

Financial Statements of

**CHILDREN'S HOSPITAL OF
EASTERN ONTARIO**

March 31, 2013

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, 2013, 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.

Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

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, 2013, and the results of its operations and its cash flow for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Comparative Information

Without modifying our opinion, we draw attention to Note 2 to the financial statements and the fact that the Children's Hospital of Eastern Ontario adopted Canadian public sector accounting standards for government not-for-profit organizations on April 1, 2012, with its transition date being April 1, 2011. These standards have been applied retrospectively by management to comparative figures included in these financial statements, including the statements of financial position as at March 31, 2012 and April 1, 2011 and the statements of operations, changes in net assets and cash flow for the year ended March 31, 2012, and related notes. We were not engaged to report on the comparative figures and as such, they have not been audited.



Chartered Accountants
Licensed Public Accountants

June 11, 2013

CHILDREN'S HOSPITAL OF EASTERN ONTARIO
Financial Statements
March 31, 2013

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CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Revenue and Expenses

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

	<u>2013</u>	<u>2012</u> (Unaudited) (Note 2)
Revenue		
Ministry of Health and Long-Term Care (MOHLTC) / Local Health Integration Network (LHIN)	\$ 135,220	\$ 131,274
Inpatient from other sources	22,094	22,650
Outpatient - OHIP and other sources	17,580	17,095
Preferred accommodation	1,548	1,935
Other operating revenues	5,870	6,852
Recoveries	16,661	14,605
Amortization of deferred contributions for equipment	4,425	4,334
Other funded programs (Schedule A)	34,142	36,073
	<u>237,540</u>	<u>234,818</u>
Expenses		
Salaries and wages	101,310	102,972
Benefits contributions	25,344	27,709
Medical staff remuneration	7,515	6,992
Supplies and other expenses	42,682	32,496
Medical and surgical supplies	7,734	8,095
Drugs and medical gases	6,954	7,824
Bad debts	597	338
Bank charges and interest	228	264
Amortization - equipment	10,736	10,490
Other funded programs (Schedule A)	34,142	36,073
	<u>237,242</u>	<u>233,253</u>
Excess of revenue over expenses before amortization of buildings and amortization of deferred contributions for buildings		
	298	1,565
Amortization of deferred contributions for buildings	2,318	2,283
Amortization of buildings	(3,798)	(3,490)
	<u>(1,480)</u>	<u>(1,207)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (1,182)	\$ 358

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

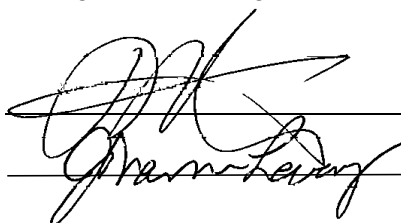
Statement of Financial Position

as at March 31, 2013

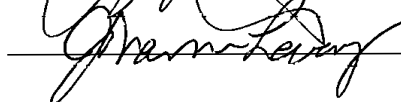
(tabular amounts are in thousands of dollars)

	March 31, 2013	March 31, 2012 (Unaudited) (Note 2)	April 1, 2011 (Unaudited) (Note 2)
CURRENT ASSETS			
Cash	\$ 5,701	\$ 6,802	\$ 2,744
Investments (Note 4)	-	-	6,776
Accounts receivable (Note 5)	9,744	9,184	9,036
Accounts receivable - MOHLTC/LHIN	3,266	3,024	4,014
Inventories	2,425	2,240	2,256
Prepaid expenses	2,524	2,733	2,426
Due from CHEO Foundation (Note 6)	1,258	366	202
Due from CHEO Research Institute (Note 7)	85	85	952
	25,003	24,434	28,406
DESIGNATED INVESTMENTS (Notes 4 and 8)	11,285	11,179	8,693
CAPITAL ASSETS (Note 9)	139,066	138,734	137,929
FUNDS HELD-FOR-OTHERS (Notes 4 and 10)	14,934	12,536	11,727
LOAN DUE FROM CHEO RESEARCH INSTITUTE (Note 7)	1,275	1,360	1,445
	\$ 191,563	\$ 188,243	\$ 188,200
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 24,733	\$ 24,790	\$ 25,216
Accounts payable - MOHLTC/LHIN	2,012	1,087	4,704
Due to CHEO Research Institute (Note 7)	1,396	739	-
Current portion of long-term debt	278	267	254
	28,419	26,883	30,174
DEFERRED CONTRIBUTIONS (Note 8)	11,285	11,179	8,693
LONG-TERM DEBT (Note 11)	3,485	3,763	4,030
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 12)	97,392	97,016	99,339
ACCRUED EMPLOYEE FUTURE BENEFITS (Note 13)	4,681	4,317	2,046
FUNDS HELD-FOR-OTHERS (Note 10)	14,934	12,536	11,727
	160,196	155,694	156,009
CONTINGENT LIABILITIES AND COMMITMENTS (Note 14)			
NET ASSETS			
Invested in capital assets (Note 15)	37,911	37,688	34,306
Unrestricted deficiency	(6,544)	(5,139)	(2,115)
	31,367	32,549	32,191
	\$ 191,563	\$ 188,243	\$ 188,200

APPROVED BY THE BOARD



 _____ Trustee



 _____ Trustee

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Changes in Net Assets

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

	Invested in <u>Capital Assets</u>	<u>Unrestricted</u>	Total	
			<u>2013</u>	2012 (Unaudited) (Note 2)
BALANCE, BEGINNING OF YEAR	\$ 37,688	\$ (5,139)	\$ 32,549	\$ 32,191
Excess (deficiency) of revenue over expenses	-	(1,182)	(1,182)	358
Additions to capital assets	14,866	(14,866)	-	-
Amortization of capital assets	(14,534)	14,534	-	-
Repayment of long-term debt	267	(267)	-	-
Increase in deferred contributions for capital assets	(7,119)	7,119	-	-
Amortization of deferred contributions for capital assets	6,743	(6,743)	-	-
BALANCE, END OF YEAR	\$ 37,911	\$ (6,544)	\$ 31,367	\$ 32,549

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Cash Flow

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

	<u>2013</u>	<u>2012</u> (Unaudited) (Note 2)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (deficiency) of revenue over expenses	\$ (1,182)	\$ 358
Items not affecting cash		
Amortization		
Capital assets	14,534	13,980
Deferred contributions for capital assets	(6,743)	(6,617)
Increase in accrued employee future benefits	364	2,271
Increase in deferred contributions	2,504	3,295
	<u>9,477</u>	<u>13,287</u>
Changes in non-cash operating working capital items		
Account receivable	(802)	842
Due to/from CHEO Foundation / Research Institute	(892)	1,442
Inventories	(185)	16
Prepaid expenses	209	(307)
Accounts payable and accrued liabilities	3,505	(1,024)
	<u>11,312</u>	<u>14,256</u>
CAPITAL		
Net purchases of capital assets	(14,866)	(14,785)
INVESTING		
Net (acquisitions) disposal of investments	(2,504)	3,481
Loan due from CHEO Research Institute	85	85
Changes in accounts payable for construction	(1,980)	(3,019)
	<u>(4,399)</u>	<u>547</u>
FINANCING		
Repayment of long-term debt	(267)	(254)
Deferred contributions for capital assets	7,119	4,294
	<u>6,852</u>	<u>4,040</u>
NET CASH INFLOW (OUTFLOW)	(1,101)	4,058
CASH, BEGINNING OF YEAR	6,802	2,744
CASH, END OF YEAR	\$ 5,701	\$ 6,802
Interest paid	\$ 227	\$ 264

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(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. ADOPTION OF A NEW ACCOUNTING FRAMEWORK

On April 1, 2012, CHEO adopted Canadian public sector accounting standards (PSAS) for government not-for-profit organizations (the "new standards") issued by the Canadian Institute of Chartered Accountants as set out in the Public Sector Accounting Handbook Section 4200 (Section 4200). CHEO also applies the other sections of PSAS to the extent that these standards address topics not addressed in Section 4200. In accordance with Section 2125 of the Public Sector Accounting Handbook, *First-time adoption by government organizations*, (Section 2125), the date of transition to the new standards is April 1, 2011 and CHEO has prepared and presented an opening statement of financial position at the date of transition to the new standards. This opening statement of financial position is the starting point for CHEO's accounting under the new standards. In its opening statement of financial position, under the recommendations of Section 2125, CHEO:

- recognized all assets and liabilities whose recognition is required by the new standards;
- did not recognize items as assets or liabilities if the new standards do not permit such recognition;
- reclassified items that it recognized previously as one type of asset, liability or component of net assets, but are recognized as a different type of asset, liability or component of net assets under the new standards; and
- applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 2125, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards, have been applied retrospectively.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

2. ADOPTION OF A NEW ACCOUNTING FRAMEWORK (Continued)

CHEO has elected to use one of the Section 2125 exemptions for employee future benefits, which permits the recognition of all accumulated actuarial gains and losses at the date of transition into opening net assets.

Other changes related to employee future benefits include:

- Elimination of the corridor approach to recognize actuarial gains and losses on its accrued benefit obligations as it is not permitted under PSAS.
- Changes to the discount rate methodology which are now based on CHEO's long-term borrowing rate, whereas previously CHEO used the current rate method based on AA corporate bonds.
- Changes in the attribution period because under PSAS it is calculated from the date the employees are first eligible for benefits to the expected date of the payment of the benefits rather than to the date the employee may receive full retirement benefits.
- Past service costs are expensed immediately and are not amortized over the expected average remaining service life of the related employee group.

Explanation of adjustments

(a) Accrued employee future benefits liability as at April 1, 2011

Accumulated unamortized gains and losses of \$235,000 and past service costs of \$92,000 at transition were recognized directly as a reduction of unrestricted net assets as at April 1, 2011; this, in addition to the changes noted above, which resulted in a further reduction of net assets in the amount of \$378,000 which includes the changes in the discount rate from 6% to 4.15%. Total impact is an increase in the accrued employee future benefit liability and decrease in the unrestricted net assets for an amount of \$705,000.

(b) Accrued employee future benefits liability as at March 31, 2012

In addition to the adjustment of \$705,000 recorded in (a), as at March 31, 2012 a further increase in the accrued employee future benefit liability/benefit expense over the previous year of \$2,140,000 was recorded for a total decrease in unrestricted net assets of \$2,845,000. This change was due to the discount rate decreasing from 4.3% to 3.75% and past service costs incurred in 2012 being expensed.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO
Notes to the Financial Statements
year ended March 31, 2013
(tabular amounts are in thousands of dollars)

2. ADOPTION OF A NEW ACCOUNTING FRAMEWORK (Continued)

Impact of the adoption of the new standards on the Statement of Financial Position as at April 1, 2011:

	Balance previously reported as at March 31, <u>2011</u>	<u>Adjustment</u>	<u>Reference</u>	Adjusted balance as at April 1, <u>2011</u> (Unaudited) (Note 2)
ASSETS	\$ 188,200	\$ -		\$ 188,200
CURRENT LIABILITIES	\$ 30,174	\$ -		\$ 30,174
DEFERRED CONTRIBUTIONS	8,693	-		8,693
LONG-TERM DEBT	4,030	-		4,030
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS	99,339	-		99,339
ACCRUED EMPLOYEE FUTURE BENEFITS	1,341	705	(a)	2,046
FUNDS HELD FOR OTHERS	11,727	-		11,727
TOTAL LIABILITIES	155,304	705		156,009
NET ASSETS				
Invested in capital assets	34,306	-		34,306
Unrestricted deficiency	(1,410)	(705)	(a)	(2,115)
	32,896	(705)		32,191
TOTAL NET ASSETS	\$ 188,200	\$ -		\$ 188,200

CHILDREN'S HOSPITAL OF EASTERN ONTARIO
Notes to the Financial Statements
year ended March 31, 2013
(tabular amounts are in thousands of dollars)

2. ADOPTION OF A NEW ACCOUNTING FRAMEWORK (Continued)

Impact of the adoption of the new standards on the Statement of Financial Position as at March 31, 2012:

	Balance previously reported as at March 31, <u>2012</u>	<u>Adjustment</u>	<u>Reference</u>	Adjusted balance as at March 31, <u>2012</u> (Unaudited) (Note 2)
ASSETS	\$ 188,243	\$ -		\$ 188,243
CURRENT LIABILITIES	\$ 26,883	\$ -		\$ 26,883
DEFERRED CONTRIBUTIONS	11,179	-		11,179
LONG-TERM DEBT	3,763	-		3,763
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS	97,016	-		97,016
ACCRUED EMPLOYEE FUTURE BENEFITS	1,472	2,845	(a)(b)	4,317
FUNDS HELD FOR OTHERS	12,536	-		12,536
TOTAL LIABILITIES	152,849	2,845		155,694
NET ASSETS				
Invested in capital assets	37,688	-		37,688
Unrestricted deficiency	(2,294)	(2,845)	(a)(b)	(5,139)
	35,394	(2,845)		32,549
TOTAL NET ASSETS	\$ 188,243	\$ -		\$ 188,243

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

2. ADOPTION OF A NEW ACCOUNTING FRAMEWORK (Continued)

Impact of the adoption of the new standards on the Statement of Revenue and Expenses for the year ended March 31, 2012:

	Amount previously reported March 31, 2012	Adjustment	Reference	Adjusted amount March 31, 2012 (Unaudited) (Note 2)
REVENUE	\$ 234,818	\$ -		\$ 234,818
EXPENSES				
Salaries and wages	102,972	-		102,972
Benefit contributions	25,569	2,140	(b)	27,709
Medical staff remuneration	6,992	-		6,992
Supplies and other expenses	32,496	-		32,496
Medical and surgical supplies	8,095	-		8,095
Drugs and medical gases	7,824	-		7,824
Bad debts	338	-		338
Bank charges and interest	264	-		264
Amortization of equipment	10,490	-		10,490
Other funded programs	36,073	-		36,073
	231,113	2,140	(b)	233,253
Excess of revenue over expenses before undernoted items	3,705	(2,140)	(b)	1,565
Amortization of deferred contributions for buildings	2,283	-		2,283
Amortization of buildings	(3,490)	-		(3,490)
	(1,207)	-		(1,207)
EXCESS OF REVENUE OVER EXPENSES	\$ 2,498	\$ (2,140)	(b)	\$ 358

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

2. ADOPTION OF A NEW ACCOUNTING FRAMEWORK (Continued)

Impact of the adoption of the new standards on the Statement of Cash Flows for the year ended March 31, 2012:

	Balance previously reported March 31, 2012	<u>Adjustment</u>	<u>Reference</u>	Adjusted balance March 31, 2012 (Unaudited) (Note 2)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Excess (deficiency) of revenue over expenses	\$ 2,498	\$ (2,140)	(b)	\$ 358
Amortization				
Capital assets	13,980	-		13,980
Deferred capital contributions for capital assets	(6,617)	-		(6,617)
Increase in accrued employee future benefits	131	2,140	(b)	2,271
Increase in deferred contributions	3,295	-		3,295
	13,287	-		13,287
Changes in non-cash operating working capital items	969	-		969
	14,256	-		14,256
CAPITAL	(14,785)	-		(14,785)
INVESTING	547	-		547
FINANCING	4,040	-		4,040
NET CASH INFLOW	4,058	-		4,058
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	2,744	-		2,744
CASH AND CASH EQUIVALENTS END OF YEAR	\$ 6,802	\$ -		\$ 6,802

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

3. 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) *Adoption of new accounting standards*

As at April 1, 2012, CHEO adopted Public Sector Accounting Handbook Section 3450, "*Financial Instruments*". This new standard provides guidance for recognition, measurement and disclosure of financial instruments. The transitional provisions in the standard state that when a government organization applies this standard in the same year it adopts PSAS for the first time, the standard cannot be applied retrospectively. Comparative amounts are presented in accordance with the accounting policies applied by the government organization immediately preceding its adoption of Public Sector Accounting Standards. Consequently, any unrealized gains and losses reported in the opening statement of financial position would remain in unrestricted net assets. There was no financial impact on adoption of this new standard, as CHEO continues to measure its investments at fair value as disclosed below; however, CHEO is now required to present a statement of remeasurement gains and losses, if applicable, and provides expanded note disclosures related to the various financial instrument risks. CHEO has determined that a statement of remeasurement gains and losses is not required.

b) *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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) 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.

d) 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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) *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.

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

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'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 class of the asset
Major equipment	straight-line amortization over 5 to 15 years according to the class of the asset
Minor equipment	the cost of 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.

h) *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.

i) *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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Employee future benefits (Continued)

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 14.6 years (2012 - 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.

j) Use of estimates

The preparation of 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.

4. CASH AND INVESTMENTS

	March 31, 2013		
	<u>Fair Value</u>	<u>Cost</u>	<u>% of Fair Value</u>
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%
	<u>\$ 26,219</u>	<u>\$ 25,437</u>	<u>100.0%</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

4. CASH AND INVESTMENTS (Continued)

	March 31, 2012		
	<u>Fair Value</u>	<u>Cost</u> (Unaudited) (Note 2)	<u>% of Fair Value</u>
Cash	\$ 2,104	\$ 2,104	8.9%
Short-term investments	1,169	1,169	4.9%
Federal bonds	2,829	2,781	11.9%
Provincial bonds	7,246	6,945	31.0%
Corporate bonds	10,367	10,051	43.7%
	<u>\$ 23,715</u>	<u>\$ 23,050</u>	<u>100.0%</u>

	April 1, 2011		
	<u>Fair Value</u>	<u>Cost</u> (Unaudited) (Note 2)	<u>% of Fair Value</u>
Short-term investments	\$ 6,332	\$ 6,332	\$ 23.3%
Federal bonds	2,378	2,373	8.7%
Provincial bonds	6,944	6,889	25.5%
Corporate bonds	11,542	11,415	42.5%
	<u>\$ 27,196</u>	<u>\$ 27,009</u>	<u>100.0%</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO
Notes to the Financial Statements
year ended March 31, 2013
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4. CASH AND INVESTMENTS (Continued)

Total investments are allocated as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
		(Unaudited) (Note 2)	(Unaudited) (Note 2)
Investments	\$ -	\$ -	\$ 6,776
Designated investments	11,285	11,179	8,693
Funds held for others	14,934	12,536	11,727
	\$ 26,219	\$ 23,715	\$ 27,196

Short-term investments consist of money market mutual funds and treasury bills which mature within the next twelve months earning interest between NIL% and NIL% (March 31, 2012 - 1.25% and 2.65%; April 1, 2011 - 0.60% and 2.65%).

Bonds and notes 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 1.8% to 7.9% (March 31, 2012 - 1.43% to 7.90%; April 1, 2011 - 1.43% to 7.90%).

These investments can be liquidated on demand.

Investment risk

Investment 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 above do not represent excessive risk for CHEO.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

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5. ACCOUNTS RECEIVABLE

	March 31, 2013	March 31, 2012	April 1, 2011
		(Unaudited) (Note 2)	(Unaudited) (Note 2)
Patient services	\$ 4,297	\$ 5,089	\$ 4,500
External organizations	4,393	3,274	4,097
HST	1,054	821	439
	\$ 9,744	\$ 9,184	\$ 9,036

6. DUE FROM CHEO FOUNDATION

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

7. 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.

	March 31, 2013	March 31, 2012	April 1, 2011
		(Unaudited) (Note 2)	(Unaudited) (Note 2)
Loan receivable	\$ 1,360	\$ 1,445	\$ 1,530
Current portion	85	85	85
Long-term portion	\$ 1,275	\$ 1,360	\$ 1,445

In addition, as at March 31, 2013, CHEO owed the CHEO Research Institute \$1,396,000 (March 31, 2012 - due to CHEO Research Institute - \$739,000; April 1, 2011 - due from CHEO Research Institute - \$867,000). This balance is recorded at the exchange amount, is without defined terms of repayment and is non-interest-bearing.

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8. DEFERRED CONTRIBUTIONS

Changes in the deferred contributions balance are as follows:

	March 31, 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
Amounts transferred: amount 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	<u>\$ 7,851</u>	<u>\$ 3,434</u>	<u>\$ 11,285</u>
Accumulated unrealized gains on investments, beginning of year	<u>\$ 204</u>	<u>\$ 123</u>	<u>\$ 327</u>
Accumulated unrealized gains on investments, end of year	<u>\$ 235</u>	<u>\$ 102</u>	<u>\$ 337</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

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(tabular amounts are in thousands of dollars)

8. DEFERRED CONTRIBUTIONS (Continued)

	March 31, 2012		
	Capital Funds	Other (Unaudited) (Note 2)	Total
Balance, beginning of year	\$ 4,226	\$ 4,467	\$ 8,693
Add: amount received during the year	1,595	2,300	3,895
Add: change in unrealized gains on financial assets	165	83	248
Amounts transferred	1,477	(1,477)	-
Less: amount - transferred to deferred contributions for capital assets	(275)	-	(275)
Less: amount recognized as revenue during the year	-	(1,382)	(1,382)
Balance, end of year	<u>\$ 7,188</u>	<u>\$ 3,991</u>	<u>\$ 11,179</u>
Accumulated unrealized gains on investments, beginning of year	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ 79</u>
Accumulated unrealized gains on investments, end of year	<u>\$ 204</u>	<u>\$ 123</u>	<u>\$ 327</u>

The deferred contribution balance of \$7,850,765 (March 31, 2012 - \$7,188,182; April 1, 2011 - \$4,225,957) 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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

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(tabular amounts are in thousands of dollars)

9. CAPITAL ASSETS

Capital assets consist of:

	March 31, 2013		
	Cost	Accumulated Amortization	Net Book 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
	March 31, 2012		
	Cost	Accumulated Amortization (Unaudited) (Note 2)	Net Book Value
Land	\$ 454	\$ -	\$ 454
Land improvements	1,166	526	640
Buildings	125,980	26,430	99,550
Major equipment	105,162	69,954	35,208
Projects in progress	2,882	-	2,882
	\$ 235,644	\$ 96,910	\$ 138,734
	April 1, 2011		
	Cost	Accumulated Amortization (Unaudited) (Note 2)	Net Book Value
Land	\$ 454	\$ -	\$ 454
Land improvements	1,166	432	734
Buildings	118,560	23,034	95,526
Major equipment	96,560	59,464	37,096
Projects in progress	4,119	-	4,119
	\$ 220,859	\$ 82,930	\$ 137,929

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10. 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 4.

	<u>March 31, 2013</u>	<u>March 31, 2012</u> (Unaudited) (Note 2)	<u>April 1, 2011</u> (Unaudited) (Note 2)
Balance, beginning of year	\$ 12,536	\$ 11,727	\$ 12,719
Add: amount received during the Year	7,791	8,209	5,751
Add: change in unrealized gains financial assets	107	230	31
Less: amounts disbursed during the year	<u>(5,500)</u>	<u>(7,630)</u>	<u>(6,774)</u>
Balance, end of year	<u>\$ 14,934</u>	<u>\$ 12,536</u>	<u>\$ 11,727</u>
Accumulated unrealized gains on investments, beginning of year	<u>\$ 338</u>	<u>\$ 108</u>	<u>\$ 77</u>
Accumulated unrealized gains on investments, end of year	<u>\$ 445</u>	<u>\$ 338</u>	<u>\$ 108</u>

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Notes to the Financial Statements

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11. LONG-TERM DEBT

	<u>March 31, 2013</u>	March 31, 2012	April 1, 2011
		(Unaudited) (Note 2)	(Unaudited) (Note 2)
Royal Bank, loan of \$5,800,000, maturing November 24, 2023, payable in monthly instalments of \$36,853, including interest calculated at a rate of 4.5% per annum	\$ 3,763	\$ 4,030	\$ 4,284
Current portion	<u>278</u>	<u>267</u>	<u>254</u>
Long-term portion	<u>\$ 3,485</u>	<u>\$ 3,763</u>	<u>\$ 4,030</u>

The estimated fair value of the loan is \$4,018,035 (March 31, 2012 - \$4,476,475; April 1, 2011 - \$4,372,672) based on a quoted market rate as at March 31, 2013 of 3.20% (March 31, 2012 - 3.75%; April 1, 2011 - 4.15%).

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

2013/14	\$ 278
2014/15	291
2015/16	305
2016/17	319
2017/18	<u>334</u>
	<u>\$ 1,527</u>

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, 2013, 2012 and April 1, 2011.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

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(tabular amounts are in thousands of dollars)

12. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

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

	<u>2013</u>	<u>2012</u> (Unaudited) (Note 2)
Balance, beginning of year	\$ 97,016	\$ 99,339
Add: amount received during the year	2,093	933
Add: amount transferred from deferred contributions	1,711	275
Add: amount contributed by the CHEO Foundation	3,315	3,086
Less: amount recognized as revenue during the year	<u>(6,743)</u>	<u>(6,617)</u>
Balance, end of year	<u>\$ 97,392</u>	<u>\$ 97,016</u>

13. 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, 2013 is as follows:

	<u>March 31, 2013</u>	<u>March 31, 2012</u> (Unaudited) (Note 2)	<u>April 1, 2011</u> (Unaudited) (Note 2)
Accrued benefit obligation	\$ 4,776	\$ 4,530	\$ 2,046
Unamortized actuarial loss	<u>(227)</u>	<u>(213)</u>	-
Accrued benefit liability	<u>\$ 4,549</u>	<u>\$ 4,317</u>	<u>\$ 2,046</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

13. ACCRUED EMPLOYEE FUTURE BENEFITS (Continued)

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 as at March 31, 2013 will be reduced as benefits are paid out to former employees of CHEO.

Accrued employee future benefits consist of:

	<u>March 31, 2013</u>	<u>March 31, 2012</u>	<u>April 1, 2011</u>
		(Unaudited) (Note 2)	(Unaudited) (Note 2)
CHEO accrued benefit liability	\$ 4,549	\$ 4,317	\$ 2,046
EORLA accrued benefit liability	132	-	-
	<u>\$ 4,681</u>	<u>\$ 4,317</u>	<u>\$ 2,046</u>

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 \$10,497,434 (2012 - \$10,223,404). 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, 2012 indicates the plan is fully funded.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

13. ACCRUED EMPLOYEE FUTURE BENEFITS (Continued)

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. Effective April 1, 2011, Ontario Nurses Association and Ontario Public Service Employees Union plan members, and effective March 31, 2013, non-union and other employee group plan members were awarded additional post-retirement medical and dental benefits. These past service cost in the amount of \$2,172,000 were expensed as at March 31, 2012.

An actuarial valuation was performed on the post-retirement and post-employment plans on transition as at April 1, 2011 and the last valuation was performed as at March 31, 2013. These defined benefit plans are not funded.

Other information

	March 31, 2013	March 31, 2012
		(Unaudited) (Note 2)
Current service cost	\$ 225	\$ 137
Interest cost on accrued benefit obligation	162	125
Past service costs	-	2,172
Amortization of actuarial loss (gain)	84	(83)
Benefit expense	\$ 471	\$ 2,351

The 2013 benefit expense was calculated using a discount rate of 3.75% (March 31, 2012 - 4.15%) based on CHEO's cost of borrowing. The benefits paid during the year totalled \$107,000 (2012 - \$80,000).

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

13. ACCRUED EMPLOYEE FUTURE BENEFITS (Continued)

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2013 are as follows:

	<u>March 31,</u> <u>2013</u>	<u>March 31,</u> <u>2012</u>	<u>April 1,</u> <u>2011</u>
		(Unaudited) (Note 2)	(Unaudited) (Note 2)
Discount rate	3.20%	3.75%	4.15%
Medical inflation	8.50%	8.50%	8.00%
Dental inflation	4.00%	4.00%	5.00%

14. 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, 2013 was \$262,724 (March 31, 2012 - \$291,915; April 1, 2011 - \$321,107).
- 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 \$6,840,988.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

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year ended March 31, 2013

(tabular amounts are in thousands of dollars)

14. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

- 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, 2013.

15. NET ASSETS INVESTED IN CAPITAL ASSETS

Investment in capital assets is calculated as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
	<u> </u>	(Unaudited) (Note 2)	(Unaudited) (Note 2)
Capital assets	\$ 139,066	\$ 138,734	\$ 137,929
Amounts financed by:			
Deferred contributions for capital assets	(97,392)	(97,016)	(99,339)
Long-term debt	(3,763)	(4,030)	(4,284)
	<u>\$ 37,911</u>	<u>\$ 37,688</u>	<u>\$ 34,306</u>

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.

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Notes to the Financial Statements

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(tabular amounts are in thousands of dollars)

16. CAPITAL MANAGEMENT

CHEO's net assets (capital) are comprised of amounts invested in capital assets less related financing thereon (Note 11) 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, 2013 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.

17. 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 charities 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

During the year, CHEO received total contributions from the Foundation in the amount of \$8,292,701 (2012 - \$4,715,112) allocated as follows: operating contributions \$50,000 (2012 - \$50,000), major equipment \$3,314,843 (2012 - \$3,086,322), parking contributions \$3,358,239 (2012 - \$NIL) and other special purpose funds in the amount of \$1,569,619 (2012 - \$1,578,790); 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

The Children's Hospital of Eastern Ontario Volunteer Association (the Association) assists CHEO financially by operating food and retail concessions within the Hospital. During the year, the Association contributed \$50,000 (2012 - \$100,000) to CHEO for specific needs. The Association is a tax exempt charitable entity created without share capital under the laws of Ontario.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

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(tabular amounts are in thousands of dollars)

17. RELATED ENTITIES (Continued)

Children's Hospital of Eastern Ontario Research Institute

CHEO provides administrative service to the CHEO Research Institute which includes: financial accounting, human resources, and material management and information services for a total annual fee of \$55,000 (2012 - \$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

CHEO is a founding member of the Eastern Ontario Regional Laboratory Association (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, 2013 is a receivable of \$500,000 (March 31, 2012 - \$NIL; April 1, 2011 - \$NIL) for costs incurred by the Hospital on behalf of EORLA. During the year the hospital paid \$10,654,000 (March 31, 2012 - \$NIL) for laboratory services provided by EORLA.

Ottawa Regional Hospital Linen Services

CHEO is a founding member of Ottawa Regional Hospital Linen Services Incorporated (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, 2013 CHEO had an economic interest of \$894,663 (March 31, 2012 - \$914,087; April 1, 2011 - \$848,868) of total net assets of \$12,133,027 (March 31, 2012 - \$12,427,957; April 1, 2011 - \$11,411,587). For the year ended March 31, 2013, the hospital provided \$893,000 (March 31, 2012 - \$869,000) to ORHLS for laundry services.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

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year ended March 31, 2013

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18. 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 described in Note 4 and THE fair value of debt in Note 11.

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.

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Notes to the Financial Statements

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(tabular amounts are in thousands of dollars)

18. FINANCIAL INSTRUMENTS (Continued)

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

	Financial assets at fair value as at March 31, 2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 6,886	\$ -	\$ -	\$ 6,886
Federal bonds	-	1,526	-	1,526
Provincial bonds	-	7,451	-	7,451
Corporate bonds	-	10,356	-	10,356
Total	<u>\$ 6,886</u>	<u>\$ 19,333</u>	<u>\$ -</u>	<u>\$ 26,219</u>

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

CHEO's investments risks are detailed in Note 4.

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, 2013 CHEO had net exposure to the U.S. dollar of \$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 US dollar would have resulted in a \$15,000 change in the value of the financial instruments.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

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year ended March 31, 2013

(tabular amounts are in thousands of dollars)

18. FINANCIAL INSTRUMENTS (Continued)

Financial risk factors (Continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty 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 the 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 5. 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.

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

	90 days or less	Greater than 90 days	Total
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

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

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

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(tabular amounts are in thousands of dollars)

18. FINANCIAL INSTRUMENTS (Continued)

Financial risk factors (Continued)

(c) Liquidity risk

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 11).

Accounts payable and accrued liabilities, amounts due to MOH 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 11.

Schedule A

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Other Funded Programs

year ended March 31, 2013

(tabular amounts are in thousands of dollars)

	2013			2012		
	Revenue	Expenses	Net	Revenue	Expenses	Net
MOHLTC/LHIN						
Clinical Education	\$ 1,141	\$ 1,141	\$ -	\$ 1,133	\$ 1,133	\$ -
Municipal Taxes	17	17	-	17	17	-
Special Drug Program	1,713	1,713	-	1,906	1,906	-
Eating Disorders/Transitional Youth	181	181	-	2,759	2,759	-
Bridges Project	355	355	-	-	-	-
MCYS programs						
Autism - IBI (A592 + A557)	7,633	7,633	-	7,632	7,632	-
Autism - Spectrum Disorder (A594)	2,128	2,128	-	1,973	1,973	-
Autism - ABA (A598)	2,200	2,200	-	1,866	1,866	-
Autism - One Time (A710)	-	-	-	-	-	-
Specialized Psychiatric Mental						
Health Services (A579 & A556)	2,072	2,072	-	1,999	1,999	-
Section 23 Classrooms (A566)	1,566	1,566	-	1,566	1,566	-
Dual diagnosis (A583)	438	438	-	386	386	-
Telepsychiatry (A561)	240	240	-	218	218	-
Centre of Excellence	5,665	5,665	-	5,300	5,300	-
Other Programs						
Pinecrest Queensway - First Words	510	510	-	447	447	-
Northern Diabetes Program	446	446	-	669	669	-
Champlain Maternal Newborn						
Regional Program	1,187	1,187	-	1,187	1,187	-
BORN	6,650	6,650	-	7,015	7,015	-
	\$ 34,142	\$ 34,142	\$ -	\$ 36,073	\$ 36,073	\$ -

Clinical Education

During the year, the Clinical Education Program incurred expenses of \$1,141,023 (2012 - \$1,132,708) and received \$1,141,023 (2012 - \$982,834) from the Ministry of Health and Long-Term Care (MOHLTC). Accordingly, a receivable of \$NIL (March 31, 2012 - \$149,874; April 1, 2011 - \$230,589) has been recorded.

MCYS - Ministry of Children and Youth Services

During the year, the MCYS funded programs incurred expenses of \$21,942,288 (2012 - \$20,940,407) and received funding of \$21,942,288 (2012 - \$21,015,269). Accordingly, a payable of \$NIL (March 31, 2012 - \$74,862; April 1, 2011 \$82,010 has been recorded).