Consolidated Financial Statements

Baycrest Centre for Geriatric Care

March 31, 2013 and 2012

Ernst & Young
Quality In Everything We Do

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Baycrest Centre for Geriatric Care

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of **Baycrest Centre for Geriatric Care**, which comprise the consolidated statements of financial position as at March 31, 2013 and 2012, and April 1, 2011, and the consolidated statements of operations, changes in deficit and cash flows for the years ended March 31, 2013 and 2012, and the consolidated statement of remeasurement losses for the year ended March 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Baycrest Centre for Geriatric Care** as at March 31, 2013 and 2012, and April 1, 2011, and the results of its operations and its cash flows for the years ended March 31, 2013 and 2012 in accordance with Canadian public sector accounting standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Corporations Act (Ontario), we report that, in our opinion, Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 20, 2013.

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of dollars]

As at

	March 31, 2013 $	March 31, 2012 $ [note 18]	April 1, 2011 $ [note 18]
ASSETS			
Current			
Cash	**751**	—	—
Cash held for residents' trust funds	**33**	26	50
Short-term investment *[note 4[a]]*	**1,400**	1,325	1,300
Accounts receivable *[note 3]*	**9,559**	5,716	5,573
Inventories, deposits and prepaid expenses	**1,994**	1,836	2,278
Total current assets	**13,737**	8,903	9,201
Investment *[note 4[b]]*	**38**	129	10
Capital assets, net *[note 5]*	**109,053**	109,180	97,500
	122,828	118,212	106,711
LIABILITIES AND NET DEFICIT			
Current			
Bank indebtedness	**—**	393	3,054
Accounts payable and accrued liabilities	**27,762**	24,540	22,573
Deferred program contributions *[note 9]*	**5,995**	6,572	6,188
Due to The Baycrest Centre Foundation *[note 14[c]]*	**3,440**	5,454	3,494
Current portion of long-term debt *[notes 7 and 8]*	**1,703**	1,167	1,063
Residents' trust funds	**33**	26	50
Total current liabilities	**38,933**	38,152	36,422
Long-term debt *[note 7]*	**10,160**	10,568	11,166
Energy management loan *[note 8]*	**14,706**	11,377	—
Deferred capital contributions *[note 10]*	**63,259**	65,073	66,879
Employee future benefits *[note 11]*	**9,048**	8,863	7,925
Derivative liabilities *[note 12]*	**1,360**	1,031	—
Other benefits	**233**	416	118
Total liabilities	**137,699**	135,480	122,510
Contingencies *[note 13]*			
Net deficit			
Deficit	**(13,511)**	(17,268)	(15,799)
Accumulated remeasurement losses	**(1,360)**	—	—
	(14,871)	(17,268)	(15,799)
	122,828	118,212	106,711

See accompanying notes

On behalf of the Board:

Director

Director

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENTS OF OPERATIONS

[in thousands of dollars]

Years ended March 31

	2013	2012
	$	$
		[note 18]
REVENUE		
Ministry of Health and Long-Term Care and the Toronto Central Local Health Integration Network	**104,089**	93,709
Charges for services	**20,555**	19,953
The Baycrest Centre Foundation grants *[note 14[b]]*	**15,591**	15,702
Other grants	**10,161**	8,692
Amortization of deferred capital contributions *[note 10]*	**3,251**	3,348
Sundry	**6,644**	6,103
	160,291	147,507
EXPENSES		
Salaries and employee benefits *[note 11]*	**117,478**	110,311
Other operating *[note 4[b]]*	**32,024**	30,674
Amortization of capital assets	**7,047**	6,035
Interest *[notes 7 and 14[c]]*	**1,048**	1,019
	157,597	148,039
Excess (deficiency) of revenue over expenses for the year	**2,694**	(532)

See accompanying notes

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT

[in thousands of dollars]

Years ended March 31

	2013	2012
	$	$
		[note 18]
Balance, beginning of year	**(17,268)**	(15,799)
Adjustment *[note 18]*	**1,031**	—
Balance, beginning of year, as restated	**(16,237)**	(15,799)
Excess (deficiency) of revenue over expenses for the year	**2,694**	(532)
Change in fair value of derivatives	**—**	(1,031)
Donated works of art *[note 5]*	**32**	94
Balance, end of year	**(13,511)**	(17,268)

See accompanying notes

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENT OF REMEASUREMENT LOSSES

[in thousands of dollars]

Year ended March 31

	2013
	$
Accumulated remeasurement losses, beginning of year	**—**
Adjustment *[note 18]*	**(1,031)**
Balance, beginning of year, as restated	**(1,031)**
Change in fair value of derivatives *[note 12]*	**(329)**
Accumulated remeasurement losses, end of year	**(1,360)**

See accompanying notes

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended March 31

	2013	2012
	$	$
		[note 18]
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	**2,694**	(532)
Add (deduct) items not affecting cash		
Amortization of capital assets	**7,047**	6,035
Amortization of deferred capital contributions	**(3,251)**	(3,348)
Share of long-term investment net loss	**1,228**	561
Net increase in employee future benefits	**185**	938
Net increase (decrease) in other benefits	**(183)**	298
Net change in non-cash working capital balances related to operations *[note 16]*	**(2,861)**	2,599
Cash provided by operating activities	**4,859**	6,551
INVESTING ACTIVITIES		
Purchase of short-term investment	**(75)**	(25)
Purchase of shares in long-term investment	**(860)**	(680)
Cash used in investing activities	**(935)**	(705)
CAPITAL ACTIVITIES		
Purchase of capital assets	**(7,227)**	(14,798)
Cash used in capital activities	**(7,227)**	(14,798)
FINANCING ACTIVITIES		
Contributions for purchase of capital assets	**1,436**	1,542
Repayment of long-term debt	**(1,223)**	(1,177)
Drawing on energy management loan	**4,227**	11,272
Increase (decrease) in residents' trust funds	**7**	(24)
Decrease in bank indebtedness	**(393)**	(2,661)
Cash provided by financing activities	**4,054**	8,952
Net increase in cash during the year	**751**	—
Cash, beginning of year	**—**	—
Cash, end of year	**751**	—

See accompanying notes

1. DESCRIPTION OF ORGANIZATION

Baycrest Centre for Geriatric Care [the "Centre"] is recognized as the global leader in innovative care delivery and cutting-edge cognitive neuroscience. Fully affiliated with the University of Toronto, Baycrest is among the world's most respected academic health sciences centres focused on the needs of seniors and the aging population.

The Centre is renowned for its state-of-the-art continuum of hospital, residential and community healthcare and wellness services focused on improving care and quality of life for frail, vulnerable older adults; conducting cutting-edge cognitive neuroscience; and educating, training and sharing knowledge in leading practices in geriatric care and aging solutions.

The Centre is a registered charity under the Income Tax Act (Canada) and, accordingly, is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with the Public Sector Accounting ["PSA"] Handbook, which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. The Centre has chosen to use the standards for not-for-profit organizations that include sections PS 4200 to 4270. The significant accounting policies are summarized below:

Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value or [ii] cost or amortized cost. The Centre determines the classification of its financial instruments at initial recognition.

Investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds, derivative contracts and any other investments where the investments are managed on a fair value basis and the fair value option is elected. Transaction costs are recognized in the consolidated statements of operations in the period during which they are incurred. Investments at fair value are remeasured at their fair value at the end of each reporting period. Any revaluation gains and losses are recognized in the consolidated statement of remeasurement losses and are cumulatively reclassified to the consolidated statements of operations upon disposal or settlement.

Investments in securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest rate method, less any provision for impairment.

All investment transactions are recorded on a trade date basis.

A write down is recognized in the consolidated statements of operations for a portfolio investment in either category when there has been a loss in the value of the investment considered as an "other than temporary" loss. Subsequent changes to the measurement of the investment in the fair value category are reported in the consolidated statement of remeasurement losses. If the loss in value of the portfolio investment subsequently reverses, the write down is not reversed in the consolidated statements of operations until the investment is sold.

Long-term debt is initially recorded at fair value, which represents cost, and subsequently measured at amortized cost using the effective interest rate method. Transaction costs related to the issuance of long-term debt are capitalized and amortized over the term of the instrument using the effective interest rate method.

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Controlled entities

The Baycrest Foundation Inc. [the "Foundation"], a controlled not-for-profit entity, is not consolidated. Instead, summarized financial information is provided *[note 14]*. Other controlled not-for-profit entities are consolidated *[note 15]*. Controlled for-profit entities are accounted for using the equity method *[notes 4[b] and [c]]*.

Inventories

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

Capital assets

Capital assets are recorded at cost. Amortization of capital assets is calculated using the straight-line method so as to charge operations with the cost of the assets over their estimated useful lives as follows:

Land improvements and parking lot	10 years
Buildings	20 - 40 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 net deficit. Works of art are not amortized.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. The Centre allocates salary and benefit costs related to personnel who work directly on managing capital projects to capital assets. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

Revenue recognition

The Centre follows the deferral method of accounting for contributions. Contributions are recorded in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Revenue from unrestricted operating grants is recognized as revenue when it is initially recorded in the accounts. Research grants and other restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recorded.

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

Investment income (loss) recorded in the consolidated statements of operations consists of interest, dividends, income distributions from pooled funds, and realized gains and losses, net of related fees. Unrealized gains and losses are recorded in the consolidated statement of remeasurement losses.

Employee benefit plans

[a] Multi-employer plan

The multi-employer defined benefit 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 plan are expensed on an accrual basis.

[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 cumulative unamortized balance of net actuarial gains (losses) is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 11 years. Prior service costs [if any] arising from a plan amendment are expensed when incurred. The accrued benefit obligation related to employee future benefits is discounted using a rate which represents the Centre's cost of borrowing.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

[in thousands of dollars]

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 has entered into a number of accountability agreements with the TC-LHIN that set out the rights and obligations of the two parties in respect of funding provided to the Centre by the TC-LHIN for fiscal years 2012 and 2013.

These accountability agreements set 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/Ministry 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 consolidated 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 consolidated financial statements represents management's best estimate of amounts that have been earned during the year.

Contributed materials and services

Contributed materials and services are not recognized in the consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	March 31, 2013 $	**March 31, 2012** $	**April 1, 2011** $
Province of Ontario	**526**	480	331
Client accounts	**3,109**	2,163	1,945
Research	**3,138**	1,675	1,879
Other	**2,786**	1,398	1,418
	9,559	5,716	5,573

There are no significant past due or impaired accounts, except the amount receivable from Baycrest Global Solutions Inc. ["BGS"] *[note 4[c]]*.

[in thousands of dollars]

4. INVESTMENTS

[a] The short-term investment, which is recorded at amortized cost, consists of a guaranteed investment certificate of $1,400 [March 31, 2012 - $1,325; April 1, 2011 - $1,300] with an interest rate of 1.268% [March 31, 2012 - 1.33%; April 1, 2011 - 1.15%] and maturity date within six months.

[b] On January 20, 2010, the Centre and MaRS Discovery District incorporated a taxable, for-profit company, Cogniciti Inc. ["Cogniciti"]. Cogniciti, which is owned 80% by the Centre, was established to develop and commercialize products for the assessment, management and rehabilitation of brain functioning.

The continuity of the investment is as follows:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Balance, beginning of year	**129**	10	266
Additional investment	**360**	680	200
Share of Cogniciti net loss	**(451)**	(561)	(456)
Balance, end of year	**38**	129	10

The Centre recorded its share of Cogniciti's net loss as other operating expenses. The following amounts represent the Centre's 80% share of the assets, liabilities, equity, revenue and expenses of Cogniciti:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Assets	**76**	230	28
Liabilities	**38**	101	18
Equity	**38**	129	10
Revenue	**26**	45	—
Expenses	**477**	606	456

[c] On January 25, 2012, the Centre incorporated a taxable, for-profit company. BGS, which is owned 100% by the Centre, was established to develop and offer products and services in the areas of aging and brain health.

[in thousands of dollars]

The continuity of the investment is as follows:

	2013 $	2012 $
Balance, beginning of year	**—**	—
Additional investment	**500**	—
Share of BGS net loss	**(777)**	—
Balance, end of year	**(277)**	—

This negative balance is included as a provision against the $277 due from BGS recorded in other accounts receivable in the consolidated statements of financial position as at March 31, 2013.

The Centre recorded its share of BGS's net loss as other operating expenses. The following amounts represent the Centre's 100% share of the assets, liabilities, deficit, revenue and expenses of BGS periods presented:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Assets	**45**	—	—
Liabilities	**322**	—	—
Deficit	**(277)**	—	—
Revenue	**—**	—	—
Expenses	**777**	—	—

[in thousands of dollars]

5. CAPITAL ASSETS

Capital assets consist of the following:

	March 31, 2013		
	Cost $	Accumulated amortization $	Net book value $
Land	**823**	**—**	**823**
Land improvements and parking lot	**5,460**	**5,460**	**—**
Buildings	**189,873**	**102,364**	**87,509**
Equipment	**82,325**	**70,556**	**11,769**
Works of art	**8,519**	**—**	**8,519**
Projects in progress	**433**	**—**	**433**
	287,433	**178,380**	**109,053**

	March 31, 2012		
	Cost $	Accumulated amortization $	Net book value $
Land	823	—	823
Land improvements and parking lot	5,460	5,403	57
Buildings	172,656	98,167	74,489
Equipment	79,753	67,763	11,990
Works of art	8,487	—	8,487
Projects in progress	13,334	—	13,334
	280,513	171,333	109,180

	April 1, 2011		
	Cost $	Accumulated amortization $	Net book value $
Land	823	—	823
Land improvements and parking lot	5,460	5,346	114
Buildings	171,807	94,858	76,949
Equipment	76,315	65,094	11,221
Works of art	8,393	—	8,393
	262,798	165,298	97,500

As at March 31, 2013, projects in progress of $433 [March 31, 2012 - $13,334; April 1, 2011 - nil] relating to building improvements have not been amortized as they have not been put into use.

Included in equipment are capital leases with a cost of $9,597 [March 31, 2012 - $9,409; April 1, 2011 - $8,726] and accumulated amortization of $7,085 [March 31, 2012 - $6,336; April 1, 2011 - $5,764].

6. CREDIT FACILITIES

The Centre has an unsecured $25,000 credit agreement. Under this credit agreement, the following facilities are available:

[a] Demand operating credit facility of $10,000, which can be comprised of Canadian floating rate advances, Canadian bankers' acceptances, letters of guarantee or standby letters of credit in Canadian dollars.

Floating rate advances bear interest at the bank's prime rate minus 0.75% per annum. The effective interest rate at March 31, 2013 was 2.25%. Canadian bankers' acceptances bear interest at a rate determined at the time of their acceptance and have a stamping fee of 0.25% per annum. Issue fees of 0.30% per annum are applicable to letters of guarantee or standby letters of credit.

As at March 31, 2013, there was no amount outstanding on this credit facility. The amounts outstanding as at March 31, 2012 and April 1, 2011 consisted of outstanding cheques.

[b] Special revolving credit facility of $15,000, which can be comprised of Canadian floating rate advances or Canadian bankers' acceptances. Borrowings under this facility shall be repaid in full no later than five years following the first disbursement made.

Floating rate advances bear interest at the bank's prime rate minus 0.50% per annum. The effective interest rate at March 31, 2013 was 2.5%. Canadian bankers' acceptances bear interest at a rate determined at the time of their acceptance and have a stamping fee of 0.45% per annum.

As at March 31, 2013 and 2012 and April 1, 2011, there were no amounts outstanding related to this credit facility.

[in thousands of dollars]

7. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2013 $	March 31, 2012 $	April 1, 2011 $
Mortgage payable, bearing interest at 8% per annum, due February 1, 2027, collateralized by the Baycrest Terrace and the Joseph E. and Minnie Wagman Centre buildings	**3,457**	3,587	3,708
Mortgage payable, bearing interest at 6.04% per annum, due January 1, 2020, collateralized by the Apotex Centre building	**6,710**	6,855	6,990
Capital leases, maturing from June 2014 to January 2018, bearing interest at rates ranging from 7.04% to 9.26%, collateralized by equipment	**492**	1,293	1,531
	10,659	11,735	12,229
Less current portion	**499**	1,167	1,063
	10,160	10,568	11,166

During the year, interest paid on long-term debt was $686 [2012 - $704].

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

	$
2014	499
2015	517
2016	413
2017	368
2018	379
Thereafter	8,483
	10,659

[in thousands of dollars]

8. ENERGY MANAGEMENT LOAN

The Centre has entered into agreements to finance energy management improvements to certain Centre facilities.

A two-year unsecured loan in the form of Canadian bankers' acceptances that bear interest at a floating rate equal to the CAD-BA-CDOR rate and subject to stamping fees of 0.30% per annum was obtained. The Centre entered into a series of interest rate swaps to fix the floating rate at 1.8% for a combined rate of 2.1% *[note 12]*. Planned and progressive draws totaling $16,066, including interest, will continue until maturity on April 15, 2013, at which time it shall be converted into a term loan. As at March 31, 2013, $15,910 [March 31, 2012 - $11,377; April 1, 2011 - nil] has been drawn down on the loan. This amount includes total interest expense of $410 [2012 - $105].

On April 15, 2013, the Centre entered into an unsecured term loan of $16,066 to repay the aforementioned loan. The term loan will be repayable in equal monthly blended payments of interest and principal of $165. The term loan will mature on April 15, 2023, bearing interest at a floating rate equal to the CAD-BA-CDOR rate and is subject to stamping fees of 0.77% per annum. The Centre entered into an interest rate swap effective April 15, 2013 to fix the floating rate at 3.475% for a combined rate of 4.245% *[note 12]*.

Principal repayments on the term loan are as follows:

	$
2014	1,204
2015	1,372
2016	1,430
2017	1,491
2018	1,556
Thereafter	9,013
	16,066

[in thousands of dollars]

9. DEFERRED PROGRAM CONTRIBUTIONS

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

	2013 $	**2012** $
Balance, beginning of year	**6,572**	6,188
Amounts received *[note 14[b]]*	**15,863**	11,020
Amounts recognized as revenue	**(16,440)**	(10,636)
Balance, end of year	**5,995**	6,572

10. DEFERRED CAPITAL CONTRIBUTIONS

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

	2013 $	**2012** $
Balance, beginning of year	**65,073**	66,879
Amounts received *[note 14[b]]*	**1,437**	1,542
Amortization recognized as revenue	**(3,251)**	(3,348)
Balance, end of year	**63,259**	65,073

11. 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 Healthcare of Ontario Pension Plan [the "Plan"], which is a multi-employer, defined benefit, highest consecutive average earnings, contributory pension plan. The Centre's contributions to the Plan during the year amounted to $6,692 [2012 - $6,571] and are included in salaries and employee benefits expense in the consolidated statements of operations. The most recent actuarial valuation for financial reporting purposes completed by the Plan as of December 31, 2012 disclosed net assets available for benefits of $47,414 with pension obligations of $39,919 resulting in a surplus of $7,495.

[b] Retirement benefits

The Centre also provides retirement allowances for former employees. These obligations are not funded but the estimated liability of $2,042 [March 31, 2012 - $2,085; April 1, 2011 - $1,915] has been fully accrued.

[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 for accounting purposes was as of March 31, 2010.

[in thousands of dollars]

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

	2013 $	**2012** $
Accrued benefit liability		
Balance, beginning of year	**7,267**	6,010
Current service cost	**450**	398
Interest cost	**297**	318
Prior service cost	**—**	535
Benefits paid	**(564)**	(483)
Amortization of actuarial loss	**186**	489
Balance, end of year	**7,636**	7,267
Unamortized net actuarial loss	**(630)**	(489)
Accrued benefit liability	**7,006**	6,778

The expense for the year related to these plans is $792 [2012 - $1,251] and employer contributions for these plans were $564 [2012 - $483].

The discount rate adopted in measuring the Centre's accrued benefit obligation was 3.75% [2012 - 4.0%] and expense was 4.0% [2011 - 4.75%] for the non-pension post-retirement benefit plans.

Dental costs are assumed to increase by 4.0% per annum. Hospital and extended healthcare costs are assumed to increase by 9.0% and to decrease by 0.5% per annum to an ultimate rate of 5%.

12. DERIVATIVE LIABILITIES

The Centre has entered into a series of interest rate swap contracts in order to manage the interest rate cash flow exposure associated with the energy management loan *[note 8]*. The contracts have the effect of converting the floating rate of interest on the energy management loans to a fixed rate.

The notional amounts of the derivative financial instruments do not represent amounts exchanged between parties and are not a measure of the Centre's exposure resulting from the use of derivative contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

[in thousands of dollars]

The Centre is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

The notional and fair values of the interest rate swaps are as follows:

			2013		2012	
	Effective date	**Termination date**	**Notional value** $	**Fair value** $	**Notional value** $	**Fair value** $
1.8% fixed interest rate swap	July 28, 2011	April 15, 2013	**15,881**	**(8)**	11,380	(86)
3.475% fixed interest rate swap	April 15, 2013	April 15, 2023	**16,066**	**(1,352)**	16,066	(945)
				(1,360)		(1,031)

The change in the fair value of the interest rate swaps of $329 is recorded in the consolidated statement of remeasurement losses. The opening fair value was recorded as an adjustment to the opening balance of accumulated remeasurement losses as a result of the prospective adoption of new standards related to financial instruments *[note 18]*.

The notional amount of the 1.8% fixed interest rate swap accretes on a monthly basis to match the planned and progressive draws on the energy management loan until maturity on April 15, 2013.

Upon termination of the aforementioned interest rate swap, the notional amount of the 3.475% fixed interest rate swap will decrease to coincide with repayments of the energy management loan.

13. CONTINGENCIES

[a] The Centre is subject to various claims and potential claims related to operations. Where the potential liability is likely and able to be estimated, management has recorded its best estimate of the potential liability. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

[in thousands of dollars]

[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, 2013, no assessments have been received.

14. THE BAYCREST CENTRE FOUNDATION

[a] The Baycrest Centre Foundation [the "Foundation"] is a separate corporation and its accounts are not included in these consolidated 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 are as follows:

	March 31, 2013 $	**March 31, 2012** $	**April 1, 2011** $
Total assets	**128,643**	128,744	131,737
Total liabilities	**(623)**	(1,202)	(1,756)
	128,020	127,542	129,981
Endowment funds	**90,558**	85,023	85,907
Restricted funds	**37,462**	42,519	44,074
	128,020	127,542	129,981

[in thousands of dollars]

	2013 $	2012 $
Total revenue [including additions to endowments of $2,224 [2012 - $2,992]]	**28,857**	23,272
Total expenses	**(10,978)**	(8,524)
Excess of revenue over expenses before grants	**17,879**	14,748
Grants to the Centre, included in operations	**(15,590)**	(15,702)
Capital grants to the Centre, included in deferred program and deferred capital contributions *[notes 9 and 10]*	**(1,440)**	(1,172)
Grant to third party	**(371)**	(313)
Excess (deficiency) of revenue over expenses for the year	**478**	(2,439)

[c] Advances from the Foundation are due on demand and bear interest at the prime rate of interest, which resulted in interest expense of $337 [2012 - $251] during the year.

[d] The Centre provides the Foundation with office space, furniture and equipment at no cost. Salaries, benefits and certain other expenses are paid by the Centre and are reimbursed by the Foundation.

15. OTHER AFFILIATED ENTITIES

The following not-for-profit entities have the same Board membership as the Centre and are consolidated into the accounts of the Centre. These entities, which are incorporated without share capital under the laws of Ontario, are registered charities under the Income Tax Act (Canada) and, accordingly, are exempt from income taxes.

- Baycrest Hospital, which operates a complex continuing care, mental health, and rehabilitation program.
- The Jewish Home for the Aged which operates a long-term care facility.
- The Baycrest Day Care Centre, which operates a day care for seniors.

[in thousands of dollars]

16. ADDITIONAL CASH FLOW INFORMATION

The net change in non-cash working capital balances related to operations is as follows:

	2013 $	2012 $
Cash held for residents' trust funds	**(7)**	24
Accounts receivable	**(3,216)**	(143)
Other	**(158)**	442
Accounts payable and accrued liabilities	**3,111**	(68)
Due to The Baycrest Centre Foundation	**(2,014)**	1,960
Deferred program contributions	**(577)**	384
	(2,861)	2,599

The following is supplemental cash flow information:

	2013 $	2012 $
Additions to capital assets through capital leases	**134**	683
Additions to capital assets funded by accounts payable and accrued liabilities	**2,146**	2,035
Energy rebates receivable for capital assets	**889**	—
Interest paid	**1,048**	1,019
Interest capitalized on energy management loan *[note 8]*	**305**	105

17. FINANCIAL INSTRUMENTS

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

Credit risk

In addition to its exposure to credit risk with respect to its derivative contracts *[note 12]*, the Centre is exposed to credit risk in connection with its accounts receivable and its short-term investments because of the risk that one party to the financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Centre manages its credit risk by monitoring its outstanding receivables on an ongoing basis.

Liquidity risk

The Centre is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. The Centre derives a significant portion of its operating revenue from the Ontario government and other funders with no firm commitment of funding in future years. To manage liquidity risk, the Centre keeps sufficient resources readily available to meet its obligations. In addition, the Centre has credit facilities *[note 6]* that are used when sufficient cash flow is not available from operations to cover operating and capital expenditures. The Centre will enter into long-term debt to assist with the financing of capital assets when other sources are not available.

Accounts payable mature within 6 months. The maturities of other financial liabilities are provided in the notes to the consolidated financial statements related to these liabilities.

Interest rate risk

The Centre is exposed to interest rate risk with respect to its floating rate debt because cash flows will fluctuate because the interest rate is linked to the bank's prime rate, which changes from time to time. The Centre has entered into interest rate swap contracts *[note 12]* to manage the interest rate cash flow risk with respect to its floating rate energy management loans.

The Centre is exposed to interest rate risk with respect to its fixed rate long-term debt because the fair value will fluctuate due to changes in market interest rates.

A change in the interest rate on the Centre's fixed rate long-term debt would have no impact on the consolidated financial statements since the debt is measured at amortized cost and on the energy management loans since the rate has been fixed as described in note 12. As at March 31, 2013, there is no amount outstanding on the floating rate credit facilities.

18. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

These consolidated financial statements are the first financial statements which the Centre has prepared in accordance with the Public Sector Handbook, which constitutes generally accepted accounting principles for government not-for-profit organizations in Canada ["GAAP"]. The Centre has chosen to use the standards for government not-for-profit organizations that include Sections PS 4200 to 4270. In preparing its opening balance sheet as at April 1, 2011 [the "Transition Date"], the Centre has applied PS 2125; *First-time Adoption by Government Organizations*.

[in thousands of dollars]

The accounting policies that the Centre has used in the preparation of its opening statement of financial position have resulted in certain adjustments to balances which were presented in the statement of financial position prepared in accordance with Part V of the CICA Handbook - Accounting ["Previous GAAP"]. These adjustments were recorded directly to the Centre's net deficit at the Transition Date using the transitional provisions set out in PS 2125 and are described below.

Exemption elected upon transition

Section PS 2125 provides a number of elective exemptions related to standards in the PSA Handbook. The Centre has elected to use the transition exemption with respect to the recognition of cumulative actuarial losses and prior service costs at the Transition Date. The Centre has not elected to use any other exemptions.

Reconciliations

The following table provides a reconciliation of net deficit as at April 1, 2011 and the deficiency of revenue over expenses for the year ended March 31, 2012 as presented under Previous GAAP with those computed under GAAP:

	Deficiency of revenue over expenses for the year ended March 31, 2012 $	**Deficit at April 1, 2011** $
Deficiency of revenue over expenses and deficit – Previous GAAP	**(123)**	(15,370)
Election to recognize cumulative actuarial losses and prior service costs	**90**	(1,800)
Change in discount rate	**(22)**	1,371
Prior service costs incurred during the year	**(477)**	—
Deficiency of revenue over expenses and deficit - GAAP	**(532)**	(15,799)

Election to recognize cumulative actuarial losses

Using an elective exemption available at the Transition Date, the Centre has recognized actuarial losses and prior service costs related to employee future benefits in opening net deficit at the Transition Date.

Change in discount rate

Under Previous GAAP, the discount rate was based on long-term corporate bond rates. Under GAAP, the discount rate is based on the Centre's cost of borrowing, which results in a lower accrued benefit obligation.

Write off of prior service costs

Under Previous GAAP, prior service costs were amortized over future years of service to full eligibility of active employees. Under GAAP, prior service costs are expensed when incurred.

Adoption of accounting standards related to financial instruments

The Public Sector Accounting Board approved the following new public sector accounting standards:

PS 1201 – Financial Statement Presentation [replacing PS 1200, Financial Statement Presentation]
PS 2601 – Foreign Currency Translation [replacing PS 2600, Foreign Currency Translation]
PS 3041 – Portfolio Investments [replacing PS 3040, Portfolio Investments]
PS 3450 – Financial Instruments

Adoption of all of these standards must take place in the same fiscal period. In accordance with the requirements of these standards, prospective application of the recognition, derecognition and measurement policies are presented beginning April 1, 2012. Accordingly, financial statements of prior periods, including comparative information, have not been restated and no comparative information is presented for the first time presentation of the consolidated statement of remeasurement losses.

Prior to April 1, 2012, financial instruments were accounted for consistent with the accounting policies adopted effective April 1, 2012 except for derivative financial instruments that were measured at fair value and were accounted for as hedges when they qualified for hedge accounting. For derivatives in hedging relationships, the effective portion of the gain or loss was recorded as a direct increase (decrease) in net assets and the ineffective portion, if any, was recognized in the consolidated statements of operations.

The cumulative unrealized loss of $1,031 related to the derivative financial instrument as at April 1, 2012 was transferred from deficit to accumulated remeasurement losses.