

Holland Bloorview Kids Rehabilitation Hospital

Financial Statements
March 31, 2014



June 4, 2014

Independent Auditor's Report

To the Members of Holland Bloorview Kids Rehabilitation Hospital

We have audited the accompanying financial statements of Holland Bloorview Kids Rehabilitation Hospital, which comprise the statement of financial position as at March 31, 2014 and the statements of revenues and expenses, changes in net assets, remeasurement gains and losses and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Holland Bloorview Kids Rehabilitation Hospital as at March 31, 2014 and the results of its operations, its remeasurement gains and losses, changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Holland Bloorview Kids Rehabilitation Hospital

Statement of Financial Position

As at March 31, 2014

	2014 \$	2013 \$
Assets		
Current assets		
Cash and cash equivalents	7,735,715	7,751,984
Due from the Ministry of Health and Long-Term Care	1,402,584	972,456
Accounts receivable	2,030,429	3,155,590
Other assets	294,473	286,432
Due from related parties (note 6)	903,411	931,420
	<u>12,366,612</u>	<u>13,097,882</u>
Investments	38,517,478	33,884,105
Property, plant and equipment (note 3)	<u>83,880,476</u>	<u>87,517,457</u>
	<u>134,764,566</u>	<u>134,499,444</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	9,336,445	10,388,166
Due to the Ministry of Health and Long-Term Care	494,148	542,521
Deferred contributions (note 4)	245,237	390,835
	<u>10,075,830</u>	<u>11,321,522</u>
Deferred contributions (note 4)	6,026,145	6,494,407
Deferred capital grants and donations (note 5)	<u>81,520,503</u>	<u>83,455,033</u>
	97,622,478	101,270,962
Net Assets	<u>37,142,088</u>	<u>33,228,482</u>
	<u>134,764,566</u>	<u>134,499,444</u>
Net assets consist of		
Accumulated operating surplus	26,986,591	26,635,149
Accumulated remeasurement gains	10,155,497	6,593,333
	<u>37,142,088</u>	<u>33,228,482</u>

Approved by the Board of Directors

_____ Director _____ Director

The accompanying notes are an integral part of these financial statements.

Holland Bloorview Kids Rehabilitation Hospital

Statement of Revenues and Expenses

For the year ended March 31, 2014

	2014 \$	2013 \$
Revenues		
Province of Ontario	53,950,270	53,721,554
Other operating grants	5,255,498	5,056,105
Client services and other	13,849,216	13,712,132
Foundation grants and donations	6,045,026	5,086,298
Investment income - net	2,051,547	1,423,428
Amortization of deferred capital grants and donations	617,661	612,979
	<hr/> 81,769,218	<hr/> 79,612,496
Expenses		
Salaries and benefits	62,411,334	61,283,332
Supplies and other	16,374,168	15,854,032
Amortization of furniture and equipment	2,079,294	2,064,356
	<hr/> 80,864,796	<hr/> 79,201,720
Excess of revenues over expenses before undernoted items	904,422	410,776
Amortization of deferred capital grants and donations related to building and building equipment	2,623,522	2,615,064
Amortization of building and building equipment	<hr/> (3,218,283)	<hr/> (3,216,109)
Excess (deficiency) of revenues over expenses for the year	<hr/> 309,661	<hr/> (190,269)

The accompanying notes are an integral part of these financial statements.

Holland Bloorview Kids Rehabilitation Hospital

Statement of Changes in Net Assets

For the year ended March 31, 2014

					2014	2013
	Investment in property, plant and equipment \$	Restricted for endowments \$	Restricted for property and building redevelopment \$	Unrestricted \$	Total \$	Total \$
Balance - Beginning of year	14,107,979	1,372,204	4,081,708	7,073,258	26,635,149	26,796,100
Excess (deficiency) of revenues over expenses before undernoted items	(1,461,633)	-	-	2,366,055	904,422	410,776
Amortization of building and building equipment	(3,218,283)	-	-	-	(3,218,283)	(3,216,109)
Amortization of deferred capital grants and donations related to building and building equipment	2,623,522	-	-	-	2,623,522	2,615,064
Excess (deficiency) of revenues over expenses for the year	(2,056,394)	-	-	2,366,055	309,661	(190,269)
Net purchase of property, plant and equipment	1,660,596	-	-	(1,660,596)	-	-
Amounts funded by deferred capital grants and donations	(1,306,653)	-	-	1,306,653	-	-
Net change in investment in property, plant and equipment	353,943	-	-	(353,943)	-	-
Contributions - net of expenses	-	41,781	-	-	41,781	29,318
	353,943	41,781	-	(353,943)	41,781	29,318
Balance - End of year	12,405,528	1,413,985	4,081,708	9,085,370	26,986,591	26,635,149

The accompanying notes are an integral part of these financial statements.

Holland Bloorview Kids Rehabilitation Hospital

Statement of Remeasurement Gains and Losses

For the year ended March 31, 2014

	Investment in property, plant and equipment \$	Restricted for endowments \$	Restricted for property and building redevelopment \$	Unrestricted \$	Total \$
Accumulated remeasurement gains - Beginning of year	-	593,313	813,043	5,186,977	6,593,333
Unrealized gain on available-for-sale financial assets arising during the year	-	274,399	488,259	2,799,506	3,562,164
Accumulated remeasurement gains - End of year	-	867,712	1,301,302	7,986,483	10,155,497
Summary by Fund					
Accumulated operating surplus	12,405,528	1,413,985	4,081,708	9,085,370	26,986,591
Accumulated remeasurement gains	-	867,712	1,301,302	7,986,483	10,155,497
	12,405,528	2,281,697	5,383,010	17,071,853	37,142,088

The accompanying notes are an integral part of these financial statements.

Holland Bloorview Kids Rehabilitation Hospital

Statement of Cash Flows

For the year ended March 31, 2014

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenues over expenses for the year	309,661	(190,269)
Items not affecting cash		
Amortization of property, plant and equipment	5,297,577	5,280,465
Amortization of deferred capital grants and donations	(3,241,183)	(3,228,043)
Decrease in deferred contributions	(613,860)	(521,805)
	<hr/>	<hr/>
	1,752,195	1,340,348
Change in non-cash working capital components (note 11)	(385,093)	150,749
	<hr/>	<hr/>
	1,367,102	1,491,097
Investing activities		
Purchase of investments - net	(1,071,209)	(1,359,670)
	<hr/>	<hr/>
Capital activities		
Purchase of property, plant and equipment	(1,660,596)	(1,706,091)
	<hr/>	<hr/>
Financing activities		
Capital grants and donations received	1,306,653	305,224
Endowment contributions received - net of expenses	41,781	29,318
	<hr/>	<hr/>
	1,348,434	334,542
Decrease in cash and cash equivalents during the year	(16,269)	(1,240,122)
Cash and cash equivalents - Beginning of year	7,751,984	8,992,106
Cash and cash equivalents - End of year	<hr/>	<hr/>
	7,735,715	7,751,984
Cash and cash equivalents comprise		
Cash	6,735,715	5,702,064
Cash equivalents	1,000,000	2,049,920
	<hr/>	<hr/>
	7,735,715	7,751,984
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

Holland Bloorview Kids Rehabilitation Hospital

Notes to Financial Statements

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1 Purpose of organization

Holland Bloorview Kids Rehabilitation Hospital (Holland Bloorview) is Canada's largest children's rehabilitation teaching hospital, fully affiliated with the University of Toronto.

Holland Bloorview was incorporated without share capital under the laws of Ontario and is registered as a charitable organization under the Income Tax Act and, accordingly, is exempt from income taxes provided certain requirements of the Income Tax Act are met.

2 Summary of significant accounting policies

The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

Basis of accounting and presentation

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards (PSAS), including standards that apply to government not-for-profit organizations. The financial statements reflect the total services of Holland Bloorview, which include clinical, educational and research activities for children and youth with disabilities. The financial statements do not include the assets, liabilities, operations and cash flows of Holland Bloorview Kids Rehabilitation Hospital Foundation (the Foundation), which is a separate entity.

Toronto Central Local Health Integration Network (TC LHIN) funding

Under the Health Insurance Act (Ontario) and the Local Health System Integration Act 2006, Holland Bloorview is funded primarily by the Province of Ontario through the Ministry of Health and Long-Term Care and in accordance with budget arrangements established by TC LHIN. These financial statements reflect agreed funding arrangements approved by TC LHIN with respect to the year ended March 31, 2014.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and short-term investments. Short-term investments are highly liquid, subject to insignificant risk of change in value and are redeemable on demand.

Revenue recognition

Holland Bloorview follows the deferral method of accounting for contributions. Operating grants are recorded as revenue in the year to which they relate. Grants approved but not received are accrued. Unrestricted contributions are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions other than endowment contributions are deferred and recognized as revenue in the year in which the related expenses are incurred. Endowment contributions are recognized as direct increases in endowment net assets when received.

The revenue from all other sources is recognized when the service is provided.

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Property, plant and equipment

Property, plant and equipment are stated at cost and amortized on a straight-line basis over their useful lives as follows:

Furniture and equipment	5 to 20 years
Building equipment	5 to 40 years
Building	40 years

Contributed property, plant and equipment are recorded at fair value at the date of contribution. Costs incurred that substantially increase the useful lives of existing property, plant and equipment are capitalized. Costs to maintain normal operating efficiency are expensed as incurred.

In accordance with PSAS, Holland Bloorview reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable and exceeds its fair value. The impairment loss is measured as the extent to which the carrying amount exceeds the fair value.

Deferred capital grants and donations

Capital grants and donations received as funding for property, plant and equipment additions are initially deferred and realized in revenue on the same basis as the amortization of the cost of the related property, plant and equipment.

Restricted net assets

All of the net assets restricted for endowment purposes are subject to externally imposed restrictions, stipulating that the principal be maintained intact. Investment income earned on resources restricted for endowments is reported in the restricted for endowments fund or the unrestricted fund, depending on the nature of any restrictions imposed by contributors of funds for endowment.

Use of estimates

The preparation of the financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates are used primarily in the determination of accounts receivable. The provisions against those balances are primarily assessed on historical collectability of the accounts with specific provisions for larger outstanding balances deemed potentially uncollectable.

Donated services and materials

Holland Bloorview benefits from the services of volunteers, the fair value of which, although essential to the operations of Holland Bloorview, is not reflected in these financial statements.

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Significant donated materials are recorded at their fair values.

3 Property, plant and equipment

	2014		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	138,478	-	138,478
Furniture and equipment	27,864,132	21,469,636	6,394,496
Building equipment	17,784,535	8,800,673	8,983,862
Building	85,601,416	17,237,776	68,363,640
	131,388,561	47,508,085	83,880,476
			2013
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	138,478	-	138,478
Furniture and equipment	26,516,973	19,706,530	6,810,443
Building equipment	17,703,329	7,784,443	9,918,886
Building	85,685,373	15,035,723	70,649,650
	130,044,153	42,526,696	87,517,457

During the year, Holland Bloorview wrote off \$316,188 (2013 - \$nil) of fully amortized assets.

Building redevelopment

Holland Bloorview completed construction of a new facility at a final cost of \$107 million in 2007.

In connection with this redevelopment project, there was \$713,376 (2013 - \$713,376) in outstanding letters of credit as at March 31, 2014.

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4 Deferred contributions

Deferred contributions represent unspent externally restricted grants and donations for research and other purposes.

	2014 \$	2013 \$
Balance - Beginning of year	6,885,242	7,407,047
Add: Amounts received or receivable	15,554,584	15,716,262
Less: Amounts recognized as revenue in the year	(16,168,444)	(16,238,067)
Balance - End of year	<u>6,271,382</u>	<u>6,885,242</u>
Current	245,237	390,835
Long-term	<u>6,026,145</u>	<u>6,494,407</u>
	<u>6,271,382</u>	<u>6,885,242</u>

5 Deferred capital grants and donations

Deferred capital grants and donations represent the unamortized amount and unspent amount for the purchase of property, plant and equipment. The amortization of capital grants and donations is recorded as revenue in the statement of revenues and expenses.

	2014 \$	2013 \$
Balance - Beginning of year	83,455,033	86,377,852
Capital grants and donations received	1,306,653	305,224
Amortization of deferred capital grants and donations	(3,241,183)	(3,228,043)
Balance - End of year	<u>81,520,503</u>	<u>83,455,033</u>
Unamortized capital grants and donations used to purchase property, plant and equipment	71,474,948	73,409,478
Unspent contributions	<u>10,045,555</u>	<u>10,045,555</u>
	<u>81,520,503</u>	<u>83,455,033</u>

6 Related party transactions

The Foundation, which was established to raise funds to support Holland Bloorview and its programs and capital needs is incorporated without share capital under the laws of the Province of Ontario and is a charitable organization registered under the Income Tax Act. Holland Bloorview is considered to have significant influence over the Foundation due to common directors on the boards and material inter-entity transactions. The Foundation's accounts have not been consolidated in Holland Bloorview's financial statements.

During the year, the Foundation granted \$6,039,377 (2013 - \$5,484,918) to Holland Bloorview to fund programs and capital expenditures. The balance due from the Foundation of \$903,411 (2013 - \$931,420) is

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comprised of grants payable and operating expenses paid by Holland Bloorview on behalf of the Foundation. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

7 Pension plan

Substantially all of the employees at Holland Bloorview are members of Healthcare of Ontario Pension Plan (HOOPP), which is a defined benefit multi-employer contributory pension plan. The plan is accounted for as a defined contribution plan. Employer contributions made to the plan during the year by Holland Bloorview amounted to \$3,873,856 (2013 - \$3,683,323). These amounts are included in salaries and benefits expenses in the statement of revenues and expenses. The most recent actuarial valuation of the plan as at December 31, 2012 indicated the plan was fully funded on a solvency basis.

8 Centralized equipment pool

Holland Bloorview is responsible for administering the provincial program that provides equipment on loan or lease as communication aids for people with disabilities. This equipment is accounted for in a manner similar to the treatment of prescription drugs and is expensed when prescribed. The amount charged to supplies and other expenses in the statement of revenues and expenses for the purchase of equipment for lease is \$2,577,698 (2013 - \$2,922,430). These costs are funded by the MOHLTC.

9 Contingent liability

Holland Bloorview is a member of the Healthcare Insurance Reciprocal of Canada (HIROC) and therefore has an economic interest in HIROC. HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the pool for the years in which they were a member. No such assessments have been made for the year ended March 31, 2014.

10 Financial instruments and risk management

Holland Bloorview's financial instruments consist of cash and cash equivalents, investments, due from Ministry of Health and Long-Term Care, accounts receivable, due from related parties, accounts payable and accrued liabilities, and due to Ministry of Health and Long-Term Care.

Holland Bloorview's financial instruments are measured as follows:

Cash and cash equivalents	fair value
Investments	fair value
Due from Ministry of Health and Long-Term Care	amortized cost
Accounts receivable	amortized cost
Due from related parties	amortized cost
Accounts payable and accrued liabilities	amortized cost
Due to Ministry of Health and Long-Term Care	amortized cost

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All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of revenues and expenses.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine the interest income or expense.

Fair value measurement

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

The following table illustrates the classification of Holland Bloorview's financial instruments within the fair value hierarchy as at March 31:

				2014
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Cash and cash equivalents	7,735,715	-	-	7,735,715
Investments	38,292,478	225,000	-	38,517,478
	46,028,193	225,000	-	46,253,193
				2013
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Cash and cash equivalents	7,751,984	-	-	7,751,984
Investments	33,659,105	225,000	-	33,884,105
	41,411,089	225,000	-	41,636,089

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Risk management

Holland Bloorview is exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Holland Bloorview's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Holland Bloorview's financial performance. Holland Bloorview is exposed to market risk, credit risk and interest rate risk, as described below.

- **Market risk**

Holland Bloorview is exposed to market risk through the fluctuation of financial instrument fair values due to changes in market prices. The significant market risks to which Holland Bloorview is exposed are interest rate and other price risks.

- Interest rate risk

Interest rate risk is the risk the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Holland Bloorview is exposed to interest rate risk as a result of cash balances. As at March 31, 2014, Holland Bloorview's estimate of the exposure to interest rate risk and the effect on net assets is not material.

- Other price risk

Other price risk refers to the risk the fair value of financial instruments or future cash flows associated with the financial instruments will fluctuate because of changes in market prices other than those arising from interest rate risk. Holland Bloorview is exposed to price risk through its investments.

As at March 31, 2014, Holland Bloorview's total exposure to other price risk is \$38,517,478. Holland Bloorview's estimate of the effect on net assets as at March 31, 2014 due to a 5% increase or decrease in the fair value of investments, with all other variables held constant, would approximately amount to an increase or decrease of \$1,925,874. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

- **Credit risk**

Holland Bloorview is exposed to credit risk in the event of non-payment by patients for non-insured services and services provided to non-resident patients. The risk is common to hospitals as they are required to provide care for patients regardless of their ability to pay for services provided.

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As at March 31, 2014, the following accounts receivable were past due but not impaired:

	Less than 180 days \$	Over 180 days \$
Accounts receivable	1,917,346	517,902
Allowance for doubtful accounts	(42,000)	(362,819)
	<hr/>	<hr/>
	1,875,346	155,083
	<hr/>	<hr/>

- **Liquidity risk**

Liquidity risk results from Holland Bloorview's potential inability to meet its obligations associated with financial liabilities as they come due. Holland Bloorview monitors its operations and cash flows to ensure that the current and future obligations will be met. Holland Bloorview believes that its current sources of liquidity are sufficient to cover its known short and long-term cash obligations. All of Holland Bloorview's financial liabilities, which include accounts payable and accrued liabilities and due to Ministry of Health and Long-Term Care, mature within six months.

11 Supplemental disclosure of cash flow information

Changes in non-cash working capital balances related to operations are as follows:

	2014 \$	2013 \$
Due from the Ministry of Health and Long-Term Care	(430,128)	(31,853)
Accounts receivable	1,125,161	(300,753)
Other assets	(8,041)	77,783
Due from related parties	28,009	174,769
Accounts payable and accrued liabilities	(1,051,721)	219,028
Due to the Ministry of Health and Long-Term Care	(48,373)	11,775
	<hr/>	<hr/>
	(385,093)	150,749
	<hr/>	<hr/>

12 Comparative figures

Certain reclassifications have been made to the prior year's statement of changes in net assets which has had no impact on the total net assets previously reported.