Consolidated Financial Statements

Baycrest Centre for Geriatric Care

March 31, 2015

Building a better
working world

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 statement of financial position as at March 31, 2015, and the consolidated statements of operations, changes in deficit, remeasurement losses and cash flows for the year then ended, 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 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 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 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, 2015, and the results of its operations and its cash flows for the year then ended 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 Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 23, 2015

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2015 $	2014 $
ASSETS		
Current		
Cash	**1,301**	—
Funds held for others	**1,976**	1,451
Due from The Baycrest Centre Foundation *[note 14[c]]*	**1,928**	3,596
Accounts receivable *[notes 3 and 4[c]]*	**9,448**	8,515
Inventories, deposits and prepaid expenses	**3,202**	2,420
Total current assets	**17,855**	15,982
Capital assets, net *[note 5]*	**108,483**	108,933
	126,338	124,915
LIABILITIES AND NET DEFICIT		
Current		
Bank indebtedness *[note 6[a]]*	—	377
Accounts payable and accrued liabilities	**24,931**	26,199
Deferred program contributions *[note 9]*	**5,449**	4,894
Current portion of long-term debt *[notes 7 and 8]*	**2,197**	1,963
Funds held for others	**1,976**	1,451
Total current liabilities	**34,553**	34,884
Long-term debt *[note 7]*	**14,863**	14,015
Energy management loan *[note 8]*	**12,060**	13,490
Deferred capital contributions *[note 10]*	**64,585**	64,329
Employee future benefits *[note 11]*	**9,521**	9,362
Derivative liabilities *[note 12]*	**1,279**	908
Other benefits	—	215
Total liabilities	**136,861**	137,203
Contingencies *[note 13]*		
Net deficit		
Deficit	**(9,244)**	(11,380)
Accumulated remeasurement losses	**(1,279)**	(908)
	(10,523)	(12,288)
	126,338	124,915

See accompanying notes

On behalf of the Board:

Director Director

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENT OF OPERATIONS

[in thousands of dollars]

Year ended March 31

	2015	2014
	$	$
REVENUE		
Ministry of Health and Long-Term Care and the Toronto Central Local Health Integration Network	**102,622**	104,344
Charges for services	**21,883**	21,698
The Baycrest Centre Foundation operating grants *[note 14[b]]*	**10,972**	18,294
Other grants	**7,037**	6,589
Amortization of deferred capital contributions *[note 10]*	**4,040**	3,714
Sundry	**7,773**	6,446
	154,327	161,085
EXPENSES		
Salaries and employee benefits *[note 11]*	**114,033**	120,074
Other operating *[notes 4[a] and [b]]*	**29,258**	30,351
Amortization of capital assets	**7,444**	7,074
Interest *[notes 7, 8 and 14[c]]*	**1,466**	1,531
	152,201	159,030
Excess of revenue over expenses for the year	**2,126**	2,055

See accompanying notes

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT

[in thousands of dollars]

Year ended March 31

	2015	2014
	$	$
Balance, beginning of year	**(11,380)**	(13,511)
Excess of revenue over expenses for the year	**2,126**	2,055
Donated works of art *[note 5]*	**10**	76
Balance, end of year	**(9,244)**	(11,380)

See accompanying notes

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENT OF REMEASUREMENT LOSSES

[in thousands of dollars]

Year ended March 31

	2015 $	2014 $
Balance, beginning of year	**(908)**	(1,360)
Change in fair value of derivatives *[note 12]*	**(371)**	452
Balance, end of year	**(1,279)**	(908)

See accompanying notes

Baycrest Centre for Geriatric Care

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2015	**2014**
	$	$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**2,126**	2,055
Add (deduct) items not affecting cash		
Amortization of capital assets	**7,444**	7,074
Amortization of deferred capital contributions	**(4,040)**	(3,714)
Share of net loss of long-term investments	**1,399**	1,124
Increase in employee future benefits	**159**	314
Decrease in other benefits	**(215)**	(18)
Net change in non-cash working capital balances related to operations *[note 16]*	**(1,873)**	(8,639)
Cash provided by (used in) operating activities	**5,000**	(1,804)
INVESTING ACTIVITIES		
Purchase of shares in long-term investments	**(483)**	(291)
Cash used in investing activities	**(483)**	(291)
CAPITAL ACTIVITIES		
Purchase of capital assets	**(6,785)**	(5,890)
Proceeds from energy management rebates	**—**	670
Cash used in capital activities	**(6,785)**	(5,220)
FINANCING ACTIVITIES		
Contributions for purchase of capital assets	**4,296**	4,784
Proceeds from long-term debt	**1,725**	4,000
Repayment of long-term debt	**(703)**	(549)
Advances of long-term receivables	**—**	(1,000)
Repayment of energy management loan	**(1,372)**	(1,048)
Increase (decrease) in bank indebtedness	**(377)**	377
Cash provided by financing activities	**3,569**	6,564
Net increase (decrease) in cash during the year	**1,301**	(751)
Cash, beginning of year	**—**	751
Cash, end of year	**1,301**	—

See accompanying notes

1. DESCRIPTION OF ORGANIZATION

Baycrest Centre for Geriatric Care [the "Centre"] is recognized as a 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 incorporated without share capital under the laws of Ontario. 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 Chartered Professional Accountants of Canada ["CPA Canada"] Public Sector ["PS"] Accounting 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 PS 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 statement 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 gains and losses and are cumulatively reclassified to the consolidated statement 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 statement 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 statement 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 and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Controlled entities

The Baycrest Centre 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[a] and [b]]*.

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 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 statement of operations consists of interest, dividends, 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 post-retirement 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 2015.

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 consist of the following:

	2015 $	**2014** $
Province of Ontario	**2,537**	2,146
Client accounts	**2,575**	2,560
Research	**1,746**	1,527
Other *[note 4[b]]*	**2,590**	2,282
	9,448	8,515

There are no significant past due or impaired accounts, except the amount receivable from Baycrest Global Solutions Inc. ["BGS"] of $133 [2014 – $22], which is net of a provision for impairment *[note 4[b]]*.

[in thousands of dollars]

4. INVESTMENTS

[a] 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:

	2015 $	2014 $
Balance, beginning of year	**—**	38
Additional investment	**483**	291
Share of Cogniciti net loss	**(483)**	(329)
Balance, end of year	**—**	—

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:

	2015 $	2014 $
Assets	**45**	48
Liabilities	**45**	48
Equity	**—**	—
Revenue	**22**	42
Expenses	**505**	371

[b] 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:

	2015 $	2014 $
Balance, beginning of year	**(1,072)**	(277)
Share of BGS net loss	**(916)**	(795)
Balance, end of year	**(1,988)**	(1,072)

[c] The negative investment balance is reflected in the accounts of the Centre as a provision against a long-term receivable of $1,000 [2014 – $1,000] and a short-term receivable of $1,121 [2014 – $94] recorded in other accounts receivable in the consolidated statement of financial position *[note 3]*.

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:

	2015 $	2014 $
Assets	**88**	22
Liabilities	**2,076**	1,095
Deficit	**(1,988)**	(1,072)
Revenue	**6**	—
Expenses	**922**	795

[in thousands of dollars]

5. CAPITAL ASSETS

Capital assets consist of the following:

	2015		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	**823**	**—**	**823**
Land improvements and parking lot	**5,460**	**5,460**	**—**
Buildings	**205,502**	**113,216**	**92,286**
Equipment	**80,970**	**74,201**	**6,769**
Works of art	**8,605**	**—**	**8,605**
	301,360	**192,877**	**108,483**

	2014		
	Cost $	**Accumulated amortization** $	**Net book value** $
Land	823	—	823
Land improvements and parking lot	5,460	5,460	—
Buildings	200,585	108,517	92,068
Equipment	78,922	71,475	7,447
Works of art	8,595	—	8,595
	294,385	185,452	108,933

Included in equipment are capital leases with a cost of $10,098 [2014 – $10,093] and accumulated amortization of $8,744 [2014 – $7,920].

6. CREDIT FACILITIES

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

[i] 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 as at March 31, 2015 was 2.10%. 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 amount outstanding as at March 31, 2014 consisted of outstanding cheques.

[ii] 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 March 29, 2019.

Floating rate advances bear interest at the bank's prime rate minus 0.50% per annum. The effective interest rate at March 31, 2015 was 2.35%. 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, 2015, a floating rate advance of $4,725 is outstanding related to this credit facility [2014 – $3,000] *[note 7]*.

[b] Subsequent to year end, the Centre entered into a revolving credit facility of $13,500. The secured revolving facility matures in five years and bears interest at the bank's prime rate minus 0.5% per annum.

[in thousands of dollars]

7. LONG-TERM DEBT

Long-term debt consists of the following:

	2015 $	**2014** $
Special revolving credit facility *[note 6[a][ii]]*	**4,725**	3,000
Line of credit from The Baycrest Centre Foundation *[note 14[d]]*	**1,000**	1,000
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 with a combined carrying value of $2,161 [2014 – $1,871]	**3,137**	3,315
Mortgage payable, bearing interest at 6.04% per annum, due January 1, 2020, collateralized by the Apotex Centre building with a carrying value of $48,997 [2014 – $52,890]	**6,396**	6,558
Capital leases, maturing from August 2015 to September 2018, bearing interest at rates ranging from 6.53% to 9.26%, collateralized by equipment with a carrying value of $1,355 [2014 – $2,173]	**372**	733
	15,630	14,606
Less current portion	**767**	591
	14,863	14,015

During the year, interest paid and interest expense recorded in the consolidated statement of operations on long-term debt was $723 [2014 – $666].

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

	$
2016	767
2017	718
2018	701
2019	5,415
2020	445
Thereafter	7,584
	15,630

[in thousands of dollars]

8. ENERGY MANAGEMENT LOAN

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

The Centre has entered into an unsecured term loan of $16,066 to fund the improvements. The term loan is 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]*. As at March 31, 2015, $2,576 [2014 – $1,204] has been repaid with a balance of $13,490 [2014 – $14,862] remaining, of which $1,430 [2014 – $1,372] is due in the next fiscal year. During the year, interest paid and interest expense recorded in the consolidated statement of operations on the unsecured term loan was $603 [2014 – $607].

Principal repayments on the term loan are as follows:

	$
2016	1,430
2017	1,491
2018	1,556
2019	1,623
2020	1,692
Thereafter	5,698
	13,490

[in thousands of dollars]

9. DEFERRED PROGRAM CONTRIBUTIONS

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

	2015 $	**2014** $
Balance, beginning of year	**4,894**	5,995
Amounts recorded *[note 14[b]]*	**8,446**	14,325
Amounts recognized as revenue	**(7,891)**	(15,426)
Balance, end of year	**5,449**	4,894

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 statement of operations.

	2015 $	**2014** $
Balance, beginning of year	**64,329**	63,259
Amounts recorded *[note 14[b]]*	**4,296**	4,784
Amortization recognized as revenue	**(4,040)**	(3,714)
Balance, end of year	**64,585**	64,329

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 $6,599 [2014 – $6,881] and are included in salaries and employee benefits expense in the consolidated statement of operations. The most recent actuarial valuation for financial reporting purposes completed by the Plan as of December 31, 2014 disclosed net assets available for benefits of $60,848,000 with pension obligations of $46,923,000 resulting in a surplus of $13,925,000.

[b] Retirement benefits

The Centre also provides retirement allowances for former employees. These obligations are not funded but the estimated liability of $1,772 [2014 – $1,890] 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 funding purposes was as of March 31, 2013.

[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:

	2015 $	**2014** $
Accrued benefit obligation		
Balance, beginning of year	**7,830**	7,636
Current service cost	**451**	435
Interest cost	**301**	293
Prior service cost	**—**	242
Benefits paid	**(515)**	(545)
Actuarial loss	**868**	—
Remeasurement adjustment	**—**	(231)
Balance, end of year	**8,935**	7,830
Unamortized net actuarial loss	**(1,185)**	(358)
Accrued benefit liability	**7,749**	7,472

The expense for the year related to these plans is $792 [2014 – $1,010] and employer contributions for these plans were $515 [2014 – $545].

The discount rate adopted in measuring the Centre's accrued benefit obligation was 3.75% [2014 – 3.75%] and expense was 3.75% [2014 – 3.75%] 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 be 7.25% in 2015 and to decrease by 0.25% per annum to an ultimate rate of 5%.

12. DERIVATIVE LIABILITIES

The Centre has entered into an interest rate swap contract in order to manage the interest rate cash flow exposure associated with the energy management loan *[note 8]*. The contract has the effect of converting the floating rate of interest on the energy management loan 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 swap are as follows:

			2015		2014	
	Effective date	**Termination date**	**Notional value** $	**Fair value** $	**Notional value** $	**Fair value** $
3.475% fixed interest rate swap	April 15, 2013	April 15, 2023	**13,490**	**(1,279)**	14,682	(908)

The loss in the fair value of the interest rate swap of $371 [2014 – gain of $452] is recorded in the consolidated statement of remeasurement losses.

The notional amount of interest rate swap decreases 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.

[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, 2015, no assessments have been received.

[in thousands of dollars]

14. THE BAYCREST CENTRE FOUNDATION

[a] 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:

	2015 $	**2014** $
Total assets	**139,689**	131,998
Total liabilities	**(2,525)**	(4,206)
	137,164	127,792
Endowment funds	**106,003**	97,049
Restricted funds	**31,161**	30,743
	137,164	127,792

	2015 $	**2014** $
Total revenue [including additions to endowments of $2,294 [2014 – $5,259]]	**31,847**	30,206
Total expenses	**(9,238)**	(9,682)
Excess of revenue over expenses before grants	**22,609**	20,524
Grants to the Centre, included in operations	**(10,972)**	(18,294)
Capital grants to the Centre, included in deferred program and deferred capital contributions *[notes 9 and 10]*	**(2,255)**	(2,461)
Grant to third party	**(10)**	—
Excess (deficiency) of revenue over expenses for the year	**9,372**	(231)

[c] Advances from the Foundation classified as current are due on demand and bear interest at the bank's prime rate of interest. For the year ended March 31, 2015, net interest expense of $50 [2014 – $162] was recorded in the consolidated statement of operations.

[in thousands of dollars]

[d] The Foundation has provided a $1,000 line of credit due March 28, 2019, bearing interest at 5%, with repayments of principal in four annual instalments beginning no later than December 31, 2015 *[note 7]*. The line of credit is collateralized by parking revenue.

[e] 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.

16. ADDITIONAL CASH FLOW INFORMATION

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

	2015 $	**2014** $
Accounts receivable	**(1,848)**	579
Inventories, deposits and prepaid expenses	**(782)**	(426)
Accounts payable and accrued liabilities	**(1,466)**	(655)
Due from The Baycrest Centre Foundation	**1,668**	(7,036)
Deferred program contributions	**555**	(1,101)
	(1,873)	(8,639)

The following is supplemental cash flow information:

	2015 $	**2014** $
Additions to capital assets through capital leases	**6**	496
Additions to capital assets funded by accounts payable and accrued liabilities	**2,836**	2,638
Energy rebates receivable for capital assets	**219**	219

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 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 six 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 as the interest rate is linked to the bank's prime rate, which changes from time to time. The Centre has entered into an interest rate swap contract *[note 12]* to manage the interest rate cash flow risk with respect to its floating rate energy management loan.

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. A change in the interest rate in the Centre's floating rate on the energy management loan would also have no impact since the rate has been fixed as described in note 12. A 1% change in the interest rate on the floating rate credit facility would increase annual interest expense by $30.