

Financial Statements of

**CHILDREN'S HOSPITAL OF
EASTERN ONTARIO**

Period from April 1, 2016 to September 30, 2016

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Financial Statements

Period from April 1, 2016 to September 30, 2016

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INDEPENDENT AUDITORS' 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 September 30, 2016, the statements of operations, changes in net assets and cash flows for the period from April 1, 2016 to September 30, 2016, 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 as at September 30, 2016, its results of operations, changes in net assets and cash flows for the period from April 1, 2016 to September 30, 2016 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

December 13, 2016

Ottawa, Canada

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Financial Position

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

	September 30, 2016	March 31, 2016
Assets		
Current assets:		
Cash	\$ 9,630	\$ 10,800
Accounts receivable (note 3)	12,303	14,934
Accounts receivable - MOHLTC / LHIN	2,190	1,783
Inventories	2,313	2,343
Prepaid expenses	4,616	3,601
Due from CHEO Foundation (note 4)	1,783	1,868
Due from CHEO Research Institute (note 5)	85	618
	<u>32,920</u>	<u>35,947</u>
Loan due from CHEO Research Institute (note 5)	1,020	1,020
Designated investments (note 6)	4,905	2,317
Due from EORLA (note 15)	4,330	4,330
Funds held for others (notes 6 and 10)	13,961	16,360
Capital assets (note 7)	147,419	146,289
	<u>\$ 204,555</u>	<u>\$ 206,263</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 27,042	\$ 29,481
Accounts payable - MOHLTC / LHIN	608	259
Due to CHEO Research Institute	366	-
Current portion of long-term debt (note 11)	942	942
	<u>28,958</u>	<u>30,682</u>
Deferred contributions (note 8)	19,238	13,758
Deferred contributions for capital assets (note 9)	100,455	102,914
Funds held for others (note 10)	13,961	16,360
Long-term debt (note 11)	6,672	7,142
Accrued benefit liability (note 12)	5,712	5,592
	<u>174,996</u>	<u>176,448</u>
Net assets:		
Invested in capital assets (note 13)	39,350	35,291
Unrestricted deficiency	(9,791)	(5,476)
	<u>29,559</u>	<u>29,815</u>
Contingent liabilities and commitments (note 14)		
Subsequent event (note 17)		
	<u>\$ 204,555</u>	<u>\$ 206,263</u>

See accompanying notes to financial statements.

 Trustee

 Trustee

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Operations

Period from April 1, 2016 to September 30, 2016, with comparative information for the year ended March 31, 2016

(Tabular amounts in thousands of dollars)

	September 30, 2016	March 31, 2016
Revenue:		
Ministry of Health and Long-term Care (MOHLTC)/ Local Health Integration Network (LHIN)	\$ 75,085	\$ 147,297
Inpatient from other sources	9,623	20,612
Outpatient - OHIP and other sources	10,597	20,378
Preferred accommodation	699	1,218
Other operating revenues	2,863	3,861
Recoveries	10,035	18,824
Amortization of deferred contributions for equipment	2,537	5,482
Other funded programs (Schedule A)	15,283	27,959
	<u>126,722</u>	<u>245,631</u>
Expenses:		
Salaries and wages	57,073	109,815
Benefits and contributions	14,824	28,336
Medical staff remuneration	4,680	9,089
Supplies and other expenses	21,629	43,883
Medical and surgical supplies	3,210	7,100
Drugs and medical gases	4,307	8,871
Bad debts	221	956
Bank charges and interest	152	323
Amortization - equipment	4,980	11,292
Other funded programs (Schedule A)	15,283	27,959
	<u>126,359</u>	<u>247,624</u>
Excess (deficiency) of revenue over expenses before the undernoted	363	(1,993)
Recovery of prior period laboratory costs (note 15)	-	4,457
Amortization of deferred contributions for buildings	1,312	2,607
Amortization of buildings	(1,931)	(3,907)
	<u>(619)</u>	<u>(1,300)</u>
Excess (deficiency) of revenue over expenses	\$ (256)	\$ 1,164

See accompanying notes to financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Changes in Net Assets

Period from April 1, 2016 to September 30, 2016, with comparative information for the year ended March 31, 2016

(Tabular amounts in thousands of dollars)

	Invested in capital assets	Unrestricted	September 30, 2016	March 31, 2016
Balance, beginning of period	\$ 35,291	\$ (5,476)	\$ 29,815	\$ 28,651
Excess (deficiency) of revenue over expenses	–	(256)	(256)	1,164
Net purchases of capital assets	8,041	(8,041)	–	–
Amortization of capital assets	(6,911)	6,911	–	–
Decrease in long-term debt	470	(470)	–	–
Deferred contributions for capital assets	(1,390)	1,390	–	–
Amortization of deferred contributions for capital assets	3,849	(3,849)	–	–
Balance, end of period	\$ 39,350	\$ (9,791)	\$ 29,559	\$ 29,815

See accompanying notes to financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Cash Flows

Period from April 1, 2016 to September 30, 2016, with comparative information for the year ended March 31, 2016

(Tabular amounts in thousands of dollars)

	September 30, 2016	March 31, 2016
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (256)	\$ 1,164
Items not affecting cash:		
Amortization:		
Capital assets	6,911	15,199
Deferred contributions for capital assets	(3,849)	(8,089)
Increase in accrued employee future benefits	120	286
Increase in deferred contributions	3,081	3,766
	6,007	12,326
Change in non-cash operating working capital:		
Accounts receivable	2,224	1,353
Due to/from CHEO Foundation/Research Institute	984	929
Inventories	30	(156)
Prepaid expenses	(1,015)	71
Accounts payable and accrued liabilities	(1,354)	(1,591)
	6,876	12,932
Capital activities:		
Net purchases of capital assets	(8,041)	(11,865)
Investing activities:		
Net acquisition of investments	(189)	(222)
Due from EORLA	-	(4,330)
Loan due from CHEO Research Institute	-	85
Changes in accounts payable for construction	(736)	(833)
	(925)	(5,300)
Financing activities:		
Net repayment of long-term debt	(470)	(929)
Deferred contributions for capital assets	1,390	6,955
	920	6,026
Increase (decrease) in cash	(1,170)	1,793
Cash, beginning of period	10,800	9,007
Cash, end of period	\$ 9,630	\$ 10,800
Interest paid	\$ 152	\$ 323

See accompanying notes to financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements

Period from April 1, 2016 to September 30, 2016
(Tabular amounts 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 under the Income Tax Act (Canada), and as such is exempt from income tax.

2. Significant accounting policies:

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

(a) Basis of presentation:

CHEO follows the deferral method of accounting for contributions which includes provincial government allocations, other contributions and grants.

(b) Revenue recognition:

Under the Health Insurance Act and current Regulations thereto in place governing hospitals, CHEO is funded primarily by the Ministry of Health and Long-Term Care 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.

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 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 Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(d) Donated services:

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

(e) 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.

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.

The Hospital 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 the Hospital 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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(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. 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 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 Hospital provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include life insurance and health care benefits.

The Hospital 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

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(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, 2014, and the next required valuation will be as of March 31, 2017.

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 13.6 years (March 31, 2016 - 13.6 years).

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

The Hospital is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital 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 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 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.

3. Accounts receivable:

	September 30, 2016	March 31, 2016
Patient services	\$ 4,531	\$ 4,596
External organizations	6,744	8,729
Harmonized sales tax	1,028	1,609
	<u>\$ 12,303</u>	<u>\$ 14,934</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

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 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.

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

In addition, as at September 30, 2016, CHEO Research Institute has a payable to CHEO of \$Nil (March 31, 2016 - \$533,360). This amount does not have defined terms of repayment and is non-interest-bearing, and is recorded at the exchange amount.

6. Designated investment and funds held for others:

	Fair value	Cost	September 30, 2016 Fair value
Cash	\$ 210	\$ 210	1.1%
Short-term investments	35	35	0.2%
Provincial bonds	3,753	3,628	19.9%
Corporate bonds	14,868	14,634	78.8%
	\$ 18,866	\$ 18,507	100.0%

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

6. Designated investment and funds held for others (continued):

		Fair value	Cost	March 31, 2016 Fair value
Cash	\$	19	\$ 19	0.1%
Short-term investments		438	438	2.3%
Provincial bonds		3,632	3,491	19.1%
Corporate bonds		14,588	14,385	78.5%
	\$	18,677	\$ 18,333	100.0%

Short-term investments consist of money market mutual funds, which mature within the next twelve months, earning interest at 0.75% (March 31, 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 1.19% to 7.41% (March 31, 2016 - 1.25% to 7.41%).

These investments can be liquidated on demand.

7. Capital assets:

Capital assets consist of:

	Cost	Accumulated amortization	September 30, 2016 Net book value
Land	\$ 454	\$ -	\$ 454
Land improvement	2,019	828	1,191
Buildings	139,766	46,603	93,163
Major equipment	154,478	113,013	41,465
Projects in progress	11,146	-	11,146
	\$ 307,863	\$ 160,444	\$ 147,419

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

7. Capital assets (continued):

	Cost	Accumulated amortization	March 31, 2016 Net book value
Land	\$ 454	\$ –	\$ 454
Land improvements	1,460	795	665
Buildings	138,309	44,640	93,669
Major equipment	148,954	108,098	40,856
Projects in progress	10,645	–	10,645
	<u>\$ 299,822</u>	<u>\$ 153,533</u>	<u>\$ 146,289</u>

8. Deferred contributions:

Changes in the deferred contributions balance are as follows:

	Capital funds	Other	September 30, 2016 Total
Balance, beginning of period	\$ 6,459	\$ 7,299	\$ 13,758
Add: amount received during the period	1,475	7,874	9,349
Less: change in unrealized gains on designated investments	(4)	21	17
Less: amount transferred to deferred contributions for capital assets	(1,351)	–	(1,351)
Less: amount recognized as revenue during the period	–	(2,535)	(2,535)
Balance, end of period	<u>\$ 6,579</u>	<u>\$ 12,659</u>	<u>\$ 19,238</u>
Accumulated unrealized gains on designated investments, beginning of period	\$ 82	\$ 56	\$ 138
Accumulated unrealized gains on designated investments, end of period	<u>\$ 78</u>	<u>\$ 76</u>	<u>\$ 154</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

8. Deferred contributions (continued):

	Capital funds	Other	March 31, 2016 Total
Balance, beginning of period	\$ 6,881	\$ 3,538	\$ 10,419
Add: amount received during the period	1,851	6,038	7,889
Less: change in unrealized gains on designated investments	(97)	(19)	(116)
Less: amount transferred to deferred contributions for capital assets	(2,176)	–	(2,176)
Less: amount recognized as revenue during the period	–	(2,258)	(2,258)
Balance, end of period	\$ 6,459	\$ 7,299	\$ 13,758
Accumulated unrealized gains on designated investments, beginning of period	\$ 179	\$ 75	\$ 254
Accumulated unrealized gains on designated investments, end of period	\$ 82	\$ 56	\$ 138

The deferred contribution balance of \$6,578,555 (March 31, 2016 - \$6,458,866) 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.

9. Deferred contributions for capital assets:

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

	September 30, 2016	March 31, 2016
Balance, beginning of period	\$ 102,914	\$ 104,048
Add: amount received during the period	42	1,578
Add: amount transferred from deferred contributions	1,304	2,176
Add: amount contributed by the CHEO Foundation	44	3,201
Less: amount recognized as revenue during the period	(3,849)	(8,089)
Balance, end of period	\$ 100,455	\$ 102,914

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

10. Funds held for others:

During the period, 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 6.

	September 30, 2016	March 31, 2016
Balance, beginning of period	\$ 16,360	\$ 15,933
Add: amount received during the period	1,872	6,361
Add: change in unrealized gains (losses) on investments	(62)	(148)
Less: amounts disbursed during the period	(4,209)	(5,786)
Balance, end of period	\$ 13,961	\$ 16,360
Accumulated unrealized gains on investments, beginning of period	\$ 266	\$ 414
Accumulated unrealized gains on investments, end of period	\$ 204	\$ 266

11. Long-term debt and credit facilities:

	September 30, 2016	March 31, 2016
3.33% fixed rate loan with principal payments of \$35,114 monthly including interest, maturing November 2023	\$ 2,683	\$ 2,848
2.83% fixed rate loan with principal payments of \$25,000 monthly, maturing October 2024	2,425	2,575
Prime less 0.25% variable rate demand loan with principal payments of \$25,833 monthly, maturing October 2024	2,506	2,661
	7,614	8,084
Less: current portion of long-term debt	942	942
Long-term portion	\$ 6,672	\$ 7,142

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

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

The estimated fair value of the loans are \$2,806,267, \$2,242,748 and \$2,271,208 (March 31, 2016 - \$2,950,275, \$2,324,994 and \$2,397,482) based on a quoted market rates as at September 30, 2016 of 2.05%, 1.94% and 2.45% respectively (March 31, 2016 - 2.38%, 2.40% and 2.45%).

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

2016/17	\$	942
2017/18		953
2018/19		964
2019/20		976
2020/21		989
	\$	4,824

CHEO 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%. There were no outstanding balances under these facilities as at September 30, 2016 (March 31, 2016 - \$Nil).

12. Accrued employee future benefits:

CHEO 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 September 30, 2016. The most recent actuarial valuation of employee future benefits for accounting purposes was completed as at March 31, 2015.

The liability associated with the post-retirement and post-employment plans as at September 30, 2016 is as follows:

	September 30, 2016	March 31, 2016
Accrued benefit obligation:		
Balance, beginning of period	\$ 6,314	\$ 6,096
Current benefit cost	120	323
Interest	—	197
Benefits paid	—	(302)
Experience gain	—	—
Balance, end of period	6,434	6,314
Unamortized actuarial gain	(854)	(854)
EORLA accrued benefit	132	132
Employee future benefits liability	\$ 5,712	\$ 5,592

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

12. 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 (March 31, 2016 - \$132,000) as at September 30, 2016 will be reduced as benefits are paid out to former employees of CHEO.

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at September 30, 2016 are as follows:

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

Healthcare of Ontario Pension Plan:

Substantially all of the employees of CHEO 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 amounted to \$5,723,102 (March 31, 2016 - \$11,517,308). 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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

13. Net assets invested in capital assets:

Investment in capital assets is calculated as follows:

	September 30, 2016	March 31, 2016
Capital assets	\$ 147,419	\$ 146,289
Amounts financed by:		
Deferred contributions for capital assets	(100,455)	(102,914)
Long-term debt	(7,614)	(8,084)
	\$ 39,350	\$ 35,291

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.

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 September 30, 2016 was \$175,149 (March 31, 2016 - \$175,149).
- (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 \$20,780,049 (March 31, 2016 - \$16,505,229).
- (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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

14. Contingent liabilities and commitments (continued):

- (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, 2016.

15. 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 entities 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 with these entities:

Children's Hospital of Eastern Ontario Foundation (Foundation)

During the period, CHEO received total contributions from the Foundation in the amount of \$1,981,846 (March 31, 2016 - \$10,337,890) allocated as follows: operating contributions \$25,000 (March 31, 2016 - \$1,450,000), major equipment \$43,808 (March 31, 2016 - \$3,200,894), parking contributions \$685,338 (March 31, 2016 - \$2,925,033), program support funding \$125,000 (March 31, 2016 - \$250,000) and other special purpose funds in the amount of \$1,102,700 (March 31, 2016 - \$2,511,963); the latter is not included as a revenue or an expense of CHEO. The Foundation is a tax exempt charitable entity created without share capital under the laws of Ontario.

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

CHEO 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, of which \$30,000 has been billed as of September 30, 2016 (March 31, 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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

15. Related entities (continued):

Eastern Ontario Regional Laboratory Association (EORLA)

CHEO 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 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 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 September 30, 2016 is a receivable of \$39,659 (March 31, 2016 - \$192,768) for costs incurred by the Hospital on behalf of EORLA and an accounts payable of \$6,466,805 (March 31, 2016 - \$1,609,844). During the period, CHEO paid \$Nil (March 31, 2016 - \$8,095,444) for laboratory services provided by EORLA.

Recovery of prior year's laboratory costs:

During the 2015/16 fiscal year, EORLA determined it overcharged members for tests performed at the CHEO reference lab over a four-year period. CHEO 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:

2016/17	\$	970
2017/18		866
2018/19		866
2019/20		866
2020/21		866
2021/22		866
		5,300
Current portion included in accounts receivable		970
Due from EORLA	\$	4,330

Ottawa Regional Hospital Linen Services (ORHLS)

CHEO 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 and as such is exempt from income taxes. As at September 30, 2016, CHEO had an economic interest of \$926,224 (March 31, 2016 - \$919,692) of total net assets of \$12,575,240 (March 31, 2016 - \$12,483,943). For the period ended September 30, 2016, CHEO provided \$448,938 (March 31, 2016 - \$992,919) to ORHLS for laundry services.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

16. Financial instruments:

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 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:

				September 30, 2016 total
	Level 1	Level 2	Level 3	
Cash	\$ 210	\$ –	\$ –	\$ 210
Short-term investments	35	–	–	35
Provincial bonds	–	3,753	–	3,753
Corporate bonds	–	14,868	–	14,868
	\$ 245	\$ 18,621	\$ –	\$ 18,866

				March 31, 2016 total
	Level 1	Level 2	Level 3	
Cash	\$ 19	\$ –	\$ –	\$ 19
Short-term investments	438	–	–	438
Provincial bonds	–	3,632	–	3,632
Corporate bonds	–	14,588	–	14,588
	\$ 457	\$ 18,220	\$ –	\$ 18,677

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.

(a) Credit risk:

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

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to Financial Statements (continued)

Period from April 1, 2016 to September 30, 2016
(Tabular amounts in thousands of dollars)

16. Financial instruments (continued):

(a) Credit risk (continued):

The Hospital's receivables are with governments, government funding agencies, patients and residents and corporate entities. The Hospital 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 September 30, 2016 is \$735,608 (March 31, 2016 - \$773,510).

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital 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.

The Hospital 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. Amalgamation:

On October 1, 2016, CHEO entered into amalgamation agreement with the Ottawa Children's Treatment Centre (OCTC) to unify the operations of CHEO and OCTC with an effective date of October 1, 2016.

These financial statements reflect the operations of CHEO for the period of April 1, 2016 to September 30, 2016, up to the date of amalgamation on October 1, 2016.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Schedule A - Other funded programs

Period from April 1, 2016 to September 30, 2016, with comparative information for the year ended March 31, 2016

(Tabular amounts in thousands of dollars)

	September 30, 2016			March 31, 2016		
	Revenue	Expenses	Net	Revenue	Expenses	Net
MOHLTC/LHIN:						
Clinical Education	\$ 523	\$ 523	\$ -	\$ 1,181	\$ 1,181	\$ -
Municipal Taxes	9	9	-	17	17	-
Special Drug Program	710	710	-	1,601	1,601	-
Transitional Youth	68	68	-	185	185	-
Bridges Project	361	361	-	588	588	-
MCYS programs:						
Autism - IBI (A592 + A557)	4,098	4,098	-	8,057	8,057	-
Autism - Spectrum Disorder (A594)	614	614	-	1,455	1,455	-
Autism - ABA (A598)	1,129	1,129	-	2,431	2,431	-
Intake (A352)	144	144	-	283	283	-
Intensive Treatment (A353)	750	750	-	1,602	1,602	-
Coordination (A354)	54	54	-	107	107	-
Consultation (A355)	909	909	-	1,916	1,916	-
Prevention (A356)	110	110	-	167	167	-
Telepsychiatry (A561)	157	157	-	387	387	-
Centre of Excellence	2,154	2,154	-	5,900	5,900	-
IHP - NBS	53	53	-	221	221	-
MCYS - Other	243	243	-	148	148	-
Other programs:						
Pinecrest Queensway - First Words	282	282	-	513	513	-
Champlain Maternal Newborn Regional Program	394	394	-	975	975	-
Navigator Program	247	247	-	225	225	-
BORN	150	150	-	-	-	-
Autism Support IBI Wait List (A681 + A682)	2,124	2,124	-	-	-	-
	\$ 15,283	\$ 15,283	\$ -	\$ 27,959	\$ 27,959	\$ -