Combined Financial Statements

Baycrest Centre for Geriatric Care

March 31, 2010

Ernst & Young
Quality In Everything We Do

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** [the "Centre"] as at March 31, 2010 and the combined statements of operations, changes in deficit and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2010 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.

Ernst & Young LLP

Toronto, Canada,
May 14, 2010.

Chartered Accountants
Licensed Public Accountants

Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2010	2009
	$	$
ASSETS		
Current		
Cash	**10,969**	—
Cash held on behalf of Ministry of Health and Long-Term Care *[note 3]*	**4,434**	22,103
Short-term investments *[note 4]*	**1,800**	1,450
Accounts receivable *[note 3]*	**3,637**	5,087
Inventories, deposits and prepaid expenses	**1,642**	1,862
Total current assets	**22,482**	30,502
Investment *[note 5]*	**266**	—
Fixed assets, net *[note 6]*	**98,735**	102,577
	121,483	133,079
LIABILITIES AND DEFICIT		
Current		
Bank indebtedness *[note 7]*	**—**	924
Accounts payable and accrued liabilities *[note 8]*	**23,182**	21,528
Due to Ministry of Health and Long-Term Care *[note 3]*	**4,571**	22,387
Deferred program contributions *[note 9]*	**6,475**	6,929
Due to The Baycrest Centre Foundation *[note 13[c]]*	**13,225**	7,795
Residents' trust funds *[note 4]*	**515**	667
Total current liabilities	**47,968**	60,230
Long-term debt *[note 8]*	**12,169**	13,292
Deferred capital contributions *[note 9]*	**67,677**	70,653
Employee future benefits *[note 10]*	**7,282**	6,933
Total liabilities	**135,096**	151,108
Contingencies *[note 12]*		
Deficit	**(13,613)**	(18,029)
	121,483	133,079

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

	2010 $	2009 $
REVENUE		
Ministry of Health and Long-Term Care and the Toronto Central Local Health Integration Network	**88,151**	76,895
Charges for services	**21,221**	21,334
The Baycrest Centre Foundation grants *[note 13[b]]*	**14,614**	12,550
Other grants	**7,375**	7,772
Amortization of deferred capital contributions *[note 9]*	**4,135**	5,090
Sundry	**5,982**	5,684
	141,478	129,325
EXPENSES		
Salaries and employee benefits *[note 10]*	**100,833**	98,228
Other operating	**28,018**	27,603
Amortization of fixed assets	**7,173**	7,467
Interest *[notes 8 and 13[c]]*	**1,137**	1,246
	137,161	134,544
Excess (deficiency) of revenue over expenses for the year	**4,317**	(5,219)

See accompanying notes

Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CHANGES IN DEFICIT

[in thousands of dollars]

Year ended March 31

	2010	2009
	$	$
Balance, beginning of year	**(18,029)**	(13,127)
Excess (deficiency) of revenue over expenses for the year	**4,317**	(5,219)
Donated works of art *[note 6]*	**99**	317
Balance, end of year	**(13,613)**	(18,029)

See accompanying notes

Baycrest Centre for Geriatric Care

COMBINED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2010	2009
	$	$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	**4,317**	(5,219)
Add (deduct) items not affecting cash		
Amortization of fixed assets	**7,173**	7,467
Amortization of deferred capital contributions	**(4,135)**	(5,090)
Share of long-term investment net loss	**134**	—
Increase in employee future benefits	**349**	524
Net change in non-cash working capital balances related to operations *[note 14]*	**8,109**	6,443
Cash provided by operating activities	**15,947**	4,125
INVESTING ACTIVITIES		
Purchase of fixed assets	**(3,131)**	(3,037)
Purchase of short-term investments	**(350)**	(645)
Increase in long-term investment	**(400)**	—
Cash used in investing activities	**(3,881)**	(3,682)
FINANCING ACTIVITIES		
Contributions for purchase of fixed assets	**1,159**	2,172
Repayment of long-term debt	**(1,180)**	(1,044)
Decrease in residents' trust funds	**(152)**	(40)
Decrease in bank indebtedness	**(924)**	(1,531)
Cash used in financing activities	**(1,097)**	(443)
Net increase in cash during the year	**10,969**	—
Cash, beginning of year	**—**	—
Cash, end of year	**10,969**	—

See accompanying notes

NOTES TO COMBINED FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2010

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, which approximates fair value.

Inventories

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

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 fixed assets. Works of art are not amortized.

Investment

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

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.

Revenue recognition

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

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

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 obligations is amortized over the average remaining service period of active employees. The average remaining service period of active employees is 12 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 entered into a Hospital Service Accountability Agreement [the "H-SAA"] with the TC-LHIN for fiscal 2009 and 2010.

The H-SAA has been extended for an additional year to March 31, 2011 under the same terms and conditions.

The H-SAA sets out certain performance standards and obligations that establish acceptable results for the Centre's performance in a number of areas. If the Centre does not meet its performance standards or obligations, the TC-LHIN has the right to adjust funding received by the Centre. The TC-LHIN / Ministry is not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the 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.

Financial instruments

The Centre has chosen to apply the Canadian Institute of Chartered Accountants ["CICA"] 3861: *Financial Instruments - Disclosure and Presentation* in place of CICA 3862: *Financial Instruments - Disclosures* and CICA 3863: *Financial Instruments - Presentation*.

Contributed services

Contributed services are not recognized in the combined financial statements.

Future accounting policy changes

The Accounting Standards Board ["AcSB"] issued an exposure draft in March 2010 that proposes to issue Part III of the CICA Handbook as accounting standards for not-for-profit organizations in the private sector. The exposure draft indicates that Part III will initially comprise the existing standards dealing with the unique circumstances of not-for-profit organizations, currently in the 4400 series of standards in Part V of the CICA Handbook, the additional standards and amendments proposed in the exposure draft, and new accounting standards for private enterprises in Part II of the Handbook, to the extent that they would apply to not-for-profit organizations. The AcSB expects that the final standards will be issued in late 2010.

The AcSB previously decided to permit not-for-profit organizations to apply International Financial Reporting Standards, which are in Part I of the CICA Handbook. Not-for-profit organizations should select one of the two available sets of accounting standards and apply that set for annual financial statements relating to fiscal years beginning on or after January 1, 2010. Earlier adoption would be permitted and the new standards would be adopted with retroactive application with restatement of prior periods. The standards in Part V of the CICA Handbook currently applicable to not-for-profit organizations will remain in effect until organizations have adopted either the standards in Part I or the standards in Part III.

3. MINISTRY OF HEALTH AND LONG-TERM CARE

The Centre has an agreement to act as a transfer payment agency providing the Ministry with contract and payment processing services. Accordingly, funds of $4,434 [2009 - $22,103] are shown as cash held on behalf of the Ministry. Included in accounts receivable is $137 [2009 - $284] collectible on the Ministry's behalf. These amounts are offset by amounts due to the Ministry of $4,571 [2009 - $22,387].

4. SHORT-TERM INVESTMENTS

Short-term investments include guaranteed investment certificates totalling $1,800 [2009 - $1,450], with individual investments ranging from $550 to $1,250 [2009 - $700 to $750], interest rates ranging from 0.4% to 0.5% [2009 - 0.4% to 1.50%] and maturity dates ranging from May 26, 2010 to September 7, 2010.

Residents' trust funds of $515 [2009 - $667] are included in short-term investments and are designated as "Held in trust for residents".

[in thousands of dollars]

5. 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 Centre made an initial investment of $400. During the year, the Centre recorded its share of Cogniciti's net loss which amounted to $134 [2009 - nil] as other operating expenses. The following amounts represent the Centre's 80% share of the assets, liabilities, equity and expenses of Cogniciti as at and for the year ended March 31:

	2010 $	**2009** $
Assets	**328**	—
Liabilities	**62**	—
Equity	**266**	—
Expenses	**134**	—

6. FIXED ASSETS

Fixed assets consist of the following:

	2010		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	**823**	**—**	**823**
Land improvements and parking lot	**5,460**	**5,289**	**171**
Buildings *[note 8]*	**169,539**	**90,963**	**78,576**
Equipment	**72,662**	**61,766**	**10,896**
Works of art	**8,269**	**—**	**8,269**
	256,753	**158,018**	**98,735**

[in thousands of dollars]

	2009		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	823	—	823
Land improvements and parking lot	5,460	5,232	228
Buildings *[note 8]*	168,040	87,182	80,858
Equipment	70,929	58,431	12,498
Works of art	8,170	—	8,170
	253,422	150,845	102,577

Included in equipment are capital leases with a cost of $8,520 [2009 - $8,403] and accumulated amortization of $5,041 [2009 - $4,309].

7. CREDIT FACILITY

The Centre has a $5,000 [2009 - $5,000] demand credit facility which bears interest at the bank's prime rate of 2.25% [2009 - 2.5%], which is collateralized by the assets of the Centre.

[in thousands of dollars]

8. LONG-TERM DEBT

Long-term debt consists of the following:

	2010 $	**2009** $
Mortgage payable, bearing interest at 8% [2009 - 8%] per annum, due February 1, 2027, collateralized by the Baycrest Terrace and the Joseph E. and Minnie Wagman Centre buildings	**3,797**	3,899
Mortgage payable, bearing interest at 6.04% [2009 - 6.04%] per annum, due January 1, 2020, collateralized by the Apotex Centre building	**7,116**	7,237
Capital leases, maturing from September 2010 to March 2013, bearing interest at rates ranging from 3.91% to 10.05%, collateralized by equipment *[note 6]*	**2,400**	3,256
	13,313	14,392
Less current portion, included in accounts payable and accrued liabilities	**1,144**	1,100
	12,169	13,292

During the year, interest paid on long-term debt was $737 [2009 - $751].

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

	$
2011	1,144
2012	1,040
2013	966
2014	294
2015	315
Thereafter	9,554
	13,313

[in thousands of dollars]

9. 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.

	2010 $	2009 $
Deferred capital contributions		
Balance, beginning of year	**70,653**	73,571
Additions *[note 13]*	**1,159**	2,172
	71,812	75,743
Amortization recognized as revenue	**(4,135)**	(5,090)
Balance, end of year	**67,677**	70,653

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

	2010 $	2009 $
Deferred program contributions		
Balance, beginning of year	**6,929**	5,411
Amounts received	**8,571**	9,701
Amounts recognized as revenue	**(9,025)**	(8,183)
Balance, end of year	**6,475**	6,929

10. EMPLOYEE BENEFIT PLANS

[a] Multi-employer plan

Certain employees of the Centre as at March 9, 1998 and all employees joining the Centre since that date are eligible to be members of the Hospitals of Ontario Pension Plan [the "Plan"], which is a multi-employer, defined benefit, highest consecutive average earnings, contributory pension plan. The Plan is accounted for as a defined contribution plan. The Centre's contributions to the Plan during the year amounted to $5,784 [2009 - $5,559] 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, 2009 disclosed a smoothed asset value of $32,556,000 with accrued going concern liabilities of $32,020,000 resulting in a going concern surplus of $536,000.

[in thousands of dollars]

[b] Retirement benefits

The Centre also provides retirement allowances for former employees. These obligations are not funded but the estimated liability of $1,991 [2009 - $1,998] 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.

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

	2010 $	**2009** $
Accrued benefit obligation		
Balance, beginning of year	**4,935**	5,567
Current service cost	**325**	299
Interest cost	**341**	329
Benefits paid	**(363)**	(280)
Actuarial loss	**313**	135
Balance, end of year	**5,551**	6,050
Unamortized net actuarial loss	**(260)**	(1,115)
Accrued benefit liability	**5,291**	4,935

The expense for the year related to these plans is $719 [2009 - $677] and employer contributions for these plans were $363 [2009 - $280].

The discount rate adopted in measuring the Centre's accrued benefit obligation was 5.75% [2009 - 5.50%] and expense was 5.50% [2009 - 5.75%] for the non-pension post-retirement benefit plans.

Dental cost increases are assumed to be 4.0% per annum. Hospital and extended healthcare costs are assumed to be 9.0% by fiscal 2012 and to decrease by 0.5% per annum to an ultimate rate of 5%.

11. 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 H-SAA. 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, 2010, 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.

12. 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, 2010, no assessments have been received.

13. 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:

	2010 $	2009 $
Total assets	**124,889**	109,526
Total liabilities	**2,427**	1,693
	122,462	107,833
Endowment funds	**78,550**	66,064
Restricted funds	**39,912**	37,769
General funds	**4,000**	4,000
	122,462	107,833

	2010 $	2009 $
Total revenue [including additions to endowments of $14,288; 2009 - $(3,292)]	**36,802**	17,855
Total expenses	**6,585**	6,412
Excess of revenue over expenses before grants	**30,217**	11,443
Grants to the Centre, included in operations	**(14,614)**	(12,550)
Capital grants to the Centre, included in deferred capital contributions *[note 9]*	**(974)**	(1,965)
Excess (deficiency) of revenue over expenses for the year	**14,629**	(3,072)

[c] Advances from the Foundation are due on demand and bear interest at the prime rate of interest, which resulted in interest expense of $263 [2009 - $296].

[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]

14. ADDITIONAL CASH FLOW INFORMATION

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

	2010	**2009**
	$	$
Cash held on behalf of Ministry of Health and Long-Term Care	**17,669**	(16,767)
Accounts receivable	**1,450**	319
Inventories, deposits and prepaid expenses	**220**	48
Accounts payable and accrued liabilities	**1,654**	(626)
Current portion of long-term debt included in accounts payable and accrued liabilities	**(44)**	(166)
Due to Ministry of Health and Long-Term Care	**(17,816)**	17,051
Due to The Baycrest Centre Foundation	**5,430**	5,066
Deferred program contributions	**(454)**	1,518
	8,109	6,443

Supplemental cash flow information

	2010	**2009**
	$	$
Additions to fixed assets through capital leases	**101**	473
Interest paid	**1,137**	1,228

15. 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.

16. COMPARATIVE COMBINED FINANCIAL STATEMENTS

The comparative combined financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 combined financial statements.

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