

***FINANCIAL STATEMENTS OF  
CHILDREN'S HOSPITAL  
OF EASTERN ONTARIO -  
OTTAWA CHILDREN'S  
TREATMENT CENTRE  
YEAR ENDED MARCH 31, 2018***

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Financial Statements

Year ended March 31, 2018

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre

We have audited the accompanying financial statements of the Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre ("CHEO-OCTC"), which comprise the statement of financial position as at March 31, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes and schedule, comprising 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.

### *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 our 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, we 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 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 the Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre as at March 31, 2018, its results of operations, changes in net assets and cash flows for the year then ended, and the remeasurement gains and losses for the year ended March 31, 2018 in accordance with Canadian public sector accounting standards.

*Emphasis of Matter*

Without modifying our opinion, we draw your attention to note 2(a) to the financial statements which describes the basis of accounting used in the preparation of the comparative figures included in these financial statements.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 12, 2018


# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

## Statement of Financial Position

March 31, 2018, with comparative information for 2017  
(Tabular amounts in thousands of dollars)

	2018	2017
		(note 2(a))
<b>Assets</b>		
Current assets:		
Cash	\$ 25,649	\$ 10,982
Accounts receivable (note 3)	14,909	14,595
Inventories	2,296	2,325
Prepaid expenses	4,961	4,716
Current portion of due from related parties (note 5)	1,803	5,058
	49,618	37,676
Due from related parties (note 5)	3,448	4,399
Designated investments (note 7)	7,285	5,666
Funds held for others (notes 7 and 11)	10,723	15,574
Capital assets (note 8)	172,145	158,025
Interest rate swap asset (note 12)	609	-
	\$ 243,828	\$ 221,340
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 37,750	\$ 31,459
Due to related parties (note 6)	619	-
Current portion of long-term debt (note 12)	3,076	953
Current portion of deferred contributions (note 9)	11,514	11,345
	52,959	43,757
Deferred contributions (note 9)	7,205	6,937
Deferred contributions for capital assets (note 10)	109,926	105,378
Funds held for others (note 11)	10,723	15,574
Long-term debt (note 12)	27,113	13,189
Accrued benefit liability (note 13)	6,284	6,063
	214,210	190,898
Net assets:		
Invested in capital assets (note 14)	32,030	38,505
Unrestricted deficiency	(3,021)	(8,063)
Accumulated remeasurement gains	609	-
	29,618	30,442
Contingent liabilities and commitments (note 15)		
	\$ 243,828	\$ 221,340

See accompanying notes to financial statements.

 Director

 Director

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

## Statement of Operations

Year ended March 31, 2018, with comparative information for 2017  
(Tabular amounts in thousands of dollars)

	2018	2017
		(note 2(a))
Revenue:		
Ministry of Health and Long-term Care (MOHLTC)/ Local Health Integration Network (LHIN)	\$ 154,968	\$ 149,170
Patient services	45,337	43,214
Other operating revenues and recoveries	34,559	26,078
Amortization of deferred contributions for equipment	6,359	5,310
Other funded programs (Schedule A)	61,228	55,877
	302,451	279,649
Expenses:		
Salaries and benefits	151,353	142,119
Medical staff remuneration	9,394	9,395
Supplies and other expenses	51,659	44,340
Medical and surgical supplies	7,556	7,056
Drugs and medical gases	9,467	8,915
Amortization - equipment	11,816	10,510
Other funded programs (Schedule A)	61,228	55,877
	302,473	278,212
Excess (deficiency) of revenue over expenses before the undernoted	(22)	1,437
Amortization of deferred contributions for buildings	3,233	2,673
Amortization of buildings	(4,644)	(3,946)
	(1,411)	(1,273)
Excess (deficiency) of revenue over expenses	\$ (1,433)	\$ 164

See accompanying notes to financial statements.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

## Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017  
(Tabular amounts in thousands of dollars)

	Invested in capital assets	Unrestricted	2018 Total	2017 Total
				(note 2(a))
Balance, beginning of year	\$ 38,505	\$ (8,063)	\$ 30,442	\$ 30,278
Excess (deficiency) of revenue over expenses	–	(1,433)	(1,433)	164
Net purchases of capital assets	30,580	(30,580)	–	–
Amortization of capital assets	(16,460)	16,460	–	–
Increase in long-term debt	(16,047)	16,047	–	–
Deferred contributions for capital assets	(14,140)	14,140	–	–
Amortization of deferred contributions for capital assets	9,592	(9,592)	–	–
<b>Balance, end of year</b>	<b>\$ 32,030</b>	<b>\$ (3,021)</b>	<b>\$ 29,009</b>	<b>\$ 30,442</b>

See accompanying notes to financial statements.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

## Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017  
(Tabular amounts in thousands of dollars)

	2018	2017
		(note 2(a))
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (1,433)	\$ 164
Items not affecting cash:		
Amortization:		
Capital assets	16,460	14,456
Deferred contributions for capital assets	(9,592)	(7,983)
Increase in actuarial valuation of accrued employee future benefits	681	890
Employee future benefits paid	(460)	(419)
Increase in deferred contributions	437	4,177
Net repayment of funds held for others	(4,851)	(1,693)
	1,242	9,592
Change in non-cash operating working capital:		
Accounts receivable	(314)	315
Due to/from related parties	4,825	215
Inventories	29	18
Prepaid expenses	(245)	(1,092)
Accounts payable and accrued liabilities	7,120	(1,446)
	12,657	7,602
Investing activities:		
Net purchases of capital assets	(30,580)	(24,239)
Net withdrawals (acquisitions) of investments	3,232	(314)
	(27,348)	(24,553)
Financing activities:		
Net receipt (repayment) of long-term debt	16,047	6,058
Deferred contributions for capital assets	14,140	8,801
Changes in accounts payable for construction	(829)	246
	29,358	15,105
Increase (decrease) in cash	14,667	(1,846)
Cash, beginning of year	10,982	12,828
Cash, end of year	\$ 25,649	\$ 10,982
Interest paid	\$ 450	\$ 307

See accompanying notes to financial statements.



# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

## Statement of Remeasurement Gains and Losses

Year ended March 31, 2018, with comparative information for 2017  
(Tabular amounts in thousands of dollars)

	2018	2017
Accumulated remeasurement gains, beginning of year	\$ -	\$ -
Unrealized gains attributable to: Interest rate swaps	609	-
Accumulated remeasurement gains, end of year	\$ 609	\$ -

See accompanying notes to financial statements.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

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## 1. Description:

The Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre (CHEO-OCTC) is incorporated under the Ontario Corporations Act. CHEO-OCTC provides health care services to children in Eastern Ontario, Western Quebec and Nunavut. CHEO-OCTC is a registered charity and as such is not subject to income tax under Paragraph 149(1)(f) of the Income Tax Act (Canada).

## 2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations and include the following significant accounting policies.

### (a) Basis of presentation:

CHEO-OCTC was created on October 1, 2016 through the amalgamation of CHEO and OCTC into a newly created entity. The comparative figures included in the accompanying financial statements reflect the operations of CHEO-OCTC for the year ended March 31, 2017, as if they had been amalgamated entities during the full reporting period. The comparative figures are prepared based on the principles included in Canadian Public Sector Accounting Standards, including the 4200 standards for government not-for-profit organizations.

### (b) Revenue recognition:

Operating grants are recorded as revenue in the period to which they relate. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. Grants approved but not received at the end of an accounting period are accrued.

Revenue from other provinces and uninsured patients, operational revenue, and ancillary services are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

CHEO-OCTC follows the deferral method of accounting for contributions for not-for-profit organizations which includes provincial government allocations, other contributions and grants.

Externally restricted contributions are recognized as revenue in the year in which the conditions for the restriction have been met. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

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## 2. Significant accounting policies (continued):

### (b) Revenue recognition (continued):

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

### (c) Funding policy:

Under the current funding policy, CHEO-OCTC is essentially funded on a fixed global-budget base. CHEO-OCTC is allowed to retain any excess of revenue over expenses derived from its operations and, conversely, retains responsibility for any deficit it may incur.

### (d) Donated services:

A substantial number of volunteers contribute a significant amount of their time each year to CHEO-OCTC. Owing to the difficulty in assessing the number of hours and the fair value thereof, contributed services are not recognized in the financial statements.

### (e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

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## 2. Significant accounting policies (continued):

### (e) Financial instruments (continued):

Canadian public sector accounting standards require CHEO-OCTC to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

CHEO-OCTC uses derivative financial instruments to manage interest rate risk. The only derivative products used are interest rate swaps (see notes 12 and 17 for further details). Derivative instruments are recorded on the statement of financial position as assets or liabilities and are measured at fair value. Derivatives with positive fair value are reported as assets and derivatives with negative fair value are reported as liabilities.

CHEO-OCTC uses hedge interest rate swaps to hedge variability in forecasted cash flows. Changes in the fair value of the swap are included directly in the statement of remeasurement gains and losses.

The periodic exchanges of payments on interest rate swaps designated as hedges of debt are recorded as an adjustment to interest expenses of the hedged item in the same period.

The fair values of over-the-counter derivatives are based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis, or are determined by using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Counterparty credit risk and liquidity valuation adjustments are recorded, as appropriate.

### (f) Inventories:

Inventories are valued at lower of cost on a moving-average basis and current replacement cost. Major components of inventory include drugs and medical and surgical supplies.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

## 2. Significant accounting policies (continued):

### (g) Capital assets:

Capital assets are recorded at cost. Assets acquired by a capital lease are amortized over the estimated life of the assets or over the lease term, as appropriate. When a capital asset no longer contributes to CHEO-OCTC's ability to provide services, its carrying amount is written down to its residual value. Amortization is provided on the straight-line basis over the estimated useful lives as follows:

Asset	Useful life
Land improvements	10 to 25 years according to the class of improvements
Buildings	15 to 50 years according to the class of the asset
Major equipment	5 to 15 years according to the class of the asset
Minor equipment	Minor equipment is expensed as incurred

The cost of capital projects in progress will be transferred to the cost of buildings and/or major equipment and begin to be amortized when construction/implementation is complete and the facility/software is put in use. Land is not amortized due to its infinite life.

### (h) Long-term lease agreements:

CHEO-OCTC has long-term lease agreements with third parties for buildings that have been constructed on lands owned by CHEO-OCTC. These land leases are accounted for by CHEO-OCTC as operating leases. The buildings which were constructed by third parties are not accounted for as assets of CHEO-OCTC and any assets or related liabilities thereon would be accounted for by CHEO-OCTC upon termination of the lease agreement.

### (i) Employee future benefits:

CHEO-OCTC provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include life insurance and health care benefits.

CHEO-OCTC accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the other retirement benefits. The actuarial determination of the accrued benefit obligations for other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors).

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

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## 2. Significant accounting policies (continued):

### (i) Employee future benefits (continued):

The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2016, and the next required valuation will be as of March 31, 2019.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. These defined benefit plans are not funded.

The average remaining service period of active employees covered by the employee benefit plans is 15.5 years (2017 - 15.9 years).

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

CHEO-OCTC is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. CHEO-OCTC has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

### (j) Use of estimates:

The preparation of financial statements in conformity with Public Sector Accounting Standards requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. In particular, the assumptions underlying the employee future benefit calculations contain significant estimates. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period they become known.

### (k) New accounting standards:

On April 1, 2017, CHEO-OCTC adopted Canadian Public Sector Accounting Standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent assets and PS 3380 Contractual rights.

The adoption of these standards did not result in an accounting policy change for CHEO-OCTC, and did not result in any adjustments to the financial statements as at April 1, 2017.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

### 3. Accounts receivable:

	2018	2017
MOHLTC / LHIN	\$ 1,886	\$ 1,396
Patient services	7,251	5,197
External organizations	4,296	4,038
Harmonized sales tax	1,476	3,964
	<u>\$ 14,909</u>	<u>\$ 14,595</u>

### 4. Accounts payable and accrued liabilities:

	2018	2017
MOHLTC / LHIN	\$ 954	\$ 832
External organizations	34,423	28,299
Government remittances	2,373	2,328
	<u>\$ 37,750</u>	<u>\$ 31,459</u>

### 5. Due from related parties:

	2018	2017
EORLA - prime less 0.25% variable rate promissory note with principal payments of \$866,094 annually, maturing March 2022	\$ 3,464	\$ 5,300
CHEO Research Institute - interest free loan with principal payments of \$85,000 annually, maturing March 2029	935	1,020
CHEO Research Institute - non-interest-bearing receivable with no defined terms of repayment	-	898
CHEO Foundation - non-interest-bearing receivable with no defined terms of repayment	852	2,239
	<u>5,251</u>	<u>9,457</u>
Less: current portion of due from related parties	1,803	5,058
Long-term portion	<u>\$ 3,448</u>	<u>\$ 4,399</u>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

## 6. Due to related parties:

The amount due to CHEO Research Institute does not have defined terms of repayment and is non-interest bearing. The amount is recorded at the exchange amount.

## 7. Designated investment and funds held for others:

	Fair value	Cost	2018 Fair value
Cash	\$ 2,875	\$ 2,875	16.0%
Provincial bonds	3,049	3,064	16.9%
Corporate bonds	12,084	12,220	67.1%
	<b>\$ 18,008</b>	<b>\$ 18,159</b>	<b>100.0%</b>

	Fair value	Cost	2017 Fair value
Cash	\$ 1,029	\$ 1,029	4.8%
Short-term investments	41	41	0.2%
Provincial bonds	3,629	3,563	17.1%
Corporate bonds	16,541	16,368	77.9%
	<b>\$ 21,240</b>	<b>\$ 21,001</b>	<b>100.0%</b>

Bonds are debt obligations of governments and corporate entities paying interest at rates appropriate to the market at their date of purchase. The bonds mature at face value on a staggered basis until 2026. Interest rates for these securities range from 1.19% to 7.41% (2017 – 1.25% to 7.41%).

These investments can be liquidated by CHEO-OCTC on demand.



# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

## 8. Capital assets:

Capital assets consist of:

	Cost	Accumulated amortization	2018 Net book value
Land	\$ 454	\$ –	\$ 454
Land improvement	2,115	987	1,128
Buildings	160,353	54,917	105,436
Major equipment	172,677	131,397	41,280
Projects in progress	23,847	–	23,847
	<b>\$ 359,446</b>	<b>\$ 187,301</b>	<b>\$ 172,145</b>

	Cost	Accumulated amortization	2017 Net book value
Land	\$ 454	\$ –	\$ 454
Land improvement	2,115	879	1,236
Buildings	143,351	50,276	93,075
Major equipment	161,022	119,686	41,336
Projects in progress	21,924	–	21,924
	<b>\$ 328,866</b>	<b>\$ 170,841</b>	<b>\$ 158,025</b>

Cost and accumulated amortization are presented net of disposals of \$Nil (2017 - \$286,372).

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

## 9. Deferred contributions:

Changes in the deferred contributions balance are as follows:

	Capital funds	Other	2018 Total
Balance, beginning of year	\$ 6,937	\$ 11,345	\$ 18,282
Add: amount received during the year	6,667	2,667	9,334
Less: change in unrealized gains on designated investments	(97)	(110)	(207)
Less: amount transferred to deferred contributions for capital assets	(7,857)	–	(7,857)
Less: amount recognized as revenue during the year	–	(833)	(833)
Transfers	1,555	(1,555)	–
<b>Balance, end of year</b>	<b>\$ 7,205</b>	<b>\$ 11,514</b>	<b>\$ 18,719</b>

Accumulated unrealized gains on designated investments, beginning of year	\$ 45	\$ 69	\$ 114
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Accumulated unrealized losses on designated investments, end of year	\$ (52)	\$ (41)	\$ (93)
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	Capital funds	Other	2017 Total
Balance, beginning of year	\$ 6,459	\$ 7,346	\$ 13,805
Add: amount received during the year	5,899	17,477	23,376
Less: change in unrealized gains on designated investments	(37)	13	(24)
Less: amount transferred to deferred contributions for capital assets	(5,384)	–	(5,384)
Less: amount recognized as revenue during the year	–	(13,491)	(13,491)
<b>Balance, end of year</b>	<b>\$ 6,937</b>	<b>\$ 11,345</b>	<b>\$ 18,282</b>

Accumulated unrealized gains on designated investments, beginning of year	\$ 82	\$ 56	\$ 138
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Accumulated unrealized gains on designated investments, end of year	\$ 45	\$ 69	\$ 114
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# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

## 9. Deferred contributions (continued):

The deferred contribution balance of \$7,204,757 (2017 - \$6,937,429) in the Capital Funds component represents capital grants from the Province of Ontario for capital equipment. As these funds are spent on equipment, a corresponding amount is transferred to deferred contributions for capital assets.

## 10. Deferred contributions for capital assets:

Changes in the deferred contributions for capital assets are as follows:

	2018	2017
Balance, beginning of year	\$ 105,378	\$ 104,652
Add: amount received during the year	608	94
Add: amount transferred from deferred contributions	7,857	5,384
Add: amount contributed by the CHEO Foundation	5,675	3,231
Less: amount recognized as revenue during the year	(9,592)	(7,983)
<b>Balance, end of year</b>	<b>\$ 109,926</b>	<b>\$ 105,378</b>

## 11. Funds held for others:

During the year, CHEO-OCTC was involved with the administration of several projects. As administrator of these projects, CHEO-OCTC has accepted the responsibility of collecting funds from supporters and issuing cheques for approved expenses. The receipts and disbursements for the projects are not recognized as revenues and expenses of CHEO-OCTC. The related assets are disclosed in note 7.

	2018	2017
Balance, beginning of year	\$ 15,574	\$ 16,360
Add: amount received during the year	3,696	6,223
Less: change in unrealized losses on investments	(160)	(163)
Less: amounts disbursed during the year	(8,387)	(6,846)
<b>Balance, end of year</b>	<b>\$ 10,723</b>	<b>\$ 15,574</b>
Accumulated unrealized gains on investments, beginning of year	\$ 103	\$ 266
Accumulated unrealized gains/losses on investments, end of year	\$ (57)	\$ 103

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

## 12. Long-term debt and credit facilities:

(a) Long-term debt:

	2018	2017
3.33% fixed rate loan with principal payments of \$35,114 monthly including interest, maturing November 2023	\$ 2,173	\$ 2,516
2.83% fixed rate loan with principal payments of \$25,000 monthly, maturing October 2024	1,975	2,275
Prime less 0.25% variable rate demand loan with principal payments of \$25,833 monthly, maturing October 2024	2,041	2,351
CDOR plus 0.40% stamping fee Banker's Acceptance fixed by interest rate swap with interest only payments until March 2018, maturing March 2029	24,000	7,000
	30,189	14,142
Less: current portion of long-term debt	3,076	953
Long-term portion	\$ 27,113	\$ 13,189

The estimated fair value of the loans are \$2,193,340, \$1,754,952, \$1,837,998 and \$19,874,783 (2017 - \$2,589,311, \$2,094,372, \$2,143,380 and \$7,000,000) based on a quoted market rates as at March 31, 2018 of 3.00%, 3.62%, 3.20% and 2.90%, respectively (2017 - 2.45%, 2.19%, 2.45% and 1.28%, respectively).

Principal payments required over the next five years are as follows:

2018/19	\$ 3,076
2019/20	3,096
2020/21	3,205
2021/22	3,295
2022/23	3,194
	\$ 15,866

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

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## 12. Long-term debt and credit facilities (continued):

### (b) Credit facilities:

CHEO-OCTC has a bank overdraft authorization limit which allows it to borrow up to \$7,000,000 at an interest rate of prime less 0.25%. The balance of amounts borrowed as at March 31, 2018 is \$Nil (2017 - \$Nil).

### (c) Interest rate swaps:

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities.

CHEO-OCTC has entered into an interest rate swap agreement to manage the volatility of interest rates associated with debt related to systems acquisitions. CHEO-OCTC has converted a net notional \$24 million of floating rate long-term debt to a fixed rate of 1.86%. The maturity date of the interest rate swap is March 1, 2029.

The interest rate swaps have unrealized accumulated remeasurement gains of \$608,874 (2017 - \$Nil), which are recorded on the statement of financial position as at March 31, 2018. The current year impact of the change in fair value of the interest rate swap is an increase of accumulated remeasurement gains of \$608,874 (2017 - \$Nil).

The fair value of the interest rate swap has been determined using Level 2 of the fair value hierarchy. The fair value of the interest rate swap is based on underlying market yield curves and risk premiums. These inputs are discounted to estimate the future cash flows of the variable and fixed legs of the instrument.

## 13. Accrued employee future benefits:

CHEO-OCTC offers defined benefit plans which provide pension and other post-retirement benefits to most of its employees. The measurement date used to determine the accrued benefit obligation is March 31, 2018. The most recent actuarial valuation of employee future benefits for accounting purposes was completed as at March 31, 2016.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

## 13. Accrued employee future benefits (continued):

The liability associated with the post-retirement and post-employment plans as at March 31, 2018 is as follows:

	2018	2017
Accrued benefit obligation:		
Balance, beginning of year	\$ 6,848	\$ 6,314
Current benefit cost	373	587
Interest	249	248
Benefits paid	(443)	(419)
Experience gain	1,257	118
Balance, end of year	8,284	6,848
Unamortized actuarial gain	(2,115)	(917)
EORLA accrued benefit	115	132
Employee future benefits liability	\$ 6,284	\$ 6,063

CHEO-OCTC entered into a formal arrangement with the Eastern Ontario Regional Laboratory Association (EORLA) to transfer all laboratory operations to EORLA. Effective April 1, 2012, 78 of CHEO-OCTC's non-medical laboratory employees became employees of EORLA, of which 52 employees are members of the benefit plan. As a result, the pension plan for these employees was curtailed and the liability for EORLA's employees separated from CHEO-OCTC's accrued benefit liability. The EORLA liability of \$115,200 (2017 - \$132,000) as at March 31, 2018 will be reduced as benefits are paid out to former employees of CHEO-OCTC.

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2018 are as follows:

	2018	2017
Discount rate	3.37%	3.56%
Medical inflation	7.50%	7.50%
Dental inflation	3.50%	3.50%
Mortality	CMP 2014 (public sector) with general projection scale B	

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

## 13. Accrued employee future benefits (continued):

Healthcare of Ontario Pension Plan:

Substantially all of the employees of CHEO-OCTC are eligible to be members of the Hospitals of Ontario Pension Plan (the "Plan"). The Plan is a multi-employer, defined benefit pension plan. The Plan is accounted for as a defined contribution plan. Employer contributions to the Plan during the year by CHEO-OCTC amounted to \$13,648,567 (2017 - \$12,985,423). These amounts are included as operating expenses.

In consultation with its actuaries, pension expense is based on the Plan management's best estimates, of the amount required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent triennial actuarial valuation of the Plan as at December 31, 2018 indicates the plan is fully funded.

## 14. Net assets invested in capital assets:

Investment in capital assets is calculated as follows:

	2018	2017
Capital assets	\$ 172,145	\$ 158,025
Amounts financed by:		
Deferred contributions for capital assets	(109,926)	(105,378)
Long-term debt	(30,189)	(14,142)
	\$ 32,030	\$ 38,505

CHEO-OCTC receives contributions restricted in use from various sources, and has complied with the conditions and requirements of capital grants, contributions and long-term debt throughout the year.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018

(Tabular amounts in thousands of dollars)

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## 15. Contingent liabilities and commitments:

- (a) As a member of the Ottawa Health Sciences Centre Inc., CHEO-OCTC is party to a Thermal Energy Agreement (TEA) with Trans/Alta Corporation for the purchase of thermal energy for heating and humidifying the hospital premises. In 2009, the TEA was re-negotiated and resulted in a ten-year extension of its term from January 1, 2013 to January 1, 2023. The revised TEA, which was retroactive to January 1, 2007, stipulates a minimum Take or Pay quantity of steam and medium temperature hot water each year until the expiry of the contract and also provides for a new surcharge levy of \$2.22/gigajoule to facilitate the expansion of the Trans Alta plant to meet future site thermal demands.
- (b) CHEO-OCTC is also committed under supplier contracts to purchase services for the next five years for a total amount of \$15,188,184 (2017 - \$24,142,246).
- (c) From time to time, CHEO-OCTC is a party to claims related to its operations, the majority of which are covered under CHEO-OCTC's insurance policy. No provision has been made for loss in these financial statements as, in management's opinion, these claims will not have a material adverse effect on its financial position or result of operations.
- (d) CHEO-OCTC is a member of the Healthcare Insurance Reciprocal of Canada (HIROC), which is a pooling of the liability insurance risks of its members. Members of the pool pay annual premiums that are actuarially determined. HIROC members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members and these losses could be material. No reassessments have been made to March 31, 2018.

## 16. Related entities:

CHEO-OCTC is related to the following entities: Children's Hospital of Eastern Ontario Foundation, Children's Hospital of Eastern Ontario Research Institute Inc., Eastern Ontario Regional Laboratory Association and Ottawa Regional Hospital Linen Services by virtue of representation on their Boards or other forms of influence. CHEO-OCTC does not have control of these entities and the net assets and results of operations of these entities are not included in CHEO-OCTC's financial statements. In addition to the related party transactions disclosed elsewhere in these financial statements, CHEO-OCTC has entered into the following transactions with these entities:



# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

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## 16. Related entities (continued):

### *Children's Hospital of Eastern Ontario Foundation (Foundation)*

During the year, CHEO-OCTC received total contributions from the Foundation in the amount of \$11,946,512 (March 31, 2017 - \$10,131,317) allocated as follows: operating contributions \$3,824,993 (March 31, 2017 - \$4,370,307), capital contributions \$5,675,057 (March 31, 2017 - \$3,231,140) and other special purpose funds in the amount of \$2,446,462 (March 31, 2017 - \$2,529,870); the latter is not included as a revenue or an expense of CHEO. The Foundation is a tax exempt charitable entity created without share capital under the laws of Ontario.

### *Children's Hospital of Eastern Ontario Research Institute (Institute)*

CHEO-OCTC provides administrative service to the Institute which includes: financial accounting, human resources, and material management and information services for a total annual fee of \$389,500 (2017 - \$60,000). All operating and capital expenses of the Institute are initially paid by CHEO-OCTC. Costs related to building infrastructure and support, as well as insurance coverage, are billed back to the Institute on a cost recovery basis. During the year, CHEO-OCTC provided funds to the Institute in the amount of \$301,300 (2017 - \$Nil) as a contribution towards operating costs. The Institute is a tax-exempt charitable entity created without share capital under the Canada Not-for-Profit Corporations Act.

### *Eastern Ontario Regional Laboratory Association (EORLA)*

CHEO-OCTC is a founding member of EORLA which was established to provide laboratory services to member hospitals on a cost of service basis. EORLA is incorporated without share capital under the Ontario Business Corporations Act. EORLA is a not-for-profit organization under the Income Tax Act and as such is exempt from income taxes. Effective April 1, 2013, CHEO-OCTC entered into a formal arrangement with EORLA to transfer all laboratory operations (except Genetics) to EORLA. All existing laboratory equipment remains the property of CHEO-OCTC and will be leased to EORLA at no charge. New equipment will be acquired directly by EORLA as the need arises. Included in CHEO-OCTC's accounts receivable at March 31, 2018 is a receivable of \$35,711 (2017 - \$92,937) for costs incurred by CHEO-OCTC on behalf of EORLA. During the year, CHEO-OCTC paid \$8,821,872 (2017 - \$9,063,280) for laboratory services provided by EORLA. As of March 31, 2018 CHEO-OCTC had a payable of \$94,648 (2017 - receivable of \$395,070) related to these services.

Recovery of prior year's laboratory costs:

In April 2016, EORLA determined it overcharged members for tests performed at the CHEO-OCTC reference lab over a four-year period. CHEO-OCTC was overbilled a total of \$5,300,000 during this time. EORLA members have agreed to a six-year repayment plan. The amount owing is included in due from related parties.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

## 16. Related entities (continued):

### *Ottawa Regional Hospital Linen Services (ORHLS)*

CHEO-OCTC is a founding member ORHLS. ORHLS was established to provide laundry services for the member hospitals on a cost of service basis. ORHLS is incorporated without share capital under the Ontario Business Corporations Act and is a not-for-profit organization under the Income Tax Act (Canada) and as such is exempt from income taxes. As at March 31, 2018, CHEO-OCTC had an economic interest of \$945,349 (2017 - \$934,438) of total net assets of \$12,835,900 (2017 - \$12,687,050). For the year ended March 31, 2018, CHEO-OCTC provided \$990,227 (2017 - \$942,519) to ORHLS for laundry services.

## 17. Financial instruments:

The fair value of CHEO-OCTC's accounts receivable, accounts payable and accrued liabilities approximates cost due to their short-term nature. The fair value of investments is described in note 7 and the fair value of debt in note 12.

The following table presents the investments recorded at fair value in the statement of financial position, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	2018 Total
Cash	\$ 2,875	\$ –	\$ –	\$ 2,875
Provincial bonds	–	3,049	–	3,049
Corporate bonds	–	12,084	–	12,084
Interest rate swap	–	609	–	609
	\$ 2,875	\$ 15,742	\$ –	\$ 18,617

	Level 1	Level 2	Level 3	2017 Total
Cash	\$ 1,029	\$ –	\$ –	\$ 1,029
Short-term investments	41	–	–	41
Provincial bonds	–	3,629	–	3,629
Corporate bonds	–	16,541	–	16,541
	\$ 1,070	\$ 20,170	\$ –	\$ 21,240

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

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## 17. Financial instruments (continued):

### *Financial risk factors*

CHEO-OCTC's activities expose it to a variety of financial risks: market risk (including interest rate, currency (foreign exchange), and other price risks), credit risk and liquidity risk. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return consistent with the investment policies approved by the Board of Directors.

#### (a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. CHEO-OCTC is exposed to this risk relating to its cash and accounts receivable. CHEO-OCTC holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation.

CHEO-OCTC's receivables are with governments, government funding agencies, patients and residents and corporate entities. CHEO-OCTC believes that these receivables do not have significant credit risk in excess of allowances for doubtful accounts that have been established. The balance of the allowance for doubtful accounts at March 31, 2018 is \$582,301 (2017 - \$411,000).

#### (b) Liquidity risk:

Liquidity risk is the risk that CHEO-OCTC will be unable to fulfill its obligations on a timely basis or at a reasonable cost. CHEO-OCTC manages its liquidity risk by monitoring its operating requirements. CHEO-OCTC prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

#### (c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and other price risk.

##### (i) Currency risk:

CHEO-OCTC believes it is not subject to significant foreign currency risk arising from its financial instruments.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2018  
(Tabular amounts in thousands of dollars)

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## 17. Financial instruments (continued):

(c) Market risk (continued):

(ii) Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. CHEO-OCTC is exposed to this risk through its term debt and demand loan.

CHEO-OCTC mitigates interest rate risk on certain of its debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the term debt for a fixed rate (see note 12). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

(iii) Other price risk:

CHEO-OCTC believes it is not subject to significant other price risk arising from its financial instruments.

## 18. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.



# CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Schedule A - Other funded programs (continued)

Year ended March 31, 2018, with comparative information for 2017  
(Tabular amounts in thousands of dollars)

	2018			2017		
	Revenue	Expenses	Net	Revenue	Expenses	Net
<b>MCYS programs (continued):</b>						
Balance carryforward	26,220	26,220	-	26,196	26,196	-
Autism - IBI (A592 + A557)	11,457	11,457	-	8,963	8,963	-
Autism - Spectrum Disorder (A594)	1,339	1,339	-	1,246	1,246	-
Autism (A596)	27	27	-	27	27	-
ASD Respite (A597)	97	97	-	104	104	-
Autism - ABA (A598)	3,175	3,175	-	2,685	2,685	-
Coordinated Service Planning (A600)	354	354	-	111	111	-
Autism Support IBI Wait List (A681 + A682)	7,716	7,716	-	4,458	4,458	-
ASD Diagnostic Hub (A683)	1,211	1,211	-	282	282	-
Partner Facility Renewal	-	-	-	10	10	-
MCYS - Other	-	-	-	245	245	-
	51,596	51,596	-	44,327	44,327	-
<b>Other programs:</b>						
First Words - Pinecrest Queensway	698	698	-	586	586	-
Champlain Maternal Newborn Regional Program	836	836	-	821	821	-
Navigator Program	616	616	-	575	575	-
BORN	1,312	1,312	-	1,929	1,929	-
School Program - Ministry of Education	2,113	2,113	-	1,999	1,999	-
Preschool Program - City of Ottawa	454	454	-	472	472	-
Regional Preschool Program - City of Ottawa	457	457	-	550	550	-
Caution: Parents Learning	55	55	-	-	-	-
Blind/Low Vision Program - Pinecrest Queensway	133	133	-	133	133	-
Preschool SLP - Pinecrest Queensway	193	193	-	193	193	-
Applied Behaviour Analysis	-	-	-	461	461	-
Other Programs	4	4	-	299	299	-
	6,871	6,871	-	8,018	8,018	-
	\$ 61,228	\$ 61,228	\$ -	\$ 55,877	\$ 55,877	\$ -