

*Financial statements of*

**CHILDREN'S HOSPITAL OF  
EASTERN ONTARIO**

*March 31, 2009*



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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, 2009 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, 2009 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 15, 2009

**CHILDREN'S HOSPITAL OF EASTERN ONTARIO**  
**Financial Statements**  
**March 31, 2009**

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# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Statement of Revenue and Expenses

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

	<u>2009</u>	<u>2008</u>
Revenue		
Ministry of Health and Long-Term Care/LHIN	\$ 118,869	\$ 117,956
Inpatient from other sources	17,597	14,247
Outpatient - OHIP and other sources	12,882	10,862
Preferred accommodation	2,121	1,883
Other operating revenues	5,173	5,323
Recoveries	12,618	10,040
Amortization of deferred contributions for equipment	4,850	4,045
Other funded programs (Schedule A)	64,269	60,960
	<u>238,379</u>	<u>225,316</u>
Expenses		
Salaries and wages	91,913	87,900
Benefits contributions	22,057	21,007
Medical staff remuneration	6,103	7,402
Supplies and other expenses	29,404	26,347
Medical and surgical supplies	7,460	6,722
Drugs and medical gases	6,275	5,001
Bad debts	362	572
Bank charges and interest	272	256
Amortization - equipment	8,965	7,444
Other funded programs (Schedule A)	64,269	60,960
	<u>237,080</u>	<u>223,611</u>
Excess of revenue over expenses before amortization of buildings	1,299	1,705
Amortization of buildings	1,792	2,059
Amortization of deferred contributions for buildings	(1,057)	(1,026)
	<u>735</u>	<u>1,033</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$ 564</b>	<b>\$ 672</b>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

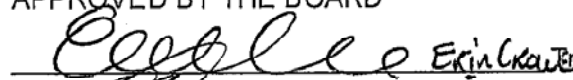
## Balance Sheet

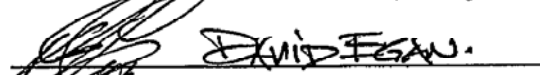
as at March 31, 2009

(tabular amounts are in thousands of dollars)

	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash (Note 5)	\$ 9,405	\$ 1,236
Accounts receivable	8,672	9,964
Accounts receivable - MOHLTC/LHIN	441	6,978
Inventories	2,028	1,975
Prepaid expenses	2,416	2,007
Due from CHEO Foundation (Note 6)	177	883
Due from CHEO Research Institute (Note 7)	290	-
	<b>23,429</b>	23,043
DESIGNATED CASH AND INVESTMENTS (Notes 5 and 8)	26,441	29,307
CAPITAL ASSETS (Note 9)	120,921	89,317
FUNDS HELD FOR OTHERS (Notes 5 and 10)	10,328	15,476
LOAN DUE FROM CHEO RESEARCH INSTITUTE (Note 7)	1,615	-
	<b>\$ 182,734</b>	<b>\$ 157,143</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 25,888	\$ 21,801
Accounts payable - MOHLTC/LHIN	1,648	2,535
Current portion of long-term debt	233	216
	<b>27,769</b>	24,552
DEFERRED CONTRIBUTIONS (Note 8)	26,441	29,307
LONG-TERM DEBT (Note 11)	4,528	4,761
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 12)	84,757	54,909
ACCRUED EMPLOYEE FUTURE BENEFITS (Note 13)	1,889	1,680
FUNDS HELD FOR OTHERS (Note 10)	10,328	15,476
	<b>155,712</b>	130,685
<b>CONTINGENT LIABILITIES AND COMMITMENTS (Note 14)</b>		
<b>NET ASSETS</b>		
Invested in capital assets (Note 15)	31,403	29,431
Unrestricted (deficiency)	(4,381)	(2,973)
	<b>27,022</b>	26,458
	<b>\$ 182,734</b>	<b>\$ 157,143</b>

APPROVED BY THE BOARD

 Erin Krause Trustee

 David Fagan Trustee

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Statement of Changes in Net Assets

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

	Invested in Capital Assets	Unrestricted	Total	
			2009	2008
BALANCE, BEGINNING OF YEAR	\$ 29,431	\$ (2,973)	\$ 26,458	\$ 25,786
Excess of revenue over expenses	-	564	564	672
Additions to capital assets	42,361	(42,361)	-	-
Amortization of capital assets	(10,757)	10,757	-	-
Repayment of long-term debt	216	(216)	-	-
Increase in deferred contributions for capital assets	(35,755)	35,755	-	-
Amortization of deferred contributions for capital assets	5,907	(5,907)	-	-
BALANCE, END OF YEAR	\$ 31,403	\$ (4,381)	\$ 27,022	\$ 26,458

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Statement of Cash Flows

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

	<u>2009</u>	<u>2008</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	\$ 564	\$ 672
Items not affecting cash		
Amortization		
- Capital assets	10,757	9,503
- Deferred contributions for capital assets	(5,907)	(5,071)
Increase in accrued employee future benefits	209	237
	<u>5,623</u>	<u>5,341</u>
Changes in non-cash operating working capital items	<u>7,469</u>	<u>(3,170)</u>
	<u>13,092</u>	<u>2,171</u>
INVESTING		
Net purchase of capital assets	(42,361)	(13,884)
Loan due from CHEO Research Institute	(1,700)	-
Changes in accounts payable for construction	3,599	1,114
	<u>(40,462)</u>	<u>(12,770)</u>
FINANCING		
Repayment of long-term debt	(216)	(625)
Reduction in amounts due from CHEO Foundation for capital projects	-	347
Deferred contributions for capital assets	35,755	6,585
	<u>35,539</u>	<u>6,307</u>
NET CASH INFLOW (OUTFLOW)	<u>8,169</u>	<u>(4,292)</u>
CASH, BEGINNING OF YEAR	<u>1,236</u>	<u>5,528</u>
CASH, END OF YEAR	<u>\$ 9,405</u>	<u>\$ 1,236</u>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(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 Corporations Act of Ontario. 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) *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 method.

Classification made by CHEO:

Cash	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.



# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### a) *Financial instruments (Continued)*

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 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.

#### b) *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.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

#### d) *Contributed 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) *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, 2009 was \$12,578,403.

#### f) *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.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *g) 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.

#### *h) Long-term lease agreements*

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

#### *i) Employee future benefits*

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

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.

#### *j) Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 3. CURRENT ACCOUNTING CHANGES

#### *Section 3031 - Inventories*

In June 2007, the Canadian Institute of Chartered Accountants (CICA) issued Section 3031, *Inventories*, replacing Section 3030, *Inventories*. On January 1, 2008 CHEO adopted the requirements of this section. The standard provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this new standard, has not resulted in any change in how CHEO accounts for its transactions, but does result in additional disclosure.

#### *Section 1535 - Capital Disclosures*

In December 2007, the CICA issued Section 1535 *Capital Disclosures*. On January 1, 2008, CHEO adopted the requirements of this section. The adoption of this new standard has not resulted in any change in how CHEO accounts for its transactions, but does result in additional disclosure, which is presented in Note 16.

#### *Section 3855 - Financial Instruments - Recognition and Measurement*

On April 23, 2008 the CICA amended Section 3855, *Financial Instruments - Recognition and Measurement* of the CICA Handbook. The amended section allows not-for-profit organizations to elect not to account for certain non-financial contracts as derivatives and also not to account for certain derivative features embedded in non-financial contracts, leases and insurance contracts as embedded derivatives. If CHEO did not elect this option it would be required to account for derivative financial instruments and embedded derivative financial instruments in accordance with the guidance in section 3855.

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.

#### *Section 3862- Financial Instruments - Disclosures, Section 3863 - Financial Instruments - Presentation*

CHEO did not adopt CICA Sections 3862 and 3863 this year as the adoption of these sections became optional in late 2008 for not-for-profit organizations.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 4. FUTURE ACCOUNTING CHANGE

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

In September 2008, the 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 will have to adopt the amended standards for its fiscal year beginning January 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.

CHEO is currently evaluating the impact of the adoption of these new standards on its financial statements. CHEO does not expect that the adoption of these new standards will have a material impact on its financial statements.

### 5. CASH AND INVESTMENTS

	2009		2008	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash	\$ 11,081	\$ 11,081	\$ 10,862	\$ 10,862
Short-term investments	18,081	18,034	22,158	22,084
Federal bonds	1,564	1,558	2,933	2,903
Provincial bonds	1,904	1,862	1,811	1,814
Corporate bonds	13,544	13,477	8,255	8,398
	<b>\$ 46,174</b>	<b>\$ 46,012</b>	<b>\$ 46,019</b>	<b>\$ 46,061</b>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 5. CASH AND INVESTMENTS (Continued)

Total cash and investments are allocated as follows:

	<u>2009</u>	<u>2008</u>
Cash	<b>\$ 9,405</b>	\$ 1,236
Designated cash and investments	<b>26,441</b>	29,307
Funds held for others	<b>10,328</b>	15,476
	<b><u>\$ 46,174</u></b>	<b><u>\$ 46,019</u></b>

Short-term investments consist of money market mutual funds and treasury bills which mature within the next twelve months earning interest between 0.21% and 2.6% (2008 - 2.03% - 4.47%).

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 3.5% to 5.5% (2008 - 3.5% - 5.6%).

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.

#### *Concentration of risk*

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that the concentrations described above do not represent excessive risk for CHEO.

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 6. DUE FROM CHEO FOUNDATION

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

### 7. DUE 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.

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

In addition to the current portion of the loan receivable the CHEO Research Institute owed CHEO \$205 (2008 - \$NIL) as at March 31, 2009. 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, 2009

(tabular amounts are in thousands of dollars)

### 8. DEFERRED CONTRIBUTIONS

Changes in the deferred contribution balances are as follows:

	2009			2008
	Capital Funds	Other	Total	Total
Balance, beginning of year	\$ 26,066	\$ 3,241	\$ 29,307	\$ 21,491
Add: amount received during the year	25,026	1,984	27,010	8,878
Add: amount receivable at year-end	-	-	-	5,371
Add: interest earned	564	-	564	635
Add: changes in unrealized gains on available-for-sale assets	100	19	119	87
Less: amount transferred to accounts payable/other designated funds	-	-	-	(249)
Less: amount transferred to deferred contributions for capital assets	(28,956)	-	(28,956)	(4,105)
Less: amount recognized as revenue during the year	-	(1,603)	(1,603)	(2,801)
Balance, end of year	<u>\$ 22,800</u>	<u>\$ 3,641</u>	<u>\$ 26,441</u>	<u>\$ 29,307</u>
Accumulated unrealized gains (losses) on available-for-sale assets, beginning of year	<u>\$ 1</u>	<u>\$ (18)</u>	<u>\$ (17)</u>	<u>\$ (104)</u>
Accumulated unrealized gains (losses) on available-for-sale assets, end of year	<u>\$ 101</u>	<u>\$ 1</u>	<u>\$ 102</u>	<u>\$ (17)</u>



# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 8. DEFERRED CONTRIBUTIONS (Continued)

The deferred contribution balance of \$22,800,145 (2008 - \$23,740,891) in the Capital Funds component represents capital grants from the Province of Ontario and the CHEO Foundation (\$1,087,952; 2008 - \$NIL) 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.

### 9. CAPITAL ASSETS

Capital assets consist of:

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 454	\$ -	\$ 454	\$ 454
Land improvements	482	229	253	551
Buildings	59,057	16,756	42,301	43,816
Major equipment	70,449	37,851	32,598	32,578
Projects in progress	45,315	-	45,315	11,918
	<b>\$ 175,757</b>	<b>\$ 54,836</b>	<b>\$ 120,921</b>	<b>\$ 89,317</b>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

### 10. FUNDS HELD-FOR-OTHERS

Funds held-for-others are invested in treasury bills, federal, provincial and corporate bonds earning interest between 1.8% - 5.04% (2008 - 2.13% - 4.47%), maturing on a staggered basis over the next five years, as disclosed in Note 5.

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 15,476	\$ 11,711
Add: Amount received during the year	12,222	14,473
Add: Funds transferred from deferred contributions	-	249
Add: Changes in unrealized gains on available-for-sale assets	85	46
Less: Amount transferred to CHEO - Research Institute	(6,439)	-
Less: Amount recognized as revenue during the year	<u>(11,016)</u>	<u>(11,003)</u>
Balance, end of year	<u>\$ (10,328)</u>	<u>\$ 15,476</u>
Accumulated unrealized losses on available-for-sale assets, beginning of year	<u>\$ (25)</u>	<u>\$ (71)</u>
Accumulated unrealized gains (losses) on available-for-sale assets, end of year	<u>\$ 60</u>	<u>\$ (25)</u>

### 11. LONG-TERM DEBT

	<u>2009</u>	<u>2008</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	\$ 4,761	\$ 4,977
Current portion	<u>233</u>	<u>216</u>
Long-term portion	<u>\$ 4,528</u>	<u>\$ 4,761</u>

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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

The estimated fair value of the loan is \$5,089,414 (2008 - \$5,284,830) based on a quoted market as at March 31, 2009 at a rate of 3.5% (2008 - 4.4%).

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

<b>2009</b>	<b>\$</b>	<b>232</b>
<b>2010</b>		<b>243</b>
<b>2011</b>		<b>254</b>
<b>2012</b>		<b>266</b>
<b>2013</b>		<b>279</b>
		<hr/>
	<b>\$</b>	<b>1,274</b>

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, 2009 and 2008.

### 12. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

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

	<u><b>2009</b></u>	<u>2008</u>
Balance, beginning of year	<b>\$ 54,909</b>	\$ 53,395
Add: amount received during the year	<b>661</b>	263
Add: amount transferred from deferred contributions	<b>28,956</b>	4,105
Add: amount contributed by the CHEO Foundation	<b>6,138</b>	2,217
Less: amount recognized as revenue during the year	<b>(5,907)</b>	(5,071)
Balance, end of year	<b>\$ 84,757</b>	\$ 54,909

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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### 13. 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 these plans as at March 31, 2009 was as follows:

	<u>2009</u>	<u>2008</u>
Accrued benefit obligation	\$ 1,680	\$ 1,443
Opening balance adjustment	(70)	-
Unamortized actuarial gains not yet recognized in the financial statements	<u>279</u>	<u>237</u>
Accrued benefit liability	<u>\$ 1,889</u>	<u>\$ 1,680</u>

#### *Pension*

Substantially all of the employees of CHEO are eligible to be members of the Hospitals of Ontario Pension Plan which is a multi-employer final-average-pay contributory pension plan. The Plan is accounted for as a defined contribution plan. Employer contributions to the Plan during the year by CHEO amounted to \$8,971,894 (2008 - \$8,394,966). 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 March 31, 2008.

#### *Other information*

	<u>2009</u>	<u>2008</u>
Current service cost	\$ 254	\$ 298
Interest cost on accrued benefit obligation	115	110
Experience gains	(415)	(171)
Amortization of past service costs	22	22
Amortization of actuarial losses	<u>447</u>	<u>49</u>
Benefit expense	<u>\$ 423</u>	<u>\$ 308</u>

The 2009 benefit expense was calculated using a discount rate of 6.00% (2008 - 5.25%) based on the prevailing corporate bond rates at the beginning of the year. The benefits paid during the year totalled \$144,700 (2008 - \$123,478).

# CHILDREN'S HOSPITAL OF EASTERN ONTARIO

## Notes to the Financial Statements

year ended March 31, 2009

(tabular amounts are in thousands of dollars)

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

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2009 are as follows:

	<u>2009</u>	<u>2008</u>
Discount rate	<b>8.75%</b>	6.00%
Medical inflation	<b>10.00%</b>	8.00%
Dental inflation	<b>5.00%</b>	4.00%

### 14. CONTINGENT LIABILITIES AND COMMITMENTS

- a) In 2002, CHEO entered into a lease agreement with the Ottawa Children's Treatment Centre (OCTC) to provide them with rental space in the West Wing. As part of the terms of the agreement, OCTC made a capital contribution of \$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, 2009 was \$323,298.
- b) As a member of the Ottawa Health Sciences Centre Inc., CHEO is party to a Thermal Energy Agreement (TEA) with TransAlta Corporation for the purchase of thermal energy for heating and humidifying the Hospital. The TEA was recently 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 TransAlta plant to meet future site thermal demands. CHEO's portion of this Take or Pay quantity for 2008/2009, plus the surcharge for that year, amounts to \$1,721,320 based upon January 2008 rates.
- c) CHEO is also committed under supplier contracts to purchase services for the next five years for a total amount of \$1,383,095.
- 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, 2009

(tabular amounts are in thousands of dollars)

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### 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, 2009.
- f) A major expansion project was initiated in November 2007 for a total cost of \$58,066,775 with an estimated completion date of December 2010. As at March 31, 2009, the project is approximately 74% completed. Cash flow commitment for 2009-10 is approximately \$10,000,000 with the balance paid in the subsequent fiscal year.
- g) As at March 31, 2009, CHEO had a letter of credit of \$177,229 related to landscaping requirements of the City of Ottawa on completion of the East Wing.

### 15. NET ASSETS INVESTED IN CAPITAL ASSETS

Investment in capital assets is calculated as follows:

	<u>2009</u>	<u>2008</u>
Capital assets	\$ 120,921	\$ 89,317
Amounts financed by:		
Deferred contributions for capital assets	(84,757)	(54,909)
Long-term debt from the CHEO Foundation	(4,761)	(4,977)
	<u>\$ 31,403</u>	<u>\$ 29,431</u>

### 16. CAPITAL MANAGEMENT

CHEO's Net Assets (Capital) are comprised of amounts invested in capital assets less related financing thereon (Note 15) 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, 2009 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, 2009

(tabular amounts are in thousands of dollars)

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### 17. 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 \$8,853,697 (2008 - \$4,236,652) allocated as follows: operating contributions \$50,000 (2008 - \$50,000), debt financing \$NIL (2008 - \$318,112), major equipment \$957,270 (2008 - \$475,560), capital projects \$6,269,225 (2008 - \$1,741,666) and other special purpose funds in the amount of \$1,577,202 (2008 - \$1,651,314), 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 \$1,505,000 (2008 - \$1,366,357) for CHEO Research Institute operating costs and \$353,039 (2008 - \$339,218) 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 \$NIL (2008 - \$104,000) 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 (2008 - \$NIL), 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.

### 18. 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, 2009

(tabular amounts are in thousands of dollars)

	2009			2008		
	Revenue	Expenses	Net	Revenue	Expenses	Net
MOHLTC						
Clinical Education	\$ 38,944	\$ 38,944	\$ -	\$ 36,419	\$ 36,419	\$ -
Municipal Taxes	17	17	-	17	17	-
Special Drug Program	1,894	1,894	-	1,917	1,917	-
Eating Disorders	2,149	2,149	-	2,179	2,179	-
MCYS programs						
Autism - IBI (A592)	6,987	6,987	-	6,353	6,353	-
Autism - Spectrum Disorder (A594)	2,090	2,090	-	1,829	1,829	-
Specialized Psychiatric Mental Health Services (A579 & A556)	2,055	2,055	-	3,690	3,690	-
Section 23 Classrooms (A566)	1,567	1,567	-			
Dual diagnosis (A583)	407	407	-	438	438	-
Telepsychiatry (A561)	190	190	-	140	140	-
Centre of Excellence	5,700	5,700	-	5,900	5,900	-
Other Programs						
Sexual Assault Program - TOH	148	148	-	157	157	-
Pinecrest Queensway - First Words	516	516	-	537	537	-
Northern Diabetes Program	620	620	-	594	594	-
PPESO	985	985	-	790	790	-
	<b>\$ 64,269</b>	<b>\$ 64,269</b>	<b>\$ -</b>	<b>\$ 60,960</b>	<b>\$ 60,960</b>	<b>\$ -</b>

*Clinical Education*

During the year, the Clinical Education Program incurred expenses of \$38,943,686 (2008 - \$36,418,518) and received \$39,367,794 (2008 - \$36,696,875) 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 \$424,108 (2008 - \$278,357) has been recorded.

*MCYS - Ministry of Children and Youth Services*

During the year, the MCYS funded programs incurred expenses of \$18,995,801 (2008 - \$18,349,650) and was committed funding of \$19,072,390 (2008 - \$18,576,012) of which \$571,016 had not been received as of March 31, 2009. Accordingly, a net receivable of \$494,427 has been recorded (2008 - payable of \$226,362).