

*Financial statements of*

**CHILDREN'S HOSPITAL OF  
EASTERN ONTARIO**

*March 31, 2011*

## Independent Auditor's Report

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Children's Hospital of Eastern Ontario, which comprise the balance sheet as at March 31, 2011 and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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## **Independent Auditor's Report (Continued)**

### *Auditor's Responsibility (Continued)*

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

### *Auditor's Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Children's Hospital of Eastern Ontario as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### ***Report on Other Legal and Regulatory Requirements***

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 / s. r. l.*

Chartered Accountants  
Licensed Public Accountants

June 14, 2011

**CHILDREN'S HOSPITAL OF EASTERN ONTARIO**  
**Financial Statements**  
**March 31, 2011**

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# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Statement of Revenue and Expenses

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Revenue		
Ministry of Health and Long-Term Care (MOHLTC) / Local Health Integration Network (LHIN)	\$ 128,829	\$ 125,072
Inpatient from other sources	21,625	16,997
Outpatient - OHIP and other sources	14,954	14,047
Preferred accommodation	1,748	1,977
Other operating revenues	5,684	5,390
Recoveries	13,550	13,733
Amortization of deferred contributions for equipment	5,862	5,634
Other funded programs (Schedule A)	32,581	61,124
	<u>224,833</u>	<u>243,974</u>
Expenses		
Salaries and wages	98,618	95,670
Benefits contributions	22,879	23,371
Medical staff remuneration	6,666	6,133
Supplies and other expenses	30,590	30,041
Medical and surgical supplies	7,617	7,863
Drugs and medical gases	8,000	6,610
Bad debts	463	460
Bank charges and interest	260	252
Amortization - equipment	11,219	10,393
Other funded programs (Schedule A)	32,581	61,229
	<u>218,893</u>	<u>242,022</u>
Excess of revenue over expenses before amortization of buildings and amortization of deferred contributions for buildings	<u>5,940</u>	<u>1,952</u>
Amortization of buildings	3,330	3,152
Amortization of deferred contributions for buildings	(2,327)	(2,137)
	<u>1,003</u>	<u>1,015</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$ 4,937</b>	<b>\$ 937</b>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

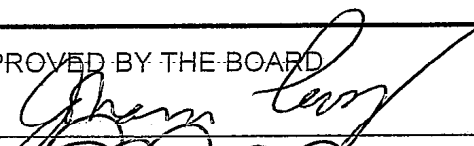
## Balance Sheet


as at March 31, 2011

(tabular amounts are in thousands of dollars)

	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 2,744	\$ 8,062
Investments (Note 3)	6,776	2,993
Accounts receivable	9,036	7,254
Accounts receivable - MOHLTC/LHIN	4,014	862
Inventories	2,256	2,367
Prepaid expenses	2,426	2,697
Due from CHEO Foundation (Note 4)	202	250
Due from CHEO Research Institute (Note 5)	952	104
	<b>28,406</b>	24,589
DESIGNATED INVESTMENTS (Notes 3 and 6)	8,693	9,789
CAPITAL ASSETS (Note 7)	137,929	134,782
FUNDS HELD FOR OTHERS (Notes 3 and 8)	11,727	12,719
LOAN DUE FROM CHEO RESEARCH INSTITUTE (Note 5)	1,445	1,530
	<b>\$ 188,200</b>	\$ 183,409
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 25,216	\$ 23,132
Accounts payable - MOHLTC/LHIN	4,704	3,959
Current portion of long-term debt	254	244
	<b>30,174</b>	27,335
DEFERRED CONTRIBUTIONS (Note 6)	8,693	9,789
LONG-TERM DEBT (Note 9)	4,030	4,284
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 10)	99,339	98,984
ACCRUED EMPLOYEE FUTURE BENEFITS (Note 11)	1,341	2,339
FUNDS HELD FOR OTHERS (Note 8)	11,727	12,719
	<b>155,304</b>	155,450
<b>CONTINGENT LIABILITIES AND COMMITMENTS (Note 12)</b>		
<b>NET ASSETS</b>		
Invested in capital assets (Note 13)	34,306	31,270
Unrestricted (deficiency)	(1,410)	(3,311)
	<b>32,896</b>	27,959
	<b>\$ 188,200</b>	\$ 183,409

APPROVED BY THE BOARD

  
Trustee

  
Trustee

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Statement of Changes in Net Assets

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

	Invested in Capital Assets	Unrestricted	Total	
			2011	2010
BALANCE, BEGINNING OF YEAR	\$ 31,270	\$ (3,311)	\$ 27,959	\$ 27,022
Excess of revenue over expenses	-	4,937	4,937	937
Additions to capital assets	17,887	(17,887)	-	-
Disposal capital assets	(192)	192	-	-
Amortization of capital assets	(14,548)	14,548	-	-
Repayment of long-term debt	244	(244)	-	-
Increase in deferred contributions for capital assets	(8,544)	8,544	-	-
Amortization of deferred contributions for capital assets	8,189	(8,189)	-	-
BALANCE, END OF YEAR	\$ 34,306	\$ (1,410)	\$ 32,896	\$ 27,959

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Statement of Cash Flows

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

	<u>2011</u>	<u>2010</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	\$ 4,937	\$ 937
Items not affecting cash		
Amortization		
- Capital assets	14,548	13,545
- Deferred contributions for capital assets	(8,189)	(7,771)
Decrease in accrued employee future benefits	(998)	450
Decrease in deferred contributions	(2,088)	(16,652)
	<b>8,210</b>	<b>(9,491)</b>
Changes in non-cash operating working capital items		
Account receivable	(4,934)	997
Due from Cheo Foundation/ Research Institute	(800)	113
Inventories	111	(339)
Prepaid expenses	271	(281)
Accounts payable and accrued liabilities	3,253	(1,055)
	<b>6,111</b>	<b>(10,056)</b>
INVESTING		
Net (acquisitions) disposal of investments	(1,695)	11,983
Net purchases of capital assets	(17,695)	(27,406)
Loan due from CHEO Research Institute	85	85
Changes in accounts payable for construction	(424)	610
	<b>(19,729)</b>	<b>(14,728)</b>
FINANCING		
Repayment of long-term debt	(244)	(233)
Deferred contributions for capital assets	8,544	21,998
	<b>8,300</b>	<b>21,765</b>
NET CASH OUTFLOW	<b>(5,318)</b>	<b>(3,019)</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<b>8,062</b>	11,081
CASH AND CASH EQUIVALENTS, END OF YEAR	<b>\$ 2,744</b>	<b>\$ 8,062</b>
Interest paid	\$ 260	\$ 251

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 1. DESCRIPTION

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a) *Future changes in accounting policies*

In December 2010, the Public Sector Accounting Board changed the accounting framework required to be followed by Government Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, Government Not-for-Profit Organizations will be required to select from either (a) the CICA Public Sector Accounting Handbook, including Sections PS 4200 to PS 4270 or, alternatively, (b) the CICA Public Sector Accounting Handbook without Sections PS 4200 to PS 4270. Early adoption of these new standards is permitted. The impact of transitioning has not been determined at this time.

#### 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.

Classifications 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

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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.

#### Other liabilities

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

#### Fair value

The fair value of CHEO's cash, accounts receivable, accounts payable and accrued liabilities approximates cost due to their short-term nature. The fair value of investments is described in Note 3 and fair value of debt in Note 9.

#### c) *Revenue recognition*

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

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### c) *Revenue recognition (Continued)*

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, 2011  
(tabular amounts are in thousands of dollars)

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**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, 2011 was \$13,544,401 (2010 - \$12,578,403).

*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 as incurred

The cost of capital projects in progress will be transferred to the cost of buildings and/or major equipment and begin to be amortized when construction/implementation is complete and the facility/software is put in use.

*h) Long-term 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, 2011

(tabular amounts are in thousands of dollars)

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### 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 15 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, 2011

(tabular amounts are in thousands of dollars)

### 3. INVESTMENTS

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 6,332	\$ 6,332	\$ 7,650	\$ 7,650
Federal bonds	2,378	2,373	1,768	1,792
Provincial bonds	6,944	6,889	5,580	5,619
Corporate bonds	11,542	11,415	10,503	10,303
	<b>\$ 27,196</b>	<b>\$ 27,009</b>	\$ 25,501	\$ 25,364

Total investments are allocated as follows:

	2011	2010
Investments	\$ 6,776	\$ 2,993
Designated investments	8,693	9,789
Funds held for others	11,727	12,719
	<b>\$ 27,196</b>	\$25,501

Short-term investments consist of money market mutual funds and treasury bills which mature within the next twelve months earning interest between 0.60% and 2.65% (2010 - 0.36% and 2.25%).

Bonds and notes are debt obligations of governments and corporate entities paying interest at rates appropriate to the market at their date of purchase. The bonds mature at face value on a staggered basis until 2019. Interest rates for these securities range from 1.43% to 7.90% (2010 - 0.36% to 7.9%).

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, 2011

(tabular amounts are in thousands of dollars)

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### 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>2011</u>	<u>2010</u>
Loan receivable	\$ 1,530	\$ 1,615
Current portion	85	85
Long-term portion	<u>\$ 1,445</u>	<u>\$ 1,530</u>

In addition to the current portion of the loan receivable the CHEO Research Institute owed CHEO \$867,000 (2010 - \$19,000) as at March 31, 2011. 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, 2011

(tabular amounts are in thousands of dollars)

### 6. DEFERRED CONTRIBUTIONS

Changes in the deferred contribution balances are as follows:

	2011			2010
	Capital Funds	Other	Total	Total
Balance, beginning of year	\$ 5,913	\$ 3,876	\$ 9,789	\$ 26,441
Add: amount received during the year	3,692	3,139	6,831	4,200
Add: interest earned	118	-	118	137
Add: change in unrealized gains (losses) on available- for-sale assets	2	17	19	(41)
Amounts transferred	(273)	273	-	-
Less: amount transferred to deferred contributions for capital assets	(5,226)	-	(5,226)	(18,205)
Less: amount recognized as revenue during the year	-	(2,838)	(2,838)	(2,743)
Balance, end of year	\$ 4,226	\$ 4,467	\$ 8,693	\$ 9,789
Accumulated unrealized gains (losses) on available- for-sale assets, beginning of year	\$ 37	\$ 23	\$ 60	\$ (101)
Accumulated unrealized gains on available- for-sale assets, end of year	\$ 39	\$ 40	\$ 79	\$ 60

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 6. DEFERRED CONTRIBUTIONS (Continued)

The deferred contribution balance of \$4,225,957 (2010 - \$5,912,721) 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.

### 7. CAPITAL ASSETS

Capital assets consist of:

	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 454	\$ -	\$ 454	\$ 454
Land improvements	1,166	432	734	907
Buildings	118,560	23,034	95,526	92,783
Major equipment	96,560	59,464	37,096	35,375
Projects in progress	4,119	-	4,119	5,263
	<b>\$ 220,859</b>	<b>\$ 82,930</b>	<b>\$ 137,929</b>	<b>\$ 134,782</b>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 8. FUNDS HELD-FOR-OTHERS

Funds held-for-others are invested in treasury bills, federal, provincial and corporate bonds earning interest between 1.7% - 7.9% (2010 - 0.36% - 7.9%), maturing on a staggered basis over the next eight years, as disclosed in Note 3.

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 12,719	\$ 10,328
Add: Amount received during the year	5,751	10,897
Add: Change in unrealized gains on available-for-sale assets	31	17
Less: Amount recognized as revenue during the year	<u>(6,774)</u>	<u>(8,523)</u>
Balance, end of year	<u>\$ 11,727</u>	<u>\$ 12,719</u>
Accumulated unrealized gains on available-for-sale assets, beginning of year	<u>\$ 77</u>	<u>\$ 60</u>
Accumulated unrealized gains on available-for-sale assets, end of year	<u>\$ 108</u>	<u>\$ 77</u>

### 9. LONG-TERM DEBT

	<u>2011</u>	<u>2010</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	\$ 4,284	\$ 4,528
Current portion	<u>254</u>	<u>244</u>
Long-term portion	<u>\$ 4,030</u>	<u>\$ 4,284</u>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 9. LONG-TERM DEBT (Continued)

The estimated fair value of the loan is \$4,372,672 (2010 - \$4,677,175) based on a quoted market as at March 31, 2011 of 4.15% (2010 - 3.98%).

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

2011/12	\$	254
2012/13		266
2013/14		279
2014/15		291
2015/16		305
		<hr/>
	\$	1,395

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, 2011 and 2010.

### 10. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

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

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 98,984	\$ 84,757
Add: amount received during the year	374	1,007
Add: amount transferred from deferred contributions	5,226	18,205
Add: amount contributed by the CHEO Foundation	2,944	2,786
Less: amount recognized as revenue during the year	(8,189)	(7,771)
Balance, end of year	<u>\$ 99,339</u>	<u>\$ 98,984</u>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 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, 2011 was as follows:

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation	\$ 1,668	\$ 2,625
Unamortized past service cost	(92)	(114)
Unamortized actuarial gain	(235)	(172)
	<hr/>	<hr/>
Accrued benefit liability	\$ 1,341	\$ 2,339

#### *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 \$9,988,256 (2010 - \$9,260,991). 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, 2011.

#### *Other information*

Current service cost	\$ 22	\$ 11
Interest cost on accrued benefit obligation	74	65
Experience loss	67	369
Amortization of past service costs	22	22
Amortization of actuarial loss (gain)	(754)	531
	<hr/>	<hr/>
Benefit expense (recovery)	\$ (569)	\$ 998

The 2011 benefit expense (recovery) was calculated using a discount rate of 6.3% (2010 - 8.75%) based on the prevailing corporate bond rates at the beginning of the year. The benefits paid during the year totalled \$429,800 (2010 - \$547,500).

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2011

(tabular amounts are in thousands of dollars)

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### 11. ACCRUED EMPLOYEE FUTURE BENEFITS (Continued)

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2011 are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate	6.0%	6.3%
Medical inflation	8.0%	10.0%
Dental inflation	5.0%	5.0%

### 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 \$583,830. Should the lease be terminated by CHEO before March 31, 2022, CHEO will be required to reimburse the OCTC a prorated amount of their capital contribution in accordance with the provisions of the lease agreement, for which the maximum amount as at March 31, 2011 was \$321,107 (2010 - \$350,298).
- 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 \$3,909,887.
- 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, 2011

(tabular amounts are in thousands of dollars)

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### 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, 2011.
- f) A major expansion project was initiated in November 2007 for a total cost of \$58,066,775 with an estimated completion date of June 2012. As at March 31, 2011, the project is approximately 98% completed. Cash flow commitment for 2011-12 is less than \$1,000,000.
- g) As at March 31, 2011, CHEO had a letter of credit of \$177,229 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>2011</u>	<u>2010</u>
Capital assets	\$ 137,929	\$ 134,782
Amounts financed by:		
Deferred contributions for capital assets	(99,339)	(98,984)
Long-term debt from the CHEO Foundation	(4,284)	(4,528)
	<u>\$ 34,306</u>	<u>\$ 31,270</u>

The 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. 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, 2011 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, 2011

(tabular amounts are in thousands of dollars)

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### 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 and Children's Hospital of Eastern Ontario Research Institute Inc. by virtue of representation on their Boards or other forms of influence. CHEO does not have control of these entities:

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 \$4,607,294 (2010 - \$4,149,976) allocated as follows: operating contributions \$50,000 (2010 - \$50,000), major equipment \$2,944,349 (2010 - \$2,785,513), and other special purpose funds in the amount of \$1,612,945 (2010 - \$1,314,463); and the later is not included as a revenue or expense of CHEO.

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 \$64,378 (2010 - \$200,000) to CHEO for specific needs.

### 16. CREDIT, LIQUIDITY AND MARKET RISK

The CHEO is subject to credit risk through its accounts receivable which management monitors on a regular basis. Management does not believe they are exposed to any significant credit, liquidity or market risks. Risks related to investments are disclosed in Note 3.

### 17. COMPARATIVE FIGURES

Certain comparative figures 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, 2011

(tabular amounts are in thousands of dollars)

	2011			2010		
	Revenue	Expenses	Net	Revenue	Expenses	Net
<b>MOHLTC</b>						
Clinical Education	\$ 974	\$ 974	\$ -	\$ 30,245	\$ 30,245	\$ -
Municipal Taxes	17	17	-	17	17	-
Special Drug Program	2,268	2,268	-	2,150	2,150	-
Eating Disorders	2,420	2,420	-	2,290	2,395	105
<b>MCYS programs</b>						
Autism - IBI (A592)	7,632	7,632	-	7,434	7,434	-
Autism - Spectrum Disorder (A594)	1,952	1,952	-	1,967	1,967	-
Autism - One Time (A557 & A710)	58	58	-	-	-	-
Specialized Psychiatric Mental Health Services (A579 & A556)	2,023	2,023	-	2,071	2,071	-
Section 23 Classrooms (A566)	1,567	1,567	-	1,567	1,567	-
Dual diagnosis (A583)	403	403	-	438	438	-
Telepsychiatry (A561)	232	232	-	226	226	-
Centre of Excellence	4,861	4,861	-	5,685	5,685	-
<b>Other Programs</b>						
Sexual Assault Program - TOH	152	152	-	155	155	-
Pinecrest Queensway - First Words	570	570	-	487	487	-
Northern Diabetes Program	659	659	-	640	640	-
Champlain Maternal Newborn Regional Program (formerly PPESO)	974	974	-	739	739	-
BORN	5,819	5,819	-	5,013	5,013	-
	<b>\$ 32,581</b>	<b>\$ 32,581</b>	<b>\$ -</b>	<b>\$ 61,124</b>	<b>\$ 61,229</b>	<b>\$ 105</b>

*Clinical Education*

During the year, the Clinical Education Program incurred expenses of \$973,834 (2010 - \$30,244,690) and received \$743,245 (2010 - \$33,906,052) from the Ministry of Health and Long-Term Care (MOHLTC). Accordingly, a receivable of \$230,589 (2010 - a payable of \$3,361,362) 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 \$18,728,763 (2010 - \$19,388,481) and received funding of \$18,810,773 (2010 - \$19,502,339). Accordingly, a payable of \$82,010 has been recorded (2010 - a payable of \$113,858).