

Toronto Rehabilitation Institute Foundation

Financial statements
March 31, 2018



Independent auditors' report

To the Members of
Toronto Rehabilitation Institute Foundation

Report on the financial statements

We have audited the accompanying financial statements of **Toronto Rehabilitation Institute Foundation**, which comprise the balance sheet as at March 31, 2018, and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Toronto Rehabilitation Institute 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 11, 2018

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Toronto Rehabilitation Institute Foundation

Balance sheet

As at March 31

	2018	2017
	\$	\$
Assets		
Cash	1,593,807	505,868
Accounts receivable [note 7]	454,018	783,431
Investments [note 3]	30,765,421	24,171,111
	<u>32,813,246</u>	<u>25,460,410</u>
Liabilities and fund balances		
Accrued liabilities	179,122	95,536
Due to University Health Network [note 8[c]]	4,172,353	4,943,166
Total liabilities	<u>4,351,475</u>	<u>5,038,702</u>
Commitments [note 8[d]]		
Fund balances		
Unrestricted	2,448,877	1,280,224
Restricted [note 4]	17,526,037	10,575,389
Endowment [note 5]	8,486,857	8,566,095
Total fund balances	<u>28,461,771</u>	<u>20,421,708</u>
	<u>32,813,246</u>	<u>25,460,410</u>

See accompanying notes

On behalf of the Board:


Director


Director

Toronto Rehabilitation Institute Foundation

Statement of operations and changes in fund balances

Year ended March 31

	Unrestricted Fund		Restricted Fund		Endowment Fund		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Donations <i>[note 7[a]]</i>	7,381,834	3,004,676	8,011,867	3,306,816	98,880	300,640	15,492,581	6,612,132
Special events	606,804	307,587	728,633	314,341	—	—	1,335,437	621,928
Investment income <i>[notes 3[b] and 5[d]]</i>	82,628	142,701	366,268	863,334	—	247,087	448,896	1,253,122
	8,071,266	3,454,964	9,106,768	4,484,491	98,880	547,727	17,276,914	8,487,182
Expenses <i>[note 8[b]]</i>								
Salaries and benefits	1,851,172	1,613,543	67,049	100,000	—	—	1,918,221	1,713,543
Special events	25,814	92,566	338,073	29,003	—	—	363,887	121,569
Other	595,813	534,395	20,797	15,662	—	—	616,610	550,057
	2,472,799	2,240,504	425,919	144,665	—	—	2,898,718	2,385,169
Excess of revenue over expenses before the following	5,598,467	1,214,460	8,680,849	4,339,826	98,880	547,727	14,378,196	6,102,013
Grants <i>[note 8[a]]</i>	(1,599,637)	(1,423,333)	(4,738,496)	(4,259,903)	—	—	(6,338,133)	(5,683,236)
Excess (deficiency) of revenue over expenses for the year	3,998,830	(208,873)	3,942,353	79,923	98,880	547,727	8,040,063	418,777
Fund balances, beginning of year	1,280,224	1,160,600	10,575,389	11,107,543	8,566,095	7,734,788	20,421,708	20,002,931
Interfund transfers <i>[note 6]</i>	(2,830,177)	328,497	3,008,295	(612,077)	(178,118)	283,580	—	—
Fund balances, end of year	2,448,877	1,280,224	17,526,037	10,575,389	8,486,857	8,566,095	28,461,771	20,421,708

See accompanying notes

Toronto Rehabilitation Institute Foundation

Statement of cash flows

Year ended March 31

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	8,040,063	418,777
Changes in non-cash balances related to operations		
Accounts receivable	329,413	(457,364)
Accrued liabilities	83,586	(38,787)
Due to University Health Network	(770,813)	(1,945,066)
Cash provided by (used in) operating activities	7,682,249	(2,022,440)
Investing activities		
Net change in investments	(6,594,310)	2,172,872
Cash provided by (used in) investing activities	(6,594,310)	2,172,872
Net increase in cash during the year	1,087,939	150,432
Cash, beginning of year	505,868	355,436
Cash, end of year	1,593,807	505,868

See accompanying notes

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Notes to financial statements

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1. Purpose

Toronto Rehabilitation Institute Foundation [the "Foundation"] is incorporated under the laws of Ontario as a corporation without share capital. The Foundation raises, receives, accumulates and distributes funds and/or the income therefrom to improve and enhance rehabilitation research, professional education and patient care activities provided by the Toronto Rehabilitation Institute ["Toronto Rehab"], which is part of the University Health Network ["UHN"].

The Foundation is a public foundation registered under the *Income Tax Act* (Canada) and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes, under Registration Number 88098 0461 RR 0001.

The Foundation is responsible for all fundraising activities carried out on behalf of Toronto Rehab.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

Fund accounting

The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purposes for which they were provided. Transfers between the funds are made when it is considered appropriate and authorized by the Board of Directors [the "Board"]. These interfund transfers are recorded in the statement of operations and changes in fund balances.

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

[a] Unrestricted Fund

The Unrestricted Fund accounts for the Foundation's general fundraising, granting and administrative activities. The Unrestricted Fund reports unrestricted resources available for immediate purposes.

[b] Restricted Fund

The Restricted Fund includes those funds where resources are to be used for an identified purpose as specified by the donor, as stipulated by the fundraising appeal or as determined by the Board.

[c] Endowment Fund

The Endowment Fund includes those funds where either donor or internal restrictions require that the principal be maintained by the Foundation on a permanent basis.

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Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions, which include grants, bequests and other donations. Grants and bequests are recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue in the Unrestricted Fund when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are recognized in the Restricted Fund when initially recorded in the accounts. Externally restricted endowment contributions are recognized in the Endowment Fund when initially recorded in the accounts.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded in the statement of operations and changes in fund balances. Investment income earned on Restricted Fund and Endowment Fund resources that must be spent on donor-restricted activities is recognized in the Restricted Fund. Investment income (loss) subject to restrictions stipulating that it be added to (deducted from) the principal amount of the endowment is recognized in the Endowment Fund. Unrestricted investment income (loss) earned on Unrestricted Fund, Restricted Fund and Endowment Fund resources is recognized in the Unrestricted Fund.

Revenue for special events is recognized when earned.

Contributed capital assets that are transferred to Toronto Rehab are recognized at their fair market value as donations revenue in the financial statements.

Financial instruments

Investments reported at fair value consist of equity instruments quoted in an active market, pooled funds, and fixed income securities and equity instruments not quoted in an active market that the Foundation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations and changes in fund balances in the period during which they are incurred.

Investments in fixed income investments and equity instruments not quoted in an active market not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at cost or amortized cost using the straight-line method, less any provision for impairment.

All transactions are recorded on a trade date basis.

Other financial instruments 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 and the recipient has met all conditions.

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Contributed materials and services

Volunteers contribute a substantial number of hours each year to assist the Foundation in carrying out its fundraising activities; however, those services cannot be readily valued and are therefore not recognized in the financial statements.

Allocation of expenses

Direct costs of fundraising programs are allocated between the Unrestricted Fund and Restricted Fund based on the fund in which the related revenue is recorded. All salaries and benefits are allocated to the Unrestricted Fund, unless they relate to a special event or there is a special fundraising campaign, in which case salaries and benefits are allocated to the Restricted Fund based on an estimate of time spent on the campaign.

3. Investments

[a] Investments consist of the following:

	Carrying value	2018 \$	2017 \$
Treasury bills	Fair value	198,304	196,678
Equities			
Canadian	Fair value	4,203,847	3,610,546
U.S. and other foreign	Fair value	5,041,260	1,851,338
Bonds	Fair value	21,322,009	18,512,548
Investment in start-up company	Cost	1	1
		30,765,421	24,171,111

Investments in pooled funds have been allocated among the asset classes based on the underlying investments in the pooled funds.

[b] Investment income of \$448,896 [2017 – \$1,253,122] is net of investment counselling fees of \$106,488 [2017 – \$104,084].

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4. Restricted fund

The Restricted Fund includes funds held for the following purposes for Toronto Rehab:

	2018 \$	2017 \$
Externally restricted		
Program	4,946,349	5,025,143
Research	8,696,035	4,138,142
Capital	645,617	1,255,730
	<u>14,288,001</u>	<u>10,419,015</u>
Internally restricted	3,238,036	156,374
	<u>17,526,037</u>	<u>10,575,389</u>

5. Endowment fund

[a] The Endowment Fund consists of externally restricted contributions received by the Foundation where the endowment principal is required to be maintained intact. The Endowment Fund also includes internal resources transferred by the Board to the Endowment Fund, with the intention that the principal be maintained intact. The investment income generated from assets held for endowment purposes must be used in accordance with the various purposes established by the donors or the Board.

[b] Major categories of the Endowment Fund balances are as follows:

	2018 \$	2017 \$
Donor-designated	3,991,349	3,984,400
Board-designated		
Unrestricted funds	94,325	95,487
Restricted funds	4,401,183	4,486,208
	<u>8,486,857</u>	<u>8,566,095</u>

In addition, during 2001, the Foundation and the University of Toronto [the "University"] each contributed \$1,500,000 to establish The Toronto Rehabilitation Institute Chair. The University is responsible for managing this endowment with the intent that the capital value be maintained in perpetuity. These funds are recorded in the financial statements of the University. The annual income from this endowment is to be made available to support the holder of the Chair. As at April 30, 2017, the date of the most recent valuation, the market value of the original \$3,000,000 endowment was approximately \$3,585,873.

[c] Investment income is allocated among the funds based on the Foundation's policy. This policy has the objective of protecting the real value of the endowments over time by limiting the amount of income made available for spending and requiring the reinvestment of any income in excess of this limit. Currently, the

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income available for spending is set at 3.5% of the average value of each fund with the exception of certain research chair funds which are at 5%.

The preservation of capital is recorded as revenue of the Endowment Fund for externally endowed funds. For Board-designated unrestricted funds, the preservation of capital is recorded as income of the Unrestricted Fund and transferred to the Endowment Fund in the statement of operations and changes in fund balances. For Board-designated restricted funds, the preservation of capital is recorded as income of the Restricted Fund and transferred to the Endowment Fund in the statement of operations and changes in fund balances. In any year, should net investment income not be sufficient to fund the amount required for spending, the amount that is to be made available for spending is funded by a transfer from the Endowment Fund. This amount is expected to be recovered by future net investment income.

- [d] In 2018, investment income earned on the endowment fund of \$245,113 was insufficient to payout the amounts available for spending under the Foundation's current policy and as a result there is no preservation of capital in the current year. Of the total amount earned in the year, \$3,299 related to Board-designated unrestricted funds, was recorded as income in the Unrestricted Fund and then transferred to the Endowment Fund; \$124,734 related to Board-designated restricted funds, was recorded as income in the Restricted Fund and then transferred to the Endowment Fund [note 6]. The amount earned on the donor-designated funds of \$117,080 was not sufficient to payout the allocations in accordance to the Foundation's policy so the amounts were allocated all to the restricted fund as a portion of the amount allocated for spending.

The amounts made available for spending as calculated in accordance with the Foundation's policy was \$423,231 comprised of \$188,835 from donor-designated funds, \$230,135 from Board designated restricted funds and \$4,261 from Board-designated unrestricted funds. The deficiency of investment income earned on endowments over the spending allocation of \$306,151 was recorded as a transfer from the Endowment Fund to the Restricted Fund [note 6]. Of the deficiency, \$4,261 represents the allocation for the Board designated unrestricted funds, \$230,135 represents the allocation for the Board designated restricted funds and \$71,755 represents the allocation for the donor-restricted funds of \$188,835 less the amount allocated from invested income earned in the year of \$117,080.

In 2017, investment income of \$891,924 was earned on investments held for endowment funds. Of this amount, \$247,087 related to preservation of capital for donor-designated funds was recorded as investment income in the Endowment Fund. Capital preservation of \$8,201, related to Board-designated unrestricted funds, was recorded as income in the Unrestricted Fund and then transferred to the Endowment Fund. Capital preservation of \$250,335, related to Board-designated restricted funds, was recorded as income in the Restricted Fund and then transferred to the Endowment Fund [note 6].

Of the total investment income, \$168,996 and \$213,408 earned on donor-designated endowment and Board-designated restricted endowment funds was made available for spending and recorded as Restricted Fund revenue. Investment income of \$3,897 earned on Board-designated unrestricted funds was made available for spending and recorded as revenue in the Unrestricted Fund and transferred to the Restricted Fund [note 6].

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6. Interfund transfers

Transfers between funds consist of the following:

	2018		
	Unrestricted Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
Allocation of investment income and amount available for spending related to Board-designated endowments <i>[note 5[d]]</i>	(3,299)	181,417	(178,118)
Board-approved transfers	(2,826,878)	2,826,878	—
	(2,830,177)	3,008,295	(178,118)

	2017		
	Unrestricted Fund	Restricted Fund	Endowment Fund
	\$	\$	\$
Allocation of investment income and amount available for spending related to Board-designated endowments <i>[note 5[d]]</i>	(12,098)	(246,438)	258,536
Donor-approved transfers	—	(25,044)	25,044
Board-approved transfers	340,595	(340,595)	—
	328,497	(612,077)	283,580

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7. Bequests and pledges

- [a] As at March 31, 2018, accounts receivable includes \$405,028 [2017 – \$734,000] representing the outstanding payment with respect to two [2017 – one] bequests and four [2017 – three] pledges.
- [b] Pledges have been committed and will be recorded as donation revenue when received. Management believes that substantially all of these pledges will be collected. The payment schedule for the pledges is as follows:

	\$
2019	7,584,587
2020	5,647,968
2021	4,949,088
2022	4,357,018
2023 and thereafter	9,930,839
	<u>32,469,500</u>

8. Related party transactions

- [a] In fiscal 2018, the Foundation recorded grants of \$6,338,133 [2017 – \$5,683,236] to UHN for research and other initiatives.
- [b] UHN provides certain services to the Foundation and pays some expenses on behalf of the Foundation. The Foundation reimburses UHN for all direct costs associated with services provided and expenses paid, including salaries and benefits of \$1,918,221 [2017 – \$1,713,543] associated with staff working at the Foundation. UHN provides office space to the Foundation on a rent-free basis.
- [c] The amount due to UHN of \$4,172,353 [2017 – \$4,943,166] as at March 31, 2018 relates to grants and expenses paid on behalf of the Foundation, is payable on demand and is non-interest bearing.
- [d] As of March 31, 2018, there are approved commitments for fiscal 2019 to provide Toronto Rehab with grants of \$1,800,000 for annual operations funding for research scientists and \$975,000 in annual funding for research chairs.

Additional Board approved commitments include: \$4,440,000 for the redevelopment of the E.W. Bickle Centre for Complex Continuing Care [to be funded through installments over the period ending in fiscal 2021]; \$4,753,329 for research initiatives [to be funded through installments over the period ending in fiscal 2021]; and \$642,400 for other grants [to be funded through installments over the period ending in fiscal 2019].

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9. Financial instruments

The Foundation is exposed to various financial risks through transactions in financial instruments.

Credit risk

The Foundation is exposed to credit risk in connection with its short-term and fixed-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.

Liquidity risk

The Foundation is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities and future commitments. The Foundation derives a significant portion of its revenue through fundraising with no firm commitment of funding in future years.

Currency risk

The Foundation is exposed to currency risk with respect to 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.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its short-term and fixed-term investments and the underlying investments in a pooled fund that holds fixed income securities, because the fair value will fluctuate due to changes in market interest rates.

Other price risk

The Foundation is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments in pooled funds.

10. Comparative financial statements

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