

Combined Financial Statements

Baycrest Centre for Geriatric Care
March 31, 2007

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, 2007 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, 2007 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 18, 2007.

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

	2007	2006
	\$	\$
ASSETS		
Current		
Cash [note 3]	9,053	5,186
Investments [note 4]	1,052	1,502
Accounts receivable	4,172	4,672
Inventories, deposits and prepaid expenses	1,885	1,548
Total current assets	16,162	12,908
Fixed assets, net [note 5]	108,414	110,008
	124,576	122,916
LIABILITIES AND DEFICIT		
Current		
Accounts payable and accrued liabilities [notes 3 and 7]	30,269	25,007
Deferred program contributions [note 8]	4,833	4,385
Due to The Baycrest Centre Foundation [note 12[c]]	4,780	2,722
Residents' trust funds [note 4]	808	1,204
Total current liabilities	40,690	33,318
Long-term debt [note 7]	14,696	15,527
Deferred capital contributions [note 8]	75,538	76,408
Employee future benefits [note 10]	5,956	4,062
Total liabilities	136,880	129,315
Contingencies [note 11]		
Deficit	(12,304)	(6,399)
	124,576	122,916

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

	2007	2006
	\$	\$
REVENUE		
Ontario Ministry of Health and Long-Term Care funding	73,356	72,546
Charges for services	20,974	20,574
The Baycrest Centre Foundation grants <i>[note 12[b]]</i>	11,252	11,159
Other grants	9,219	7,104
Investment income	95	532
Amortization of deferred capital contributions <i>[note 8]</i>	5,319	4,553
Sundry	5,128	4,604
	125,343	121,072
EXPENSES		
Salaries and employee benefits <i>[note 10]</i>	94,434	85,814
Other operating	27,482	26,752
Amortization of fixed assets	7,843	7,550
Interest <i>[notes 7 and 12[c]]</i>	1,672	4,294
	131,431	124,410
Deficiency of revenue over expenses for the year	(6,088)	(3,338)

See accompanying notes



Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CHANGES IN DEFICIT
[in thousands of dollars]

Year ended March 31

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

	2006		
	Investment in fixed assets \$	Deficit \$	Total \$
	<i>[note 9]</i>		
Balance, beginning of year	16,743	(20,269)	(3,526)
Deficiency of revenue over expenses for the year <i>[note 9]</i>	(2,997)	(341)	(3,338)
Change in investment in fixed assets <i>[note 9]</i>	2,954	(2,954)	—
Donated works of art	465	—	465
Balance, end of year	17,165	(23,564)	(6,399)

See accompanying notes



Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Deficiency of revenue over expenses for the year	(6,088)	(3,338)
Add (deduct) items not affecting cash		
Amortization of fixed assets	7,843	7,550
Amortization of deferred capital contributions	(5,319)	(4,553)
Net change in non-cash working capital balances related to operations	9,884	6,287
Cash provided by operating activities	6,320	5,946
FINANCING AND INVESTING ACTIVITIES		
Repayment of mortgages and other	(923)	(16,286)
Contributions for purchase of fixed assets	4,449	17,051
Decrease in residents' trust funds	(396)	(263)
Purchase of fixed assets	(6,066)	(8,885)
New capital lease	33	4,641
Decrease in investments	450	3,824
Cash provided by (used in) financing and investing activities	(2,453)	82
Net increase in cash during the year	3,867	6,028
Cash (bank indebtedness), beginning of year	5,186	(842)
Cash, end of year	9,053	5,186

See accompanying notes



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

1. DESCRIPTION OF ORGANIZATION

Baycrest Centre for Geriatric Care [the "Centre"] is internationally renowned for its care, research and education related to aging and geriatrics. Its continuum of care serves more than 2,500 clients daily and includes supportive residential care and community services for seniors, short-term specialized medical care, long-term and complex continuing care. Affiliated with the University of Toronto, the Centre is advancing care through the power of research and education with a focus on brain functioning and mental health.

The combined financial statements comprise those of the Centre, The Jewish Home for the Aged ["J.H.A."], Baycrest Hospital, Ridgecrest Seniors Residential Services Corporation [Elm Ridge Group Home], 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.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

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:

Land improvements 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 grant 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, which is recorded on the accrual basis, includes dividends, interest income and pooled fund distributions, as well as realized and unrealized gains and losses.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

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.

Financial instruments

The fair values of the Centre's financial instruments approximate their carrying values unless otherwise stated. The Centre is subject to credit risk with respect to its accounts receivable and market and interest rate risks with respect to its investments.

Investments

Investments are recorded at market value.

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 income for the year.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

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 Ontario Ministry of Health and Long Term Care [the "Ministry"] has a number of estimates. The Centre has entered into a Hospital Accountability Agreement [the "HAA"] that sets out the rights and obligations of the two parties in respect of funding provided to the Centre by the Ministry for fiscal 2007. 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 Ministry has the right to adjust funding received by the Centre. The 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 combined financial statements, the amount of Ministry funding received during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these combined financial statements represents management's best estimate of amounts that have been earned during the year.

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 \$7,200 are included in the cash balance [2006 - \$5,151]. There is a corresponding amount recorded in accounts payable and accrued liabilities.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

4. INVESTMENTS

Investments consist of the following:

	2007	2006
	\$	\$
Prime-linked guaranteed investment certificates	1,000	1,307
Money Market Fund	52	195
	1,052	1,502

Residents' trust funds of \$808 [2006 - \$1,204] are included in investments and are designated as "Held in trust for residents".

5. FIXED ASSETS

Fixed assets consist of the following:

	2007		Net
	Cost	Accumulated	book
	\$	amortization	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



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

	2006		Net
	Cost	Accumulated	book
	\$	amortization	value
		\$	\$
Land	823	—	823
Land improvements and parking lot	5,460	5,060	400
Buildings	160,724	76,222	84,502
Equipment	63,763	46,914	16,849
Works of art	7,434	—	7,434
	238,204	128,196	110,008

Included in buildings and equipment are capital leases with a cost of \$7,216 [2006 - \$7,183] and accumulated amortization of \$3,032 [2006 - \$2,537], and fixed assets not yet in use with a cost of nil [2006 - \$5,001].

6. CREDIT FACILITY

The Centre has a \$5,000 [2006 - \$5,000] demand credit facility which bears interest at the bank's prime rate of 6% as at March 31, 2007 [2006 - 5.50%] 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, 2007

7. LONG-TERM DEBT

Long-term debt consists of the following:

	2007	2006
	\$	\$
Mortgage payable, bearing interest at 8% per annum, due 2027, collateralized by the Baycrest Terrace and the Minnie Wagman Centre buildings	4,083	4,165
Mortgage payable, bearing interest at 6.04% per annum, due 2020, collateralized by the Apotex Centre building	7,457	7,576
Capital leases, maturing from June 2007 to March 2013, bearing interest at rates ranging from 2.5% to 8.95%, collateralized by buildings and equipment [note 5]	4,005	4,694
	15,545	16,435
Less current portion, included in accounts payable and accrued liabilities	849	908
	14,696	15,527

During the year, interest paid on long-term debt was \$852 [2006 - \$1,709].

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

	\$
2008	849
2009	835
2010	866
2011	918
2012	972
Thereafter	11,105
	15,545



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

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.

	2007	2006
	\$	\$
Deferred capital contributions		
Balance, beginning of year	76,408	63,910
Additions	4,449	17,051
	80,857	80,961
Amortization recognized as revenue	(5,319)	(4,553)
Balance, end of year	75,538	76,408

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

	2007	2006
	\$	\$
Deferred program contributions		
Balance, beginning of year	4,385	3,925
Amounts received	9,572	7,338
Amounts recognized as revenue	(9,124)	(6,878)
Balance, end of year	4,833	4,385



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

9. INVESTMENT IN FIXED ASSETS

Investment in fixed assets is calculated as follows:

	2007	2006
	\$	\$
Fixed assets, net	108,414	110,008
Less amounts financed by		
Deferred capital contributions <i>[note 8]</i>	75,538	76,408
Mortgages payable <i>[note 7]</i>	11,540	11,741
Capital leases <i>[note 7]</i>	4,005	4,694
	<u>17,331</u>	<u>17,165</u>

Change in investment in fixed assets is calculated as follows:

	2007	2006
	\$	\$
Deficiency of revenue over expenses for the year		
Amortization of fixed assets	(7,843)	(7,550)
Less amortization of deferred capital contributions	5,319	4,553
	<u>(2,524)</u>	<u>(2,997)</u>
Change in investment in fixed assets		
Purchase of fixed assets	6,066	8,885
Less amounts funded by capital contributions	(4,449)	(17,051)
	1,617	(8,166)
New capital lease	(33)	(4,641)
Repayment of mortgages payable	201	15,617
Repayment of capital leases	722	144
	<u>2,507</u>	<u>2,954</u>



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

10. EMPLOYEE BENEFIT PLANS

[a] Multi-employer plan

Substantially all of the employees of the Centre are eligible to be members of the Hospitals of Ontario Pension Plan [the "Plan"], which is a multi-employer, defined benefit, final average earnings contributory pension plan. The Centre's contributions to the Plan during the year amounted to \$5,368 [2006 - \$5,204]. The most recent regulatory funding valuation conducted as at December 31, 2005 disclosed actuarial assets of \$22,853, with accrued pension liabilities of \$23,419, resulting in a deficit of \$566. This funding valuation also confirmed that the Plan is 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 \$1,927 [2006 - \$525] have 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 was March 31, 2007.

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

	2007	2006
	\$	\$
Accrued benefit obligation		
Balance, beginning of year	5,670	4,943
Current service cost	309	239
Interest cost	306	304
Benefits paid	(293)	(219)
Actuarial loss	(419)	403
Balance, end of year	5,573	5,670
Unamortized net actuarial loss	(1,544)	(2,133)
Accrued benefit liability	4,029	3,537



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

The expense for the year related to these plans is \$783 [2006 - \$687] and employer contributions for these plans were \$293 [2006 - \$219].

The discount rate adopted in measuring the Centre's accrued benefit obligation was 5.00% [2006 - 5.25%] and expense was 5.25% [2006 - 6.00%] 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 2007 [2006 - 9.4%] 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, 2007, 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.
- [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, 2007, 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 charitable 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.



Baycrest Centre for Geriatric Care

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2007

[b] The summarized financial statements of the Foundation as at and for the year ended March 31 are as follows:

	2007	2006
	\$	\$
Total assets	110,872	98,737
Total liabilities	1,175	510
	<u>109,697</u>	<u>98,227</u>
Endowment funds	63,139	59,199
Restricted funds	42,558	35,028
Unrestricted funds	4,000	4,000
	<u>109,697</u>	<u>98,227</u>
	2007	2006
	\$	\$
Total revenue [including additions to endowments of \$4,734; 2006 - \$6,323]	30,855	27,738
Total expenses	4,258	3,833
Excess of revenue over expenses before grants	26,597	23,905
Grants to the Centre, included in operations	(11,252)	(11,159)
Capital grants to the Centre, included in deferred capital contributions	(3,508)	(1,414)
Grants to third parties	(367)	(290)
Excess of revenue over expenses for the year	<u>11,470</u>	<u>11,042</u>

[c] The advance from the Foundation is due on demand and bears interest at prime and resulted in interest expense of \$406 [2006 - \$498] 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 2007 combined financial statements.