]</i>	90,727	91,783
Restricted Fund <i>[note 9]</i>	129,493	132,946
Operating Fund	4,548	4,587
Total fund balances	224,768	229,316
	374,598	397,119

See accompanying notes

On behalf of the Board:

Director



Director



Toronto Foundation

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	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Donations and grants	8,727	2,117	30,625	18,030	156	1,770	39,508	21,917
Investment income (loss)	(4,180)	—	(7,086)	6,594	810	695	(10,456)	7,289
Administrative fees income (expense)	—	—	(3,537)	(3,600)	4,720	4,875	1,183	1,275
	4,547	2,117	20,002	21,024	5,686	7,340	30,235	30,481
Expenses								
General and administrative [note 12]	—	—	—	—	3,769	3,439	3,769	3,439
Community program	—	—	50	93	571	648	621	741
External investment management and custody fees	—	—	106	130	1,529	1,259	1,635	1,389
	—	—	156	223	5,869	5,346	6,025	5,569
Excess (deficiency) of revenue over expenses before grants and transfer	4,547	2,117	19,846	20,801	(183)	1,994	24,210	24,912
Grants [note 10]	—	—	27,152	18,963	—	10	27,152	18,973
Transfer to another foundation	292	—	1,314	—	—	—	1,606	—
Excess (deficiency) of revenue over expenses for the year	4,255	2,117	(8,620)	1,838	(183)	1,984	(4,548)	5,939
Fund balances, beginning of year	91,783	168,038	132,946	51,126	4,587	4,213	229,316	223,377
Interfund transfers [note 11]	(5,311)	(78,372)	5,167	79,982	144	(1,610)	—	—
Fund balances, end of year	90,727	91,783	129,493	132,946	4,548	4,587	224,768	229,316

See accompanying notes

Toronto Foundation

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2020	2019
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses for the year	(4,548)	5,939
Add (deduct) items not involving cash		
Reinvested investment income (loss)	11,244	(7,835)
Changes in non-cash working capital balances related to operations		
Other assets	992	760
Grants and other amounts payable	720	609
Funds held on behalf of other parties	(9,078)	5,534
Other funds	(9,615)	(3,892)
Cash provided by (used in) operating activities	(10,285)	1,115
Investing activities		
Net increase in short-term investments	(1,656)	(1,144)
Net transfers from external money managers	14,290	500
Cash provided by (used in) investing activities	12,634	(644)
Net increase in cash during the year	2,349	471
Cash and cash equivalents, beginning of year	634	163
Cash and cash equivalents, end of year	2,983	634

See accompanying notes

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2020

1. Organization

The Toronto Foundation [the "Foundation"] was established in 1981 and incorporated without share capital under the laws of Ontario. The objective of the Foundation is to create a city of informed, engaged philanthropists, accelerating meaningful change for all, in Toronto and beyond.

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 by management in accordance with the Canadian Accounting Standards for not-for-profit organizations. Details of the significant accounting policies are 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:

- [i] Externally endowed funds, which are resources that are required by the donor to be maintained by the Foundation in perpetuity ["Externally Endowed Funds"]; and
- [ii] Funds endowed by Board policy, where there is no current intention of making the original donation available for grants ["Board Endowed Funds"].

Net investment income earned on endowed funds is made available to fund grants and expenses and is recorded in the statement of revenue and expenses and changes in fund balances in accordance with the Foundation's investment income policy. In any year that net investment income is insufficient to fund grants or expenses, the shortfall is transferred from the Endowment Fund to the Restricted and/or Operating Funds, respectively.

[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, including, effective 2019, funds designated by the donor to be held for a term of at least 10 years ["Term Restricted Funds"]. This includes the administrative fees and other 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, 2020

Revenue recognition

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

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.

Investment income (loss) consisting 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. Investment income earned on the Endowment Fund or Restricted Fund resources that must be spent on donor-restricted activities is recognized as revenue of the Restricted Fund. For permanently endowed funds, investment income subject to donor restrictions stipulating that it be added to the principal amount of the endowment is recognized as revenue of the Endowment Fund. Investment income earned on Operating Fund resources and any portion of investment income earned on Endowment Funds and Restricted Funds that has been designated for operations is recognized as revenue of the Operating Fund. Investment losses are allocated in a manner consistent with investment income.

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 initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less 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.

Life insurance policies

The cash surrender value of life insurance policies, where the Foundation is the owner and beneficiary, is recorded in the Restricted Fund. On receipt of the life insurance survivor benefits, these amounts are transferred to other funds as specified by the donor.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2020

Grants

Grants are recorded when they have been duly approved in accordance with the Foundation's Board policies. Multi-year plans to support community initiatives are subject to annual Board approval of that year's grant amount and the annual amount is recognized at that time.

Donated services

Volunteers contribute a substantial number of hours each year to assist the Foundation in carrying out its activities. The value of these services is 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 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 majority of the Foundation's investments are held in pools that are managed by external investment managers. Investment income (loss) earned on investments held by the Foundation in these pools is allocated to the pools based on monthly market values. Certain investments are held outside the Foundation's externally managed investment pools.

- [b] Short-term investments are valued at amortized cost and consist of fixed income securities with a weighted average term to maturity of 314 days [2019 – 309 days] and a weighted average yield of 2% [2019 – 2.19%].

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

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- [c] Total investments, which include funds held on behalf of other parties invested by the Foundation [note 5], consist of the following:

	2020		2019	
	\$	%	\$	%
Cash and cash equivalents	15,253	4	16,062	4
Fixed income securities	83,042	24	81,873	22
Canadian equities	33,055	9	53,479	14
U.S. equities	33,579	10	35,797	9
Other foreign equities	114,382	32	116,431	31
Canadian commercial mortgage funds	24,379	7	23,121	6
U.S. and other foreign floating rate income funds	13,643	4	15,265	4
Short-term high yield bond funds	11,027	3	10,945	3
Emerging markets local currency bond funds	10,105	3	10,114	3
Other investments [note 3[d]]	13,069	4	13,981	4
Total investments	351,534	100	377,068	100

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

- [d] Other investments include certain alternative investments, including short positions, forward currency contracts and options, and social impact bonds and loans, and private equity partnerships.
- [e] Investments include \$343,893 [2019 – \$370,827] recorded at fair value and \$7,641 [2019 – \$6,241] recorded at amortized cost.

4. Other assets

Other assets consist of the following:

	2020	2019
	\$	\$
Bequests receivable	709	1,561
Cash surrender value of life insurance policies	599	590
Accounts receivable and accrued interest	355	334
Donated assets intended to be sold	204	204
Fixed assets, net of accumulated depreciation	190	238
Prepaid expenses	74	196
Total other assets	2,131	3,123

The Foundation is the owner and beneficiary of life insurance policies with a face value totalling \$5,114 as at March 31, 2020 [2019 – \$5,178].

Toronto Foundation

Notes to financial statements

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5. Funds held on behalf of other parties

[a] The Foundation and various non-profit organizations ["Other Parties"] have established investment pooling arrangements administered by the Foundation. The Other Parties may withdraw their funds with notice to the Foundation. Funds held on behalf of Other Parties represent the Other Parties' share of the investment assets of the Foundation.

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

	2020	2019
	\$	\$
Niagara Community Foundation	42,949	44,196
Boys & Girls Clubs of Canada	5,911	6,280
Campbellford/Seymour Community Foundation	5,461	6,128
Helen McCrea Peacock Foundation	4,280	5,283
Durham Community Foundation	3,934	4,185
Ontario Society for the Prevention of Cruelty to Animals	3,684	3,920
Community Foundation for Lennox & Addington	3,448	3,766
Huron Community Foundation	3,151	3,234
United Way of St. Catharines and District	2,954	3,143
Canadian Lesbian and Gay Archives	2,494	2,654
Toronto Zoo	1,822	4,451
Unison Health & Community Services Fund	1,722	1,832
Amici Camping Charity	938	994
Metropolitan Community Church	697	744
AIDS Committee of Toronto	663	767
Barrie Community Foundation	442	339
Writers' Union of Canada	263	333
AFP Foundation for Philanthropy – Canada	236	255
Centre for internationally educated nurses	110	118
Credit Counselling of Regional Niagara	—	851
Haynes-Connell Foundation	—	764
Total funds held on behalf of other parties	85,159	94,237

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

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2020

6. Other funds

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

[b] Other funds consist of the following:

	2020	2019
	\$	\$
Toronto TO2015 Legacy Fund [note 6[c]]	56,853	65,780
IPIL residual funds [note 6[d]]	6,215	6,903
Total other funds	63,068	72,683

[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 2020, legacy distributions to the facilities totalled \$5,317 [2019 – \$5,264].

[d] By Court Order dated June 1, 2007, the Foundation was named the Residual Beneficiary of a trust that 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, 2020 amounted to \$6,215 [2019 – \$6,903].

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.

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Notes to financial statements

[in thousands of dollars]

March 31, 2020

[e] Equity Fund Initiative

In August 2019, the Foundation, together with two other members of a consortium, being the Equality Fund and World University Service of Canada, entered into a contribution agreement with the Government of Canada to implement and manage the Equality Fund Initiative [the "Initiative"]. The objective of the Initiative is to create a sustainable source of funding to support women's organizations and movements in ODA countries.

The government agreed to contribute \$300,000 for this Initiative. The Foundation received and disbursed funding of \$4,000 to the Equality Fund in October 2019. The Foundation received \$101,000 in April 2020, and the final tranche of \$195,000 is expected in 2020. Under the terms of the agreement, the Foundation exercises complete authority over the government contribution and the funds will be invested using a gender-lens approach.

7. United Way Greater Toronto

The Foundation acts as trustee for investments that it holds in the name of the United Way Greater Toronto, which, as at March 31, 2020, totalled \$76,445 [2019 – \$92,394]. These investments are not recorded in these financial statements.

8. Endowment Fund

[a] 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. The spending policy for a particular fiscal year is adjusted based on a range of factors, including but not limited to, investment returns for the previous year and/or overall market conditions, and the imperatives of carrying out the Foundation's charitable mission. During the year, 4% [2019 – 3.5%] of the market value of most of the fund balances was made available for philanthropic purposes. Further, an amount representing 1.0 % to 2.0% [2019 – 1.5% to 2.0%] of the market value of most of the fund balances was made available to cover investment management fees, and philanthropic and administrative expenses.

In 2020 and 2019, net investment income earned on the Endowment Fund was insufficient to fund grants and expenses. As a result, \$5,311 [2019 – \$2,057] was transferred from the Endowment Fund to the Restricted Fund [note 11].

[b] In 2019, by Board policy effective April 1, 2018, funds designated by the donor to be held for a term of at least 10 years ["Term Restricted Funds"], were transferred from Endowment Funds to Restricted Funds [note 11].

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2020

[c] The Endowment Fund consists of the following:

	2020 \$	2019 \$
Donor Advised Funds		
Funds where grants are distributed to charitable organizations designated by donors	58,861	58,152
Community Funds		
Funds where grants and investments are at the discretion of the Foundation's Board	14,830	13,679
Funds where grants are for a field of interest at the discretion of the Foundation's Board	16,261	16,860
Funds where grants are designated for operations at the discretion of the Foundation's Board	2,775	3,092
	90,727	91,783

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

	2020 \$	2019 \$
Externally Endowed	76,154	75,570
Board Endowed	14,573	16,213
	90,727	91,783

9. Restricted Fund

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

	2020 \$	2019 \$
Term Restricted	64,905	79,144
Other Restricted	63,038	52,646
Unspent amounts available for grants attributable to endowed funds	1,550	1,156
	129,493	132,946

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2020

10. Grants

Grants were funded as follows:

	2020	2019
	\$	\$
Endowed Funds	2,607	2,537
Term and Other Restricted Funds	24,545	16,426
Operating Fund	—	10
	<u>27,152</u>	<u>18,973</u>

11. Interfund transfers

Interfund transfers consist of the following:

	2020		
	Endowment Fund	Restricted Fund	Operating Fund
	\$	\$	\$
Draw-down of capital for granting and expenses <i>[note 8[a]]</i>	(4,720)	4,720	—
Draw-down of capital for investment loss for internally endowed funds <i>[note 8[a]]</i>	(591)	591	—
Other	—	(144)	144
	<u>(5,311)</u>	<u>5,167</u>	<u>144</u>
	2019		
	Endowment Fund	Restricted Fund	Operating Fund
	\$	\$	\$
Transfer of Term Restricted Funds from the Endowment Fund to the Restricted Fund	(78,273)	78,273	—
Transfer of donations to be managed as endowments	1,958	(348)	(1,610)
Draw-down of capital for investment loss for internally endowed funds <i>[note 8[a]]</i>	(2,057)	2,057	—
	<u>(78,372)</u>	<u>79,982</u>	<u>(1,610)</u>

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2020

12. General and administrative expenses

General and administrative expenses consist of the following:

	2020	2019
	\$	\$
Salaries and wages	2,450	2,139
Other expenses:		
Office and other	780	756
Consultants and contracted services	246	232
Marketing and advertising	118	142
Fundraising	175	170
	<u>3,769</u>	<u>3,439</u>

13. Commitments

[a] The Foundation has outstanding commitments relating to limited partnerships, which are expected to be drawn on by 2021. As at March 31, 2020, the committed amount is \$1,316 [2019 – \$1,919].

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

	\$
2021	188
2022	194
2023	200
2024	205
2025	211
Thereafter	766
	<u>1,764</u>

The Foundation has the right to terminate its lease agreement beginning September 1, 2023, subject to the terms of the lease agreement.

14. 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, 2020, the bank's prime rate was 2.45% [2019 – 3.95%] and no amounts have been drawn on this facility.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2020

15. Financial risk management

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

Credit risk is the risk of financial loss to the Foundation if a counterparty to a financial instrument fails to meet its contractual obligations. The Foundation's investments in short-term investments, mortgages, bonds, loans and debentures are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value.

Liquidity risk

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they fall due. The majority of the Foundation's assets are investments traded in active markets that can be readily liquidated and therefore the Foundation's liquidity risk is considered minimal. In addition, the Foundation aims to retain a sufficient cash position to manage requirements.

Market risk

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates, equity prices and valuation of appraisal based assets, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the return.

Currency risk

Investments in foreign securities are exposed to currency risk due to fluctuations in foreign exchange rates. The Foundation is exposed to currency risk on its foreign market common stock, its foreign market bonds and debentures and its multi-strategy funds, as the prices denominated in foreign currencies are converted to Canadian dollars in determining fair value. The objective of the Foundation's investment policy is to control currency risk by maintaining a geographically diversified portfolio.

Interest rate risk

Interest rate risk relates to the risk that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Foundation. The Foundation is invested in a number of fixed income instruments, individual bonds and loans, pooled bond funds, as well as pooled mortgage funds. Duration is the most common measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. The Foundation's portfolio managers limit the duration of the fixed income holdings in their portfolios in order to accommodate possible changes in interest rate.

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[in thousands of dollars]

March 31, 2020

Equity price risk

Equity price risk is the risk that the fair value of equity financial instruments will fluctuate due to changes in market prices. The Foundation is exposed to equity price risk on its investments in preferred and common stock. The objective of the Foundation's investment policy is to manage equity price risk by maintaining a portfolio which is diversified across geographic sectors.

Valuation risk

Valuation risk is specific to appraisal based assets such as real estate. The Foundation is exposed to valuation risk through its investment in a real estate funds limited partnership.

16. COVID-19

In March 2020, the outbreak of the novel Coronavirus ["COVID-19"] was declared a pandemic by the World Health Organization and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to business globally, resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness and governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

As a result of this pandemic, the Foundation incurred an investment loss in 2020. It is not possible to reliably estimate the length and severity of market disruptions nor the impact on the financial position and financial results of the Foundation in future periods, especially as it relates to the future impact on the investment portfolio.

17. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2020 financial statements.