

Financial statements of

**CHILDREN'S HOSPITAL OF
EASTERN ONTARIO**

March 31, 2010



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Auditors' Report

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

We have audited the balance sheet of the Children's Hospital of Eastern Ontario as at March 31, 2010 and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Ontario Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

May 14, 2010

CHILDREN'S HOSPITAL OF EASTERN ONTARIO
Financial Statements
March 31, 2010

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CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Revenue and Expenses

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Revenue		
Ministry of Health and Long-Term Care (MOHLTC) / Local Health Integration Network (LHIN)	\$ 125,072	\$ 118,869
Inpatient from other sources	16,997	17,597
Outpatient - OHIP and other sources	14,047	12,882
Preferred accommodation	1,977	2,121
Other operating revenues	5,390	5,173
Recoveries	13,733	12,618
Amortization of deferred contributions for equipment	5,634	4,850
Other funded programs (Schedule A)	61,124	64,269
	<u>243,974</u>	<u>238,379</u>
Expenses		
Salaries and wages	95,670	91,913
Benefits contributions	23,371	22,057
Medical staff remuneration	6,133	6,103
Supplies and other expenses	30,041	29,404
Medical and surgical supplies	7,863	7,460
Drugs and medical gases	6,610	6,275
Bad debts	460	362
Bank charges and interest	252	272
Amortization - equipment	10,393	8,701
Other funded programs (Schedule A)	61,229	64,269
	<u>242,022</u>	<u>236,816</u>
Excess of revenue over expenses before amortization of buildings and amortization of deferred contributions for buildings	<u>1,952</u>	<u>1,563</u>
Amortization of buildings	3,152	2,056
Amortization of deferred contributions for buildings	<u>(2,137)</u>	<u>(1,057)</u>
	<u>1,015</u>	<u>999</u>
EXCESS OF REVENUE OVER EXPENSES	\$ 937	\$ 564

CHILDREN'S HOSPITAL OF EASTERN ONTARIO


Balance Sheet

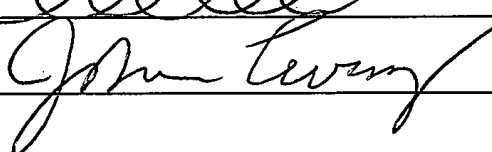
as at March 31, 2010

(tabular amounts are in thousands of dollars)

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 11,055	\$ 9,405
Accounts receivable	7,254	8,672
Accounts receivable - MOHLTC/LHIN	862	441
Inventories	2,367	2,028
Prepaid expenses	2,697	2,416
Due from CHEO Foundation (Note 4)	250	177
Due from CHEO Research Institute (Note 5)	104	290
	24,589	23,429
DESIGNATED CASH AND INVESTMENTS (Notes 3 and 6)	9,789	26,441
CAPITAL ASSETS (Note 7)	134,782	120,921
FUNDS HELD FOR OTHERS (Notes 3 and 8)	12,719	10,328
LOAN DUE FROM CHEO RESEARCH INSTITUTE (Note 5)	1,530	1,615
	\$ 183,409	\$ 182,734
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 23,132	\$ 25,888
Accounts payable - MOHLTC/LHIN	3,959	1,648
Current portion of long-term debt	244	233
	27,335	27,769
DEFERRED CONTRIBUTIONS (Note 6)	9,789	26,441
LONG-TERM DEBT (Note 9)	4,284	4,528
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 10)	98,984	84,757
ACCRUED EMPLOYEE FUTURE BENEFITS (Note 11)	2,339	1,889
FUNDS HELD FOR OTHERS (Note 8)	12,719	10,328
	155,450	155,712
CONTINGENT LIABILITIES AND COMMITMENTS (Note 12)		
NET ASSETS		
Invested in capital assets (Note 13)	31,270	31,403
Unrestricted (deficiency)	(3,311)	(4,381)
	27,959	27,022
	\$ 183,409	\$ 182,734

APPROVED BY THE BOARD


 _____ Trustee


 _____ Trustee

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Changes in Net Assets

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

	Invested in Capital Assets	Unrestricted	Total	
			2010	2009
BALANCE, BEGINNING OF YEAR	\$ 31,403	\$ (4,381)	\$ 27,022	\$ 26,458
Excess of revenue over expenses	-	937	937	564
Additions to capital assets	27,406	(27,406)	-	-
Amortization of capital assets	(13,545)	13,545	-	-
Repayment of long-term debt	233	(233)	-	-
Increase in deferred contributions for capital assets	(21,998)	21,998	-	-
Amortization of deferred contributions for capital assets	7,771	(7,771)	-	-
BALANCE, END OF YEAR	\$ 31,270	\$ (3,311)	\$ 27,959	\$ 27,022

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Cash Flows

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

	<u>2010</u>	<u>2009</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	\$ 937	\$ 564
Items not affecting cash		
Amortization		
- Capital assets	13,545	10,757
- Deferred contributions for capital assets	(7,771)	(5,907)
Increase in accrued employee future benefits	450	209
Decrease in deferred contributions	(16,652)	(2,866)
	(9,491)	2,757
Changes in non-cash operating working capital items		
Account receivable	997	7,829
Due from Cheo Foundation/ Research Institute	113	501
Inventories	(339)	(53)
Prepaid expenses	(281)	(409)
Accounts payable and accrued liabilities	(1,055)	(399)
	(10,056)	10,226
INVESTING		
Net disposal of investments	16,652	2,866
Net purchase of capital assets	(27,406)	(42,361)
Loan due from CHEO Research Institute	85	(1,700)
Changes in accounts payable for construction	610	3,599
	(10,059)	(37,596)
FINANCING		
Repayment of long-term debt	(233)	(216)
Deferred contributions for capital assets	21,998	35,755
	21,765	35,539
NET CASH INFLOW	1,650	8,169
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,405	1,236
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 11,055	\$ 9,405
Interest paid	\$ 251	\$ 271

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(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 exempt from income tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

a) *Changes in accounting policies*

Section 4400 - Financial Statements by Not-For-Profit Organizations

In September 2008, the Canadian Institute of Chartered Accountants (CICA) issued amendments to several of the existing sections in the 4400 series - *Financial Statements by Not-For-Profit Organizations*. Changes apply to annual financial statements relating to fiscal years beginning on or after January 1, 2009. Accordingly, CHEO adopted the amended standards for its fiscal year beginning April 1, 2009. The amendments include a) additional guidance in the applicability of Section 1100, *Generally Accepted Accounting Principles*; b) removal of the requirement to report separately net assets invested in capital assets; c) requirement to disclose revenues and expenses in accordance with EIC 123, *Reporting Revenue Gross as a Principal Versus Net as an Agent*; d) requirement to include a statement of cash flows in accordance with Section 1540, *Cash Flow Statements*; e) requirement to apply Section 1751, *Interim Financial Statements*, when preparing interim financial statements in accordance with GAAP; f) requirement for non-for-profit organizations that recognize capital assets to depreciate and assess these capital assets for impairment in the same manner as other entities reporting on a GAAP basis; g) requirement to disclose related party transactions in accordance with Section 3840, *Related Party Transactions*; and h) new disclosure requirements regarding the allocation of fundraising and general support costs.

The CICA issued amendments to Section 1000 - *Financial Statement Concepts* to clarify the criteria for recognizing an asset.

As of January 2009, the CICA required the adoption of Emerging Issues Committee (EIC) 173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*. This EIC requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments.

These changes had no impact on the financial results of CHEO's financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) *Financial instruments*

All financial assets are required to be classified as held-for-trading, held-to-maturity, loans and receivables or as available-for-sale. All financial liabilities are required to be classified as held-for-trading or as other liabilities.

The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and CHEO's designation of said instruments and is determined at the time of initial recognition. Settlement date accounting is used and transaction costs related to investments are expensed as incurred. Interest is calculated using the effective interest rate method.

Classification made by CHEO:

Cash and cash equivalents	Held-for-trading
Investments	Available-for-sale
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

Held-for-trading

These financial assets are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other operating revenues.

Available-for-sale

Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated unrealized gains and losses in the statement of changes in net assets or deferred contributions, as appropriate, until realized when the cumulative gain (loss) is transferred to other operating revenues.

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

Loans and receivables

These financial assets are measured at amortized cost using the effective interest rate method, less any impairment.

Related party receivables are recorded at exchange amounts.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) *Financial instruments (Continued)*

Other liabilities

These financial liabilities are recorded at amortized cost using the effective interest rate method.

c) *Revenue recognition*

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

Under current legislations 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. Grants approved but not received at the end of an accounting period are accrued. 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.

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.

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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO
Notes to the Financial Statements
year ended March 31, 2010
(tabular amounts are in thousands of dollars)

2. SUMMARY OF 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. Inventory expense for the year ended March 31, 2010 was \$13,298,043.

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 the expected useful life of the asset as recommended by the M.I.S. Guidelines
Minor equipment	the cost of minor equipment is expensed when 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 debt

Long-term debt is classified as other liabilities and recorded at amortized cost using the effective interest rate method. The fair values of the loans are based on an assessment of interest rate risk and credit risk. Fair value is determined under a discounted cash flow methodology using a discount rate based on interest rates currently charged for new loans with similar terms and remaining maturities, adjusted for a credit risk factor, which is reviewed at least annually.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) 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.

j) Employee future benefits

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

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

The excess of the net actuarial gain (loss) over 10% of the benefit obligation in the other post-retirement benefits other than the pension is amortized over the expected average remaining service life of active employees, which is 16 years. The accrued benefit obligation is measured for accounting purposes as at March 31st.

k) Use of estimates

The preparation of financial statements in conformity with GAAP 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, useful lives of capital assets, and the amount of accrued liabilities and employee future benefits. Actual results could differ from these estimates.

l) Derivatives and non financial contracts

CHEO has elected to not account for non- financial contracts as derivatives, and to not account for embedded derivatives in non-financial contracts, leases and insurance contracts as embedded derivatives.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

3. CASH AND INVESTMENTS

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Cash	\$ 8,062	\$ 8,062	\$ 11,081	\$ 11,081
Short-term investments	7,650	7,650	18,081	18,034
Federal bonds	1,768	1,792	1,564	1,558
Provincial bonds	5,580	5,619	1,904	1,862
Corporate bonds	10,503	10,303	13,544	13,477
	\$ 33,563	\$ 33,426	\$ 46,174	\$ 46,012

Total cash and investments are allocated as follows:

	2010	2009
Cash and cash equivalents	\$ 11,055	\$ 9,405
Designated cash and investments	9,789	26,441
Funds held for others	12,719	10,328
	\$ 33,563	\$ 46,174

Short-term investments consist of money market mutual funds and treasury bills which mature within the next twelve months earning interest between 0.36% and 2.25% (2009 0.21% - 2.6%).

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 2015. Interest rates for these securities range from 0.36% to 7.9% (2009 - 3.5% - 5.5%).

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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

3. CASH AND INVESTMENTS (Continued)

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.

4. DUE FROM CHEO FOUNDATION

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

5. DUE FROM CHEO RESEARCH INSTITUTE

On March 31, 2009, CHEO entered into a 20-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.

	<u>2010</u>	<u>2009</u>
Loan receivable	\$ 1,615	\$ 1,700
Current portion	85	85
Long-term portion	<u>\$ 1,530</u>	<u>\$ 1,615</u>

In addition to the current portion of the loan receivable the CHEO Research Institute owed CHEO \$19,000 (2009 - \$205,000) as at March 31, 2010. This balance is recorded at the exchange amount, is without defined terms of repayment and is non-interest-bearing.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

6. DEFERRED CONTRIBUTIONS

Changes in the deferred contribution balances are as follows:

	2010			2009
	Capital Funds	Other	Total	Total
Balance, beginning of year	\$ 22,962	\$ 3,479	\$ 26,441	\$ 29,307
Add: amount received during the year	2,104	2,096	4,200	27,010
Add: interest earned	137	-	137	564
Add: change in unrealized gains (losses) on available- for-sale assets	(65)	24	(41)	119
Amounts transferred	(1,020)	1,020	-	-
Less: amount transferred to deferred contributions for capital assets	(18,205)	-	(18,205)	(28,956)
Less: amount recognized as revenue during the year	-	(2,743)	(2,743)	(1,603)
Balance, end of year	\$ 5,913	\$ 3,876	\$ 9,789	\$ 26,441
Accumulated unrealized gains (losses) on available- for-sale assets, beginning of year	\$ 102	\$ (1)	\$ (101)	\$ (17)
Accumulated unrealized gains on available- for-sale assets, end of year	\$ 37	\$ 23	\$ 60	\$ 102

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

6. DEFERRED CONTRIBUTIONS (Continued)

The deferred contribution balance of \$5,912,721 (2009 - \$22,962,451) in the Capital Funds component represents capital grants from the Province of Ontario and the CHEO Foundation \$NIL (2009 - \$1,087,952) for the construction project that CHEO has undertaken and for capital equipment. As these funds are spent on construction or equipment, a corresponding amount is transferred to Deferred Contributions for Capital Assets.

7. CAPITAL ASSETS

Capital assets consist of:

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 454	\$ -	\$ 454	\$ 454
Land improvements	482	246	236	253
Buildings	113,345	19,891	93,454	42,301
Major equipment	83,619	48,244	35,375	32,598
Projects in progress	5,263	-	5,263	45,315
	\$ 203,163	\$ 68,381	\$ 134,782	\$ 120,921

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

8. FUNDS HELD-FOR-OTHERS

Funds held-for-others are invested in treasury bills, federal, provincial and corporate bonds earning interest between 0.36% - 7.9% (2009 - 1.8% - 5.04%), maturing on a staggered basis over the next five years, as disclosed in Note 3.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 10,328	\$ 15,476
Add: Amount received during the year	10,897	11,431
Add: Change in unrealized gains on available-for-sale assets	17	85
Less: Amount transferred to CHEO - Research Institute	-	(6,439)
Less: Amount recognized as revenue during the year	<u>(8,523)</u>	<u>(10,225)</u>
Balance, end of year	<u>\$ 12,719</u>	<u>\$ 10,328</u>
Accumulated unrealized gains (losses) on available-for-sale assets, beginning of year	<u>\$ 60</u>	<u>\$ (25)</u>
Accumulated unrealized gains on available-for-sale assets, end of year	<u>\$ 77</u>	<u>\$ 60</u>

9. LONG-TERM DEBT

	<u>2010</u>	<u>2009</u>
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	\$ 4,528	\$ 4,761
Current portion	<u>244</u>	<u>233</u>
Long-term portion	<u>\$ 4,284</u>	<u>\$ 4,528</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

9. LONG-TERM DEBT (Continued)

The estimated fair value of the loan is \$4,677,175 (2009 - \$5,089,414) based on a quoted market as at March 31, 2010 of 3.98% (2009 - 3.5%).

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

2010/11	\$	244
2011/12		254
2012/13		266
2013/14		279
2014/15		289
		<hr/>
	\$	1,332

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, 2010 and 2009.

10. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

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

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 84,757	\$ 54,909
Add: amount received during the year	1,007	661
Add: amount transferred from deferred contributions	18,205	28,956
Add: amount contributed by the CHEO Foundation	2,786	6,138
Less: amount recognized as revenue during the year	(7,771)	(5,907)
Balance, end of year	<u>\$ 98,984</u>	<u>\$ 84,757</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

11. ACCRUED EMPLOYEE FUTURE BENEFITS

CHEO offers defined benefit plans which provide pension and other post-retirement and post-employment benefits to most of its employees. The liability associated with the post-retirement and post-employment plans as at March 31, 2010 was as follows:

	<u>2010</u>	<u>2009</u>
Accrued benefit obligation	\$ 2,625	\$ 1,820
Unamortized past service cost	(114)	(135)
Unamortized actuarial loss (gain)	(172)	204
	<hr/>	<hr/>
Accrued benefit liability	\$ 2,339	\$ 1,889

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 \$9,260,991 (2009 - \$8,971,894). These amounts are included in the operating expenses.

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. These defined benefit plans are not funded. An actuarial valuation was performed as at April 1, 2009 and the results extrapolated as at March 31, 2010.

Other information

Current service cost	\$ 11	\$ 254
Interest cost on accrued benefit obligation	65	115
Experience loss (gain)	369	(415)
Amortization of past service costs	22	22
Amortization of actuarial loss	531	447
	<hr/>	<hr/>
Benefit expense	\$ 998	\$ 423

The 2010 benefit expense was calculated using a discount rate of 8.75% (2009 - 6.00%) based on the prevailing corporate bond rates at the beginning of the year. The benefits paid during the year totalled \$547,500 (2009 - \$144,700).

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

11. ACCRUED EMPLOYEE FUTURE BENEFITS (Continued)

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2010 are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	6.30%	8.75%
Medical inflation	10.00%	10.00%
Dental inflation	5.00%	5.00%

12. 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 \$538,830. 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, 2010 was \$296,357.
- 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 10-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 \$2,512,139.
- d) From time to time, CHEO is a party to claims related to its operations, the majority of which are covered under the Hospital'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 the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

12. 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, 2010.
- f) A major expansion project was initiated in November 2007 for a total cost of \$58,066,775 with an estimated completion date of January 2011. As at March 31, 2010, the project is approximately 93% completed. Cash flow commitment for 2010-11 is approximately \$9,000,000. There is currently an outstanding delay claim by the contractor in the amount of \$512,000. This claim is currently in dispute and it is management's position at this time that it will be reversed.
- g) As at March 31, 2010, CHEO had a letter of credit of \$172,229 related to landscaping requirements of the City of Ottawa on completion of the East Wing.

13. NET ASSETS INVESTED IN CAPITAL ASSETS

Investment in capital assets is calculated as follows:

	<u>2010</u>	<u>2009</u>
Capital assets	\$ 134,782	\$ 120,921
Amounts financed by:		
Deferred contributions for capital assets	(98,984)	(84,757)
Long-term debt from the CHEO Foundation	(4,528)	(4,761)
	<u>\$ 31,270</u>	<u>\$ 31,403</u>

14. CAPITAL MANAGEMENT

CHEO's Net Assets (Capital) are comprised of amounts invested in capital assets less related financing thereon (Note 13) 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, 2010 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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

15. RELATED ENTITIES

CHEO is related to the following entities by virtue of representation on their Boards or other forms of influence. CHEO does not have control of these entities:

Children's Hospital of Eastern Ontario Foundation

CHEO has representation on the Board of Directors of the Children's Hospital of Eastern Ontario Foundation (the Foundation) which assists the Hospital through funding certain of its priorities. The Foundation is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act. The net assets and results of operations of the Foundation are not included in CHEO's financial statements.

During the year, CHEO received total contributions from the Foundation in the amount of \$4,149,976 (2009 - \$8,853,697) allocated as follows: operating contributions \$50,000 (2009 - \$50,000), major equipment \$2,785,513 (2009 - \$957,270), capital projects \$NIL (2009 - \$6,269,225) and other special purpose funds in the amount of \$1,314,463 (2009 - \$1,577,202), which are not included as revenues or expenses of CHEO.

CHEO also received funds from the Foundation on behalf of the CHEO Research Institute in the amount of \$1,721,000 (2009 - \$1,505,000) for CHEO Research Institute operating costs and \$1,484,538 (2009 - \$353,039) for Research Projects, which are not included as revenues or expenses of CHEO.

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 \$200,000 (2009 - \$NIL) to CHEO for specific needs.

CHEO also received funds from the Association on behalf of the CHEO Research Institute in the amount of \$100,000 (2009 - \$100,000), which are not included as revenues or expenses of CHEO.

Children's Hospital of Eastern Ontario Research Institute Inc.

CHEO has representation on the Board of the CHEO Research Institute. The net assets and results of operations of the CHEO Research Institute are not included in CHEO's financial statements.

16. COMPARATIVE FIGURES

Certain numbers of the previous year, presented for comparative purposes, have been reclassified in order to conform to the current year's presentation.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO**Other Funded Programs**

year ended March 31, 2010

(tabular amounts are in thousands of dollars)

	2010			2009		
	Revenue	Expenses	Net	Revenue	Expenses	Net
MOHLTC						
Clinical Education	\$ 30,245	\$ 30,245	\$ -	\$ 38,944	\$ 38,944	\$ -
Municipal Taxes	17	17	-	17	17	-
Special Drug Program	2,150	2,150	-	1,894	1,894	-
Eating Disorders	2,290	2,395	105	2,149	2,149	-
MCYS programs						
Autism - IBI (A592)	7,434	7,434	-	6,987	6,987	-
Autism - Spectrum Disorder (A594)	1,967	1,967	-	2,090	2,090	-
Specialized Psychiatric Mental Health Services (A579 & A556)	2,071	2,071	-	2,055	2,055	-
Section 23 Classrooms (A566)	1,567	1,567	-	1,567	1,567	-
Dual diagnosis (A583)	438	438	-	407	407	-
Telepsychiatry (A561)	226	226	-	190	190	-
Centre of Excellence	5,685	5,685	-	5,700	5,700	-
Other Programs						
Sexual Assault Program - TOH	155	155	-	148	148	-
Pinecrest Queensway - First Words	487	487	-	516	516	-
Northern Diabetes Program	640	640	-	620	620	-
PPESO	739	739	-	985	985	-
BORN	5,013	5,013	-	-	-	-
	\$ 61,124	\$ 61,229	\$ 105	\$ 64,269	\$ 64,269	\$ -

Clinical Education

During the year, the Clinical Education Program incurred expenses of \$30,244,690 (2009 - \$38,943,686) and received \$33,906,052 (2009 - \$39,367,794) from the Ministry of Health and Long-Term Care (MOHLTC). The excess funding must be returned to the Ministry of Health and, as such, a payable of \$3,361,362 (2009 - \$424,108) has been recorded. As of January 1, 2010 CHEO transferred the Clinical Education Program for the Residents to the University of Ottawa.

MCYS - Ministry of Children and Youth Services

During the year, the MCYS funded programs incurred expenses of \$19,388,481 (2009 - \$18,995,801) and received funding of \$19,502,339 (2009 - \$19,072,390). Accordingly, a payable of \$113,858 has been recorded (2009 - a net receivable of \$494,427).