Financial Statements March 31, 2005



PricewaterhouseCoopers LLP Chartered Accountants

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May 12, 2005

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, 2005 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 (deficiency) 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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, 2005

			2005	2004
	Operating fund \$	Designated funds \$	Total \$	Total \$
Assets				
Current assets Cash Grants receivable Accounts receivable Inventory Other assets	13,671 365,764 1,293,768 511,365 57,114	- - - -	13,671 365,764 1,293,768 511,365 57,114	673,011 367,463 1,090,402 464,434 34,149
	2,241,682	-	2,241,682	2,629,459
Investments	-	3,522,601	3,522,601	3,411,599
Interfund loan (note 4)	(113,696)	113,696	-	-
Property, plant and equipment (notes 3 and 5)	4,189,985		4,189,985	4,244,916
	6,317,971	3,636,297	9,954,268	10,285,974
Liabilities				
Current liabilities Accounts payable and accrued liabilities Amount repayable to funders (note 6) Current portion of loan payable (note 7) Deferred revenue (note 8)	1,993,562 1,342,153 9,222 161,519	- - -	1,993,562 1,342,153 9,222 161,519	1,950,008 886,635 8,933 426,870
	3,506,456	-	3,506,456	3,272,446
Loan payable (note 7)	21,312	-	21,312	30,533
	3,527,768	-	3,527,768	3,302,979
Fund Balances				
Operating fund Property, plant and equipment General	4,189,985 (1,399,782)	- -	4,189,985 (1,399,782)	4,244,916 (870,698)
Designated funds (note 9)		3,636,297	3,636,297	3,608,777
	2,790,203	3,636,297	6,426,500	6,982,995
	6,317,971	3,636,297	9,954,268	10,285,974
Approved by the Board of Directors				
	rector			Director
DI				

The Canadian Hearing Society Statement of Operations For the year ended March 31, 2005

			2005	2004
	Operating fund \$	Designated funds \$	Total \$	Total \$
Revenue				
Grants Province of Ontario (note 10) Federal and other Sales of goods and services United Way contributions Fundraising and gaming activities	12,969,151 2,194,450 7,975,599 1,857,907 1,694,571	- - - 146,375	12,969,151 2,194,450 7,975,599 1,857,907 1,840,946	12,283,202 1,841,780 7,913,862 1,856,129 2,114,070
Income on investments	5,390	132,889	138,279	716,448
	26,697,068	279,264	26,976,332	26,725,491
Expenses Salaries and benefits Cost of sales Office and program costs Occupancy Services costs Professional development and travel Promotion and gaming Amortization Bad debts Other	17,106,585 3,642,853 2,013,042 1,542,798 1,055,843 864,232 637,764 54,931 44,962 3,498	- - - - - - - - -	17,106,585 3,642,853 2,013,042 1,542,798 1,055,843 864,232 637,764 54,931 44,962 3,498	15,985,600 3,703,664 2,217,291 1,311,608 930,723 799,275 847,679 74,070 12,476 7,817
Excess (deficiency) of revenue over expenses before one-time governance costs	(269,440)	279,264	9,824	835,288
One-time governance costs (note 11)	566,319	-	566,319	-
Excess (deficiency) of revenue over expenses for the year	(835,759)	279,264	(556,495)	835,288

The Canadian Hearing Society
Statement of Changes in Fund Balances
For the year ended March 31, 2005

					2005	2004
		Op	erating fund			
	General \$	Property, plant and equipment \$	Total \$	Designated funds \$	Total \$	Total \$
Balances - Beginning of year	(870,698)	4,244,916	3,374,218	3,608,777	6,982,995	6,147,707
Excess (deficiency) of revenue over expenses for the year	(780,828)	(54,931)	(835,759)	279,264	(556,495)	835,288
Interfund transfers (note 4)	(1,651,526) 251,744	4,189,985	2,538,459 251,744	3,888,041 (251,744)	6,426,500	6,982,995
Balances - End of year	(1,399,782)	4,189,985	2,790,203	3,636,297	6,426,500	6,982,995

The Canadian Hearing Society Statement of Cash Flows

For the year ended March 31, 2005

	2005 \$	2004 \$
Cash provided by (used in)		
Operating activities Excess (deficiency) of revenue over expenses for the year Adjustments for non-cash items	(556,495)	835,288
Amortization of property, plant and equipment Gain on investments	54,931 (118,217)	74,070 (711,176)
Change in non-cash working capital balances	(619,781)	198,182
Grants receivable Accounts receivable Inventory	1,699 (203,366) (46,931)	113,537 (56,230) (61,637)
Other assets Accounts payable and accrued liabilities Amount repayable to funders Deferred revenue	(22,965) 43,554 455,518 (265,351)	13,859 (29,411) 216,267 123,972
	(657,623)	518,539
Investing activities Purchase of investments Sale of investments Purchase of property, plant and equipment Loan payable	(1,492,785) 1,500,000 (8,932)	(311,260) 32,017
	(1,717)	(279,243)
Change in cash during the year	(659,340)	239,296
Cash - Beginning of year	673,011	433,715
Cash - End of year	13,671	673,011
Supplementary information Interest paid	1,463	8,615

Notes to Financial Statements **March 31, 2005**

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 that 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 that 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 also include 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.

Notes to Financial Statements **March 31, 2005**

e) Investments

Investments are held in the Integra Capital Management pooled funds as well as in Royal Bank of Canada bankers' acceptances 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 an amount totalling \$554,424 (2004 - \$318,462) along with the related amortization of approximately \$481,227 (2004 - \$270,767). The current year's amortization expense of property, plant and equipment previously expensed in prior years would have been an additional amount of approximately \$670,299 (2004 - \$726,807). The accumulated effect of this policy is to understate the net book value of property, plant and equipment and the property, plant and equipment fund balance by approximately \$2,436,459 (2004 - \$1,730,463).

g) Fair value 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.

Notes to Financial Statements **March 31, 2005**

3 Property, plant and equipment

			2005
	Cost \$	Accumulated amortization \$	Net \$
Land and buildings (prior to 2003)	3,476,574	_	3,476,574
Land (post 2002)	200,000	-	200,000
Buildings (post 2002)	416,229	25,021	391,208
Building improvements (post 2002)	68,604	19,386	49,218
Furniture and equipment	228,456	158,731	69,725
Automobiles	27,947	24,687	3,260
Computer equipment	393,164	393,164	-
Computer equipment under capital lease	530,755	530,755	
	5,341,729	1,151,744	4,189,985
			2005
	Cost \$	Accumulated amortization \$	Net \$
Land and buildings (prior to 2003)	3,476,574	-	3,476,574
Land (post 2002)	200,000	-	200,000
Buildings (post 2002)	416,229	14,343	401,886
Building improvements (post 2002)	68,604	7,843	60,761
Furniture and equipment	227,786	130,941	96,845
Automobiles	27,947	19,097	8,850
Computer equipment	393,164	393,164	-
Computer equipment under capital lease	530,755	530,755	
	5,341,059	1,096,143	4,244,916

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 2005, the Society's Board of Directors approved the transfer of internally restricted funds amounting to \$277,255 (2004 - \$504,072). 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 2005, the Society's Board approved an appropriation of \$25,511 (2004 - \$145,042) from the operating fund to the internally restricted fund for various building costs.

Notes to Financial Statements **March 31, 2005**

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% and is repayable in fixed monthly instalments of \$834.

The repayments of the loan are as follows:

	3
2006 2007	9,245 9,525
2008	11,764
Less: Current portion	30,534 (9,222)
	21,312

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:

	2005 \$	2004 \$
Balance - Beginning of year Less: Amounts recognized as revenue in the year Add: Amounts received related to subsequent years	426,870 (360,965) 95,614	302,898 (286,446) 410,418
Balance - End of year	161,519	426,870

(4)

Notes to Financial Statements **March 31, 2005**

9 Designated funds

	2005 \$	2004 \$
Restricted by donor Allison Cochlear Implant Fund Donald & Anne C. McLean Fund* Doris M. Schooley Fund Dorothy O'Neill Research Fund Hamilton Steele Children's Fund	23,379 234,130 75,565 36,788 215,271	22,390 224,224 72,368 35,233 206,163
Harper Fund London Building Fund Mississauga Building Fund Niagara Evelyn Robbie Fund Nicole Majorosi Fund	98,725 113,089 26,213 126,742 4,130	95,160 108,304 - - 3,955
Peterborough Strathdee Fund Walter Scott (Peterborough) Building Fund Waterloo Building Occupancy Fund	33,079 104,940 89,371 1,181,422	31,679 107,429 88,289 995,194
Unrestricted by donor Award Fund CHS Children's Fund Eugene Fowler Volunteer Award Grant Thorburn Trust Fund Hamilton Access Fund Hamilton Building Sustaining Fund Head Office Building Fund Kortwright Fund McMurrich Fund Niagara Client Assistance Fund Ottawa Building Occupancy Fund Ottawa Client Assistance Fund Stella Solski Fund Sudbury Audiology Loan Reserve	11,917 9,927 223 160,500 12,851 43,074 281,396 12,998 5,035 5,317 272,706 10,000 4,703 22,725 30,423	11,413 9,507 153,710 12,307 49,341 309,679 12,448 4,823 5,092 261,478
Sudbury Client Assistance Fund Toronto Access Fund Trillium Foundation Stabilization Fund Waterloo Senior Access Fund Windsor Building Fund	5,407 33,164 1,477,534 2,690 52,285 2,454,875 3,636,297	31,761 1,638,894 2,576 50,073 2,613,583 3,608,777

^{*} This fund is a restricted fund and only the investment income earned on the fund balance can be used by the Society.

Notes to Financial Statements March 31, 2005

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, 2005 \$
Hamilton		
BPS	4,319	-
OIS	73,602	(26,177)
Kingston/Belleville		
BPS	3,221	<u>-</u>
OIS	140,078	(3,111)
London		
BPS	2,646	(= = 40)
OIS	86,924	(7,749)
Ottawa	7.647	
BPS	7,647	(50.255)
OIS	144,493	(59,377)
Peel/Waterloo	5.204	
BPS	5,304	(22.262)
OIS BPS	71,097	(22,363)
OIS	5,336 57,467	(27,601)
	57,467	(37,691)
Peterborough BPS	3,750	
OIS	130,255	(36,966)
Sault Ste. Marie	130,233	(30,900)
BPS	4,683	_
OIS	72,971	(13,187)
Sudbury	72,571	(13,107)
BPS	4,197	_
OIS	267,132	(15,548)
Thunder Bay	,	(,,-)
BPS	6,544	-
OIS	67,470	(19,201)
Toronto	,	. , ,
BPS	208,089	-
ES	17,445	-
OIS	322,534	-
Windsor/Chatham		
BPS	8,370	-
OIS	64,122	(44,241)
	1,779,696	(285,611)

Notes to Financial Statements **March 31, 2005**

11 One-time governance costs

The one-time governance costs were incurred by the Society relating to a call by the membership of the Society for a meeting of members to vote some or all members of the Board of Directors out of their offices and elect a new slate of members to the Board of Directors.

These expenses were comprised of the following:

	\$
Legal fees	370,283
Consultant fees	127,876
Other costs including salaries, travel and meeting costs	68,160
	566,319

12 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:

	2005 \$	2004 \$
Revenue	204,329	209,786
Expenses Cost of tickets sold and promotion fees - retail Promotion fees - agent Licence fees	24,660 63,798 46,628	25,070 65,503 50,100
	135,086	140,673
Excess of revenue over expenses for the year	69,243	69,113

13 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:

	\$
2006	763,119
2007	518,189
2008	327,675
2009	268,998
2010	121,919
Thereafter	6,053
	2,005,953

Notes to Financial Statements **March 31, 2005**

14 Community service grant

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

15 Community partnership program grant

The Society received a community partnership program grant of \$3,150 from the City of Hamilton.

16 United Way contribution

The Society received a contribution of \$38,168 from the United Way of Burlington and Greater Hamilton.

17 Ontario Salary Disclosure Act

During the 2004 calendar year, the Society paid the President and Chief Executive Officer a salary of \$181,694 (2003 - \$107,404) and \$1,209 (2003 - \$162) for taxable benefits and the Vice-President of Regional Operations a salary of \$101,762 and \$179 for taxable benefits for the calendar year 2003.

18 Related party transactions

The Society bought inventory items for \$74,169 (2004 - 93,154) from Scicore Inc. The owner of the company had been a director of the Society until January 29, 2005.

19 Comparative figures

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