Financial statements of

Children's Hospital of Eastern Ontario

March 31, 2014

March 31, 2014

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Deloitte LLP 1600 - 100 Queen Street Ottawa ON K1P 5T8 Canada

Tel: (613) 236-2442 Fax: (613) 236-2195 www.deloitte.ca

Independent Auditor's Report

To the Board of Trustees of the Children's Hospital of Eastern Ontario

We have audited the accompanying financial statements of the Children's Hospital of Eastern Ontario, which comprise the statement of financial position as at March 31, 2014, and the statements of revenue and expenses, changes in net assets and cash flow 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 public sector accounting standards for government 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Children's Hospital of Eastern Ontario as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Chartered Professional Accountants, Chartered Accountants

Licensed Public Accountants

Deloitle LCP

June 10, 2014

Children's Hospital of Eastern Ontario Statement of revenue and expenses

year ended March 31, 2014 (tabular amounts are in thousands of dollars)

	2014	2013
	\$	\$
Revenue		
Ministry of Health and Long-Term Care (MOHLTC) /		
Local Health Integration Network (LHIN)	138,214	135,220
Inpatient from other sources	22,831	22,094
Outpatient - OHIP and other sources	18,907	17,580
Preferred accommodation	1,776	1,548
Other operating revenues	6,625	5,870
Recoveries	15,490	16,661
Amortization of deferred contributions for equipment	5,369	4,425
Other funded programs (Schedule A)	34,204	34,142
The range programs (Constant r.)	243,416	237,540
Expenses		
Salaries and wages	104,956	101,310
Benefits contributions	27,472	25,344
Medical staff remuneration	8,130	7,515
Supplies and other expenses	41,400	42,682
Medical and surgical supplies	7,487	7,734
Drugs and medical gases	7,408	6,954
Bad debts	695	597
Bank charges and interest	208	228
Amortization - equipment	11,454	10,736
Other funded programs (Schedule A)	34,204	34,142
	243,414	237,242
Evenes of revenue over overesce hefere		
Excess of revenue over expenses before		
amortization of buildings and amortization of deferred	2	200
contributions for buildings	2	298
Amortization of deferred contributions for buildings	2,504	2,318
Amortization of buildings	(3,925)	(3,798)
	(1,421)	(1,480)
Deficiency of revenue over expenses	(1,419)	(1,182)

Statement of financial position

as at March 31, 2014

(tabular amounts are in thousands of dollars)

	2014	2013
	\$	\$
Assets		
Current assets		
Cash	97	5,701
Accounts receivable (Note 4)	13,611	9,744
Accounts receivable - MOHLTC / LHIN	2,356	3,266
Inventories	2,354	2,425
Prepaid expenses	2,739	2,524
Due from CHEO Foundation (Note 5)	697	1,258
Due from CHEO Research Institute (Note 6)	1,062	85
2 de Helli el 12 el 1000 di el 1010 di el 10	22,916	25,003
Designated investments (Notes 3 and 7)	10,923	11,285
Capital assets (Note 8)	144,425	139,066
Funds held for others (Notes 3 and 9)	15,280	14,934
Loan due from CHEO Research Institute (Note 6)	1,190	1,275
Loan due nom Cheo Research institute (Note 6)	194,734	191,563
	104,704	101,000
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	23,390	24,733
Accounts payable - MOHLTC / LHIN	842	2,012
Due to designated investments and funds held for others (note 3)	6,908	-
Due to CHEO Research Institute (Note 6)	-	1,396
Current portion of long-term debt (Note 10)	310	278
	31,450	28,419
Deferred contributions (Note 7)	10,923	11,285
ong-term debt (Note 10)	3,168	3,485
Deferred contributions for capital assets (Note 11)	98,992	97,392
Accrued employee future benefits (Note 12)	4,973	4,681
Funds held for others (Note 9)	15,280	14,934
, ,	164,786	160,196
Contingent liabilities and commitments (Note 13)		
Net assets		
Invested in capital assets (Note 14)	41,955	37,911
Unrestricted deficiency	41,955 (12,007)	
On estricted dentitiently	29,948	(6,544) 31,367
	· · · · · · · · · · · · · · · · · · ·	
	194,734	191,563

Approved by the Board

Trustee

Trustee

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Children's Hospital of Eastern Ontario Statement of changes in net assets

Statement of changes in net assets year ended March 31, 2014 (tabular amounts are in thousands of dollars)

			Tota	ıl
	Invested in	_		
	capital assets	Unrestricted	2014	2013
	\$	\$	\$	\$
Balance, beginning of year	37,911	(6,544)	31,367	32,549
Deficiency of revenue over expenses	-	(1,419)	(1,419)	(1,182)
Net purchases of capital assets	20,738	(20,738)	-	-
Amortization of capital assets	(15,379)	15,379	-	-
Repayment of long-term debt	285	(285)	-	-
Deferred contributions				
for capital assets	(9,473)	9,473	-	-
Amortization of deferred contributions				
for capital assets	7,873	(7,873)	-	
Balance, end of year	41,955	(12,007)	29,948	31,367

Statement of cash flow

year ended March 31, 2014

(tabular amounts are in thousands of dollars)

	2014	2013
	\$	\$
Operating activities		
Deficiency of revenue over expenses	(1,419)	(1,182)
Items not affecting cash	(, - ,	(, - ,
Amortization		
Capital assets	15,379	14,534
Deferred contributions for capital assets	(7,873)	(6,743)
Increase in accrued employee future benefits	292	364
Increase (decrease) in deferred contributions	(16)	2,504
	6,363	9,477
Changes in non-cash operating working capital items		
Accounts receivable	(2,957)	(802)
Due to/from CHEO Foundation / Research Institute	(416)	(892)
Inventories	71	(185)
Prepaid expenses	(215)	209
Accounts payable and accrued liabilities	(3,979)	3,505
Due to designated investments and funds held for others	6,908	-
	5,775	11,312
Capital activities		
Net purchases of capital assets	(20,738)	(14,866)
Invention antivities		
Investing activities	46	(2.504)
Net disposal (acquisition) of investments Loan due from CHEO Research Institute	16	(2,504)
	85	85
Changes in accounts payable for construction	70	(1,980)
	171	(4,399)
Financing activities		
Repayment of long-term debt	(285)	(267)
Deferred contributions for capital assets	9,473 9,188	7,119 6,852
	3,100	0,002
Net cash outflow	(5,604)	(1,101)
Cash, beginning of year	5,701	6,802
Cash, end of year	97	5,701
Interest paid	208	227

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

1. Description

The Children's Hospital of Eastern Ontario (CHEO) is incorporated under the Ontario Corporations Act. CHEO provides health care services to children in Eastern Ontario and Western Quebec. CHEO is a registered charity and as such is exempt from income tax.

2. Summary of significant accounting policies

Basis for presentation

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for government not-for-profit organizations:

a) Financial instruments

Financial assets and liabilities are initially measured at fair value and subsequently measured at amortized cost, with the exception of cash and investments which are measured at fair value.

An impairment loss is measured as the difference between the current carrying amount of the asset and the highest amount the entity expects to collect through the present value of future cash flows, the sale of the financial asset on the balance sheet date and collection of collateral.

Related party transactions in the normal course of operations are recorded at the exchange amount.

Transaction costs are expensed as incurred.

b) Revenue recognition

CHEO follows the deferral method of accounting for contributions which include donations and government grants.

Under the Health Insurance Act and current Regulations thereto in place governing hospitals, CHEO is funded primarily by the Champlain Local Health Integration Network (LHIN) in accordance with the terms and conditions in the Hospital Service Accountability Agreement. 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.

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.

Revenue for funded programs is recognized in the period the expenses are incurred.

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.

Contributions provided to CHEO for the purchase of capital assets are deferred and amortized to revenue on the same basis as the amortization expense for the related capital assets.

Investment income is included in the statement of revenue and expenses and includes dividend and interest income, realized gains and losses on disposal of investments and, if applicable, charges for other than temporary impairment of investments. Unrealized gains and losses related to deferred contributions are recorded directly in deferred contributions, as appropriate, until disposal or impairment of the asset. At that time, the related gains and losses are reclassified and included in the statement of revenue and expenses.

CHEO has determined that a statement of remeasurement gains and losses is not required.

c) Funding policy

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

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

2. Summary of significant accounting policies (continued)

d) Donated services

A substantial number of volunteers contribute a significant amount of their time each year to CHEO. 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) 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

f) 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's ability to provide services, its carrying amount is written down to its residual value.

The rates and bases of amortization applied by CHEO are as follows:

Land improvements Straight-line amortization over 10 to 25 years according to the

class of improvements

Buildings Straight-line amortization over 15 to 50 years according to the

the class of the asset

Major equipment Straight-line amortization over 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.

g) Long-term lease agreements

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

h) Employee future benefits

The cost of the defined post-employment and post-retirement benefits is actuarially determined using the projected benefit method prorated on services.

Experience gains (losses) in the long-term disability plan are recognized as incurred.

Actuarial gains (losses) are amortized over the expected average remaining service life of active employees, which is 14.1 years (2013 - 14.6 years.) The accrued benefit obligation is measured for accounting purposes as at March 31. Past service costs arising from plan amendments are recognized immediately in the year that they occur.

i) Use of estimates

The preparation of these financial statements in conformity with PSAS 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 revenues and expenses during the reporting period. In particular, the following areas contain significant estimates: the collectible amounts of receivables, valuation of investments, useful lives of capital assets, the amount of accrued liabilities and the assumptions underlying the employee future benefit calculations. Actual results could differ from these estimates.

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

2. Summary of significant accounting policies (continued)

Future accounting changes

CHEO is required to adopt PS 3260, *Liability for Contaminated Sites*, for fiscal years beginning on or after April 1, 2014. This new Section establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments or those organizations applying the *CPA Canada Public Sector Accounting Handbook*.

CHEO is currently evaluating the impacts of this new standard, which is applicable retrospectively with restatement.

3. Designated investments / Funds held for others

			2014
	Fair		Fair
	value	Cost	value
	\$	\$	%
Due from CHEO	6,908	6,908	26.4%
Cash	1,395	1,395	5.3%
Short-term investments	38	38	0.1%
Provincial bonds	6,257	6,021	23.9%
Corporate bonds	11,605	11,265	44.3%
	26,203	25,627	100.0%
			2013
	Fair		Fair
	value	Cost	value
	\$	\$	%
Cash	6,886	6,886	26.3%
Federal bonds	1,526	1,517	5.8%
Provincial bonds	7,451	7,116	28.4%
Corporate bonds	10,356	9,918	39.5%
	26,219	25,437	100.0%
Total investments are allocated as follows:			
		2014	2013
		\$	\$
Designated investments		10,923	11,285
Funds held for others		15,280	14,934

Short-term investments consist of money market mutual funds , which mature within the next twelve months, earning interest at .825% (2013 - NIL%).

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 2019. Interest rates for these securities range from 1.28% to 7.4% (2013 - 1.8% to 7.9%).

These investments can be liquidated on demand.

26,219

26,203

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

3. Designated investments / Funds held for others (continued)

Due from CHEO is without interest or repayment terms.

4. Accounts receivable

	2014	2013
	\$	\$
Patient services	6,154	4,297
External organizations	6,398	4,393
HST	1,059	1,054
	13,611	9,744

5. Due from CHEO Foundation

The receivable is recorded at the exchange amount, without defined terms of repayment and is non-interest bearing.

6. Due to/from CHEO Research Institute

On March 31, 2009, CHEO entered into a twenty-year interest free loan agreement with the Children's Hospital of Eastern Ontario Research Institute Inc. (the CHEO Research Institute) in the amount of \$1,700,000, maturing on March 31, 2029, payable in annual instalments of \$85,000.

	2014	2013
	\$	\$
Loan receivable	1,275	1,360
Current portion	85	85
Long-term portion	1,190	1,275

In addition, as at March 31, 2014, CHEO Research Institute owed CHEO \$976,893 (2013 due to CHEO Research Institute - \$1,396,000). These balances are recorded at the exchange amount, without defined terms of repayment and are non-interest bearing.

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

7. Deferred contributions

Changes in the deferred contributions balance are as follows:

			2014
	Capital		
	funds	Other	Total
	\$	\$	\$
Balance, beginning of year	7,851	3,434	11,285
Add: amount received during the year	3,893	2,192	6,085
Add: change in unrealized losses financial assets	(69)	(30)	(99)
Less: amount transferred to deferred contributions for	` ,	` ,	` -
capital assets	(3,962)	-	(3,962)
Less: amount recognized as revenue during the year	-	(2,386)	(2,386)
Balance, end of year	7,713	3,210	10,923
Accumulated unrealized gains on investments,			
beginning of year	235	102	337
Accumulated unrealized gains on investments,			
end of year	166	72	238
			2013
	Capital		
	funds	Other	Total
	\$	\$	\$
Balance, beginning of year	7,188	3,991	11,179
Add: amount received during the year	2,432	1,430	3,862
Add: change in unrealized gains (losses) financial assets	31	(21)	10
Amount transferred: amounts payable to Ministry	(89)	(617)	(706)
Less: amount transferred to deferred contributions for			
capital assets	(1,711)	-	(1,711)
Less: amount recognized as revenue during the year	-	(1,349)	(1,349)
Balance, end of year	7,851	3,434	11,285
Accumulated unrealized gains on investments,			
beginning of year	204	123	327
Accumulated unrealized gains on investments,			
end of year	235	102	337

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

7. Deferred contributions (continued)

The deferred contribution balance of \$7,713,484 (2013 - 7,850,765) 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.

8. Capital assets

Capital assets consist of:

			2014
		Accumulated	Net book
	Cost	amortization	value
	\$	\$	\$
Land	454	-	454
Land improvements	1,206	716	490
Buildings	132,180	33,963	98,217
Major equipment	133,530	92,144	41,386
Projects in progress	3,878	-	3,878
	271,248	126,823	144,425

			2013
		Accumulated	Net book
	Cost	amortization	value
	\$	\$	\$
Land	454	-	454
Land improvements	1,166	621	545
Buildings	127,611	30,133	97,478
Major equipment	116,021	80,690	35,331
Projects in progress	5,258	-	5,258
	250,510	111,444	139,066

9. Funds held for others

During the year, CHEO was involved with the administration of several projects. As administrator of these projects, CHEO 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. The related assets are disclosed in Note 3.

Notes to the financial statements

March 31, 2014

10.

(tabular amounts are in thousands of dollars)

9. Funds held for others (continued)

	2014	2013
	\$	\$
Balance, beginning of year	14,934	12,536
Add: amount received during the year	7,125	7,791
Add: change in unrealized gains financial assets	(107)	107
Less: amounts disbursed during the year	(6,672)	(5,500)
Balance, end of year	15,280	14,934
Accumulated unrealized gains on investments, beginning of year	445	338
Accumulated unrealized gains on investments, end of year	338	445
Long-term debt and credit facilities		
	2014	2013
	\$	\$
Loan maturing November 24, 2023, payable in monthly instalments		
of \$35,115, including interest calculated at a rate of 3.33% per annum	3,478	3,763
Current portion	310	278
Long-term portion	3,168	3,485

The estimated fair value of the loan is \$3,553,940 (2013 - \$4,018,035) based on a quoted market rate as at March 31, 2014 of 3.026% (2013 - 3.20%).

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

	Φ
2014/15	310
2015/16	320
2016/17	332
2017/18	343
2018/19	354
	1,659

CHEO has credit facilities with a bank which allows it to borrow up to \$4,000,000 for operating and \$3,000,000 for capital, at an interest rate of prime. There were no outstanding balances as at March 31, 2014, (2013 - \$NIL).

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

11. Deferred contributions for capital assets

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

	2014	2013
	\$	\$
Balance, beginning of year	97,392	97,016
Add: amount received during the year	1,839	2,093
Add: amount transferred from deferred contributions	3,962	1,711
Add: amount contributed by CHEO Foundation	3,672	3,315
Less: amount recognized as revenue during the year	(7,873)	(6,743)
Balance, end of year	98,992	97,392

12. Accrued employee future benefits

CHEO offers defined benefit plans which provide pension and other post-retirement benefits to most of its employees.

The liability associated with the post-retirement and post-employment plans as at March 31, 2014 is as follows:

	2014	2013
	\$	\$
Accrued benefit obligation	6,026	4,776
Unamortized actuarial loss	(1,185)	(227)
Accrued benefit liability	4,841	4,549

CHEO 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'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's accrued benefit liability. The EORLA liability of \$132,000 (2013 - \$132,000) as at March 31, 2014 will be reduced as benefits are paid out to former employees of CHEO.

Accrued employee future benefits consist of:

	2014	2013
	\$	\$
CHEO accrued benefit liability	4,841	4,549
EORLA accrued benefit liability	132	132
	4,973	4,681

Pension

Substantially all of the employees of CHEO are eligible to be members of the Hospitals of Ontario Pension Plan which is a multi-employer final-average-pay contributory pension plan. The Plan is accounted for as a defined contribution plan. Employer contributions to the Plan during the year by CHEO amounted to \$10,743,261 (2013 - \$10,497,434). These amounts are included as operating expenses.

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

12. Accrued employee future benefits (continued)

Pension (continued)

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, 2012 indicates the plan is fully funded.

Other benefit plans

CHEO provides nominal life insurance benefits to its retired employees and certain health-care benefits to its employees on long-term disability for a specified length of time.

The last actuarial valuation was performed on the post-retirement and post-employment plans as at March 31, 2014. These defined benefit plans are not funded.

Other information

	2014	2013
	\$	\$
Current service cost	249	225
Interest cost on accrued benefit obligation	149	162
Amortization of actuarial loss	16	84
Benefit expense	414	471

The 2014 benefit expense was calculated using a discount rate of 3.20% (2013 - 3.75%) based on CHEO's cost of borrowing. The benefits paid during the year totalled \$122,100 (2013 - \$107,000).

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

	2014	2013
	%	%
Discount rate	3.03%	3.20%
Medical inflation	7.50%	8.50%
Dental inflation	3.50%	4.00%

Mortality: UP 1994 with generational projections.

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

13. Contingent liabilities and commitments

- a) In 2002, CHEO entered into a lease agreement with the Ottawa Children's Treatment Centre (OCTC) to provide them with rental space in the West Wing. As part of the terms of the agreement, OCTC made a capital contribution of \$583,830. Should the lease be terminated by CHEO before March 31, 2022, CHEO will be required to reimburse the OCTC a prorated amount of their capital contribution in accordance with the provisions of the lease agreement, for which the maximum amount as at March 31, 2014 was \$233,532 (2013 \$262,724).
- b) As a member of the Ottawa Health Sciences Centre Inc., CHEO is party to a Thermal Energy Agreement (TEA) with Trans/Alta Corporation for the purchase of thermal energy for heating and humidifying the Hospital. 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.
- c) CHEO is also committed under supplier contracts to purchase services for the next five years for a total amount of \$6,441,683.
- d) From time to time, CHEO is a party to claims related to its operations, the majority of which are covered under the CHEO'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.
- e) CHEO 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, 2014.

14. Net assets invested in capital assets

Investment in capital assets is calculated as follows:

	2014	2013
	\$	\$
Capital assets 14	14,425	139,066
Amounts financed by:		
Deferred contributions for capital assets	98,992)	(97,392)
Long-term debt	(3,478)	(3,763)
	11,955	37,911

CHEO 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.

15. Capital management

CHEO's net assets (capital) are comprised of amounts invested in capital assets less related financing thereon (Note 14) and unrestricted amounts. The unrestricted balance, when positive, reflects the amount available primarily for the purchase of capital assets. The negative unrestricted balance as at March 31, 2014 is directly related to the acquisition of capital assets in excess of amounts funded. CHEO monitors its capital by reviewing various financial metrics, including cash flow and variances to forecasts and budget. There have been no changes in CHEO's strategy for capital management from prior year.

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

16. Related entities

CHEO is related to the following entities, Children's Hospital of Eastern Ontario Foundation, Children's Hospital of Eastern Ontario Volunteer Association, 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 does not have control of these entities and the net assets and results of operations of these not-for-profit organizations are not included in CHEO's financial statements. In addition to the related party transactions disclosed elsewhere in these financial statements, CHEO has entered into the following transactions as disclosed below.

Children's Hospital of Eastern Ontario Foundation (Foundation)

During the year, CHEO received total contributions from the Foundation in the amount of \$9,229,940 (2013 - \$8,292,701) allocated as follows: operating contributions \$50,000 (2013 - \$50,000), major equipment \$3,671,922 (2013 - \$3,314,843), parking contributions \$3,565,181 (2013 - \$3,358,239), program support funding \$250,000 (2013 - \$NIL) and other special purpose funds in the amount of \$1,692,837 (2013 - \$1,569,619); 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 Canada's Corporations Act.

Children's Hospital of Eastern Ontario Volunteer Association (Association)

The Association assists CHEO financially by operating food and retail concessions within the Hospital. During the year, the Association contributed \$10,950 (2013 - \$50,000) to CHEO for specific needs. As at March 31, 2014 there was an accounts receivable of \$42,156 (2013 - \$NIL) due from the Association. The Association 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 provides administrative service to the Institute which includes: financial accounting, human resources, and material management and information services for a total annual fee of \$55,000 (2013 - \$55,000). Cost relating to building infrastructure and support are billed to the CHEO Research Institute on a cost recovery basis. The CHEO Research Institute is a tax exempt charitable entity created without share capital under the Canada's Corporations Act.

Eastern Ontario Regional Laboratory Association (EORLA)

CHEO is a founding member of the 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 entered into a formal arrangement with EORLA to transfer all laboratory operations (except Genetics) to EORLA. All existing laboratory equipment remains the property of the hospital and will be leased to EORLA at no charge. New equipment will be acquired directly by EORLA as the need arises. Included in CHEO's accounts receivable at March 31, 2014 is a receivable of \$156,000 (2013 - \$500,000) for costs incurred by the Hospital on behalf of EORLA and an accounts payable of \$451,280 (2013 - \$NIL) for amounts owed to EORLA. During the year the hospital paid \$10,174,000 (2013 - \$10,654,000) for laboratory services provided by EORLA.

Ottawa Regional Hospital Linen Services (ORHLS)

CHEO is a founding member of 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 and as such is exempt from income taxes. As at March 31, 2014 CHEO had an economic interest of \$898,611 (2013 - \$894,663) of total net assets of \$12,158,758 (2013 - \$12,133,027). For the year ended March 31, 2014, the hospital provided \$971,000 (2013 - \$893,000) to ORHLS for laundry services.

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

17. Financial instruments

Fair value

The fair value of CHEO's accounts receivable, accounts payable and accrued liabilities approximates cost due to their short-term nature. The fair value of investments is disclosed in Note 3 and the fair value of debt in Note 10.

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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

				2014
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	1,492	-	-	1,492
Short term investments	38	-	-	38
Provincial bonds	-	6,257	-	6,257
Corporate bonds	-	11,605	-	11,605
	1,530	17,862	-	19,392

				2013
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	12,587	-	-	12,587
Federal bonds	-	1,526	-	1,526
Provincial bonds	-	7,451	-	7,451
Corporate bonds	-	10,356	-	10,356
	12,587	19,333	-	31,920

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

17. Financial instruments (continued)

Financial risk factors

CHEO'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. CHEO does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. There has been no change in CHEO's objectives, policies and processes for managing and measuring risks in the current year.

(a) Market risk

Market risk is the potential for loss that may arise from changes in external market factors such as interest rates, foreign exchange rates and other price risks.

Investment risk

Investing in financial instruments renders CHEO subject to investment risks. These include the risks arising from changes in interest rates. They also include the risks arising from the failure of a party to a financial instrument to discharge an obligation when it is due. A change in interest rates of 1% would result in an increase (decrease) of \$125,000 in investment income.

Concentration of risk

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that the concentrations described in Note 3 do not represent excessive risk for CHEO.

Foreign exchange

Foreign exchange risk is the risk that the value of CHEO's financial instruments will fluctuate due to changes in foreign exchange rates. At March 31, 2014, CHEO had net exposure to the U.S. dollar of \$30,000 (2013 - \$300,000) arising from transactions denominated in U.S. dollars. CHEO's risk is mitigated by the short-term nature of the receivables and payables. A 5% change in the value of the Canadian dollar against the U.S. dollar would have resulted in a \$1,500 (2013 - \$15,000) change in the value of the financial instruments.

(b) Credit risk

Credit risk refers to the risk that a counter party to a financial instrument will default on its contractual obligations resulting in financial loss to CHEO. Credit risk arises from investments with financial institutions, as well as credit exposures from accounts receivable.

The carrying amount of financial assets recorded in the financial statements, which is net of an allowance for doubtful accounts, represents CHEO's maximum exposure to credit risk. Accounts receivable are generally invoiced in the first 30 days following completion of services. Invoices are payable by customers within 30 days of the date of invoice. The nature of CHEO's receivables is described in Note 4. Credit risk is mitigated because a significant portion of the receivables are from provincial governments.

CHEO establishes an allowance for doubtful accounts that reflects the estimated collectibility of accounts receivable. The allowance is determined by examining the specific circumstances around amounts overdue and amounts considered at risk by management. CHEO believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk.

Notes to the financial statements

March 31, 2014

(tabular amounts are in thousands of dollars)

17. Financial instruments (continued)

Financial risk factors (continued)

(b) Credit risk (continued)

The following table sets out details of the age of receivables and the allowance for doubtful accounts:

	90 days	than	Total
	or less	90 days	2014
	\$	\$	\$
Accounts receivable - before allowance for doubtful accounts	10,790	3,186	13,976
Allowance for doubtful accounts	(130)	(235)	(365)
	10,660	2,951	13,611
		Greater	
	90 days	than	Total
	or less	90 days	2013
	\$	\$	\$
Accounts receivable - before allowance for doubtful accounts	8,424	1,705	10,129
Allowance for doubtful accounts	(130)	(255)	(385)
	8,294	1,450	9,744

(c) Liquidity risk

CHEO does not believe its accounts receivable which are less than 90 days outstanding to present any significant risk of impairment.

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. CHEO manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecasts and actual cash flows. Investments are only permitted in high credit quality government or corporate securities. CHEO has access to a \$7,000,000 line of credit (Note 10).

Accounts payable and accrued liabilities, amounts due to MOHLTC and CHEO Research Institute and the current portion of long-term debt have remaining contractual maturities of less than one year. The amounts represent the undiscounted cash flows of financial liabilities based on the earliest date on which the CHEO can be required to pay. Information on required payments of long-term debt is disclosed in Note 10.

Other funded programs - Schedule A year ended March 31, 2014

(tabular amounts are in thousands of dollars)

			2014			2013
	Revenue	Expenses	Net	Revenue	Expenses	Net
	\$	\$	\$	\$	\$	\$
MOHLTC / LHIN						
Clinical Education	1,181	1,181	-	1,141	1,141	-
Municipal Taxes	17	17	-	17	17	-
Special Drug Program	1,719	1,719	-	1,713	1,713	-
Transitional Youth	189	189	-	181	181	-
Bridges Project	587	587	-	355	355	-
MCYS programs						
Autism - IBI (A592 + A557)	8,081	8,081	-	7,633	7,633	-
Autism - Spectrum Disorder (A594)	2,052	2,052	-	2,128	2,128	-
Autism - ABA (A598)	2,200	2,200	-	2,200	2,200	-
Specialized Psychiatric Mental						
Health Services (A579 & A556)	2,043	2,043	-	2,072	2,072	-
Section 23 Classrooms (A566)	1,591	1,591	-	1,566	1,566	-
Dual diagnosis (A583)	442	442	-	438	438	-
Telepsychiatry (A561)	336	336	-	240	240	-
Centre of Excellence	5,900	5,900	-	5,665	5,665	-
IHP- NBS	207	207		-	-	-
Other Programs						
Pinecrest Queensway - First Words	503	503	-	510	510	-
Northern Diabetes Program	_	-	_	446	446	-
Champlain Maternal Newborn	1,216	1,216				
Regional Program	•	•	-	1,187	1,187	-
BORN	5,940	5,940	-	6,650	6,650	-
	34,204	34,204	-	34,142	34,142	

Clinical Education

During the year, the Clinical Education Program incurred expenses of \$1,180,619 (2013 - \$1,141,023) and received \$1,180,619 (2013 - \$1,141,023) from the Ministry of Health and Long-Term Care (MOHLTC). Accordingly, a receivable of \$NIL (2013 - \$NIL) has been recorded.

Ministry of Children and Youth Services (MCYS)

During the year, the MCYS funded programs incurred expenses of \$22,645,688 (2013 - \$21,942,288) and received funding of \$22,614,688 (2013 - \$21,942,288). Accordingly, a recivable of \$31,000 (2013 - \$NIL) has been recorded.