The Canadian Hearing Society

Financial Statements
March 31, 2004

PRICEWATERHOUSECOOPERS

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May 13, 2004

Auditors' Report

To the Directors and Members of
The Canadian Hearing Society

We have audited the balance sheet of **The Canadian Hearing Society** as at March 31, 2004 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following two paragraphs, 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 common with many charitable organizations, the Society derives a portion of its revenue from donations and fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of revenue from donations and fundraising activities was limited to the amounts recorded in the records of the Society and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, assets and fund balances.

Note 2(f) describes the Society's decision, commencing in fiscal 1998, to expense certain purchases of property, plant and equipment in the year.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue from donations and fundraising activities referred to in the above paragraph and the effects of the failure to capitalize certain purchases of property, plant and equipment as described in note 2(f), these financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

The Canadian Hearing Society

Balance Sheet

As at March 31, 2004

			2004	2003
	Operating fund $	**Designated funds $**	**Total $**	**Total $**
Assets				
Current assets				
Cash	673,011	-	673,011	433,715
Grants receivable	367,463	-	367,463	480,995
Accounts receivable	1,090,402	-	1,090,402	1,034,172
Inventory	464,434	-	464,434	402,797
Other assets	34,149	-	34,149	48,008
	2,629,459	-	2,629,459	2,399,687
Investments	-	3,411,599	3,411,599	2,700,428
Interfund loan (note 4)	(197,178)	197,178	-	-
Property, plant and equipment (notes 3 and 5)	4,244,916	-	4,244,916	4,007,726
	6,677,197	3,608,777	10,285,974	9,107,841
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	1,950,008	-	1,950,008	1,979,419
Amount repayable to funders (note 6)	886,635	-	886,635	670,368
Current portion of loan payable (note 7)	8,933	-	8,933	4,705
Deferred revenue (note 8)	426,870	-	426,870	302,898
	3,272,446	-	3,272,446	2,957,390
Loan payable (note 7)	30,533	-	30,533	2,744
	3,302,979	-	3,302,979	2,960,134
Fund Balances				
Operating fund				
Property, plant and equipment	4,244,916	-	4,244,916	4,007,726
General	(870,698)	-	(870,698)	(1,021,141)
Designated funds (note 9)	-	3,608,777	3,608,777	3,161,122
	3,374,218	3,608,777	6,982,995	6,147,707
	6,677,197	3,608,777	10,285,974	9,107,841

Approved by the Board of Directors

_____ Director _____ Director

The Canadian Hearing Society

Statement of Operations

For the year ended March 31, 2004

			2004	2003
	Operating fund $	**Designated funds $**	**Total $**	**Total $**
Revenue				
Grants				
Province of Ontario (note 10)	12,283,202	-	12,283,202	10,751,011
Federal and other	1,841,780	-	1,841,780	2,165,767
Sales of goods and services	7,913,862	-	7,913,862	7,435,984
United Way contributions	1,856,129	-	1,856,129	1,865,075
Fundraising and gaming activities	2,018,561	95,509	2,114,070	2,094,024
Income (loss) on investments	5,272	711,176	716,448	(401,536)
Gain on sale of building	-	-	-	45,281
	25,918,806	806,685	26,725,491	23,955,606
Expenses				
Salaries and benefits	15,985,600	-	15,985,600	13,921,143
Cost of sales	3,703,664	-	3,703,664	3,899,888
Office and program costs	2,217,291	-	2,217,291	2,798,222
Promotion and gaming	847,679	-	847,679	1,349,731
Services costs	930,723	-	930,723	987,055
Occupancy	1,311,608	-	1,311,608	1,262,295
Professional development and travel	799,275	-	799,275	677,156
Amortization	74,070	-	74,070	49,640
Other	7,817	-	7,817	(4,755)
Bad debts (recoveries)	12,476	-	12,476	(4,805)
	25,890,203	-	25,890,203	24,935,570
Excess (deficiency) of revenue over expenses for the year	28,603	806,685	835,288	(979,964)

The Canadian Hearing Society

Statement of Changes in Fund Balances

For the year ended March 31, 2004

	Operating fund				2004	2003
	General $	**Property, plant and equipment** $	**Total** $	**Designated funds** $	**Total** $	**Total** $
Balances - Beginning of year	(1,021,141)	4,007,726	2,986,585	3,161,122	6,147,707	7,127,671
Excess (deficiency) of revenue over expenses for the year	102,673	(74,070)	28,603	806,685	835,288	(979,964)
Purchases of property, plant and equipment	(311,260)	311,260	-	-	-	-
	(1,229,728)	4,244,916	3,015,188	3,967,807	6,982,995	6,147,707
Interfund transfers (note 4)	359,030	-	359,030	(359,030)	-	-
Balances - End of year	(870,698)	4,244,916	3,374,218	3,608,777	6,982,995	6,147,707

The Canadian Hearing Society

Statement of Cash Flows

For the year ended March 31, 2004

	2004 $	2003 $
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	835,288	(979,964)
Adjustments for non-cash items		
Amortization of property, plant and equipment	74,070	49,640
Gain on sale of building	-	(45,281)
Loss (income) on investments	(711,176)	420,454
	198,182	(555,151)
Change in non-cash working capital balances		
Grants receivable	113,537	(141,209)
Accounts receivable	(56,230)	(111,942)
Inventory	(61,637)	9,733
Other assets	13,859	(28,985)
Accounts payable and accrued liabilities	(29,411)	693,700
Amount repayable to funders	216,267	438,283
Deferred revenue	123,972	31,228
	518,539	335,657
Investing activities		
Purchase of investments	-	(186,000)
Sale of investments	-	1,300,000
Purchase of property, plant and equipment	(311,260)	(491,075)
Proceeds on disposal of property, plant and equipment	-	176,051
Loan payable	32,017	(4,705)
	(279,243)	794,271
Change in cash during the year	239,296	1,129,928
Cash (bank indebtedness) - Beginning of year	433,715	(696,213)
Cash - End of year	673,011	433,715
Supplementary information		
Interest paid	8,615	23,020

1 The organization

The Society provides services that enhance the independence of deaf, deafened and hard of hearing people, and encourage prevention of hearing loss.

The Society is registered as a charity under the Income Tax Act and therefore is not subject to income taxes provided expenditures meet a certain threshold.

2 Summary of significant accounting policies

a) Financial statement presentation

These financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by The Canadian Institute of Chartered Accountants, using the restricted fund method of reporting restricted contributions.

These financial statements include the operations of the head office of the Society, its 13 regional offices, and its 15 area offices. These financial statements include the following funds:

- Operating fund - Invested in property, plant and equipment - includes funds which have been used for the purpose of purchasing property, plant and equipment, net of accumulated amortization and financing costs.
- Operating fund - General - includes program surpluses, which have been designated by the Board for the future use of that program, and the cumulative net excess of operating expenses over revenue.
- Designated funds - include bequests and specific donations designated for a particular purpose by the donor and funds that have been internally designated by the Board.

b) Revenue and expense recognition

Revenue and expenses are recognized on the accrual basis of accounting, except for donation revenue.

c) Deferred revenue

Revenue is deferred in the operating fund when it relates to externally restricted operating funding received in the current period that is related to the subsequent period.

d) Inventory

Inventory is recorded at the lower of cost, calculated on a first-in, first-out basis, and net realizable value.

e) Investments

Investments are held in the Integra Capital Management pooled funds and are carried at market value.

f) Property, plant and equipment

Land and buildings acquired prior to 2003 are recorded at cost and no amortization is provided on the basis that the necessary financial information is not reasonably determinable.

The property, plant and equipment purchased from operating funds are recorded at cost, less accumulated amortization. Amortization is computed on the straight-line method based on the estimated useful life of the particular assets over the following periods:

Buildings	40 years
Building improvements	5 years
Furniture and equipment	5 years
Automobiles	5 years
Computer equipment	3 years
Computer equipment under capital lease	term of lease

The Society, in accordance with instructions received from certain government agencies, expensed all property, plant and equipment purchased from government funding, effective fiscal 1998. Canadian generally accepted accounting principles require these asset purchases to be capitalized and amortization provided on a continuing basis in accordance with the present amortization accounting policies. In the current year, the Society would have recorded in the operating fund, property, plant and equipment totalling $318,462 (2003 - $1,312,984) along with the related amortization of approximately $270,767 (2003 - $191,916). The current year's amortization expense of property, plant and equipment previously expensed in prior years would have been an additional amount of approximately $726,807 (2003 - $393,503). The accumulated effect of this policy is to understate the net book value of property, plant and equipment and property, plant and equipment fund balance by approximately $1,730,463 (2003 - $1,698,817).

g) Fair values of financial instruments

The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. The fair values of financial instruments approximates their recorded values, except as disclosed elsewhere in the financial statements.

h) Donated materials and services

Contributions, to the extent recognized in the fund accounts, are recorded at an approximation of fair market value. Due to system restrictions, the Society is not able to provide the market value of the recorded contributions. The Society is dependent on the ongoing support of volunteers, the value of which has not been quantified in these financial statements.

3 Property, plant and equipment

			2004	2003
	Cost $	Accumulated amortization $	Net $	Net $
Land and buildings (prior to 2003)	3,476,574	-	3,476,574	3,476,574
Land (post 2002)	200,000	-	200,000	100,000
Buildings (post 2002)	416,229	14,343	401,886	236,399
Building improvements (post 2002)	68,604	7,843	60,761	36,177
Furniture and equipment	227,786	130,941	96,845	138,186
Automobiles	27,947	19,097	8,850	14,439
Computer equipment purchased	393,164	393,164	-	5,951
Computer equipment under capital lease	530,755	530,755	-	-
	5,341,059	1,096,143	4,244,916	4,007,726

4 Interfund loan and transfers

The interfund loan amount represents an amount owing between the operating and designated funds. The amount is non-interest bearing and payable on demand.

In fiscal 2004, the Society's Board of Directors approved the transfer of internally restricted funds amounting to $504,072 (2003 - $962,212). Transfers of these amounts were made from the designated funds to cover certain costs expensed in the operating fund. These internally restricted funds are not available for other purposes without the approval of the Board of Directors.

In addition, in fiscal 2004, the Society's Board approved an appropriation of $145,042 from the operating fund to the internally restricted fund for various building costs.

5 Bank indebtedness

The Society has a line of credit with a chartered bank of up to $1,030,000 bearing interest at prime plus 1/4% per annum, which is secured by a collateral first mortgage on 271 Spadina Road, Toronto, Ontario.

6 Amount repayable to funders

The amount repayable to funders represents funds received that were not spent prior to year-end. Under the terms of the contract, the funder has the right to ask for any unspent funds to be repaid.

7 Loan payable

The loan is unsecured, bearing interest at 3.5% and is repayable in fixed monthly instalments of $834.

The repayments of the loan are as follows:

	$
2005	8,933
2006	9,245
2007	9,525
2008	11,763
	39,466
Less: Current portion	(8,933)
	30,533

8 Deferred revenue

Deferred revenue reported in the operating fund relates to funding received in the current period that is related to specific programs in the subsequent period.

Changes in the deferred revenue balance in the operating fund are as follows:

	2004 $	2003 $
Balance - Beginning of year	302,898	239,368
Less: Amounts recognized as revenue in the year	(286,446)	(239,368)
Add: Amounts received related to subsequent years	410,418	302,898
Balance - End of year	426,870	302,898

9 Designated funds

	2004 $	2003 $
Designated by the Board of Directors		
Trillium Foundation Stabilization Fund	1,638,894	1,528,946
Head Office Building Repair Fund	309,679	245,122
Hamilton Building Sustaining Fund	49,341	234,351
Ottawa Building Occupancy Fund	261,478	155,400
London Building Fund	108,304	85,731
Niagara Client Assistance Fund	5,092	4,031
CHS Children's Fund	9,507	7,525
Walter Scott Building Fund	107,429	91,167
Waterloo Building Occupancy Fund	88,289	66,567
Windsor Building Fund	50,073	11,140
Toronto Access Fund	31,761	25,140
Hamilton Access Fund	12,307	9,742
Waterloo Service Club Fund	-	396
Sudbury Audiology Loan Reserve	38,717	-
	2,710,871	2,465,258
Designated by donor		
Harper Fund	95,160	75,323
Hamilton Steele Children's Fund	206,163	219,963
Kortwright Fund	12,448	9,853
Award Fund	11,413	9,034
Alison Cochlear Implant Fund	22,390	17,722
Grant Thorburn Trust Fund	153,710	112,778
McMurrich Fund	4,823	4,895
Nicole Majorosi Fund	3,955	4,621
Peterborough Strathdee Fund	31,679	25,075
Waterloo Senior Access Fund	2,576	2,039
Waterloo Music Alive Fund	-	1,248
Donald and Anne C. McLean Fund	224,224	156,031
Doris M. Schooley Fund	72,368	57,282
Stella Solski Fund	21,764	-
Dorothy O'Neill Research Fund	35,233	-
	897,906	695,864
	3,608,777	3,161,122

10 Grants from the Ministry of Community and Social Services

The Society has a number of contracts with the Ministry of Community and Social Services. One requirement of the contracts is the production by management of an Annual Program Expenditure Report, which shows a summary of all revenues and expenditures and any resulting surplus or deficit that relates to that contract. Surplus amounts, if any, are reflected in amounts repayable to funders. The deficit amounts below include the cost of property, plant and equipment purchased during the year, and exclude amortization, in accordance with the contracts:

Contract name	Total contract $	Deficit March 31, 2004 $
Hamilton		
BPS	4,319	-
OIS	70,475	(13,326)
Kingston/Belleville		
BPS	3,221	-
OIS	134,098	(6,550)
London		
BPS	2,646	-
OIS	83,404	(7,662)
Ottawa		
BPS	7,647	-
OIS	139,892	(39,762)
Peel/Waterloo		
BPS	5,304	-
OIS	98,209	(22,575)
BPS	5,336	-
OIS	74,896	(8,323)
Peterborough		
BPS	3,750	-
OIS	145,544	(1,523)
Sault Ste. Marie		
BPS	4,683	-
OIS	69,763	(14,762)
Sudbury		-
BPS	4,197	-
OIS	182,209	(22,363)
Thunder Bay		
BPS	6,544	-
OIS	64,557	(41,036)
Toronto		
BPS	208,089	-
ES	16,765	-
OIS	308,690	-
ES/ODSP	323,866	(41,099)
Windsor/Chatham		
BPS	8,370	-
OIS	61,370	(15,092)
ES/ODSP	4,880	(21,220)
	2,042,724	(255,293)

11 Break-open ticket sales

As required by government regulation, the following summarizes revenue and expenses with respect to the sale of Nevada break-open ticket lotteries under provincial licence:

	2004 $	2003 $
Revenue	209,786	254,397
Expenses		
Cost of tickets sold and promotion fees - retail	25,070	30,540
Promotion fees - agent	65,503	79,439
Licence fees	50,100	57,434
	140,673	167,413
Excess of revenue over expenses for the year	69,113	86,984

12 Lease commitments

The Society is committed under operating leases for office space and office equipment over the next five fiscal years and in total as follows:

	$
2005	788,624
2006	467,739
2007	357,777
2008	182,068
2009	126,901
Thereafter	101,775
	2,024,884

13 Community service grant

The Society received a community service grant of $14,800 from the City of Toronto.

14 Ontario Salary Disclosure Act

During the 2003 calendar year, the Society paid the President and Chief Executive Officer a salary of $107,404 and $162 for taxable benefits and the Vice-President of Regional Operations a salary of $101,762 and $179 for taxable benefits.

15 Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.