Combined Financial Statements

Baycrest Centre for Geriatric Care

March 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Baycrest Centre for Geriatric Care

REPORT ON COMBINED FINANCIAL STATEMENTS

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

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of combined 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 combined 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 combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of **Baycrest Centre for Geriatric Care** as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 21, 2012.

Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2012	2011
	$	$
		[restated - note 21]
ASSETS		
Current		
Cash held for residents' trust funds *[note 3]*	**26**	50
Cash held on behalf of Ministry of Health and Long-Term Care *[note 4]*	**16**	403
Short-term investments *[note 5]*	**1,325**	1,300
Accounts receivable	**5,716**	5,573
Inventories, deposits and prepaid expenses	**1,820**	1,875
Total current assets	**8,903**	9,201
Investment *[note 6]*	**129**	10
Fixed assets, net *[note 7]*	**109,180**	97,500
	118,212	106,711
LIABILITIES AND DEFICIT		
Current		
Bank indebtedness *[note 3]*	**393**	3,054
Accounts payable and accrued liabilities	**24,524**	22,170
Due to Ministry of Health and Long-Term Care *[note 4]*	**16**	403
Deferred program contributions *[note 11]*	**6,572**	6,188
Due to The Baycrest Centre Foundation *[note 17[c]]*	**5,454**	3,494
Current portion of long-term debt *[note 9]*	**1,167**	1,063
Residents' trust funds *[note 3]*	**26**	50
Total current liabilities	**38,152**	36,422
Long-term debt *[note 9]*	**10,568**	11,166
Energy management loan *[note 10]*	**11,377**	—
Deferred capital contributions *[note 11]*	**65,073**	66,879
Employee future benefits *[note 12]*	**8,025**	7,496
Derivative liabilities *[note 13]*	**1,031**	—
Other benefits	**416**	118
Total liabilities	**134,642**	122,081
Contingencies *[note 15]*		
Commitment *[note 16]*		
Deficit	**(16,430)**	(15,370)
	118,212	106,711

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

	2012	2011
	$	$
		[restated - note 21]
REVENUE		
Ministry of Health and Long-Term Care and the Toronto Central Local Health Integration Network	**93,709**	90,862
Charges for services	**19,953**	20,614
The Baycrest Centre Foundation grants *[note 17[b]]*	**15,702**	14,807
Other grants	**8,692**	8,037
Amortization of deferred capital contributions *[note 11]*	**3,348**	3,991
Sundry	**6,103**	5,557
	147,507	143,868
EXPENSES		
Salaries and employee benefits *[note 12]*	**109,902**	107,771
Other operating *[note 6]*	**30,674**	28,248
Amortization of fixed assets	**6,035**	7,280
Interest *[notes 9 and 17[c]]*	**1,019**	924
	147,630	144,223
Excess of expenses over revenue for the year	**(123)**	(355)

See accompanying notes

Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CHANGES IN DEFICIT

[in thousands of dollars]

Year ended March 31

	2012	2011
	$	$
		[restated - note 21]
Balance, beginning of year		
As restated *[note 21]*	**(15,370)**	(15,139)
Excess of expenses over revenue for the year	**(123)**	(355)
Change in fair value of derivatives *[note 13]*	**(1,031)**	—
Donated works of art *[note 7]*	**94**	124
Balance, end of year	**(16,430)**	(15,370)

See accompanying notes

Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2012	2011
	$	$
		[restated - note 21]
OPERATING ACTIVITIES		
Excess of expenses over revenue for the year	**(123)**	(355)
Add (deduct) items not affecting cash		
Amortization of fixed assets	**6,035**	7,280
Amortization of deferred capital contributions	**(3,348)**	(3,991)
Share of long-term investment net loss	**561**	456
Increase in employee future benefits	**529**	332
Increase (decrease) in other benefits	**298**	(129)
Net change in non-cash working capital balances related to operations *[note 18]*	**2,599**	(13,202)
Cash provided by (used in) operating activities	**6,551**	(9,609)
INVESTING ACTIVITIES		
Purchase of fixed assets *[note 18]*	**(14,798)**	(5,301)
Purchase of short-term investments	**(25)**	—
Purchase of shares in long-term investment	**(680)**	(200)
Cash used in investing activities	**(15,503)**	(5,501)
FINANCING ACTIVITIES		
Sale of short-term investments	**—**	500
Contributions for purchase of fixed assets	**1,542**	1,667
Repayment of long-term debt	**(1,177)**	(1,020)
Drawing on energy management loan	**11,272**	—
Decrease in residents' trust funds	**(24)**	(60)
Increase (decrease) in bank indebtedness	**(2,661)**	3,054
Cash provided by financing activities	**8,952**	4,141
Net decrease in cash during the year	**—**	(10,969)
Cash, beginning of year	**—**	10,969
Cash, end of year	**—**	—

See accompanying notes

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2012

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, Baycrest Hospital, Baycrest Day Care Centre, and Baycrest Residential Properties Inc. which are incorporated without share capital under the laws of Ontario; 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 its affiliated entities 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:

Short-term investments

The Centre's guaranteed investment certificates are presented at cost plus accrued interest, which approximates fair value.

Inventories

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

Investment

The Centre's investment in a for-profit entity is accounted for by the equity method.

Fixed assets

Fixed assets are recorded at cost. Amortization of fixed 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 assets. 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 fixed assets. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

Deferred capital contributions

Capital contributions for the purpose of acquiring depreciable fixed assets are deferred and amortized on the same basis, and over the same period, as the related fixed assets.

Derivative financial instruments

The Centre accounts for derivative contracts as hedges when they qualify for hedge accounting. Hedges are documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the liability being hedged, the type of derivative used and how effectiveness is measured. The derivative must be highly effective in accomplishing the objective of offsetting changes in cash flows attributable to the risk being hedged both at inception and over the life of the hedge. For derivatives in hedging relationships, the effective portion of the gain or loss is recorded as a direct increase (decrease) in net assets, and the ineffective portion, if any, is recognized in the combined statement of operations. Derivative financial instruments that do not qualify for hedge accounting are carried at fair value, with changes in fair value during the year recorded in the combined statement of operations. When a derivative financial instrument no longer qualifies as an effective hedge, hedge accounting is discontinued prospectively and the cumulative gain or loss recognized previously in net assets in respect of the hedging relationship is recognized in the combined statement of operations over the remaining useful life of the hedged item using the effective interest rate method. When the derivative financial instrument or the hedged item is terminated or sold, hedge accounting is discontinued and the cumulative gain or loss recognized previously in net assets in respect of the hedging relationship is immediately recognized in the combined statement of operations under investment income.

Revenue recognition

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

- Revenue from unrestricted operating grants is recognized when it becomes receivable.
- Research grants and other restricted revenue is recognized as related expenditures are incurred.

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

Investment income, which consists of interest from short-term investments, is recorded on the accrual basis as sundry income.

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 obligation 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 would be amortized over future years of service to full eligibility of active employees. The accrued benefit obligation related to employee future benefits is discounted using the current average market yield on high quality debt instruments with cash flows that match the timing and amount of the expected benefit payments from each plan.

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 rate of exchange in effect when the transactions occurred. Exchange gains and losses are recorded in the combined statement of operations for the year.

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 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 2011 and 2012.

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 combined 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 combined financial statements represents management's best estimate of amounts that have been earned during the year.

Contributed services

Contributed services are not recognized in the combined financial statements.

Future accounting policy changes

Effective for the fiscal year beginning April 1, 2012, the Centre will be required to follow the accounting policies in the Public Sector Accounting ["PSA"] Handbook.

The Public Sector Accounting Board ["PSAB"] has approved the inclusion of the Canadian Institute of Chartered Accountants ["CICA"] Handbook – Accounting standards addressing issues unique to not-for-profit organizations into the PSA Handbook as the PS4200 series. The application of PS4200 series by government not-for-profit organizations is optional. The Centre has chosen to apply the PS4200 series, and is evaluating the impact of adopting the PSA Handbook standards.

3. CASH AND BANK INDEBTEDNESS

Cash represents resident funds in trust of $26 [2011 - $50]. The funds held in trust are offset by a corresponding liability.

The bank indebtedness as at March 31, 2012 consists of outstanding cheques.

4. MINISTRY OF HEALTH AND LONG-TERM CARE

On June 30, 2010, the Centre terminated an agreement to act as a transfer payment agency providing the Ministry with contract and payment processing services. The funds received and not spent of $16 [2011 - $403] are shown as cash held on behalf of the Ministry. These amounts are offset by amounts due to the Ministry of $16 [2011 - $403].

5. SHORT-TERM INVESTMENTS

Short-term investments consist of a guaranteed investment certificate of $1,325 [2011 - $1,300], interest rate of 1.33% [2011 - 1.15%] and maturity date of April 30, 2012.

[in thousands of dollars]

6. INVESTMENT

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 investment consists of the following:

	2012 $	2011 $
Balance, beginning of year	**10**	266
Additions	**680**	200
Share of Cogniciti net loss	**(561)**	(456)
Balance, end of year	**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 as at and for the year ended March 31:

	2012 $	2011 $
Assets	**230**	28
Liabilities	**101**	18
Equity	**129**	10
Revenue	**45**	—
Expenses	**606**	456

[in thousands of dollars]

7. FIXED ASSETS

Fixed assets consist of the following:

	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**

	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, 2012, projects in progress of $13,334 [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 $9,409 [2011 - $8,726] and accumulated amortization of $6,336 [2011 - $5,764].

8. CREDIT FACILITY

During the year, the Centre entered into a $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, 2012 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.

The operating facility is unsecured.

[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, 2012 was 2.50%. 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.

The special revolving credit facility is unsecured.

[in thousands of dollars]

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2012 $	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	**3,587**	3,708
Mortgage payable, bearing interest at 6.04% per annum, due January 1, 2020, collateralized by the Apotex Centre building	**6,855**	6,990
Capital leases, maturing from April 2012 to June 2016, bearing interest at rates ranging from 5.23% to 10.05%, collateralized by equipment	**1,293**	1,531
	11,735	12,229
Less current portion	**1,167**	1,063
	10,568	11,166

During the year, interest paid on long-term debt was $704 [2011 - $721].

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

	$
2013	1,167
2014	474
2015	485
2016	381
2017	364
Thereafter	8,864
	11,735

[in thousands of dollars]

10. ENERGY MANAGEMENT LOAN

The Centre has entered into agreements to finance energy management improvements to certain Centre facilities. The details are as follows:

1. A two-year 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. 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 13]*. 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, 2012, $11,377 has been drawn down on the loan. Interest expense of $105 has been capitalized and will be repayable upon maturity.

2. On April 15, 2013, the Centre will enter into a 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 13]*.

Both energy management loans are unsecured.

11. 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.

	2012 $	2011 $ *[restated – note 21]*
Deferred capital contributions		
Balance, beginning of year	**66,879**	69,203
Additions *[note 17[b]]*	**1,542**	1,667
	68,421	70,870
Amortization recognized as revenue	**(3,348)**	(3,991)
Balance, end of year	**65,073**	66,879

[in thousands of dollars]

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

	2012 $	2011 $
Deferred program contributions		
Balance, beginning of year	**6,188**	6,475
Amounts received *[note 17[b]]*	**11,020**	7,893
Amounts recognized as revenue	**(10,636)**	(8,180)
Balance, end of year	**6,572**	6,188

12. 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 Plan is accounted for as a defined contribution plan. The Centre's contributions to the Plan during the year amounted to $6,571 [2011 - $6,224] and are included in salaries and employee benefits expense in the combined statement of operations. The most recent actuarial valuation for financial reporting purposes completed by the Plan as of December 31, 2011 disclosed net assets available for benefits of $40,321,000 with pension obligations of $36,782,000 resulting in a surplus of $3,539,000.

[b] Retirement benefits

The Centre also provides retirement allowances for former employees. These obligations are not funded but the estimated liability of $2,085 [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 was March 31, 2010.

[in thousands of dollars]

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

	2012 $	2011 $
Accrued benefit obligation		
Balance, beginning of year	**5,581**	5,291
Current service cost	**789**	255
Interest cost	**396**	386
Benefits paid	**(483)**	(414)
Actuarial loss	**839**	488
Balance, end of year	**7,122**	6,006
Unamortized net actuarial loss	**(1,182)**	(425)
Accrued benefit liability	**5,940**	5,581

The expense for the year related to these plans is $842 [2011 - $703] and employer contributions for these plans were $483 [2011 - $414].

The discount rate adopted in measuring the Centre's accrued benefit obligation was 4.00% [2011 - 5.00%] and expense was 5.00% [2011 - 5.75%] 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%.

13. DERIVATIVE LIABILITIES

Description

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 10]*. The contracts have the effect of converting the floating rate of interest on the energy management loan to a fixed rate. These contracts are accounted for as hedges.

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 financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

[in thousands of dollars]

Risks

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.

Terms and conditions

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

	Effective date	Termination date	Notional value $	Fair value $
1.8% fixed interest rate	July 28, 2011	April 15, 2013	**11,380**	**86**
3.475% fixed interest rate	April 15, 2013	April 15, 2023	**16,066**	**945**
				1,031

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.

14. CAPITAL MANAGEMENT

In managing capital, the Centre focuses on liquid resources available for operations. The Centre's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. In addition, the Centre is required to achieve certain performance measures related to working capital set out in the Hospital Service Accountability Agreement ["H-SAA"] with the TC-LHIN. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2012, the Centre has met its objective of having sufficient liquid resources to meet its current obligations and the performance measures related to working capital set out in the H-SAA.

15. 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.

[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, 2012, no assessments have been received.

16. COMMITMENT

On March 1, 2011, the Centre signed a contract valued at $15,461 with respect to certain facility improvements. The improvements are ongoing and scheduled to be completed by March 2013. Periodic progress payments continue to be made based upon certification of work completed. Future commitments remaining on the contract at March 31, 2012 total $2,350.

17. 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.

[in thousands of dollars]

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

	2012	**2011**
	$	$
Total assets	**129,216**	131,851
Total liabilities	**(3,151)**	(3,278)
	126,065	128,573
Endowment funds	**85,023**	85,907
Restricted funds	**41,042**	42,666
	126,065	128,573

	2012	**2011**
	$	$
Total revenue [including additions to endowments of $2,992; 2011 - $9,374]	**22,808**	31,277
Total expenses	**(8,129)**	(8,334)
Excess of revenue over expenses before grants	**14,679**	22,943
Grants to the Centre, included in operations	**(15,702)**	(14,807)
Capital grants to the Centre, included in deferred capital and deferred program contributions *[note 11]*	**(1,172)**	(1,710)
Grant to third party	**(313)**	(315)
(Deficiency) excess of revenue over expenses for the year	**(2,508)**	6,111

[c] Advances from the Foundation are due on demand and bear interest at the prime rate of interest, which resulted in interest expense of $251 [2011 - $98] during the year.

[d] The Centre provides the Foundation with office space, furniture and equipment at no cost. Salaries, benefits, including pension contributions for the Hospitals of Ontario Pension Plan, and certain other expenses are paid by the Centre and are reimbursed by the Foundation.

[in thousands of dollars]

18. ADDITIONAL CASH FLOW INFORMATION

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

	2012 $	2011 $
Cash held for residents' trust funds	**24**	(50)
Cash held on behalf of Ministry of Health and Long-Term Care	**387**	4,031
Accounts receivable	**(143)**	(1,936)
Inventories, deposits and prepaid expenses	**55**	(233)
Accounts payable and accrued liabilities	**319**	(828)
Due to Ministry of Health and Long-Term Care	**(387)**	(4,168)
Due to The Baycrest Centre Foundation	**1,960**	(9,731)
Deferred program contributions	**384**	(287)
	2,599	(13,202)

Supplemental cash flow information

	2012 $	2011 $
Additions to fixed assets through capital leases	**683**	17
Additions to fixed assets funded by accounts payable and accrued liabilities	**2,035**	603
Interest paid	**1,019**	924
Interest capitalized on energy management loan *[note 10]*	**105**	—

19. FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments approximate the amounts for which instruments could be exchanged in a transaction between knowledgeable and willing parties based on public market information. Management believes the carrying values of the financial instruments in these combined financial statements approximate their fair values unless otherwise noted. Any changes in fair value are accounted for in the combined statement of operations.

The Centre is subject to interest rate price risk with respect to its credit facility and long-term debt. The Centre has entered into interest rate swap contracts to manage the interest rate cash flow risk with respect to its floating rate energy management loans.

20. COMPARATIVE COMBINED FINANCIAL STATEMENTS

The comparative combined financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 combined financial statements.

21. CORRECTION OF PRIOR PERIOD DIFFERENCE

The Centre has identified a difference relating to the accelerated recognition of revenue from deferred capital contributions. This resulted in an overstatement of revenue of $541 and a corresponding overstatement of excess of revenue over expenses of $541 for the year ended March 31, 2011. Deferred capital contributions and deficit were understated by $2,067 and $1,526 as of March 31, 2011 and April 1, 2010, respectively.