

Financial Statements of

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

Period from October 1, 2016 to March 31, 2017

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

Financial Statements

Period from October 1, 2016 to March 31, 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre, which comprise the statement of financial position as at March 31, 2017, the statements of operations, changes in net assets and cash flows for the period from October 1, 2016 to March 31, 2017, and notes and schedule, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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



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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre as at March 31, 2017, its results of operations, changes in net assets and cash flows for the period from October 1, 2016 to March 31, 2017 in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Professional Accountants, Licensed Public Accountants

June 13, 2017

Ottawa, Canada

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

Statement of Financial Position

March 31, 2017, with comparative information for September 30, 2016
(Tabular amounts in thousands of dollars)

	March 31, 2017	September 30, 2016
		(note 2(a))
Assets		
Current assets:		
Cash	\$ 10,982	\$ 10,354
Accounts receivable (note 3)	15,834	12,473
Accounts receivable - MOHLTC / LHIN	815	2,190
Inventories	2,325	2,313
Prepaid expenses	4,716	4,703
Due from CHEO Foundation (note 4)	2,239	1,783
Due from CHEO Research Institute (note 5)	983	85
	37,894	33,901
Loan due from CHEO Research Institute (note 5)	935	1,020
Designated investments (note 6)	6,572	7,171
Funds held for others (notes 6 and 10)	14,667	13,961
Due from EORLA (note 15)	3,464	4,330
Capital assets (note 7)	158,025	149,251
	\$ 221,557	\$ 209,634
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 30,999	\$ 29,213
Accounts payable - MOHLTC / LHIN	826	608
Due to CHEO Research Institute	-	366
Current portion of long-term debt (note 11)	953	942
	32,778	31,129
Deferred contributions (note 8)	18,771	19,851
Deferred contributions for capital assets (note 9)	105,470	102,110
Funds held for others (note 10)	14,667	13,961
Long-term debt (note 11)	13,189	6,672
Accrued benefit liability (note 12)	6,063	5,712
	190,938	179,435
Net assets:		
Invested in capital assets (note 13)	38,413	39,527
Unrestricted deficiency	(7,794)	(9,328)
	30,619	30,199
Contingent liabilities and commitments (note 14)		
	\$ 221,557	\$ 209,634

See accompanying notes to financial statements.

 Director

 Director

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

Statement of Operations

Period from October 1, 2016 to March 31, 2017, with comparative information for the period from
April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

	March 31, 2017	September 30, 2016
		(note 2(a))
Revenue:		
Ministry of Health and Long-term Care of Ontario MOHLTC)/Local Health Integration Network (LHIN)	\$ 74,085	\$ 75,085
Inpatient from other sources	11,028	9,623
Outpatient - OHIP and other sources	10,698	10,597
Preferred accommodation	569	699
Other operating revenues	3,005	2,863
Recoveries	10,138	10,072
Amortization of deferred contributions for equipment	2,673	2,637
Other funded programs (Schedule A)	30,387	25,490
	142,583	137,066
Expenses:		
Salaries and wages	54,893	57,073
Benefits and contributions	15,329	14,824
Medical staff remuneration	4,715	4,680
Supplies and other expenses	21,688	21,629
Medical and surgical supplies	3,846	3,210
Drugs and medical gases	4,608	4,307
Bad debts	495	221
Bank charges and interest	155	152
Amortization - equipment	5,393	5,117
Other funded programs (Schedule A)	30,387	25,490
	141,509	136,703
Excess of revenue over expenses before the undernoted	1,074	363
Amortization of deferred contributions for buildings	1,361	1,312
Amortization of buildings	(2,015)	(1,931)
	(654)	(619)
Excess (deficiency) of revenue over expenses	\$ 420	\$ (256)

See accompanying notes to financial statements.

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

Statement of Changes in Net Assets

Period from October 1, 2016 to March 31, 2017, with comparative information for the period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

	Invested in capital assets	Unrestricted	March 31, 2017	September 30, 2016 (note 2(a))
Balance, beginning of period	\$ 39,527	\$ (9,328)	\$ 30,199	\$ 30,455
Excess (deficiency) of revenue over expenses	–	420	420	(256)
Net purchases of capital assets	16,182	(16,182)	–	–
Amortization of capital assets	(7,408)	7,408	–	–
Increase in long-term debt	(6,528)	6,528	–	–
Deferred contributions for capital assets	(7,394)	7,394	–	–
Amortization of deferred contributions for capital assets	4,034	(4,034)	–	–
Balance, end of period	\$ 38,413	\$ (7,794)	\$ 30,619	\$ 30,199

See accompanying notes to financial statements.

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

Statement of Cash Flows

Period from October 1, 2016 to March 31, 2017, with comparative information for the period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

	March 31, 2017	September 30, 2016
		(note 2(a))
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 420	\$ (256)
Items not affecting cash:		
Amortization:		
Capital assets	7,408	7,048
Deferred contributions for capital assets	(4,034)	(3,949)
Increase in actuarial valuation of accrued employee future benefits	770	120
Employee future benefits paid	(419)	-
Increase (decrease) in deferred contributions	(1,080)	5,257
Net receipt (repayment) of funds held for others	706	(2,399)
	3,771	5,821
Change in non-cash operating working capital:		
Accounts receivable	(1,986)	2,301
Due to/from CHEO Foundation/Research Institute	(1,720)	984
Inventories	(12)	30
Prepaid expenses	(13)	(1,079)
Accounts payable and accrued liabilities	1,021	(2,467)
	1,061	5,590
Investing activities:		
Net purchases of capital assets	(16,182)	(8,057)
Net acquisition of investments	(107)	(207)
Due from EORLA	866	-
Loan due from CHEO Research Institute	85	-
Changes in accounts payable for construction	983	(737)
	(14,355)	(9,001)
Financing activities:		
Net receipt (repayment) of long-term debt	6,528	(470)
Deferred contributions for capital assets	7,394	1,407
	13,922	937
Increase (decrease) in cash	628	(2,474)
Cash, beginning of period	10,354	12,828
Cash, end of period	\$ 10,982	\$ 10,354
Interest paid	\$ 156	\$ 152

See accompanying notes to financial statements.

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

Notes to Financial Statements

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

1. Description:

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

2. Significant accounting policies:

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

The accompanying financial statements reflect the activities of CHEO-OCTC for the period from October 1, 2016 to March 31, 2017. CHEO-OCTC was created on October 1, 2016 through the amalgamation of CHEO and OCTC into a newly created entity. These financial statements reflect the operations of CHEO-OCTC during the reporting period.

(a) Basis of presentation:

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

The amalgamation of the Children's Hospital of Eastern Ontario and the Ottawa Children's Treatment Centre in the new entity, CHEO-OCTC, has been accounted for in accordance with Section 3430 Restructuring Transitions of Canadian public sector accounting standards. Under this standard, assets and liabilities received by CHEO-OCTC are recognized at their carrying amount as the restructuring date of October 1, 2016.

The carrying values of the assets and liabilities recorded by CHEO-OCTC are the amounts reported as comparative figures as at September 30, 2016 in the statement of financial position.

The comparative figures reported in the financial statements, other than amounts reported on the statement of financial position, are provided for information purposes solely, and represent a combination of the two separate financial statements of CHEO and OCTC for the period from April 1, 2016 to September 30, 2016.

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(b) Revenue recognition:

Under the Health Insurance Act and current Regulations thereto in place governing hospitals, CHEO-OCTC is funded primarily by the Ministry of Health and Long-Term Care of Ontario through 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. Grants approved but not received at the end of an accounting period are accrued.

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

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

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

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

(c) Funding policy:

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

(d) Donated services:

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

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to carry its designated investments and funds held for others at fair value.

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(e) Financial instruments (continued):

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

Financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

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

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

CHEO-OCTC does not have any amounts to record on the statement of remeasurement gains and losses and therefore this statement has not been included in these financial statements.

The Standards require CHEO-OCTC to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

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

(f) Inventories:

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

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(g) Capital assets:

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

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

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

(h) Long-term lease agreements:

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

(i) Employee future benefits:

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

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

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(i) Employee future benefits (continued):

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

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

The average remaining service period of active employees covered by the employee benefit plans is 15.9 years (September 30, 2016 - 13.6 years).

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

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

(j) Use of estimates:

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

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

3. Accounts receivable:

	March 31, 2017	September 30, 2016
Patient services	\$ 5,197	\$ 4,531
External organizations	6,675	6,914
Harmonized sales tax	3,962	1,028
	\$ 15,834	\$ 12,473

4. Due from CHEO Foundation:

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

5. Due to/from CHEO Research Institute:

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

	March 31, 2017	September 30, 2016
Loan receivable	\$ 1,020	\$ 1,105
Current portion	85	85
Long-term portion	\$ 935	\$ 1,020

In addition, as at March 31, 2017, CHEO Research Institute has a payable to CHEO-OCTC of \$898,472 (September 30, 2016 - \$Nil). This amount does not have defined terms of repayment and is non-interest-bearing, and is recorded at the exchange amount.

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

6. Designated investment and funds held for others:

		Fair value	Cost	March 31, 2017 Fair value
Cash	\$	1,029	\$ 1,029	4.8%
Short-term investments		41	41	0.2%
Provincial bonds		3,629	3,563	17.1%
Corporate bonds		16,540	16,368	77.9%
	\$	21,239	\$ 21,001	100.0%

		Fair value	Cost	September 30, 2016 Fair value
Cash	\$	277	\$ 277	1.3%
Short-term investments		35	35	0.2%
Provincial bonds		3,753	3,628	17.8%
Corporate bonds		17,067	16,801	80.7%
	\$	21,132	\$ 20,741	100.0%

Short-term investments consist of money market mutual funds, which mature within the next twelve months, earning interest at 0.75% (September 30, 2016 - 0.75%).

Bonds are debt obligations of governments and corporate entities paying interest at rates appropriate to the market at their date of purchase. The bonds mature at face value on a staggered basis until 2026. Interest rates for these securities range from 1.25% to 7.41% (September 30, 2016 - 1.19% to 7.41%).

These investments can be liquidated on demand.

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

7. Capital assets:

Capital assets consist of:

	Cost	Accumulated amortization	March 31, 2017 Net book value
Land	\$ 454	\$ -	\$ 454
Land improvement	2,156	886	1,270
Buildings	140,318	47,311	93,007
Major equipment	164,013	122,644	41,369
Projects in progress	21,925	-	21,925
	\$ 328,866	\$ 170,841	\$ 158,025

	Cost	Accumulated amortization	September 30, 2016 Net book value
Land	\$ 454	-	454
Land improvement	2,019	828	1,191
Buildings	142,893	48,224	94,669
Major equipment	156,172	114,381	41,791
Projects in progress	11,146	-	11,146
	\$ 312,684	\$ 163,433	\$ 149,251

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

8. Deferred contributions:

Changes in the deferred contributions balance are as follows:

	Capital funds	Other	March 31, 2017 Total
Balance, beginning of period	\$ 6,678	\$ 13,173	\$ 19,851
Add: amount received during the period	4,471	9,639	14,110
Less: change in unrealized gains on designated investments	(33)	(8)	(41)
Less: amount transferred to deferred contributions for capital assets	(4,088)	–	(4,088)
Less: amount recognized as revenue during the period	–	(11,061)	(11,061)
Balance, end of period	\$ 7,028	\$ 11,743	\$ 18,771
Accumulated unrealized gains on designated investments, beginning of period	\$ 78	\$ 77	\$ 155
Accumulated unrealized gains on designated investments, end of period	\$ 45	\$ 69	\$ 114

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

8. Deferred contributions (continued):

	Capital funds	Other	September 30, 2016 Total
Balance, beginning of period	\$ 6,574	\$ 8,020	\$ 14,594
Add: amount received during the period	1,428	7,938	9,366
Less: change in unrealized gains on designated investments	(4)	21	17
Less: amount transferred to deferred contributions for capital assets	(1,320)	–	(1,320)
Less: amount recognized as revenue during the period	–	(2,806)	(2,806)
Balance, end of period	\$ 6,678	\$ 13,173	\$ 19,851
Accumulated unrealized gains on designated investments, beginning of period	\$ 82	\$ 56	\$ 138
Accumulated unrealized gains on designated investments, end of period	\$ 78	\$ 77	\$ 155

The deferred contribution balance of \$7,028,249 (September 30, 2016 - \$6,677,555) 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 - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

9. Deferred contributions for capital assets:

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

	March 31, 2017	September 30, 2016
Balance, beginning of period	\$ 102,110	\$ 104,652
Add: amount received during the period	51	43
Add: amount transferred from deferred contributions	4,088	1,320
Add: amount contributed by the CHEO Foundation	3,255	44
Less: amount recognized as revenue during the period	(4,034)	(3,949)
Balance, end of period	\$ 105,470	\$ 102,110

10. Funds held for others:

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

	March 31, 2017	September 30, 2016
Balance, beginning of period	\$ 13,961	\$ 16,360
Add: amount received during the period	3,444	1,872
Add: change in unrealized gains (losses) on investments	(101)	(62)
Less: amounts disbursed during the period	(2,637)	(4,209)
Balance, end of period	\$ 14,667	\$ 13,961
Accumulated unrealized gains on investments, beginning of period	\$ 204	\$ 266
Accumulated unrealized gains on investments, end of period	\$ 103	\$ 204

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

11. Long-term debt and credit facilities:

	March 31, 2017	September 30, 2016
3.33% fixed rate loan with principal payments of \$35,114 monthly including interest, maturing November 2023	\$ 2,516	\$ 2,683
2.83% fixed rate loan with principal payments of \$25,000 monthly, maturing October 2024	2,275	2,425
Prime less 0.25% variable rate demand loan with principal payments of \$25,833 monthly, maturing October 2024	2,351	2,506
CDOR plus 0.40% stamp fee Banker's Acceptance with interest only payments until March 2018, maturing March 2029	7,000	-
	14,142	7,614
Less: current portion of long-term debt	953	942
Long-term portion	\$ 13,189	\$ 6,672

The estimated fair value of the loans are \$2,589,311, \$2,094,372, \$2,143,380 and \$7,000,000 (September 30, 2016 - \$2,806,267, \$2,242,748, \$2,271,208 and \$Nil) based on a quoted market rates as at March 31, 2017 of 2.45%, 2.19%, 2.45% and 1.28% respectively (September 30, 2016 - 2.05%, 1.94%, 2.45% and Nil%).

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

2017/18	\$ 953
2018/19	1,580
2019/20	1,594
2020/21	1,635
2021/22	1,671
	\$ 7,433

CHEO-OCTC has credit facilities with a bank which allows it to borrow up to \$7,000,000 at an interest rate of prime less 0.75%. The balance of amounts borrowed as at March 31, 2017 is \$7,000,000 (September 30, 2016 - \$Nil).

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

12. Accrued employee future benefits:

CHEO-OCTC offers defined benefit plans which provide pension and other post-retirement benefits to most of its employees. The measurement date used to determine the accrued benefit obligation is March 31, 2016, which has been extrapolated to March 31, 2017. The most recent actuarial valuation of employee future benefits for accounting purposes was completed as at March 31, 2016.

The liability associated with the post-retirement and post-employment plans as at March 31, 2017 is as follows:

	March 31, 2017	September 30, 2016
Accrued benefit obligation:		
Balance, beginning of period	\$ 6,434	\$ 6,314
Current service cost	467	120
Interest on accrued benefits	248	—
Benefits paid	(419)	—
Actuarial experience loss	118	—
Balance, end of period	6,848	6,434
Unamortized actuarial loss	(917)	(854)
EORLA accrued benefit	132	132
Employee future benefits liability	\$ 6,063	\$ 5,712

CHEO-OCTC entered into a formal arrangement with the Eastern Ontario Regional Laboratory Association (EORLA) to transfer all laboratory operations to EORLA. Effective April 1, 2012, 78 of CHEO-OCTC's non-medical laboratory employees became employees of EORLA, of which 52 employees are members of the benefit plan. As a result, the pension plan for these employees was curtailed and the liability for EORLA's employees separated from CHEO-OCTC's accrued benefit liability. The EORLA liability of \$132,000 as at March 31, 2017 (September 30, 2016 - \$132,000) will be reduced as benefits are paid out to former employees of CHEO-OCTC.

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2017 are as follows:

	March 31, 2017	September 30, 2016
Discount rate	3.56%	3.76%
Medical inflation	7.50%	7.50%
Dental inflation	3.50%	3.50%
Mortality	CMP 2014 (public sector) with general projections scale B	

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

12. Accrued employee future benefits (continued):

Healthcare of Ontario Pension Plan:

Substantially all of the employees of CHEO-OCTC are eligible to be members of the Hospitals of Ontario Pension Plan (the "Plan"). The Plan is a multi-employer, defined benefit pension plan. The Plan is accounted for as a defined contribution plan. Employer contributions to the Plan during the period by CHEO-OCTC amounted to \$6,704,611 (September 30, 2016 - \$6,280,812). 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, 2015 indicates the plan is fully funded.

13. Net assets invested in capital assets:

Investment in capital assets is calculated as follows:

	March 31, 2017	September 30, 2016
Capital assets	\$ 158,025	\$ 149,251
Amounts financed by:		
Deferred contributions for capital assets	(105,470)	(102,110)
Long-term debt	(14,142)	(7,614)
	\$ 38,413	\$ 39,527

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

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

14. Contingent liabilities and commitments:

- (a) As a member of the Ottawa Health Sciences Centre Inc., CHEO-OCTC is party to a Thermal Energy Agreement (TEA) with Trans/Alta Corporation for the purchase of thermal energy for heating and humidifying the building. In 2009, the TEA was re-negotiated and resulted in a ten-year extension of its term from January 1, 2013 to January 1, 2023. The revised TEA, which was retroactive to January 1, 2007, stipulates a minimum Take or Pay quantity of steam and medium temperature hot water each year until the expiry of the contract and also provides for a new surcharge levy of \$2.22/gigajoule to facilitate the expansion of the Trans Alta plant to meet future site thermal demands.
- (b) CHEO-OCTC is also committed under supplier contracts to purchase services for the next five years for a total amount of \$24,142,246 (September 30, 2016 - \$20,780,049).
- (c) From time to time, CHEO-OCTC is a party to claims related to its operations, the majority of which are covered under CHEO-OCTC's insurance policy. No provision has been made for loss in these financial statements as, in management's opinion, these claims will not have a material adverse effect on its financial position or result of operations.
- (d) CHEO-OCTC is a member of the Healthcare Insurance Reciprocal of Canada (HIROC), which is a pooling of the liability insurance risks of its members. Members of the pool pay annual premiums that are actuarially determined. HIROC members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members and these losses could be material. No reassessments have been made to March 31, 2017.

15. Related entities:

CHEO-OCTC 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-OCTC does not have control of these entities and the net assets and results of operations of these entities are not included in CHEO-OCTC's financial statements. In addition to the related party transactions disclosed elsewhere in these financial statements, CHEO-OCTC has entered into the following transactions with these entities:

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

15. Related entities (continued):

Children's Hospital of Eastern Ontario Foundation (CHEO Foundation)

During the period, CHEO-OCTC received total contributions from CHEO Foundation in the amount of \$8,149,471 (September 30, 2016 - \$1,981,846) allocated as follows: operating contributions \$25,000 (September 30, 2016 - \$25,000), major equipment \$3,254,970 (September 30, 2016 - \$43,808), parking contributions \$3,317,331 (September 30, 2016 - \$685,338), program support funding \$125,000 (September 30, 2016 - \$125,000) and other special purpose funds in the amount of \$1,427,170 (September 30, 2016 - \$1,102,700); the latter is not included as a revenue or an expense of CHEO-OCTC. CHEO Foundation is a tax exempt charitable entity created without share capital under the laws of Ontario.

Children's Hospital of Eastern Ontario Research Institute (CHEO Research Institute)

CHEO-OCTC provides administrative service to the Institute which includes: financial accounting, human resources, and material management and information services for a total annual fee of \$60,000 (2016 - \$60,000). Cost relating to building infrastructure and support are billed to the Institute on a cost recovery basis. The Institute is a tax-exempt charitable entity created without share capital under the Canada Not-for-profit Corporations Act.

Eastern Ontario Regional Laboratory Association (EORLA)

CHEO-OCTC is a founding member of EORLA which was established to provide laboratory services to member hospitals on a cost of service basis. EORLA is incorporated without share capital under the Ontario Business Corporations Act. EORLA is a not-for-profit organization under the Income Tax Act and as such is exempt from income taxes. Effective April 1, 2013, CHEO-OCTC entered into a formal arrangement with EORLA to transfer all laboratory operations (except Genetics) to EORLA. All existing laboratory equipment remains the property of CHEO-OCTC and will be leased to EORLA at no charge. New equipment will be acquired directly by EORLA as the need arises. Included in CHEO-OCTC's accounts receivable at March 31, 2017 is a receivable of \$92,937 (September 30, 2016 - \$39,659) for costs incurred by CHEO-OCTC on behalf of EORLA. During the period, CHEO-OCTC paid \$9,063,280 (September 30, 2016 - \$Nil) for laboratory services provided by EORLA. As of March 31, 2017 CHEO-OCTC had a receivable of \$395,070 (September 30, 2016 - payable of \$6,466,805) related to these services.

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

15. Related entities (continued):

Eastern Ontario Regional Laboratory Association (EORLA) (continued)

Recovery of prior year's laboratory costs:

During the 2016/17 fiscal year, EORLA determined it overcharged members for tests performed at the CHEO-OCTC reference lab over a four-year period. CHEO-OCTC was overbilled a total of \$5,300,000 during this time. EORLA members have agreed to a six-year repayment plan with payments made as follows:

2017/18	\$	1,836
2018/19		866
2019/20		866
2020/21		866
2021/22		866
		5,300
Current portion included in accounts receivable		1,836
Due from EORLA	\$	3,464

Ottawa Regional Hospital Linen Services (ORHLS)

CHEO-OCTC is a founding member ORHLS. ORHLS was established to provide laundry services for the member hospitals on a cost of service basis. ORHLS is incorporated without share capital under the Ontario Business Corporations Act and is a not-for-profit organization under the Income Tax Act (Canada) and as such is exempt from income taxes. As at March 31, 2017, CHEO-OCTC had an economic interest of \$934,438 (September 30, 2016 - \$926,224) of total net assets of \$12,687,050 (September 30, 2016 - \$12,575,240). For the period ended March 31, 2017, CHEO-OCTC provided \$493,581 (September 30, 2016 - \$448,938) to ORHLS for laundry services.

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

16. Financial instruments:

The fair value of CHEO-OCTC's accounts receivable, accounts payable and accrued liabilities approximates cost due to their short-term nature. The fair value of investments is described in note 6 and the fair value of debt in note 11.

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

				March 31, 2017 total
	Level 1	Level 2	Level 3	
Cash	\$ 1,029	\$ –	\$ –	\$ 1,029
Short-term investments	41	–	–	41
Provincial bonds	–	3,629	–	3,629
Corporate bonds	–	16,540	–	16,540
	\$ 1,070	\$ 20,169	\$ –	\$ 21,239

				September 30, 2016 total
	Level 1	Level 2	Level 3	
Cash	\$ 277	\$ –	\$ –	\$ 277
Short-term investments	35	–	–	35
Provincial bonds	–	3,753	–	3,753
Corporate bonds	–	17,067	–	17,067
	\$ 312	\$ 20,820	\$ –	\$ 21,132

Financial risk factors

CHEO-OCTC's activities expose it to a variety of financial risks: market risk (including interest rate, currency (foreign exchange), and other price risks), credit risk and liquidity risk. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return consistent with the investment policies approved by the Board of Directors. CHEO-OCTC does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Credit risk:

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

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

Notes to Financial Statements (continued)

Period from October 1, 2016 to March 31, 2017
(Tabular amounts in thousands of dollars)

16. Financial instruments:

Financial risk factors (continued)

(a) Credit risk (continued):

CHEO-OCTC's receivables are with governments, government funding agencies, patients and residents and corporate entities. CHEO-OCTC believes that these receivables do not have significant credit risk in excess of allowances for doubtful accounts that have been established. The balance of the allowance for doubtful accounts at March 31, 2017 is \$411,000 (September 30, 2016 - \$735,608).

(b) Liquidity risk:

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

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

(c) Market risk:

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

CHEO-OCTC believes it is not subject to significant interest rate, foreign currency or other price risks arising from its financial instruments.

There have been no significant changes from the previous year in the exposure to market, liquidity or credit risk or the policies, procedures and methods used to measure the risk.

17. Comparative Information:

Comparative information at September 30, 2016 is for informational purposes only and represents the combined balance for CHEO and OCTC, which were separate legal entities at that date, less any outstanding balances between the two entities.

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

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

Schedule A - Other funded programs

Period from October 1, 2016 to March 31, 2017, with comparative information for the period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

	Revenue	Expenses	March 31, 2017 Net	Revenue	Expenses	September 30, 2016 Net
MOHLTC/LHIN:						
Clinical Education	\$ 658	\$ 658	\$ -	\$ 523	\$ 523	\$ -
Municipal Taxes	8	8	-	9	9	-
Special Drug Program	542	542	-	710	710	-
Transitional Youth	109	109	-	68	68	-
Bridges Project	227	227	-	361	361	-
ECHO	317	317	-	-	-	-
MCYS programs:						
Autism - IBI (A592 + A557)	4,865	4,865	-	4,098	4,098	-
Autism - Spectrum Disorder (A594)	632	632	-	614	614	-
Autism - ABA (A598)	1,556	1,556	-	1,129	1,129	-
Intake (A352)	147	147	-	144	144	-
Intensive Treatment (A353)	849	849	-	750	750	-
Coordination (A354)	53	53	-	54	54	-
Consultation (A355)	996	996	-	909	909	-
Prevention (A356)	63	63	-	110	110	-
Telepsychiatry (A561)	258	258	-	157	157	-
Centre of Excellence	3,700	3,700	-	2,154	2,154	-
IHP - NBS	65	65	-	53	53	-
MCYS - Other	2	2	-	243	243	-
ASD Respite (A597)	45	45	-	59	59	-
Autism (A596)	12	12	-	15	15	-
CDS Base Clinic (9256)	966	966	-	922	922	-
Infant Development (A476)	495	495	-	418	418	-
Out-of-Home Respite (A510)	186	186	-	208	208	-
Balance carryforward	16,751	16,751	-	13,708	13,708	-

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

Schedule A - Other funded programs (continued)

Year ended March 31, 2017, with comparative information for 2016
(Tabular amounts in thousands of dollars)

			March 31, 2017			September 30, 2016
	Revenue	Expenses	Net	Revenue	Expenses	Net
Balance carryforward	16,751	16,751	–	13,708	13,708	–
MCYS programs (continued)						
SCS - Children Behaviour Intervention (9253)	446	446	–	522	522	–
DS - Professional and Specialized Services (9132)	252	252	–	235	235	–
Coordinated Service Planning	111	111	–	–	–	–
ASD Diagnostic Hub (A683)	282	282	–	–	–	–
Physical Rehabilitation	5,392	5,392	–	5,692	5,692	–
Partner Facility Renewal	10	10	–	–	–	–
Other programs:						
Pinecrest Queensway - First Words	304	304	–	282	282	–
Champlain Maternal Newborn Regional Program	427	427	–	394	394	–
Navigator Program	328	328	–	247	247	–
BORN	1,779	1,779	–	150	150	–
Autism Support IBI Wait List (A681 + A682)	2,334	2,334	–	2,124	2,124	–
School Program - Ministry of Education	1,037	1,037	–	962	962	–
Preschool Program - City of Ottawa	269	269	–	203	203	–
Regional Preschool Program - City of Ottawa	262	262	–	288	288	–
Blind/Low Vision Program - Pinecrest Queensway	67	67	–	66	66	–
Preschool SLP - Pinecrest Queensway	98	98	–	95	95	–
Applied Behaviour Analysis	219	219	–	242	242	–
Other Programs	19	19	–	280	280	–
	\$ 30,387	\$ 30,387	\$ –	\$ 25,490	\$ 25,490	\$ –