

Financial statements of

**CHILDREN'S HOSPITAL OF
EASTERN ONTARIO**

March 31, 2012

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, 2012 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.

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, 2012 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

Chartered Accountants
Licensed Public Accountants

June 12, 2012

CHILDREN'S HOSPITAL OF EASTERN ONTARIO
Financial Statements
March 31, 2012

	<u>PAGE</u>
Statement of Revenue and Expenses	1
Balance Sheet	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 20
Schedule A - Other Funded Programs	21

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Revenue and Expenses

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

	<u>2012</u>	<u>2011</u>
Revenue		
Ministry of Health and Long-Term Care (MOHLTC) / Local Health Integration Network (LHIN)	\$ 131,274	\$ 128,829
Inpatient from other sources	22,650	21,625
Outpatient - OHIP and other sources	17,095	14,954
Preferred accommodation	1,935	1,748
Other operating revenues	6,852	5,684
Recoveries	14,605	13,702
Amortization of deferred contributions for equipment	4,334	5,862
Other funded programs (Schedule A)	36,073	32,429
	<u>234,818</u>	<u>224,833</u>
Expenses		
Salaries and wages	102,972	98,748
Benefits contributions	25,569	22,898
Medical staff remuneration	6,992	6,666
Supplies and other expenses	32,496	30,593
Medical and surgical supplies	8,095	7,617
Drugs and medical gases	7,824	8,000
Bad debts	338	463
Bank charges and interest	264	260
Amortization - equipment	10,490	11,219
Other funded programs (Schedule A)	36,073	32,429
	<u>231,113</u>	<u>218,893</u>
Excess of revenue over expenses before amortization of buildings and amortization of deferred contributions for buildings	<u>3,705</u>	<u>5,940</u>
Amortization of buildings	3,490	3,330
Amortization of deferred contributions for buildings	<u>(2,283)</u>	<u>(2,327)</u>
	<u>1,207</u>	<u>1,003</u>
EXCESS OF REVENUE OVER EXPENSES	\$ 2,498	\$ 4,937

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Balance Sheet

as at March 31, 2012

(tabular amounts are in thousands of dollars)

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash	\$ 6,802	\$ 2,744
Investments (Note 3)	-	6,776
Accounts receivable	9,184	9,036
Accounts receivable - MOHLTC/LHIN	3,024	4,014
Inventories	2,240	2,256
Prepaid expenses	2,733	2,426
Due from CHEO Foundation (Note 4)	366	202
Due from CHEO Research Institute (Note 5)	85	952
	24,434	28,406
DESIGNATED INVESTMENTS (Notes 3 and 6)	11,179	8,693
CAPITAL ASSETS (Note 7)	138,734	137,929
FUNDS HELD-FOR-OTHERS (Notes 3 and 8)	12,536	11,727
LOAN DUE FROM CHEO RESEARCH INSTITUTE (Note 5)	1,360	1,445
	\$ 188,243	\$ 188,200
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 24,790	\$ 25,216
Accounts payable - MOHLTC/LHIN	1,087	4,704
Due to CHEO Research Institute (Note 5)	739	-
Current portion of long-term debt	267	254
	26,883	30,174
DEFERRED CONTRIBUTIONS (Note 6)	11,179	8,693
LONG-TERM DEBT (Note 9)	3,763	4,030
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 10)	97,016	99,339
ACCRUED EMPLOYEE FUTURE BENEFITS (Note 11)	1,472	1,341
FUNDS HELD-FOR-OTHERS (Note 8)	12,536	11,727
	152,849	155,304
CONTINGENT LIABILITIES AND COMMITMENTS (Note 12)		
NET ASSETS		
Invested in capital assets (Note 13)	37,688	34,306
Unrestricted deficiency	(2,294)	(1,410)
	35,394	32,896
	\$ 188,243	\$ 188,200

APPROVED BY THE BOARD


Trustee


Trustee

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Changes in Net Assets

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

	Invested in Capital Assets	Unrestricted	Total	
			2012	2011
BALANCE, BEGINNING OF YEAR	\$ 34,306	\$ (1,410)	\$ 32,896	\$ 27,959
Excess of revenue over expenses	-	2,498	2,498	4,937
Additions to capital assets	14,785	(14,785)	-	-
Disposal capital assets	-	-	-	-
Amortization of capital assets	(13,980)	13,980	-	-
Repayment of long-term debt	254	(254)	-	-
Increase in deferred contributions for capital assets	(4,294)	4,294	-	-
Amortization of deferred contributions for capital assets	6,617	(6,617)	-	-
BALANCE, END OF YEAR	\$ 37,688	\$ (2,294)	\$ 35,394	\$ 32,896

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Statement of Cash Flows

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

	<u>2012</u>	<u>2011</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	\$ 2,498	\$ 4,937
Items not affecting cash		
Amortization		
- Capital assets	13,980	14,548
- Deferred contributions for capital assets	(6,617)	(8,189)
Increase (decrease) in accrued employee future benefits	131	(998)
Increase (decrease) in deferred contributions	3,295	(2,088)
	13,287	8,210
Changes in non-cash operating working capital items		
Account receivable	842	(4,934)
Due to/from CHEO Foundation/ Research Institute	1,442	(800)
Inventories	16	111
Prepaid expenses	(307)	271
Accounts payable and accrued liabilities	(1,024)	3,253
	14,256	6,111
INVESTING		
Net (acquisitions) disposal of investments	3,481	(1,695)
Net purchases of capital assets	(14,785)	(17,695)
Loan due from CHEO Research Institute	85	85
Changes in accounts payable for construction	(3,019)	(424)
	(14,238)	(19,729)
FINANCING		
Repayment of long-term debt	(254)	(244)
Deferred contributions for capital assets	4,294	8,544
	4,040	8,300
NET CASH INFLOW (OUTFLOW)	4,058	(5,318)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,744	8,062
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,802	\$ 2,744
Interest paid	\$ 264	\$ 260

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(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 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. CHEO plans to adopt the CICA Public Sector Accounting Handbook, including Sections PS 4200 to PS 4270, for its fiscal year beginning on April 1, 2012. 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, 2012

(tabular amounts are in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Financial instruments (Continued)

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.

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, 2012

(tabular amounts are in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012
(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, 2012 was \$13,881,393 (2011 - \$13,544,401).

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 5 to 15 years according to the class of the asset
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, 2012

(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 14.6 years. The accrued benefit obligation is measured for accounting purposes as at March 31st.

Past service costs are amortized over the expected future years of service to full eligibility of affected employees, which is 13.8 years.

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, 2012

(tabular amounts are in thousands of dollars)

3. CASH AND INVESTMENTS

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Cash	\$ 2,104	\$ 2,104	\$ -	\$ -
Short-term investments	1,169	1,169	6,332	6,332
Federal bonds	2,829	2,781	2,378	2,373
Provincial bonds	7,246	6,945	6,944	6,889
Corporate bonds	10,367	10,051	11,542	11,415
	\$ 23,715	\$ 23,050	\$ 27,196	\$ 27,009

Total investments are allocated as follows:

	2012	2011
Investments	\$ -	\$ 6,776
Designated investments	11,179	8,693
Funds held for others	12,536	11,727
	\$ 23,715	\$27,196

Short-term investments consist of money market mutual funds and treasury bills which mature within the next twelve months earning interest between 1.25% and 2.65% (2011 - 0.60% and 2.65%).

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% (2011 - 1.43% to 7.90%).

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, 2012

(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 TO/FROM CHEO RESEARCH INSTITUTE

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

	<u>2012</u>		<u>2011</u>
Loan receivable	\$ 1,445	\$	1,530
Current portion	85		85
Long-term portion	<u>\$ 1,360</u>	\$	<u>1,445</u>

In addition, as at March 31, 2012, CHEO owed the CHEO Research Institute \$739,000 (2011 due from CHEO Research Institute - \$867,000). 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, 2012

(tabular amounts are in thousands of dollars)

6. DEFERRED CONTRIBUTIONS

Changes in the deferred contribution balances are as follows:

	2012			2011
	Capital Funds	Other	Total	Total
Balance, beginning of year	\$ 4,226	\$ 4,467	\$ 8,693	\$ 9,789
Add: amount received during the year	1,595	2,300	3,895	6,831
Add: interest earned	-	-	-	118
Add: change in unrealized gains on available- for-sale financial assets	165	83	248	19
Amounts transferred	1,477	(1,477)	-	-
Less: amount transferred to deferred contributions for capital assets	(275)	-	(275)	(5,226)
Less: amount recognized as revenue during the year	-	(1,382)	(1,382)	(2,838)
Balance, end of year	<u>\$ 7,188</u>	<u>\$ 3,991</u>	<u>\$ 11,179</u>	<u>\$ 8,693</u>
Accumulated unrealized gains on available- for-sale financial assets, beginning of year	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ 79</u>	<u>\$ 60</u>
Accumulated unrealized gains on available-for-sale financial assets, end of year	<u>\$ 204</u>	<u>\$ 123</u>	<u>\$ 327</u>	<u>\$ 79</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

6. DEFERRED CONTRIBUTIONS (Continued)

The deferred contribution balance of \$7,188,182 (2011 - \$4,225,957) 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:

	2012			2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 454	\$ -	\$ 454	\$ 454
Land improvements	1,166	526	640	734
Buildings	125,980	26,430	99,550	95,526
Major equipment	105,162	69,954	35,208	37,096
Projects in progress	2,882	-	2,882	4,119
	\$ 235,644	\$ 96,910	\$ 138,734	\$ 137,929

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

8. FUNDS HELD-FOR-OTHERS

During the year, CHEO was involved with the administration of several projects. As administrator of these projects, CHEO has accepted the responsibility of collecting funds from supporters and issuing cheques for approved expenses. The receipts and disbursements for the projects are not recognized as revenues and expenses of CHEO. The related assets are disclosed in Note 3.

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 11,727	\$ 12,719
Add: Amount received during the year	8,209	5,751
Add: Change in unrealized gains on available-for-sale financial assets	230	31
Less: Amounts disbursed during the year	<u>(7,630)</u>	<u>(6,774)</u>
Balance, end of year	<u>\$ 12,536</u>	<u>\$ 11,727</u>
Accumulated unrealized gains on available-for-sale financial assets, beginning of year	<u>\$ 108</u>	<u>\$ 77</u>
Accumulated unrealized gains on available-for-sale financial assets, end of year	<u>\$ 338</u>	<u>\$ 108</u>

9. LONG-TERM DEBT

	<u>2012</u>	<u>2011</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	\$ 4,030	\$ 4,284
Current portion	<u>267</u>	<u>254</u>
Long-term portion	<u>\$ 3,763</u>	<u>\$ 4,030</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

9. LONG-TERM DEBT (Continued)

The estimated fair value of the loan is \$4,476,475 (2011 - \$4,372,672) based on a quoted market rate as at March 31, 2012 of 3.75% (2011 - 4.15%).

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

2012/13	\$	267
2013/14		279
2014/15		291
2015/16		305
2016/17		319
		<hr/>
	\$	1,461

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, 2012 and 2011.

10. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

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

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 99,339	\$ 98,984
Add: amount received during the year	933	374
Add: amount transferred from deferred contributions	275	5,226
Add: amount contributed by the CHEO Foundation	3,086	2,944
Less: amount recognized as revenue during the year	<u>(6,617)</u>	<u>(8,189)</u>
Balance, end of year	<u>\$ 97,016</u>	<u>\$ 99,339</u>

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

11. ACCRUED EMPLOYEE FUTURE BENEFITS

CHEO offers defined benefit plans which provide pension and other post-retirement benefits to most of its employees.

The liability associated with the post-retirement and post-employment plans as at March 31, 2012 was as follows:

	<u>2012</u>	<u>2011</u>
Accrued benefit obligation	\$ 4,545	\$ 1,668
Unamortized past service cost	(2,104)	(92)
Unamortized actuarial loss	(969)	(235)
	<hr/>	<hr/>
Accrued benefit liability	<u>\$ 1,472</u>	<u>\$ 1,341</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 \$10,223,404 (2011 - \$9,988,256). 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 for a specified length of time. Effective April 1, 2011, Ontario Nurses Association and Ontario Public Service Employees Union plan members, and effective March 31, 2012, non-union and other employee group plan members were awarded additional post-retirement medical and dental benefits. These changes are accounted for as past-service costs which total \$2,113,000.

An actuarial valuation was performed on the post-retirement plan as at April 1, 2011 and was extrapolated to March 31, 2012, and an actuarial valuation on the post-employment plan was performed as at March 31, 2012. These defined benefit plans are not funded.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

11. ACCRUED EMPLOYEE FUTURE BENEFITS (Continued)

Other information

	<u>2012</u>	<u>2011</u>
Current service cost	\$ 97	\$ 22
Interest cost on accrued benefit obligation	145	74
Experience loss	-	67
Amortization of past service costs	101	22
Amortization of actuarial loss (gain)	124	(754)
	<u>\$ 467</u>	<u>\$ (569)</u>

The 2012 benefit expense (recovery) was calculated using a discount rate of 6.0% (2011 - 6.3%) based on the prevailing corporate bond rates at the beginning of the year. The benefits paid during the year totalled \$336,100 (2011 - \$429,800).

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2012 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	4.3%	6.0%
Medical inflation	8.5%	8.0%
Dental inflation	4.0%	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, 2012 was \$291,915 (2011 - \$321,107).
- b) As a member of the Ottawa Health Sciences Centre Inc., CHEO is party to a Thermal Energy Agreement (TEA) with Trans/Alta Corporation for the purchase of thermal energy for heating and humidifying the Hospital. In 2009, the TEA was re-negotiated and resulted in a ten-year extension of its term from January 1, 2013 to January 1, 2023. The revised TEA, which was retroactive to January 1, 2007, stipulates a minimum Take or Pay quantity of steam and medium temperature hot water each year until the expiry of the contract and also provides for a new surcharge levy of \$2.22/gigajoule to facilitate the expansion of the Trans Alta plant to meet future site thermal demands.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

12. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

- c) CHEO is also committed under supplier contracts to purchase services for the next five years for a total amount of \$9,143,018.
- 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.
- 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, 2012.
- f) As at March 31, 2012, 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>2012</u>	<u>2011</u>
Capital assets	\$ 138,734	\$ 137,929
Amounts financed by:		
Deferred contributions for capital assets	(97,016)	(99,339)
Long-term debt	(4,030)	(4,284)
	<u>\$ 37,688</u>	<u>\$ 34,306</u>

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.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

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, 2012 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. There have been no changes in CHEO's strategy for capital management from prior year.

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 and the net assets and results of operations of these charities are not included in CHEO's financial statements. In addition to the related party transactions disclosed elsewhere in these financial statements, CHEO has entered into the following transactions as disclosed below.

During the year, CHEO received total contributions from the Foundation in the amount of \$4,715,112 (2011 - \$4,607,294) allocated as follows: operating contributions \$50,000 (2011 - \$50,000), major equipment \$3,086,322 (2011 - \$2,944,349), and other special purpose funds in the amount of \$1,578,790 (2011 - \$1,612,945); the latter is not included as a revenue or an expense of CHEO. The Foundation is a tax exempt charitable entity created without share capital under the Canada's Corporations Act.

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 \$100,000 (2011 - \$64,378) to CHEO for specific needs. The Association is a tax exempt charitable entity created without share capital under the laws of Ontario.

CHEO provides administrative service to the CHEO Research Institute which includes: financial accounting, human resources, material management and information services for a total annual fee of \$55,000 (2011 - \$55,000). Cost relating to building infrastructure and support are billed to the CHEO Research Institute on a cost recovery basis. The CHEO Research Institute is a tax exempt charitable entity created without share capital under the Canada's Corporations Act.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO

Notes to the Financial Statements

year ended March 31, 2012

(tabular amounts are in thousands of dollars)

16. FINANCIAL INSTRUMENTS

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.

Credit, liquidity and market risk

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. SUBSEQUENT EVENTS

Subsequent to March 31, 2012, CHEO entered into a formal arrangement with the Eastern Ontario Regional Laboratory Association (EORLA) to transfer all laboratory operations to EORLA. Effective April 1, 2012, 78 of CHEO's non-medical laboratory employees became employees of EORLA. As a result of this transfer, salaries and expenses will decrease by approximately \$6,797,517 and supplies and drugs will increase by the same amount. All existing laboratory equipment remains the property of CHEO and will be leased to EORLA at no charge. New equipment will be acquired directly by EORLA as the need arises.

18. 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, 2012

(tabular amounts are in thousands of dollars)

	2012			2011		
	Revenue	Expenses	Net	Revenue	Expenses	Net
MOHLTC						
Clinical Education	\$ 1,133	\$ 1,133	\$ -	\$ 974	\$ 974	\$ -
Municipal Taxes	17	17	-	17	17	-
Special Drug Program	1,906	1,906	-	2,268	2,268	-
Eating Disorders	2,759	2,759	-	2,420	2,420	-
MCYS programs						
Autism - IBI (A592)	7,632	7,632	-	7,632	7,632	-
Autism - Spectrum Disorder (A594)	1,973	1,973	-	1,952	1,952	-
Autism - ABA (A598)	1,866	1,866	-	-	-	-
Autism - One Time (A557 & A710)	-	-	-	58	58	-
Specialized Psychiatric Mental Health Services (A579 & A556)	1,999	1,999	-	2,023	2,023	-
Section 23 Classrooms (A566)	1,566	1,566	-	1,567	1,567	-
Dual diagnosis (A583)	386	386	-	403	403	-
Telepsychiatry (A561)	218	218	-	232	232	-
Centre of Excellence	5,300	5,300	-	4,861	4,861	-
Other Programs						
Pinecrest Queensway - First Words	447	447	-	570	570	-
Northern Diabetes Program	669	669	-	659	659	-
Champlain Maternal Newborn Regional Program	1,187	1,187	-	974	974	-
BORN	7,015	7,015	-	5,819	5,819	-
	\$ 36,073	\$ 36,073	\$ -	\$ 32,429	\$ 32,429	\$ -

Clinical Education

During the year, the Clinical Education Program incurred expenses of \$1,132,708 (2011 - \$973,834) and received \$982,834 (2011 - \$743,245) from the Ministry of Health and Long-Term Care (MOHLTC). Accordingly, a receivable of \$149,874 (2011 - a receivable of \$230,589) has been recorded.

MCYS - Ministry of Children and Youth Services

During the year, the MCYS funded programs incurred expenses of \$20,940,407 (2011 - \$18,728,763) and received funding of \$21,015,269 (2011 - \$18,810,773). Accordingly, a payable of \$74,862 has been recorded (2011 - a payable of \$82,010).