

Combined Financial Statements

Baycrest Centre for Geriatric Care

March 31, 2008



AUDITORS' REPORT

To the Board of Directors of
Baycrest Centre for Geriatric Care

We have audited the combined statement of financial position of **Baycrest Centre for Geriatric Care** as at March 31, 2008 and the combined statements of operations, changes in deficit and cash flows for the year then ended. These combined financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the combined financial position of the Centre as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Toronto, Canada,
May 16, 2008.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2008	2007
	\$	\$
ASSETS		
Current		
Cash	—	1,853
Cash held on behalf of the Ministry of Health and Long Term Care <i>[note 3]</i>	5,336	7,200
Investments <i>[note 4]</i>	805	1,052
Accounts receivable	5,406	4,172
Inventories, deposits and prepaid expenses	1,910	1,885
Total current assets	13,457	16,162
Fixed assets, net <i>[note 5]</i>	106,217	108,414
	119,674	124,576
LIABILITIES AND DEFICIT		
Current		
Bank indebtedness <i>[note 6]</i>	2,455	—
Accounts payable and accrued liabilities <i>[notes 3 and 7]</i>	27,490	30,269
Deferred program contributions <i>[note 8]</i>	5,161	4,833
Due to The Baycrest Centre Foundation <i>[note 12[c]]</i>	2,729	4,780
Residents' trust funds <i>[note 4]</i>	707	808
Total current liabilities	38,542	40,690
Long-term debt <i>[note 7]</i>	14,029	14,696
Deferred capital contributions <i>[note 8]</i>	73,821	75,538
Employee future benefits <i>[note 10]</i>	6,409	5,956
Total liabilities	132,801	136,880
Contingencies <i>[note 11]</i>		
Deficit	(13,127)	(12,304)
	119,674	124,576

See accompanying notes

On behalf of the Board:



Director



Director



Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF OPERATIONS

[in thousands of dollars]

Year ended March 31

	2008	2007
	\$	\$
REVENUE		
Ministry of Health and Long Term Care and the Toronto Central Local Health Integration Network	76,194	73,356
Charges for services	21,143	20,974
The Baycrest Centre Foundation grants <i>[note 12[b]]</i>	13,455	11,252
Other grants	7,522	9,219
Investment income	161	95
Amortization of deferred capital contributions <i>[note 8]</i>	5,536	5,319
Sundry	4,908	5,128
	<u>128,919</u>	<u>125,343</u>
EXPENSES		
Salaries and employee benefits <i>[note 10]</i>	93,954	94,434
Other operating	27,122	27,482
Amortization of fixed assets	7,337	7,843
Interest <i>[notes 7 and 12[c]]</i>	1,565	1,672
	<u>129,978</u>	<u>131,431</u>
Deficiency of revenue over expenses for the year	<u>(1,059)</u>	<u>(6,088)</u>

See accompanying notes



Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CHANGES IN DEFICIT

[in thousands of dollars]

Year ended March 31

	2008		
	Investment in fixed assets	Deficit	Total
	\$	\$	\$
	[note 9]		
Balance, beginning of year	17,331	(29,635)	(12,304)
Deficiency of revenue over expenses for the year [note 9]	(1,801)	742	(1,059)
Change in investment in fixed assets [note 9]	1,667	(1,667)	—
Donated works of art	236	—	236
Balance, end of year	17,433	(30,560)	(13,127)

	2007		
	Investment in fixed assets	Deficit	Total
	\$	\$	\$
	[note 9]		
Balance, beginning of year	17,165	(23,564)	(6,399)
Deficiency of revenue over expenses for the year [note 9]	(2,524)	(3,564)	(6,088)
Change in investment in fixed assets [note 9]	2,507	(2,507)	—
Donated works of art	183	—	183
Balance, end of year	17,331	(29,635)	(12,304)

See accompanying notes



Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Deficiency of revenue over expenses for the year	(1,059)	(6,088)
Add (deduct) items not affecting cash		
Amortization of fixed assets	7,337	7,843
Amortization of deferred capital contributions	(5,536)	(5,319)
Net change in non-cash working capital balances related to operations	(3,982)	790
Cash used in operating activities	<u>(3,240)</u>	<u>(2,774)</u>
FINANCING AND INVESTING ACTIVITIES		
Repayment of mortgages and other	(874)	(923)
Contributions for purchase of fixed assets <i>[note 8]</i>	3,819	4,449
Decrease in residents' trust funds	(101)	(396)
Purchase of fixed assets <i>[note 9]</i>	(4,612)	(6,033)
Increase in employee future benefits	453	1,894
Decrease in investments	247	450
Cash used in financing and investing activities	<u>(1,068)</u>	<u>(559)</u>
Net decrease in cash during the year	(4,308)	(3,333)
Cash, beginning of year	1,853	5,186
Cash (bank indebtedness), end of year	<u>(2,455)</u>	<u>1,853</u>
Supplemental cash flow information		
Additions to fixed assets through capital leases	<u>292</u>	<u>33</u>

See accompanying notes



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

1. DESCRIPTION OF ORGANIZATION

Baycrest Centre for Geriatric Care [the "Centre"] is renowned for its care, research and education related to aging. Its continuum of care serves more than 2,500 clients daily and includes supportive residential care, community services, short-term specialized medical care, long-term and complex continuing care. The Centre is a fully affiliated academic health science centre with the University of Toronto.

The combined financial statements comprise those of the Centre, The Jewish Home for the Aged ["J.H.A."], Baycrest Hospital, Baycrest Day Care Centre, and Baycrest Residential Properties Inc., which are incorporated without share capital under the laws of Ontario together with affiliated entities which are unincorporated, including Baycrest Terrace, Joseph E. and Minnie Wagman Centre, Baycrest Home Care Services, Rotman Research Institute and Kunin-Lunenfeld Applied Research Unit.

The Centre and the affiliated entities, which are included in these combined financial statements, are registered charities under the Income Tax Act (Canada) and, accordingly, are exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The combined financial statements of the Centre have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

Investments

The Centre's prime linked guaranteed investment certificates are presented at fair market value.

Fixed assets

Fixed assets are recorded at cost. Amortization of fixed assets is calculated using the straight-line method so as to apportion the cost of the assets to operations over their estimated useful lives as follows:



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

Land improvement and parking lot	10 years
Buildings	10 – 50 years
Equipment	3 – 10 years

Donations of works of art are recorded as an asset at fair market value when donated and are recognized directly in fixed assets. Works of art are not amortized.

Revenue recognition

The deferral method of accounting for contributions, which include donations and grants, is followed. Specifically:

- Revenue from operating grants is recognized when it becomes receivable.
- Research grants and other restricted revenue is recognized as related expenditures are incurred.
- Revenue from capital contributions [grants and donations] is recognized over the useful lives of the assets acquired using the straight-line amortization method.

Charges for services are recognized as revenue when service is provided.

Investment income is recorded on the accrual basis.

Employee benefit plans

[a] Multi-employer plan

The multi-employer plan is accounted for as a defined contribution plan, as there is not sufficient information to apply defined benefit plan accounting. Contributions to the multi-employer, defined benefit plan are expensed when due.

[b] Accrued post-retirement benefits

The Centre accrues its obligations for non-pension employee benefits as full-time employees render services. The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate assumptions. The excess of the cumulative unamortized balance of net actuarial gains (losses) over 10% of the benefit obligations is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 12 years. The accrued benefit obligation related to employee future benefits is discounted using current interest rates on long-term debt.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

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Financial instruments

Effective April 1, 2007, the Centre adopted the recommendations of the Canadian Institute of Chartered Accountants ["CICA"] CICA 3855: *Financial Instruments – Recognition and Measurement* and CICA 3861: *Financial Instruments – Disclosure and Presentation*. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As permitted by CICA 3855, the Centre's prime linked guaranteed investment certificates continue to be presented at amortized cost, which approximates fair value.

The adoption of CICA 3855 and 3861 did not have a significant impact on the combined financial statements in the prior or current year.

The CICA has issued two new standards, CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

These changes in accounting policies, which will be adopted by the Centre on April 1, 2008, will only require additional disclosures in the combined financial statements.

Foreign currency translation

Monetary assets and liabilities which are to be settled in a foreign currency are translated into Canadian dollars at the prevailing year-end rates of exchange. Transactions in foreign currencies are translated into Canadian dollars at the appropriate rate of exchange in effect when the transactions occurred. Exchange gains and losses are recorded in the combined statement of operations for the year.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

Use of estimates

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

In particular, the amount of revenue recognized from the Ministry of Health and Long-Term Care [the "Ministry"] and the Toronto Central Local Health Integration Network [the "TC-LHIN"] is a significant estimate. The Centre entered into a Hospital Accountability Agreement [the "HAA"] that sets out the rights and obligations of the parties in respect of funding provided to the Centre by the Ministry for fiscal 2007 and 2008. This agreement was assigned to the TC-LHIN effective April 1, 2007. Beginning in fiscal 2009, the HAA will be replaced by a Hospital Service Accountability Agreement [the "H-SAA"] between the Centre and the TC-LHIN.

The HAA sets out certain performance standards and obligations that establish acceptable results for the Centre's performance in a number of areas. If the Centre does not meet its performance standards or obligations, the TC-LHIN has the right to adjust funding received by the Centre. The TC-LHIN / Ministry is not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of funding received during the year from the TC-LHIN / Ministry may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management's best estimate of amounts that have been earned during the year.

Recent accounting pronouncements

- [i] CICA 1400: *General Standards of Financial Statement Presentation* ["CICA 1400"], was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirement is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Centre will adopt the amendments to CICA 1400 on April 1, 2008 and is currently evaluating the effects of adopting the new requirements of this standard.
- [ii] In addition, the CICA has issued a new accounting standard, CICA 3031: *Inventories*, which requires additional disclosure and sets out new rules that may affect the valuation of inventories. The Centre will adopt the new accounting standard effective April 1, 2008.
- [iii] The CICA has issued a new accounting standard CICA 1535: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of

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[in thousands of dollars]

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financial statements to evaluate the entity's objectives, policies and processes for managing capital.

These changes in accounting policies, which will be adopted by the Centre on April 1, 2008, will only require additional disclosures in the combined financial statements.

Contributed services

Contributed services are not recognized in the combined financial statements.

3. CASH

The Centre has an agreement to act as a transfer payment agency providing the Ministry with contract and payment processing services. Accordingly, funds of \$5,336 are included in cash [2007 - \$7,200]. There is a corresponding amount recorded in accounts payable and accrued liabilities.

4. INVESTMENTS

Investments consist of the following:

	2008	2007
	\$	\$
Prime-linked guaranteed investment certificate	805	1,000
Money Market Fund	—	52
	805	1,052

Residents' trust funds of \$707 [2007 - \$808] are included in investments and are designated as "Held in trust for residents".



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

5. FIXED ASSETS

Fixed assets consist of the following:

	2008		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Land	823	—	823
Land improvements and parking lot	5,460	5,175	285
Buildings	167,113	83,473	83,640
Equipment	68,344	54,728	13,616
Works of art	7,853	—	7,853
	249,593	143,376	106,217

	2007		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Land	823	—	823
Land improvements and parking lot	5,460	5,117	343
Buildings	165,550	79,811	85,739
Equipment	65,003	51,111	13,892
Works of art	7,617	—	7,617
	244,453	136,039	108,414

Included in buildings and equipment are capital leases with a cost of \$7,508 [2007 - \$7,216] and accumulated amortization of \$3,168 [2007 - \$3,032].

6. BANK INDEBTEDNESS

The bank indebtedness represents cheques which have been issued but not presented to the Centre's bank as at March 31, 2008.

The Centre has a \$5,000 [2007 - \$5,000] demand credit facility which bears interest at the bank's prime rate [2008 - 5.25%] which is collateralized by the assets of the Centre.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

7. LONG-TERM DEBT

Long-term debt consists of the following:

	2008	2007
	\$	\$
Mortgage payable, bearing interest at 8% per annum, due 2027, collateralized by the Baycrest Terrace and the Minnie Wagman Centre buildings	3,995	4,083
Mortgage payable, bearing interest at 6.04% per annum, due 2020, collateralized by the Apotex Centre building	7,350	7,457
Capital leases, maturing from June 2008 to March 2013, bearing interest at rates ranging from 2.5% to 8.95%, collateralized by buildings and equipment [note 5]	3,618	4,005
	<u>14,963</u>	<u>15,545</u>
Less current portion, included in accounts payable and accrued liabilities	934	849
	<u>14,029</u>	<u>14,696</u>

During the year, interest paid on long-term debt was \$765 [2007 - \$852].

Principal repayments on the long-term debt are as follows:

	\$
2009	934
2010	962
2011	989
2012	972
2013	966
Thereafter	10,140
	<u>14,963</u>



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

8. DEFERRED CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of fixed assets. The amortization of deferred capital contributions is recorded as revenue in the combined statement of operations.

	2008	2007
	\$	\$
Deferred capital contributions		
Balance, beginning of year	75,538	76,408
Additions	3,819	4,449
	<u>79,357</u>	<u>80,857</u>
Amortization recognized as revenue	(5,536)	(5,319)
Balance, end of year	<u>73,821</u>	<u>75,538</u>

Deferred program contributions represent unspent funds received for research and other purposes.

	2008	2007
	\$	\$
Deferred program contributions		
Balance, beginning of year	4,833	4,385
Amounts received	7,582	9,572
Amounts recognized as revenue	(7,254)	(9,124)
Balance, end of year	<u>5,161</u>	<u>4,833</u>

9. INVESTMENT IN FIXED ASSETS

Investment in fixed assets is calculated as follows:

	2008	2007
	\$	\$
Fixed assets, net	106,217	108,414
Less amounts financed by		
Deferred capital contributions [note 8]	73,821	75,538
Mortgages payable [note 7]	11,345	11,540
Capital leases [note 7]	3,618	4,005
	<u>17,433</u>	<u>17,331</u>



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

Change in investment in fixed assets is calculated as follows:

	2008	2007
	\$	\$
Deficiency of revenue over expenses for the year		
Amortization of fixed assets	(7,337)	(7,843)
Less amortization of deferred capital contributions	5,536	5,319
	<u>(1,801)</u>	<u>(2,524)</u>
Change in investment in fixed assets		
Purchase of fixed assets	4,904	6,066
Less amounts funded by capital contributions	(3,819)	(4,449)
	1,085	1,617
New capital lease	(292)	(33)
Repayment of mortgages payable	195	201
Repayment of capital leases	679	722
	<u>1,667</u>	<u>2,507</u>

10. EMPLOYEE BENEFIT PLANS

[a] Multi-employer plan

Certain employees of the Centre as at March 9, 1998 and all employees joining the Centre since that date are eligible to be members of the Hospitals of Ontario Pension Plan [the "Plan"], which is a multi-employer, defined benefit, highest consecutive average earnings, contributory pension plan. The Plan is accounted for as a defined contribution plan. The Centre's contributions to the Plan during the year amounted to \$5,804 [2007 - \$5,368] and are included in salaries and employee benefits expense in the combined statement of operations. The most recent regulatory funding valuation conducted as of December 31, 2006 disclosed actuarial assets of \$25,205 million with accrued pension liabilities of \$25,454 million, resulting in a deficit of \$249 million. However, it was recently determined that accrued pension liabilities should actually have been \$25,808 million, resulting in a deficit of \$603 million for the Plan. The regulatory funding valuation conducted as of December 31, 2006 confirmed that the Plan was fully funded on a solvency basis.

[b] Retirement benefits

The Centre also provides retirement allowances for certain current and former employees. These obligations are not funded but the estimated costs of \$1,871 [2007 - \$1,927] have been fully accrued.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

[c] Accrued post-retirement benefits

The Centre's non-pension post-retirement benefit plans comprise medical, dental and life insurance coverage for certain groups of full-time employees who have retired from the Centre and are between the ages of 55 and 65. Spouses of eligible retirees are covered by the plans. The measurement date used to determine the accrued benefit obligation is March 31. The most recent actuarial valuation of the non-pension post-retirement benefit plans was March 31, 2008.

Information for the Centre's non-pension post-retirement benefit plans, and a reconciliation to the accrued benefit liability, is as follows:

	2008	2007
	\$	\$
Accrued benefit obligation		
Balance, beginning of year	5,573	5,670
Current service cost	313	309
Interest cost	289	306
Benefits paid	(195)	(293)
Actuarial loss	(413)	(419)
Balance, end of year	<u>5,567</u>	<u>5,573</u>
Unamortized net actuarial loss	<u>(1,029)</u>	<u>(1,544)</u>
Accrued benefit liability	<u>4,538</u>	<u>4,209</u>

The expense for the year related to these plans is \$705 [2007 - \$783] and employer contributions for these plans were \$195 [2007 - \$293].

The discount rate adopted in measuring the Centre's accrued benefit obligation was 5.75% [2007 - 5.00%] and expense was 5.25% [2007 - 5.25%] for the non-pension post-retirement benefit plans.

Dental cost increases are assumed to be 4.0% per annum. Hospital and extended healthcare costs were assumed to increase at a rate of 9.0% in fiscal 2008 [2007 - 9.0%] and to decrease linearly to 4.0% in ten years and remain at 4.0% thereafter.

11. CONTINGENCIES

[a] The nature of the Centre's activities is such that there is usually litigation pending or in progress at any one time. With respect to claims as at March 31, 2008, it is management's position that the Centre has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have a material adverse effect on the Centre's financial position.

Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2008

- [b] A group of healthcare institutions, including the Centre, are members of the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the liability insurance risks of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they were members. As at March 31, 2008, no assessments have been received.

12. RELATED PARTY TRANSACTIONS

- [a] The Baycrest Centre Foundation [the "Foundation"] is a separate corporation and its accounts are not included in these combined financial statements. The Foundation, which operates as a public foundation, is responsible for all fundraising activities of the Centre and grants funds to the Centre and other charitable organizations as approved by the Board of Directors of the Foundation. The Centre has the ability to elect the majority of the Foundation's directors.
- [b] The summarized financial statements of the Foundation as at and for the year ended March 31 are as follows:

	2008	2007
	\$	\$
Total assets	112,409	110,872
Total liabilities	1,504	1,175
	110,905	109,697
Endowment funds	72,754	63,139
Restricted funds	34,151	42,558
Unrestricted funds	4,000	4,000
	110,905	109,697
	2008	2007
	\$	\$
Total revenue [including additions to endowments of \$5,996; 2007 - \$4,734]	21,801	30,366
Total expenses	3,522	3,769
Excess of revenue over expenses before grants	18,279	26,597
Grants to the Centre, included in operations	(13,455)	(11,252)
Capital grants to the Centre, included in deferred capital contributions	(3,616)	(3,508)
Grants to third parties	—	(367)
Excess of revenue over expenses for the year	1,208	11,470

Baycrest Centre for Geriatric Care

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[in thousands of dollars]

March 31, 2008

[c] The advance from the Foundation is due on demand and bears interest at prime and resulted in interest expense of \$520 [2007 - \$406] being recorded in the accounts.

13. COMPARATIVE COMBINED FINANCIAL STATEMENTS

The comparative combined financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 combined financial statements.

