

Financial Statements

**Children's Hospital of Eastern Ontario
Foundation/La Fondation du Centre hospitalier
pour enfants de l'est de l'Ontario**

December 31, 2014



Building a better
working world

INDEPENDENT AUDITORS' REPORT

To the Directors of
Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

We have audited the accompanying financial statements of **Children's Hospital of Eastern Ontario Foundation/La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario**, which comprise the statement of financial position as at December 31, 2014, and the statements of operations and changes in fund balances and cash flows for the year then ended, and 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 accounting standards for not-for-profit organizations, 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.

Auditors' 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 auditors' 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 auditors consider 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Children's Hospital of Eastern Ontario Foundation/La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario** as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

As required by the *Corporations Act (Ontario)*, we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP

Ottawa, Canada
April 21, 2015

Chartered Professional Accountants
Licensed Public Accountants

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario
 Incorporated under the laws of Ontario

STATEMENT OF FINANCIAL POSITION

As at December 31

	2014	2013
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	5,910,849	5,672,790
Short-term investments <i>[note 3]</i>	1,749,529	2,807,481
Interest and other receivables	894,836	1,101,001
Prepaid expenses	153,938	207,087
Total current assets	8,709,152	9,788,359
Long-term investments <i>[note 3]</i>	57,041,345	51,648,107
Capital assets, net <i>[note 5]</i>	72,120	81,811
Other assets	96,851	96,851
	65,919,468	61,615,128
LIABILITIES AND FUND BALANCES		
Current liabilities		
Accounts payable and accrued charges	3,368,955	2,093,544
Total current liabilities	3,368,955	2,093,544
Commitments <i>[note 11]</i>		
Fund balances <i>[note 6]</i>		
General Fund	16,131,257	16,688,829
Restricted Fund	7,674,020	5,251,565
Endowment Fund	38,745,236	37,581,190
Total fund balances	62,550,513	59,521,584
	65,919,468	61,615,128

See accompanying notes

On behalf of the Board:

Director

Director

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

**STATEMENT OF OPERATIONS
AND CHANGES IN FUND BALANCES**

For the years ended December 31

	General Fund		Restricted Fund		Endowment Fund		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE								
Lotteries <i>[note 7]</i>	7,131,283	8,969,186	—	—	—	—	7,131,283	8,969,186
Fundraising <i>[note 7]</i>	7,362,376	6,062,249	944,576	878,981	—	—	8,306,952	6,941,230
Investment income <i>[note 3]</i>	4,417,770	5,709,376	511,906	606,080	523,457	569,414	5,453,133	6,884,870
Bequests	1,261,661	2,270,679	—	—	507,699	703,638	1,769,360	2,974,317
Direct mail	726,817	727,293	—	—	—	—	726,817	727,293
Capital campaign and major gifts	178,332	237,054	1,796,269	1,643,994	25,250	7,146	1,999,851	1,888,194
Parking and miscellaneous revenue <i>[note 8]</i>	3,805,047	3,846,620	—	—	—	—	3,805,047	3,846,620
	24,883,286	27,822,457	3,252,751	3,129,055	1,056,406	1,280,198	29,192,443	32,231,710
EXPENSES								
Direct expenses <i>[note 8]</i>	7,143,424	8,616,144	—	30,683	—	—	7,143,424	8,646,827
Revenue, net of direct expenses	17,739,862	19,206,313	3,252,751	3,098,372	1,056,406	1,280,198	22,049,019	23,584,883
INDIRECT EXPENSES <i>[note 10]</i>								
Other fundraising expenses	2,300,712	1,709,760	—	397,911	—	—	2,300,712	2,107,671
Administrative expenses	1,016,089	997,694	—	—	—	—	1,016,089	997,694
Excess of revenue over expenses before grants	14,423,061	16,498,859	3,252,751	2,700,461	1,056,406	1,280,198	18,732,218	20,479,518
Grants to Children's Hospital of Eastern Ontario								
Capital and programs <i>[notes 8 and 9]</i>	2,769,450	2,408,252	12,870,088	11,273,895	—	—	15,639,538	13,682,147
Contribution of services <i>[note 9]</i>	63,751	31,550	—	—	—	—	63,751	31,550
Excess (deficiency) of revenue over expenses and grants for the year	11,589,860	14,059,057	(9,617,337)	(8,573,434)	1,056,406	1,280,198	3,028,929	6,765,821
Fund balances, beginning of year	16,688,829	8,645,551	5,251,565	7,974,842	37,581,190	36,135,370	59,521,584	52,755,763
Interfund transfers <i>[note 4]</i>	(12,147,432)	(6,015,779)	12,039,792	5,850,157	107,640	165,622	—	—
Fund balances, end of year	16,131,257	16,688,829	7,674,020	5,251,565	38,745,236	37,581,190	62,550,513	59,521,584

See accompanying notes

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

STATEMENT OF CASH FLOWS

Year ended December 31

	2014	2013
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses before grants	18,732,218	20,479,518
Grants to Children's Hospital of Eastern Ontario	(15,703,289)	(13,713,697)
Items not affecting cash		
Amortization	20,178	17,666
Unrealized gain in investments	(3,249,310)	(5,143,427)
Gain on disposal of investments	(956,112)	(351,808)
	(1,156,315)	1,288,252
Net change in non-cash balances related to operations <i>[note 13]</i>	1,534,722	(593)
Cash provided by operating activities	378,407	1,287,659
INVESTING ACTIVITIES		
Purchase of investments, net	(129,861)	(1,350,286)
Additions to capital assets	(10,487)	(42,312)
Cash used in investing activities	(140,348)	(1,392,598)
Net change in cash and cash equivalents during the year	238,059	(104,939)
Cash and cash equivalents, beginning of year	5,672,790	5,777,729
Cash and cash equivalents, end of year	5,910,849	5,672,790

See accompanying notes

**Children’s Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l’est de l’Ontario**

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

1. PURPOSE OF THE ORGANIZATION

The Children’s Hospital of Eastern Ontario Foundation/La Fondation du Centre hospitalier pour enfants de l’est de l’Ontario, [the “Foundation” or “CHEO”] is incorporated under the laws of Ontario as a corporation without share capital. The Foundation is a registered charity under the *Income Tax Act (Canada)* and, while registered, is exempt from income taxes and may issue tax donation receipts.

The Foundation furthers the physical, mental and social well-being of children and their families in Eastern Ontario and Western Quebec by raising, managing, and disbursing funds through its support of the Children’s Hospital of Eastern Ontario [the “Hospital”]. The Foundation also promotes awareness of children’s health issues as well as the Hospital’s achievements.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants [“CPA”] Handbook – *Accounting Standards for Not-for-Profit Organizations*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies set out below.

Fund accounting

In order to ensure observance of the limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the donors or in accordance with directives issued by the Board of Directors [the “Board”]. Transfers between the funds are made when it is considered appropriate and authorized by the President. To meet these objectives of financial reporting and stewardship over assets, certain interfund transfers are necessary to ensure the appropriate allocation of assets and liabilities to the respective funds. These interfund transfers are recorded in the statements of operations and changes in fund balances.

For financial reporting purposes, the accounts have been classified into the following funds:

- [i] The General Fund accounts for the Foundation’s general fundraising, granting, and administrative activities. Unless otherwise specified, any investment income earned is included in the General Fund.

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[ii] The Restricted Fund includes those funds where resources are to be used for an identified purpose as specified by the donor, as stipulated by the fundraising appeal or as determined by the Board.

[iii] The Endowment Fund includes funds where either donor or internal restrictions require that the principal be invested by the Foundation in perpetuity. The investment income generated from assets held for endowment purposes must be used in accordance with the various purposes established by the donors or the Board.

Investments and investment income (loss)

Investments are recorded at fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment income (loss), which consists of interest, dividends, income distributions from pooled funds, and realized and unrealized gains and losses, is recorded in the statements of operations and changes in fund balances. Investment income earned on the Endowment Fund or Restricted Fund resources that must be spent on donor-restricted activities is recognized as revenue of the Restricted Fund. Investment income subject to donor restrictions stipulating that it be added to the endowment is recognized as revenue of the Endowment Fund. Unrestricted investment income earned on General Fund resources is recognized as revenue of the General Fund. Investment losses are allocated in a manner consistent with investment income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with a short maturity of approximately three months or less from the date of purchase unless they are held for investment rather than liquidity purposes, in which case they are classified as investments.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the date of the balance sheets. Non-monetary assets and liabilities are translated at the historic rate. Exchange gains and losses are included in the statements of operations and changes in fund balances.

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Capital assets

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair market value at the date of the contribution. Amortization is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Computer hardware	4 to 5 years
Furniture, fixtures, equipment	5 to 20 years
Vehicle	5 years

Other assets

Other assets include life insurance policies recorded at cash surrender values.

Revenue recognition

The Foundation follows the restricted fund method of accounting for contributions, which include grants and donations:

- [i] Grants and bequests are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- [ii] Other donations are recorded when received since pledges are not legally enforceable claims.
- [iii] Unrestricted contributions are recognized as revenue in the General Fund when initially recorded in the accounts.
- [iv] Externally restricted contributions, except endowment contributions, are recorded in the Restricted Fund when initially recognized in the accounts. Externally restricted endowment contributions are recognized in the Endowment Fund when initially recognized in the accounts.
- [v] Lottery and events revenue is recognized in the fiscal year in which the program is concluded.
- [vi] Contributions of materials are recorded when a fair value can be reasonably estimated and when the materials are used in the normal course of the organization's operations and would otherwise have been purchased. Materials such as medical journals and donated equipment for use by departments within the Hospital are recorded as revenue in the Restricted Fund, with a corresponding expense recorded as a contribution to the Hospital. The Foundation has items valued in excess of \$1,000 appraised by third parties in order to validate the fair value for reporting and tax receipt purposes.

Children's Hospital of Eastern Ontario Foundation
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Allocation of expenses

Expenses are recorded on the accrual basis. The costs of each function include the costs of personnel and other expenses that are directly related to the function. General support and other costs are not allocated.

Multi-employer plans

The Foundation participates in a multi-employer defined contribution pension plan. Contributions are recognized on an accrual basis.

3. INVESTMENTS

[a] Short-term investments are comprised of relatively liquid investments maturing in less than one year.

[b] Investments have an asset mix as follows:

	2014	2013
	\$	\$
Short-term investments		
Cash held by investment managers	544,916	1,735,596
Short-term investments	1,204,613	1,071,885
	1,749,529	2,807,481
Long-term investments		
Equities		
Canadian	30,300,148	25,484,254
Foreign	9,716,314	10,977,013
	40,016,462	36,461,267
Fixed income		
Canadian bonds	17,024,883	15,186,840
	57,041,345	51,648,107
	58,790,874	54,455,588

The Foundation has established investment policy guidelines providing direction and restriction as to the mix and quality of its investment portfolio.

Children's Hospital of Eastern Ontario Foundation
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[c] Investment income earned on the Foundation's assets consists of the following:

	2014	2013
	\$	\$
Interest income	463,933	587,904
Dividends	1,315,809	1,200,436
Realized and unrealized gains and losses	4,207,722	5,495,235
Management fees and transaction costs	(534,331)	(398,705)
	<u>5,453,133</u>	<u>6,884,870</u>

4. INTERFUND TRANSFERS

[a] Interfund transfers consists of the following:

	General Fund		Restricted Fund		Endowment Fund	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Board and donor approved fund restrictions						
[b]	<u>(12,147,432)</u>	(6,015,779)	<u>12,039,792</u>	5,850,157	<u>107,640</u>	165,622

[b] In 2014, the Board and President and CEO approved transfers totalling \$12,039,792 [2013 – \$5,850,157] from the General Fund to the Restricted Fund and \$107,640 [2013 – \$165,622] from the General Fund to the Endowment Fund.

The transfers relate to internally imposed restrictions approved by the Board, President and CEO and changes in the designation of funds as directed by donors.

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NOTES TO FINANCIAL STATEMENTS

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5. CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost	2014 Accumulated amortization	Net book value
	\$	\$	\$
Furniture, fixtures and equipment	117,136	60,678	56,458
Computer hardware	170,844	159,506	11,338
Vehicle	26,439	22,115	4,324
	314,419	242,299	72,120

	Cost	2013 Accumulated amortization	Net book value
	\$	\$	\$
Furniture, fixtures and equipment	117,136	54,886	62,250
Computer hardware	160,357	149,969	10,388
Vehicle	26,439	17,266	9,173
	303,932	222,121	81,811

6. FUND BALANCES

The fund balances as at December 31, 2014 are as follows:

	General Fund	Restricted Fund	Endowment Fund	Total
	\$	\$	\$	\$
Donor restricted	—	7,674,020	13,166,367	20,840,387
Internally restricted	—	—	25,578,869	25,578,869
Unrestricted	16,131,257	—	—	16,131,257
Total fund balances	16,131,257	7,674,020	38,745,236	62,550,513

Included in the General Fund balance is \$72,120 related to funds invested in capital assets. In addition, included in the Endowment Fund under donor restricted is \$1,909,271 of funds on which investment income is unrestricted.

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Donated items (Gifts in Kind) totalling \$116,391 [2013 – \$103,067] were recorded as follows; Restricted Fund, \$65,036 [2013 – \$66,441] and the General fund, \$51,355 [2013– \$36,626].

The fund balances as at December 31, 2013 are as follows:

	General Fund	Restricted Fund	Endowment Fund	Total
	\$	\$	\$	\$
Donor restricted	—	5,251,565	11,761,740	17,013,305
Internally restricted	—	—	25,819,450	25,819,450
Unrestricted	16,688,829	—	—	16,688,829
Total fund balances	16,688,829	5,251,565	37,581,190	59,521,584

Included in the General Fund balance is \$81,811 related to funds invested in capital assets. In addition, included in the Endowment Fund under donor restricted is \$1,847,109 of funds on which investment income is unrestricted.

**7. STATEMENTS OF OPERATIONS AND CHANGES IN FUND
BALANCES**

CHEO is privileged to benefit from approximately 300 Special Events and Lotteries annually. Included in Fundraising and lotteries revenue are the following examples:

Fundraising

- Telethon
- CN Cycle for CHEO
- Trees of Hope
- CHEO B.B.Q.
- TD Bank Group Softball Tournament
- Hike for CHEO
- Costco
- Moore Wrinn Golf Tournament
- Country 101 Radiothon
- Ski for Kids
- Walmart Walk for Miracles

Lotteries

- Dream of a Lifetime Lottery
- Nevada Ticket Sales

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8. PARKING AGREEMENT

On December 21, 2011, the Foundation entered into an agreement to lease the parking facility owned by the Hospital. The term of the lease is three years, beginning on April 1, 2012 and ending on March 31, 2015 with lease payments of \$71,500 per month. The parties are in the process of negotiating the terms of renewal of the lease agreement; however, the Foundation has not entered into any definitive agreements.

The Foundation has a management agreement with the Hospital in connection with the parking facility whereby the Foundation was appointed manager of the facility.

During the year, the Foundation earned revenue of \$3,721,617 [2013 – \$3,765,291] from the parking operations, and incurred \$883,713 [2013 – \$904,687] in lease expense to the Hospital and \$420,360 [2013 – \$437,283] in management fees and operating costs during the year. It was agreed by the parties that the net revenue over expenses related to parking operations would be used to support the Hospital, as is the mandate of the Foundation, and as a result \$2,448,095 [2013 – \$2,230,126] was distributed to the Hospital for Capital and programs. The residual amount retained by the Foundation of \$30,551 [2013 – \$193,195], represents a percentage negotiated by the parties.

9. DISTRIBUTIONS TO CHILDREN'S HOSPITAL OF EASTERN ONTARIO

The capital and programs and contribution of services distributions are comprised of grants for the following purposes:

	2014	2013
	\$	\$
Research and equipment	1,383,196	3,704,608
Research grants and programs	5,294,926	4,099,485
Capital Renovations	1,119,930	—
Programs and services	2,483,751	1,930,493
Capital equipment	2,707,000	1,538,418
Fellowships	100,000	57,500
Gifts in kind	116,391	103,067
Research building	50,000	50,000
Other capital	2,448,095	2,230,126
	15,703,289	13,713,697

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NOTES TO FINANCIAL STATEMENTS

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In lieu of occupancy cost, the Foundation provides a grant to the Hospital toward the operating costs of the Research Institute Facility.

10. PENSION PLAN

Substantially all of the full-time employees of the Foundation are members of the Hospitals of Ontario Pension Plan [the "HOOPP"] which is a multi-employer final average pay contributory pension plan. Contributions to the HOOPP during the year by the Foundation on behalf of these employees amounted to \$218,575 [2013 – \$200,357] and are included in other fundraising expenses and administration expenses in the statement of operations. The most recent valuation for financial reporting purposes completed by the HOOPP as at December 31, 2014 disclosed total assets available for benefits of \$53.9 billion with pension obligations of \$46.9 billion, resulting in a surplus of \$7.0 billion. At the end of 2014, the HOOPP was 115% funded, this fully funded status means the Plan has sufficient assets to pay every promised members pension benefit, with no shortfall.

During the year, the employer contribution rate to the plan was 1.26% [2013 – 1.26%] of the employee amount.

11. COMMITMENTS

(a) As at December 31, 2014, commitments amounting to \$17,390,350 have been approved by the Foundation's Board of Directors to fund expenditures on behalf of the Children's Hospital of Eastern Ontario for fiscal 2015, as follows:

	<u>2014</u> \$
Research and equipment	2,500,000
Capital equipment	4,060,000
Research grants and programs	5,128,000
Programs and services	2,272,350
Research building	50,000
Capital renovations	1,000,000
Other capital	2,380,000
	<u>17,390,350</u>

Of the committed amount, the Board of Directors has approved an amount of up to \$150,000 per year to 2021 related to Phase 2 of the Research Institute Facility.

**Children's Hospital of Eastern Ontario Foundation
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The committed amount classified as Other Capital relates to the funds expected to be generated from the parking agreement *[note 8]*.

(b) The Foundation has a letter of credit outstanding, required in connection with its Dream of a Lifetime lottery, amounting to approximately \$2,892,299, which expired February 21, 2015.

12. FINANCIAL INSTRUMENTS

The Foundation is exposed to various financial risks through transactions in financial instruments.

Foreign currency risk

The Foundation is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because of fluctuations in the relative value of foreign currencies against the Canadian dollar.

Credit risk

The Foundation is exposed to credit risk in connection with its accounts receivable and its short-term and fixed income investments 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.

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its fixed income investments and a pooled fund which holds fixed income securities, the values of which will fluctuate with changes in market interest rates.

Liquidity risk

The Foundation is exposed to the risk that it will encounter difficulty in meeting obligations in connection with its accounts payable and accrued liabilities.

Market risk

Market risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose the Foundation to a risk of loss. The Foundation has diversified its investment portfolio in an effort to minimize its market risk.

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Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Management believes that no material other price risk factors exist.

13. NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

The net change in non-cash balances related to operations consists of the following:

	2014	2013
	\$	\$
Interest and other receivables	206,165	(324,391)
Prepaid expenses	53,146	21,834
Other assets	—	(5,707)
Accounts payable and accrued charges	1,275,411	307,671
	1,534,722	(593)

