

Mount Sinai Hospital Foundation of Toronto

Financial Statements
March 31, 2014



May 27, 2014

Independent Auditor's Report

To the Board of Directors of Mount Sinai Hospital Foundation of Toronto

We have audited the accompanying financial statements of Mount Sinai Hospital Foundation of Toronto, which comprise the statement of financial position as at March 31, 2014 and the statements operations and changes in fund balances and cash flows for the year then ended, and the related notes, which comprise 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.

Auditor's 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 auditor's 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 auditor considers 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.

*PricewaterhouseCoopers LLP
North American Centre, 5700 Yonge Street, Suite 1900, North York, Ontario, Canada M2M 4K7
T: +1 416 218 1500, F: +1 416 218 1499*



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mount Sinai Hospital Foundation of Toronto as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Mount Sinai Hospital Foundation of Toronto

Statement of Financial Position

As at March 31, 2014

	2014 \$	2013 \$
Assets		
Current assets		
Cash	2,542,610	8,867,360
Accounts receivable	215,419	816,285
Prepaid expenses	163,666	108,533
Investments (note 3)	5,435,936	-
	<u>8,357,631</u>	<u>9,792,178</u>
Investments (note 3)	85,598,965	58,339,225
Capital assets (note 4)	<u>172,718</u>	<u>186,351</u>
	<u>94,129,314</u>	<u>68,317,754</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	357,250	715,943
Due to Mount Sinai Hospital (note 5)	2,481,862	1,372,751
	<u>2,839,112</u>	<u>2,088,694</u>
Due to Mount Sinai Hospital (note 5)	4,571,463	4,646,000
Other long-term liabilities	<u>60,633</u>	<u>84,943</u>
	<u>7,471,208</u>	<u>6,819,637</u>
Fund Balances		
General Fund (note 6)	(9,720,478)	(8,734,466)
Endowment Fund (note 7)	79,822,861	53,205,179
Restricted Fund	<u>16,555,723</u>	<u>17,027,404</u>
	<u>86,658,106</u>	<u>61,498,117</u>
	<u>94,129,314</u>	<u>68,317,754</u>

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements.

Mount Sinai Hospital Foundation of Toronto

Statement of Operations and Changes in Fund Balances

For the year ended March 31, 2014

	General Fund		Restricted Fund		Endowment Fund		Total	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$ (note 14)
Income								
Donations, bequests and contributions	6,049,371	5,058,952	26,393,537	25,675,600	26,177,083	217,426	58,619,991	30,951,978
Events revenue	126,204	373,132	4,139,251	6,337,754	-	-	4,265,455	6,710,886
Interest	265,998	139,481	-	-	-	-	265,998	139,481
	6,441,573	5,571,565	30,532,788	32,013,354	26,177,083	217,426	63,151,444	37,802,345
Investment income (note 8)	-	-	1,775,493	2,077,741	3,712,477	1,501,295	5,487,970	3,579,036
	6,441,573	5,571,565	32,308,281	34,091,095	29,889,560	1,718,721	68,639,414	41,381,381
Expenses								
Events	38,820	74,164	1,161,407	2,505,949	-	-	1,200,227	2,580,113
Fundraising and administrative	6,933,712	6,195,015	20,866	-	-	-	6,954,578	6,195,015
	6,972,532	6,269,179	1,182,273	2,505,949	-	-	8,154,805	8,775,128
Surplus (deficit) before grants	(530,959)	(697,614)	31,126,008	31,585,146	29,889,560	1,718,721	60,484,609	32,606,253
Grants (note 9)	(2,376,473)	(2,194,806)	(28,009,603)	(26,904,444)	(4,938,544)	(5,000,000)	(35,324,620)	(34,099,250)
Surplus (deficit) for the year	(2,907,432)	(2,892,420)	3,116,405	4,680,702	24,951,016	(3,281,279)	25,159,989	(1,492,997)
Fund balances - Beginning of year	(8,734,466)	(7,927,986)	17,027,404	13,967,366	53,205,179	56,472,670	61,498,117	62,512,050
Contribution of Auxiliary by Mount Sinai Hospital (note 1)	-	-	-	479,064	-	-	-	479,064
Interfund transfers (note 10)	1,921,420	2,085,940	(3,588,086)	(2,099,728)	1,666,666	13,788	-	-
Fund balances - End of year	(9,720,478)	(8,734,466)	16,555,723	17,027,404	79,822,861	53,205,179	86,658,106	61,498,117

The accompanying notes are an integral part of these financial statements.

Mount Sinai Hospital Foundation of Toronto

Statement of Cash Flows

For the year ended March 31, 2014

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Surplus (deficit) for the year	25,159,989	(1,492,997)
Items not involving cash		
Amortization of capital assets	60,458	38,337
Amortization of deferred lease inducements	(24,310)	(24,309)
Change in fair value of investments	(5,487,970)	(3,579,036)
	<u>19,708,167</u>	<u>(5,058,005)</u>
Net changes in non-cash working capital items		
Accounts receivable	600,866	(473,245)
Prepaid expenses	(55,133)	118,790
Due to Mount Sinai Hospital	1,034,574	(475,249)
Accounts payable and accrued liabilities	(358,693)	33,385
Short-term investments	(5,435,936)	-
	<u>(4,214,322)</u>	<u>(796,319)</u>
	<u>15,493,845</u>	<u>(5,854,324)</u>
Financing activities		
Contribution of Auxiliary cash from Mount Sinai Hospital	-	280,814
Investing activities		
Due from Mount Sinai Hospital	-	2,000,000
Purchase of capital assets	(46,825)	(81,999)
Purchase of investments	(26,971,770)	-
Sale of investments	5,200,000	5,059,208
	<u>(21,818,595)</u>	<u>6,977,209</u>
Change in cash during the year	(6,324,750)	1,403,699
Cash - Beginning of year	8,867,360	7,463,661
Cash - End of year	<u>2,542,610</u>	<u>8,867,360</u>
Supplementary information		
Non-cash transaction		
Contribution of Auxiliary net assets from Mount Sinai Hospital (note 1)	-	479,064

The accompanying notes are an integral part of these financial statements.

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

1 Purpose of the organization

The Mount Sinai Hospital Foundation of Toronto (the Foundation) is incorporated under the laws of Ontario as a corporation without share capital. The Foundation receives, accumulates and distributes funds and/or the income therefrom for the advancement of medical research, education and improvement of patient care at Mount Sinai Hospital (the Hospital).

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 under registration number 11904 8106 RR0001.

Effective April 1, 2012, the Boards of Directors of the Hospital and the Foundation approved the corporate transfer of the Mount Sinai Hospital Auxiliary (the Auxiliary) from the Hospital to the Foundation. All opening balances from the Auxiliary were included in the Foundation's statement of financial position as at April 1, 2012, which obtained a net asset contribution of \$479,064 as a result of the inclusion.

2 Summary of significant accounting policies

The financial statements of the Foundation have been prepared in accordance with accounting standards for not-for-profit organizations (ASNPO). The following summary of significant accounting policies is set forth to facilitate the understanding of these financial statements.

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 a restricted purpose are expended for the purpose for which they were provided.

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

a) General Fund

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

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 of Directors. The Foundation allocates 10% of all restricted revenues, other than payout on the Endowment Fund to the Restricted Fund, to the General Fund to fund critical needs support for the Hospital.

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

c) Endowment Fund

The Endowment Fund includes those funds where either donor or internal Board of Directors restrictions require the principal to be maintained by the Foundation for a specified period of time. Annually, a payout rate is determined by the Board of Directors (in each of 2013 and 2014 that rate was 3.5%) applied to the closing market value of the non-Lunenfeld Endowment balance and is recorded in the Restricted Fund. For the Lunenfeld Endowment Fund, realized investment income is recorded in the Restricted Fund (note 8).

Investments

Publicly traded securities are valued based on the closing prices and pooled funds are valued based on reported unit values. Fixed income securities not publicly traded include State of Israel bonds and debentures, which are valued based on cost plus accrued income. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Revenue recognition

Unrestricted contributions are recognized as revenue of the General Fund in the year received. Donor restricted contributions for specific purposes are recognized as revenue of the Restricted Fund unless the capital is to be maintained permanently, in which case the contributions are recognized as revenue of the Endowment Fund.

Income from investments represents interest, dividends and realized and unrealized gains and losses, net of safekeeping and investment counsel and other investment expenses. Realized investment income earned in the year on endowments is reported in the Restricted Fund up to the authorized payment amount (note 8) with the remainder reported in the Endowment Fund. Change in fair value of investments including unrealized income in the Endowment Fund is reported fully in the Endowment Fund. Investment income earned on Restricted Fund and General Fund resources is recognized as income of the respective funds.

Pledges

The Foundation records pledges as revenue when they are received.

Contributed goods and services

Contributed goods and services are not recognized in the financial statements.

Capital assets

Purchased capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	10 years
Furniture and fixtures	10 years
Computer hardware and software	3 years

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

Financial instruments and risk management

Investments are recorded at fair value. Transaction costs related to investments are expensed as incurred. For certain of the Foundation's other financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, their carrying values approximate their fair values due to their short-term maturities.

Deferred leasehold inducements

Leasehold inducements received in respect of leased office space occupied by the Foundation have been deferred. Amortization is provided on a straight-line basis over the estimated useful life. Leasehold inducements are included in long-term liabilities.

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

3 Investments

	2014 \$	2013 \$
Short-term		
Donated securities	403,909	-
Guaranteed investment certificate	5,032,027	-
	<hr/> 5,435,936	<hr/> -
Long-term		
Pooled funds	52,361,391	28,661,659
Bonds and debentures	14,482,881	15,137,703
Equities		
Canadian	8,019,807	6,597,324
US	8,578,773	6,778,234
Other	2,027,515	1,015,562
State of Israel bonds	128,598	148,743
	<hr/> 85,598,965	<hr/> 58,339,225
	<hr/> 91,034,901	<hr/> 58,339,225

Pooled funds consist of cash and a short-term investment totalling \$15,468,783 (2013 - \$74,339), bonds of \$14,954,279 (2013 - \$17,003,078), Canadian equities of \$12,172,433 (2013 - \$7,677,859), and US equities of \$9,765,896 (2013 - \$3,906,383).

The investment portfolio is managed in accordance with the Foundation's policy and/or donor agreements. Cash and the short-term investment, which are included as part of pooled funds, are classified as investments as the monies are to be reinvested. Investments made using endowed funds are classified as long-term.

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

4 Capital assets

			2014	2013
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Leasehold improvements	251,615	167,737	83,878	85,306
Furniture and fixtures	104,421	62,265	42,156	38,462
Computer hardware and software	367,010	320,326	46,684	62,583
	723,046	550,328	172,718	186,351

5 Related party balances and transactions

Amounts owing to the Hospital include:

	2014 \$	2013 \$
Payable to the Hospital		
Lunenfeld-Tanenbaum Research Institute (LTRI)	4,871,463	4,961,854
Other payables	2,181,862	1,056,897
	7,053,325	6,018,751
Less: Current portion	(2,481,862)	(1,372,751)
	4,571,463	4,646,000

In October 2007, an agreement was made with the Hospital to provide operating grants of \$7,700,144 to LTRI, formerly Samuel Lunenfeld Research Institute (SLRI), for which annual payments are equal to the lesser of: (i) all unrestricted monies raised by the Foundation less its operating expenses; and (ii) \$300,000 plus an amount equivalent to the interest cost borne by the Hospital. The outstanding payable relating to this agreement is \$4,871,463 (2013 - \$4,961,854).

The Hospital provides certain services to the Foundation and pays certain expenses on behalf of the Foundation. The Foundation reimburses the Hospital for all direct costs associated with the services provided and expenses paid. Administrative expenses of \$433,595 (2013 - \$349,353) were paid to the Hospital for office space occupied by the Foundation, which is leased on a month-to-month basis, payroll processing, human resources and information technology systems support, insurance coverage and visitors' reserved parking at the Hospital.

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

6 General Fund

	2014 \$	2013 \$
Unrestricted	(9,893,196)	(8,920,817)
Invested in capital assets	172,718	186,351
	<u>(9,720,478)</u>	<u>(8,734,466)</u>

The unrestricted deficiency has arisen as a result of a shortfall of funds directed to LTRI from operating and unrestricted funds in the current and prior years available to meet the budgetary needs of LTRI.

7 Endowment Fund

Endowments consist of externally restricted donations received by the Foundation and internal resources transferred by the Board of Directors, in the exercise of its discretion. With respect to the latter case, the Board of Directors may have the right to subsequently decide to remove the designation. The endowment principal is required to be maintained intact over time, subject to the Foundation's endowment policy.

Investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board of Directors. The Foundation ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

The Foundation's endowment policy, for endowments other than the Lunenfeld Endowment Fund, has been established with the objective of protecting the value of the endowments by limiting the amount of income made available for spending to the payout amount and requiring the reinvestment of income not made available for payout, with the objective of increasing the combined value of donated funds and cumulative investment returns at the rate of inflation or greater, over time (preservation of capital). The payout amount that is available for spending is restricted to the purposes set out in the donor agreement, if applicable, or as stipulated by the Board of Directors. The investment policy has established a minimum target rate of return objective as the sum of the payout rate and the inflation rate, with the aim of providing steady, predictable investment returns. The payout amount made available for spending will be reviewed and set by the Board of Directors annually, and for both fiscal years 2013 and 2014 was 3.5%. The Lunenfeld Endowment Fund has a payout rate of actual investment income earned during the year.

In any particular year, should net investment income be insufficient to satisfy the payout amount set by the Board of Directors, or if the investment return is negative, the payout amount is funded by the accumulated reinvested income in the Endowment Fund. In general, for individual endowment funds without sufficient accumulated reinvestment income, endowment capital is used in the current year. This amount is expected to be recovered by future net investment income.

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

In fiscal 2014, investment income of \$5,369,386 (net of fees and expenses of \$321,443) was earned on endowment funds. The payout amount was recorded in the Restricted Fund at \$1,656,909, calculated as 3.5% of non-Lunenfeld endowment funds and the actual return on Lunenfeld funds of 2.21%. The remaining \$3,712,477 represents the preservation of capital on externally restricted endowments, which was recorded as investment income in the Endowment Fund.

In fiscal 2013, investment income of \$3,433,346 (net of fees and expenses of \$295,570) was earned on endowment funds. The payout amount was recorded in the Restricted Fund at \$1,932,051, calculated as 3.5% of non-Lunenfeld endowment funds and the actual return on Lunenfeld funds of 2.9%. The remaining \$1,501,295 represents the preservation of capital on externally restricted endowments, which was recorded as investment income in the Endowment Fund.

Major categories of restrictions on fund balances are as follows:

	2014 \$	2013 \$
Endowments, income from which must be used for research purposes	53,843,173	30,239,882
Endowments, income from which must be used for other restricted purposes	25,840,409	22,836,672
Funds restricted for research endowed by the Board of Directors	139,279	128,625
	<u>79,822,861</u>	<u>53,205,179</u>

During the year, the Foundation provided a \$5,000,000 (2013 - \$5,000,000) advance on future grants to the Hospital to support the operations of LTRI drawn from the Samuel Lunenfeld Research Institute Endowment Fund, as permitted by the endowment agreement. The advances will be repaid by funds received and retained by the Foundation in support of LTRI over a three-year period ending in 2016 and 2017 corresponding with the respective draws. As at March 31, 2014, the Endowment Fund is to be reimbursed \$8,333,334 (2013 - \$5,000,000).

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

8 Investment income

Endowment Funds

				2014	2013
	General Fund	Restricted Fund	Endowment Fund	Total	Total
	\$	\$	\$	\$	\$
Investment income on Endowment Fund	-	1,656,909	115,257	1,772,166	2,086,104
Change in fair value of investments	-	-	3,918,663	3,918,663	1,642,812
	-	1,656,909	4,033,920	5,690,829	3,728,916
Less: Investment and custodian fees	-	-	(321,443)	(321,443)	(295,570)
Net investment income	-	1,656,909	3,712,477	5,369,386	3,433,346

General and Restricted (Non-endowed) Funds

				2014	2013
	General Fund	Restricted Fund	Endowment Fund	Total	Total
	\$	\$	\$	\$	\$
Investment income	-	156,539	-	156,539	148,843
Change in fair value of investments	-	(29,006)	-	(29,006)	16,111
	-	127,533	-	127,533	164,954
Less: Investment and custodian fees	-	(8,949)	-	(8,949)	(19,264)
Net investment income	-	118,584	-	118,584	145,690

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

Total investment income

				2014	2013
	General Fund	Restricted Fund	Endowment Fund	Total	Total
	\$	\$	\$	\$	\$
Net investment income (Endowed Funds)	-	1,656,909	3,712,477	5,369,386	3,433,346
Net investment income (Non-endowed Funds)	-	118,584	-	118,584	145,690
	-	1,775,493	3,712,477	5,487,970	3,579,036

9 Grants

The grants to the Hospital were as follows:

	2014	2013
	\$	\$
Capital, clinical and other	28,421,797	23,100,667
SLRI	6,902,823	10,998,583
	35,324,620	34,099,250

10 Interfund transfers

In 2014, the Foundation transferred \$2,097,498 from the Restricted Fund to the General Fund for the critical needs support allocation from donor restricted funds. Interfund transfers of \$1,490,588 and \$176,078 from the Restricted Fund and the General Fund, respectively, were made to the Lunenfeld Endowment Fund as the first payment for the fiscal 2013 draw of \$5,000,000.

In 2013, the Foundation transferred \$2,085,940 from the Restricted Fund to the General Fund for the critical needs support allocation from donor restricted funds of \$2,077,346 and a reallocation of prior year's funds of \$8,594. An interfund transfer of \$13,788 was recorded to reallocate certain prior year funds.

11 Entitlements

The Foundation is the income beneficiary of an estate, which is administered by a major Canadian trust company. The fair value of the Foundation's portion of the estate as at March 31, 2014 is \$5,909,133 (2013 - \$5,517,744), which represents a 30% share in the estate. The income included in donations, bequests and contributions of the General Fund for the year ended March 31, 2014 is \$177,000 (2013 - \$187,641).

Mount Sinai Hospital Foundation of Toronto

Notes to Financial Statements

March 31, 2014

12 Pledges receivable

At the end of the fiscal year, pledges receivable by the Foundation are as follows:

	\$
2014/2015	28,049,746
2015/2016	19,066,216
2016/2017	12,694,825
2017/2018	12,258,611
2018 and thereafter	<u>53,388,623</u>
	<u>125,458,021</u>

13 Commitments

From time to time the Foundation may enter into arrangements whereby it is required to match amounts donated on a best efforts basis over an unspecified period. As at March 31, 2014, there was \$366,796 (2013 - \$366,796) of such amounts to be funded. In addition, there exists a commitment to match the annual pay-out for joint Mount Sinai Hospital-University of Toronto endowed chairs based on the closing market value of the investments at the beginning of each fiscal year. The match amount for the next fiscal year has been calculated at \$447,180. Since the match is based on the market value of investments, the amount in future years will fluctuate and is expected to increase over the long-term.

14 Subsequent events

Subsequent to March 31, 2014, the Boards of Mount Sinai Hospital and Bridgepoint Active Healthcare (Bridgepoint) each passed a motion to join with each other in the provision of services, subject to due diligence and regulatory approval. It is contemplated that should this transaction proceed, the foundations of Mount Sinai Hospital and Bridgepoint would similarly join with each other in the provision of services, subject to due diligence and member approval.

15 Comparative balances

Prior year balances have been reclassified to conform to the current year's financial statement presentation.