

Toronto Foundation

Financial statements

March 31, 2018



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, 2018, 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, 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 13, 2018

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Toronto Foundation

Statement of financial position

[in thousands of dollars]

As at March 31

	2018	2017
	\$	\$
Assets		
Cash and cash equivalents	163	998
Short-term investments <i>[note 3[b]]</i>	15,150	19,045
Investments <i>[notes 3[c] and [f]]</i>	369,733	327,901
Other assets <i>[note 4]</i>	3,883	657
	<u>388,929</u>	<u>348,601</u>
Liabilities and fund balances		
Liabilities		
Grants and accounts payable	274	707
Funds held on behalf of other parties <i>[note 5]</i>	88,703	64,027
Other funds <i>[note 6]</i>	76,575	77,837
Total liabilities	<u>165,552</u>	<u>142,571</u>
Commitments <i>[note 14]</i>		
Fund balances		
Endowment Fund <i>[note 8]</i>	168,038	161,949
Restricted Fund <i>[note 9]</i>	51,126	40,241
Operating Fund	4,213	3,840
Total fund balances	<u>223,377</u>	<u>206,030</u>
	<u>388,929</u>	<u>348,601</u>

See accompanying notes

On behalf of the Board:

Bill MacKinnon
Director

Greg Wilkinson
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
	2018	2017	2018	2017	2018	2017	
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Donations and grants	1,413	2,110	21,525	18,868	101	768	23,039
Investment income [note 10]	762	3,649	10,802	14,278	1,084	863	12,648
Administrative fees	—	—	(3,381)	(3,134)	4,445	4,086	1,064
	2,175	5,759	28,946	30,012	5,630	5,717	41,488
Expenses							
General and administrative [note 13]	—	—	—	—	3,013	3,136	3,136
Community program	—	—	375	237	538	632	869
External investment management and custody fees	—	—	113	140	1,126	1,092	1,232
	—	—	488	377	4,677	4,860	5,237
Excess of revenue over expenses before grants and transfer	2,175	5,759	28,458	29,635	953	857	36,251
Grants [note 11]	—	—	13,268	12,045	80	4	12,049
Transfer to another Foundation	891	736	—	—	—	—	736
Excess of revenue over expenses for the year	1,284	5,023	15,190	17,590	873	853	23,466
Fund balances, beginning of year	161,949	148,343	40,241	31,264	3,840	2,957	182,564
Interfund transfers [note 12]	4,805	8,583	(4,305)	(8,613)	(500)	30	—
Fund balances, end of year	168,038	161,949	51,126	40,241	4,213	3,840	206,030

See accompanying notes

Toronto Foundation

Statement of cash flows

[in thousands of dollars]

Year ended March 31

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	17,347	23,466
Add (deduct) items not involving cash		
Reinvested investment income	(13,600)	(18,173)
External investment management and custody fees	1,126	973
Changes in non-cash working capital balances related to operations		
Other assets	(3,226)	(145)
Grants and accounts payable	(433)	297
Funds held on behalf of other parties	24,676	4,876
Other funds	(1,262)	1,624
Cash provided by operating activities	<u>24,628</u>	<u>12,918</u>
Investing activities		
Net increase (decrease) in short-term investments	3,895	(2,502)
Net transfers to external money managers	(29,358)	(12,373)
Cash used in investing activities	<u>(25,463)</u>	<u>(14,875)</u>
Net decrease in cash and cash equivalents during the year	(835)	(1,957)
Cash and cash equivalents, beginning of year	<u>998</u>	<u>2,955</u>
Cash and cash equivalents, end of year	<u>163</u>	<u>998</u>

See accompanying notes

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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 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 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; and
- [ii] Funds endowed by Board policy, which consist of the following amounts transferred to the Endowment Fund:
 - [a] Funds designated by the donor to be held for a term of at least ten years ["Term Endowed Funds"], and
 - [b] Funds where there is no current intention of making the original donation available for grants ["Board Endowed Funds"].

[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 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, 2018

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) 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. 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. Unrestricted investment income earned on Endowment Fund, Restricted Fund and Operating Fund resources 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.

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.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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 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 are valued at amortized cost and consist of fixed income securities with a weighted average term to maturity of 365 days [2017 – 361 days] and a weighted average yield of 1.50% [2017 – 1.4%].

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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

	2018		2017	
	\$	%	\$	%
Cash and cash equivalents	16,278	4	12,724	4
Fixed income securities	78,003	21	57,835	18
Canadian equities	50,060	14	55,610	17
U.S. equities	33,171	9	37,025	11
Other foreign equities	123,887	34	103,873	32
Canadian commercial mortgage funds	22,446	6	18,014	5
U.S. and other foreign floating rate income funds	15,165	4	14,793	4
Short-term high yield bond funds	10,609	3	11,594	4
Emerging markets local currency bond funds	11,470	3	11,474	3
Other investments [note 3[d]]	8,644	2	4,959	2
Total investments	369,733	100	327,901	100

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

- [d] Other investments include the certain alternative investments, including short positions, forward currency contracts and options, and social impact bonds and loans and private equity partnerships.
- [e] Investments include \$367,954 [2017 – \$327,701] recorded at fair value and \$1,779 [2017 – \$200] recorded at amortized cost.
- [f] During fiscal 2017, there was a final cash distribution in connection with a hedge investment of \$320 which is included in investment income. The book value of this investment was written down in 2006, and was fully recovered in fiscal 2014.

4. Other assets

Other assets consist of the following:

	2018	2017
	\$	\$
Security proceeds receivable	2,694	—
Cash surrender value of life insurance policies	531	—
Accounts receivable and accrued interest	253	231
Donated assets intended to be sold	204	204
Prepaid expenses	170	164
Fixed assets, net of accumulated depreciation	31	58
Total other assets	3,883	657

The Foundation is the owner and beneficiary of life insurance policies with a face value totalling \$4,678 as at March 31, 2018.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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:

	2018	2017
	\$	\$
Niagara Community Foundation	40,638	19,203
Campbellford/Seymour Community Foundation	6,306	6,393
Boys & Girls Clubs of Canada	6,147	6,710
Helen McCrea Peacock Foundation	5,390	5,289
Toronto Zoo	4,241	4,121
Ontario Society for the Prevention of Cruelty to Animals	3,842	3,644
Community Foundation for Lennox & Addington	3,734	3,657
Huron Community Foundation	3,164	3,013
United Way of St. Catharines and District	3,082	3,019
Durham Community Foundation	2,864	2,564
Canadian Lesbian and Gay Archives	2,603	—
Unison Health & Community Services Fund	1,798	1,706
Credit Counselling of Regional Niagara	960	960
Amici Camping Charity	924	878
Aids Committee of Toronto	753	—
Haynes-Connell Foundation	749	721
Metropolitan Community Church	670	565
Writers' Union of Canada	327	310
AFP Foundation for Philanthropy – Canada	250	288
Barrie Community Foundation	146	—
Centre for internationally educated nurses	115	109
Muskoka Community Foundation	—	877
Total funds held on behalf of other parties	88,703	64,027

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, 2018

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:

	2018	2017
	\$	\$
Toronto TO2015 Legacy Fund <i>[note 6[c]]</i>	69,595	70,679
IPIL residual funds <i>[note 6[d]]</i>	6,980	7,158
Total other funds	76,575	77,837

[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 2018, legacy distributions to the facilities totalled \$5,407 [2017 – \$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, 2018 amounted to \$6,980 [2017 – \$7,158].

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.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

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, 2018, totalled \$92,190 [2017 – \$99,341]. These investments are not recorded in these financial statements.

8. Endowment Fund

[a] The Endowment Fund consists of the following:

	2018 \$	2017 \$
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	128,898	128,596
Community Funds		
Funds where grants are distributed at the discretion of the Foundation's Board	11,737	11,377
Funds where grants are distributed for use in a field of interest at the discretion of the Foundation's Board	23,706	18,308
Funds where grants have been designated for operations by the donor	3,697	3,668
	168,038	161,949

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

	2018 \$	2017 \$
Externally endowed	75,128	73,327
Board endowed	14,637	13,608
Term endowed	78,273	75,014
	168,038	161,949

[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% [2017 – 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% [2017 – 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.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

9. Restricted Fund

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

	2018	2017
	\$	\$
Unspent amounts available for grants attributable to externally endowed funds	1,026	1,089
Unspent amounts available for grants attributable to Board and term endowed funds	1,525	1,693
Other unspent Restricted Funds	48,575	37,459
Total Restricted Fund balance	51,126	40,241

10. Investment income

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

	2018			
	Endowment Fund	Restricted Fund	Operating Fund	Total
	\$	\$	\$	\$
Allocation for granting	—	6,562	—	6,562
Allocation for administrative fees	—	3,382	—	3,382
Allocation for capital preservation	762	858	—	1,620
Allocation for operations	—	—	1,084	1,084
Total investment income	762	10,802	1,084	12,648

	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

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

11. Grants

Grants were funded as follows:

	2018	2017
	\$	\$
Externally Endowed Funds	1,969	1,595
Board and Term Endowed Funds	2,840	2,115
Restricted Fund	8,459	8,335
Operating Fund	80	4
	<u>13,348</u>	<u>12,049</u>

12. Interfund transfers

Interfund transfers consist of the following:

	2018		
	Endowment Fund	Restricted Fund	Operating Fund
	\$	\$	\$
Transfer of new donations to be managed as endowments	3,472	(3,472)	—
Investment income allocation for capital preservation for Board and term endowed funds	825	(825)	—
Other transfers	508	(8)	(500)
	<u>4,805</u>	<u>(4,305)</u>	<u>(500)</u>
	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>

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

13. General and administrative expenses

General and administrative expenses consist of the following:

	2018	2017
	\$	\$
Salaries and wages	1,984	1,629
Office and other	662	829
Consultants and contracted services	148	329
Marketing and advertising	175	325
Fundraising	44	24
	<u>3,013</u>	<u>3,136</u>

14. Commitments

- [a] The Foundation has outstanding commitments relating to social impact investments that are expected to be drawn on in 2019. As at March 31, 2018, the committed amount is \$1,206.
- [b] The Foundation is required to make future minimum annual lease payments for its premises as follows:

	\$
2019	80
2020	91
2021	95
2022	99
2023	103
Thereafter	621
	<u>1,089</u>

The Foundation has the right to terminate its lease agreement after five years, subject to the terms of the lease agreement.

15. 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, 2018, the bank's prime rate was 3.45% [2017 – 2.7%] and no amounts have been drawn on this facility.

Toronto Foundation

Notes to financial statements

[in thousands of dollars]

March 31, 2018

16. 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

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.

17. Comparative financial statements

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