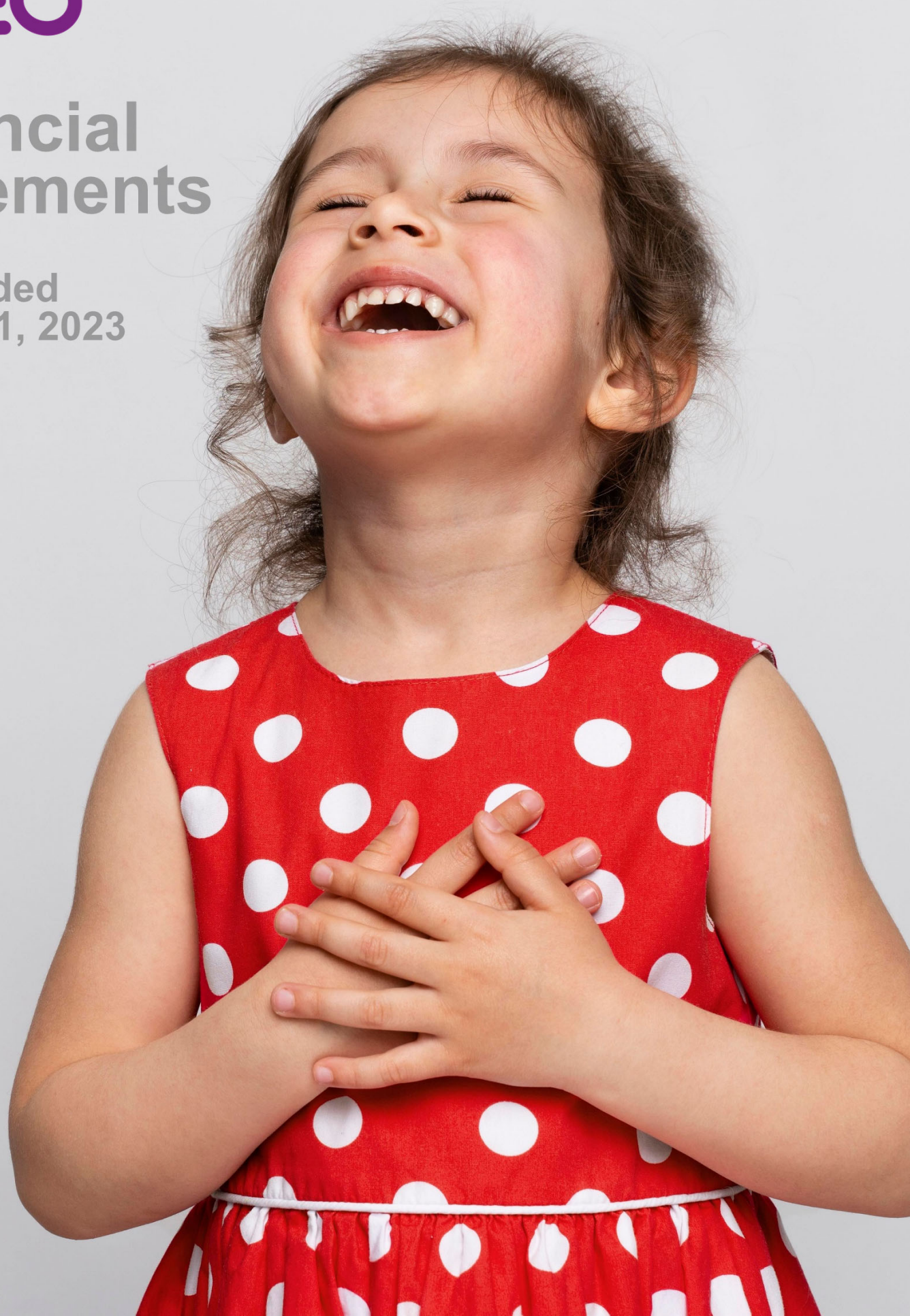




Financial Statements

Year Ended
March 31, 2023



CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Table of Contents

Year ended March 31, 2023

	Page
Independent Auditor's Report	
Financial Statements:	
Statement of Financial Position	1
Statement of Operations	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Statement of Remeasurement Gains and Losses	5
Notes to Financial Statements	6
Schedule A - Other Funded Programs	27



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Children's Hospital of Eastern Ontario - Ottawa
Children's Treatment Centre

Opinion

We have audited the financial statements of the Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre (the Entity), which comprise:

- the statement of financial position as at March 31, 2023
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2023, and its results of operations, its changes in net assets, its cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these ethical requirements.

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



Emphasis of Matter – Restatement of financial statements

We draw attention to Note 3 to the financial statements which explains that certain comparative information presented for the year ended March 31, 2022 has been restated.

Note 3 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified with respect of this matter.

Other Matter – Restatement of financial statements

As part of our audit of the financial statements for the year ended March 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended March 31, 2022. In our opinion, such adjustments are appropriate and have been properly applied.

Our opinion is not modified with respect to this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the financial statements and the auditor's report thereon, included in a document likely entitled "Annual Report" is expected to be made available to us after the date of this auditor's report.

If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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



In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Page 4

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 13, 2023

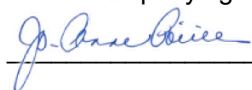
CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Statement of Financial Position

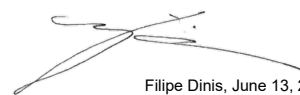
March 31, 2023, with comparative information for 2022
(Tabular amounts in thousands of dollars)

	2023	2022 (Restated- note 3)
Assets		
Current assets:		
Cash	\$ 42,074	\$ 36,469
Accounts receivable (note 4)	44,284	49,534
Inventories	4,105	3,938
Prepaid expenses	7,275	7,145
Current portion of due from related parties (note 6)	2,088	2,612
	99,826	99,698
Due from related parties (note 6)	425	510
Designated investments (note 7)	22,650	1,597
Funds held for others (notes 7 and 12)	5,769	9,132
Capital assets (note 8 and note 15)	194,818	168,923
Interest rate swap asset (note 13)	661	411
	\$ 324,149	\$ 280,271
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 90,532	\$ 68,075
Due to related parties (note 9)	2,626	273
Current portion of long-term debt (note 13)	3,083	3,199
Current portion of deferred contributions (note 10)	21,068	17,653
	117,309	89,200
Deferred contributions (note 10)	14,673	13,536
Deferred contributions for capital assets (note 11)	124,652	110,523
Funds held for others (note 12)	5,769	9,132
Long-term debt (note 13)	28,898	14,381
Accrued benefit liability (note 14)	8,238	7,929
Asset retirement obligation (note 15)	3,987	3,987
	303,526	248,688
Net assets:		
Invested in capital assets (note 16)	38,185	40,820
Unrestricted deficiency	(18,223)	(9,648)
Accumulated remeasurement gains	661	411
	20,623	31,583
Contingent liabilities and commitments (note 17)		
	\$ 324,149	\$ 280,271

See accompanying notes to financial statements.



Director



Filipe Dinis, June 13, 2023

Director

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Statement of Operations

Year ended March 31, 2023, with comparative information for 2022
(Tabular amounts in thousands of dollars)

	2023	2022 (Restated- note 3)
Revenue:		
Ministry of Health/Ontario Health	\$ 221,241	\$ 198,835
Patient services	44,537	45,815
Other operating revenues and recoveries	44,176	41,458
Amortization of deferred contributions for equipment	5,919	6,552
Other funded programs (Schedule A)	102,544	80,624
	<u>418,417</u>	<u>373,284</u>
Expenses:		
Salaries and benefits	212,116	192,618
Medical staff remuneration	10,537	9,194
Supplies and other expenses	59,567	47,650
Medical, surgical and laboratory expenses	19,642	17,015
Drugs and medical gases	13,269	10,487
Amortization – equipment	10,277	12,194
Other funded programs (Schedule A)	102,544	80,624
	<u>427,952</u>	<u>369,782</u>
(Deficiency) excess of revenue over expenses before the undernoted items	(9,535)	3,502
Amortization of deferred contributions for buildings	4,024	3,830
Amortization of buildings	(5,699)	(5,582)
	<u>(1,675)</u>	<u>(1,752)</u>
(Deficiency) excess of revenue over expenses	<u>\$ (11,210)</u>	<u>\$ 1,750</u>

See accompanying notes to financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Statement of Changes in Net Assets

Year ended March 31, 2023, with comparative information for 2022
(Tabular amounts in thousands of dollars)

	Invested in capital assets	Unrestricted	2023 Total	2022 Total
				(Restated- note 3)
Balance, beginning of year	\$ 39,378	\$ (5,661)	\$ 33,717	\$ 31,915
Adjustment on adoption of asset retirement obligation standard (note 3)	1,442	(3,987)	(2,545)	(2,493)
Net assets, beginning of year, as restated	40,820	(9,648)	31,172	29,422
(Deficiency) excess of revenue over expenses	–	(11,210)	(11,210)	1,750
Net purchases of capital assets	35,678	(35,678)	–	–
Donated capital assets	6,193	(6,193)	–	–
Amortization of capital assets	(15,976)	15,976	–	–
Increase in long-term debt	(14,401)	14,401	–	–
Deferred contributions for capital assets	(24,072)	24,072	–	–
Amortization of deferred contributions for capital assets	9,943	(9,943)	–	–
Balance, end of year	\$ 38,185	\$ (18,223)	\$ 19,962	\$ 31,172

See accompanying notes to financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Statement of Cash Flows

Year ended March 31, 2023, with comparative information for 2022
(Tabular amounts in thousands of dollars)

	2023	2022 (Restated- note 3)
Cash provided by (used in):		
Operating activities:		
(Deficiency) excess of revenue over expenses	\$ (11,210)	\$ 1,750
Items not affecting cash:		
Amortization:		
Capital assets	15,976	17,776
Deferred contributions for capital assets	(9,943)	(10,382)
Increase in actuarial valuation of accrued employee future benefits	762	1,091
Donated capital assets	(6,193)	-
Employee future benefits paid	(453)	(315)
Increase in deferred contributions	4,552	1,981
	(6,509)	11,901
Change in non-cash operating working capital:		
Accounts receivable	5,250	(15,274)
Due to/from related parties	2,962	(184)
Inventories	(167)	(328)
Prepaid expenses	(130)	(1,021)
Accounts payable and accrued liabilities	22,835	25,478
	24,241	20,572
Investing activities:		
Net purchases of capital assets	(35,678)	(22,762)
Net (acquisitions) withdrawals of designated investments	(21,053)	7,391
	(56,731)	(15,371)
Financing activities:		
Net increase (repayment) of long-term debt	14,401	(3,288)
Deferred contributions for capital assets	24,072	12,348
Changes in accounts payable for construction	(378)	1,355
	38,095	10,415
Increase in cash	5,605	15,616
Cash, beginning of year	36,469	20,853
Cash, end of year	\$ 42,074	\$ 36,469
Interest paid	\$ 473	\$ 486

See accompanying notes to financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Statement of Remeasurement Gains and Losses

Year ended March 31, 2023, with comparative information for 2022
(Tabular amounts in thousands of dollars)

	2023	2022
Accumulated remeasurement gains (losses), beginning of year	\$ 411	\$ (327)
Unrealized gains attributable to:		
Interest rate swaps	250	738
Accumulated remeasurement gains, end of year	\$ 661	\$ 411

See accompanying notes to financial statements.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements

Year ended March 31, 2023
(Tabular amounts in thousands of dollars)

1. Description:

The Children's Hospital of Eastern Ontario - Ottawa Children's Treatment Centre (CHEO) is incorporated under the Ontario Corporations Act. CHEO provides health care services to children in Eastern Ontario, Western Quebec and Nunavut. CHEO is a registered charity and as such is not subject to income tax under Paragraph 149(1)(f) of the Income Tax Act (Canada).

2. Significant accounting policies:

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

(a) Revenue recognition:

Operating grants are recorded as revenue in the period to which they relate. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. Grants approved but not received at the end of an accounting period are accrued.

Revenue from other provinces and uninsured patients, operational revenue, and ancillary services are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

CHEO follows the deferral method of accounting for contributions for not-for-profit organizations which includes provincial government allocations, other contributions and grants.

Externally restricted contributions are recognized as revenue in the year in which the conditions for the restriction have been met. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(b) Funding policy:

Under the current funding policy, CHEO is essentially funded on a fixed global-budget base. CHEO is allowed to retain any excess of revenue over expenses derived from its operations and, conversely, retains responsibility for any deficit it may incur.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(c) Donated services and assets:

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.

Contributions of capital assets are recorded at fair value at the date of contribution.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value of designated investments are recorded in deferred contributions and funds held for others.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations.

Canadian public sector accounting standards require CHEO to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(d) Financial instruments (continued):

CHEO uses derivative financial instruments to manage interest rate risk. The only derivative products used are interest rate swaps (see notes 13 and 19 for further details). Derivative instruments are recorded on the statement of financial position as assets or liabilities and are measured at fair value. Derivatives with positive fair value are reported as assets and derivatives with negative fair value are reported as liabilities.

CHEO uses hedge interest rate swaps to hedge variability in forecasted cash flows. Changes in the fair value of the swap are included directly in the statement of remeasurement gains and losses.

The periodic exchanges of payments on interest rate swaps designated as hedges of debt are recorded as an adjustment to interest expenses of the hedged item in the same period.

The fair values of over-the-counter derivatives are based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis, or are determined by using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Counterparty credit risk and liquidity valuation adjustments are recorded, as appropriate.

(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.

(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. Amortization is provided on the straight-line basis over the estimated useful lives as follows:

Asset	Useful life
Land improvements	10 to 25 years according to the class of improvements
Buildings	15 to 50 years according to the class of the asset
Major equipment	5 to 15 years according to the class of the asset
Minor equipment	Minor equipment is expensed as incurred

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(f) Capital assets (continued):

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/equipment is put in use. Land is not amortized due to its infinite life.

(g) 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.

(h) Employee future benefits:

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

CHEO accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the other retirement benefits. The actuarial determination of the accrued benefit obligations for other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors).

The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2022, and the next required valuation will be as of March 31, 2025.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. These defined benefit plans are not funded.

The average remaining service period of active employees covered by the employee benefit plans is 14.0 years (2022 - 14.0 years).

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

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(h) Employee future benefits (continued):

CHEO is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. CHEO has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

(i) Use of estimates:

The preparation of financial statements in conformity with Public Sector Accounting Standards 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 revenue and expenses during the reporting period. In particular, the assumptions underlying the employee future benefit calculations contain significant estimates. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period they become known. Significant estimates used in preparing the financial statements include the assumptions underlying the accrued benefit liability calculation, the valuation of the interest rate swap asset, and the accrued liability for the expected impact of salary increases related to the repeal of Bill 124.

In addition, CHEO's implementation of PS 3280 Asset Retirement Obligations has resulted in the requirement for management to make estimates regarding the useful lives of affected tangible capital assets and the expected retirement costs, as well as the timing and duration of these retirement costs.

(j) Asset retirement obligations:

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

CHEO has recognized liabilities for the following obligations:

- (i) Removal of asbestos in several of the buildings owned by CHEO based on estimated future expenses on closure of the site and post-closure care;
- (ii) Contractual end of term lease obligations based on estimated future expenses to return leased premises to their original state; and

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(j) Asset retirement obligations (continued):

(iii) Removal of fuel storage tanks based on the estimated future expense of removal which is dependent on the size and fuel class of the tank

Under the modified retroactive method, the assumptions used on initial recognition are those as of the date of adoption of the standard. Assumptions used in the subsequent calculations are revised yearly.

The recognition of a liability resulted in an accompanying increase to the respective capital assets. The building assets affected by the asbestos liability, contractual end of term lease obligations and fuel storage tanks are being amortized following the amortization accounting policies outlined in note 2(f).

3. Implementation of new accounting standard:

PS 3280 Asset Retirement Obligations:

On April 1, 2021, CHEO adopted Canadian public sector accounting standard PS 3280 Asset Retirement Obligations. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in retired buildings, by public sector entities. The standard was adopted on the modified retroactive basis at the date of adoption.

CHEO recognized an asset retirement obligation relating to several buildings owned by the organization that contain asbestos. The buildings were originally purchased between 1973 and 1984 and the liability was measured as of the date of purchase of the buildings, when the liability was assumed. The buildings have an expected remaining useful life of 28 years.

CHEO also recognized an asset retirement obligation relating to several leased properties that have contractual end of term obligations requiring the premises to be returned to their original state. These leases were signed between 2002 and 2012 and the liability was measured at the date of signing each applicable lease, when the liability was assumed. The leases terms, including executed extensions, range from 11 to 17 years.

Lastly, CHEO recognized an asset retirement obligation relating to fuel storage tanks. The fuel storage tanks were originally purchased in 2009 and the liability was measured as of the date of purchase of the building service equipment, when the liability was assumed. The fuel storage tanks have an expected remaining useful life of 16 years.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

3. Implementation of new accounting standard (continued):

In accordance with the provisions of this new accounting standard, CHEO recorded the following adjustments at April 1, 2021 and for the year ended March 31, 2022:

(a) Asbestos obligation:

An increase of \$3,808,807 to the buildings' cost, representing the original estimate of the obligation as of the date of purchase, and an accompanying increase of \$2,397,157 to accumulated amortization.

(b) Contractual end of term lease obligations:

An increase of \$120,000 to the leasehold improvements' cost, representing the original estimate of the obligation as of the date that each applicable lease was signed, and an accompanying increase of \$120,000 to accumulated amortization.

(c) Fuel storage tanks:

An increase of \$58,600 to the building service equipment cost, representing the original estimate of the obligation as of the date of purchase, and an accompanying increase of \$27,347 to accumulated amortization.

(d) Asset retirement obligation liability:

A total liability of \$3,987,407 was recorded for the asset retirement obligations.

(e) Opening net assets:

A decrease to opening net assets of \$2,492,135 as a result of the recognition of the liability and accompanying increase in amortization expense for asbestos remediation, contractual end of term lease obligations and fuel storage tank removal and decommissioning.

(f) Amortization of buildings:

An increase in the amortization of buildings expense of \$52,369.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

4. Accounts receivable:

	2023	2022
Ministry of Health/Ontario Health	\$ 21,513	\$ 29,798
Ministry of Children, Community and Social Services	3,161	1,149
Patient services	7,081	9,071
External organizations	9,254	6,192
Harmonized sales tax	3,275	3,324
	\$ 44,284	\$ 49,534

5. Accounts payable and accrued liabilities:

	2023	2022
Ministry of Health/Ontario Health	\$ 19,577	\$ 13,206
Ministry of Children, Community and Social Services	637	6,514
External organizations	66,392	44,908
Government remittances	3,926	3,447
	\$ 90,532	\$ 68,075

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

6. Due from related parties:

	2023	2022
CHEO Research Institute - interest free loan with principal payments of \$85,000 annually, maturing March 2029	\$ 510	\$ 595
CHEO Research Institute – non-interest-bearing receivable with no defined terms of repayment	–	1,051
CHEO Foundation - non-interest-bearing receivable with no defined terms of repayment	1,955	1,476
CHEO School Authority - non-interest-bearing receivable with no defined terms of repayment	48	–
	2,513	3,122
Less: current portion of due from related parties	(2,088)	(2,612)
Long-term portion	\$ 425	\$ 510

7. Designated investment and funds held for others:

	Fair value	Cost	2023 Fair value
Cash	\$ 42	\$ 42	0.1%
Short-term investments	1,778	1,778	6.3%
Treasury bills	2,752	2,710	9.7%
Federal bonds	3,910	3,903	13.7%
Provincial bonds	2,053	2,061	7.2%
Corporate bonds	17,884	17,838	63.0%
	\$ 28,419	\$ 28,332	100%

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

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

	Fair value	Cost	2022 Fair value
Short-term investments	\$ 9,517	\$ 9,538	88.7%
Provincial bonds	696	705	6.5%
Corporate bonds	516	517	4.8%
	\$ 10,729	\$ 10,760	100.0%

Bonds are debt obligations of governments and corporate entities paying interest at rates appropriate to the market at their date of purchase. The bonds mature at face value on a staggered basis until 2026. Interest rates for these securities range from 0.50% to 3.74% (2022 - 1.58% to 2.40%).

These investments can be liquidated by CHEO on demand.

8. Capital assets:

Capital assets consist of:

	Cost	Accumulated amortization	2023 Net book value
Land	\$ 454	\$ -	\$ 454
Land improvement	2,192	1,540	652
Buildings	189,254	83,743	105,511
Major equipment	238,542	188,483	50,059
Projects in progress	38,142	-	38,142
	\$ 468,584	\$ 273,766	\$ 194,818

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

8. Capital assets (continued):

	Cost	Accumulated amortization	2022 Net book value (Restated - note 3)
Land	\$ 454	\$ -	\$ 454
Land improvement	2,192	1,426	766
Buildings	180,097	78,211	101,886
Major equipment	228,899	178,153	50,746
Projects in progress	15,071	-	15,071
	\$ 426,713	\$ 257,790	\$ 168,923

9. Due to related parties:

	2023	2022
CHEO Research Institute - non-interest-bearing payable with no defined terms of repayment	\$ 2,626	\$ -
CHEO School Authority - non-interest-bearing payable with no defined terms of repayment	-	273
	\$ 2,626	\$ 273

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

10. Deferred contributions:

Changes in the deferred contributions balance are as follows:

	Capital funds	Other	2023 Total
Balance, beginning of year	\$ 13,536	\$ 17,653	\$ 31,189
Add: amount received during the year	4,164	3,950	8,114
Add: change in unrealized gains on designated investments	31	38	69
Less: amount transferred to deferred contributions for capital assets	(3,410)	–	(3,410)
Less: amount recognized as revenue during the year	–	(221)	(221)
Transfers	352	(352)	–
Balance, end of year	\$ 14,673	\$ 21,068	\$ 35,741

Accumulated unrealized (losses) gains on designated investments, beginning of year	\$ (26)	\$ 2	\$ (24)
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Accumulated unrealized gains on designated investments, end of year	\$ 5	\$ 40	\$ 45
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	Capital funds	Other	2022 Total
Balance, beginning of year	\$ 10,853	\$ 18,355	\$ 29,208
Add: amount received during the year	4,083	2,304	6,387
Add: change in unrealized losses on designated investments	(26)	(27)	(53)
Less: amount transferred to deferred contributions for capital assets	(4,212)	–	(4,212)
Less: amount recognized as revenue during the year	–	(141)	(141)
Transfers	2,838	(2,838)	–
Balance, end of year	\$ 13,536	\$ 17,653	\$ 31,189

Accumulated unrealized gains on designated investments, beginning of year	\$ –	\$ 29	\$ 29
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Accumulated unrealized (losses) gains on designated investments, end of year	\$ (26)	\$ 2	\$ (24)
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CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

10. Deferred contributions (continued):

The deferred contribution balance of \$14,672,774 (2022 - \$13,535,578) in the Capital Funds component represents capital grants from the Province of Ontario and contributions from the CHEO Foundation for capital equipment. As these funds are spent on equipment, a corresponding amount is transferred to deferred contributions for capital assets.

11. Deferred contributions for capital assets:

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

	2023	2022
Balance, beginning of year	\$ 110,523	\$ 108,557
Add: amount received during the year	14,819	5,723
Add: amount transferred from deferred contributions	2,317	3,795
Add: amount contributed by the CHEO Foundation	6,936	2,830
Less: amount recognized as revenue during the year	(9,943)	(10,382)
Balance, end of year	\$ 124,652	\$ 110,523

12. 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 7.

	2023	2022
Balance, beginning of year	\$ 9,132	\$ 8,743
Add: amount received during the year	2,483	3,557
Add: change in unrealized gains on investments	48	(24)
Less: amounts disbursed during the year	(5,894)	(3,144)
Balance, end of year	\$ 5,769	\$ 9,132
Accumulated unrealized (losses) gains on investments, beginning of year	\$ (6)	\$ 18
Accumulated unrealized gains (losses) on investments, end of year	\$ 42	\$ (6)

CHILDREN'S HOSPITAL OF EASTERN ONTARIO – OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

13. Long-term debt and credit facilities:

(a) Long-term debt:

	2023	2022
3.33% fixed rate loan with principal payments of \$35,115 monthly including interest, maturing November 2023	\$ 278	\$ 683
2.83% fixed rate loan with principal payments of \$25,000 monthly, maturing October 2024	475	775
3.70% fixed rate loan with principal payments of \$28,446 monthly including interest, maturing November 2024	549	864
CDOR plus 0.55% stamping fee Banker's Acceptance fixed by interest rate swap with interest only payments until March 2018, maturing March 2029	13,079	15,258
CDOR plus 0.54% stamping fee Banker's Acceptance fixed by interest rate swap with interest only payments until November 2024, maturing September 2043	17,600	–
	31,981	17,580
Less: current portion of long-term debt	(3,083)	(3,199)
Long-term portion	\$ 28,898	\$ 14,381

The estimated fair value of the loans are \$275,907, \$453,986, \$542,528, \$11,753,685 and \$17,600,000 (2022 - \$678,359, \$729,028, \$854,654, \$14,352,222, and \$nil) based on a quoted market rates as at March 31, 2023 of 4.82%, 5.48%, 5.48%, 3.57%, and 5.025%, respectively (2022 - 3.99%, 4.64%, 4.64%, 3.45%, and nil%, respectively).

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

2023/24	\$ 3,083
2024/25	2,577
2025/26	2,179
2026/27	2,179
2027/28	2,180
	\$ 12,198

CHILDREN'S HOSPITAL OF EASTERN ONTARIO – OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

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

(b) Credit facilities:

CHEO has an operating credit facility which allows it to borrow up to \$7,000,000 at an interest rate of prime less 0.25%. The balance of amounts borrowed as at March 31, 2023 is \$Nil (2022 - \$Nil).

CHEO has a revolving credit facility which allows it to borrow up to \$10,000,000 for the purposes of acquiring capital assets. The term and rate associated with any loan taken against the facility are determined at the time that the funds are drawn. The balance of the two loans outstanding under this facility as at March 31, 2023 is \$1,024,052 (2022 - \$1,638,729).

CHEO has a non-revolving term facility which allows it to borrow up to \$30,000,000 for the purposes of incurring costs relating to the implementation of a new cloud enterprise resource planning system. The term and rate associated with any loan taken against the facility are determined at the time that the funds are drawn. The balance outstanding under this facility as at March 31, 2023 is \$17,600,000 (2022 - \$Nil).

(c) Interest rate swaps:

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities.

CHEO has entered into an interest rate swap agreement to manage the volatility of interest rates associated with debt related to systems acquisitions. CHEO has converted a net notional \$24 million of floating rate long-term debt to a fixed rate of 1.86%. The maturity date of the interest rate swap is March 1, 2029. The interest rate swaps have unrealized accumulated remeasurement gains of \$661,100 (2022 - \$410,543), which are recorded on the statement of financial position as at March 31, 2023. The current year impact of the change in fair value of the interest rate swap is an increase of accumulated remeasurement gains of \$250,557 (2022 - \$738,011).

The fair value of the interest rate swap has been determined using Level 2 of the fair value hierarchy. The fair value of the interest rate swap is based on underlying market yield curves and risk premiums. These inputs are discounted to estimate the future cash flows of the variable and fixed legs of the instrument.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023
(Tabular amounts in thousands of dollars)

14. Accrued employee future benefits:

CHEO offers defined benefit plans which provide pension and other post-retirement benefits to most of its employees. The measurement date used to determine the accrued benefit obligation is March 31, 2023. The most recent actuarial valuation of employee future benefits for accounting purposes was completed as at March 31, 2022.

The liability associated with the post-retirement and post-employment plans as at March 31, 2023 is as follows:

	2023	2022
Accrued benefit obligation:		
Balance, beginning of year	\$ 8,327	\$ 8,722
Current benefit cost	352	404
Plan amendment	-	241
Interest	322	280
Benefits paid	(448)	(308)
Actuarial gain	-	(1,012)
Balance, end of year	8,553	8,327
Unamortized actuarial losses	(413)	(501)
EORLA accrued benefit	98	103
Employee future benefits liability	\$ 8,238	\$ 7,929

CHEO entered into a formal arrangement with the Eastern Ontario Regional Laboratory Association (EORLA) to transfer all laboratory operations to EORLA. Effective April 1, 2012, 78 of CHEO's non-medical laboratory employees became employees of EORLA, of which 52 employees are members of the benefit plan. As a result, the pension plan for these employees was curtailed and the liability for EORLA's employees separated from CHEO's accrued benefit liability. The EORLA liability of \$98,400 (2022 - \$103,200) as at March 31, 2023 will be reduced as benefits are paid out to former employees of CHEO.

The significant actuarial assumptions adopted in measuring the accrued benefit obligation as at March 31, 2023 are as follows:

	2023	2022
Discount rate	3.89%	3.89%
Medical inflation	5.75% for year ended March 31, 2022 reducing by 0.33% per year to an ultimate rate of 3.75%	
Dental inflation	3.75%	3.75%
Mortality	Uninsured pensioner 1994 mortality rates with mortality improvements projected to 2040	

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

14. Accrued employee future benefits (continued):

Healthcare of Ontario Pension Plan:

Substantially all of the employees of CHEO are eligible to be members of the Hospitals of Ontario Pension Plan (the Plan). The Plan is a multi-employer, defined benefit pension plan. The Plan is accounted for as a defined contribution plan. Employer contributions to the Plan during the year by CHEO amounted to \$17,466,545 (2022 - \$16,298,040). These amounts are included as operating expenses.

In consultation with its actuaries, pension expense is based on the Plan management's best estimates, of the amount required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial valuation of the Plan as at December 31, 2022 indicates the plan is fully funded.

15. Asset retirement obligations:

CHEO's asset retirement obligations consist of several obligations as follows:

(a) Asbestos obligation:

CHEO owns and operates several buildings that are known to have asbestos, which represents a health hazard upon demolition of the building and there is a legal obligation to remove it. Following the adoption of *PS 3280 Asset Retirement Obligations*, CHEO recognized an obligation relating to the removal and post-removal care of the asbestos in these buildings as estimated at April 1, 2022. The buildings had an estimated useful life of between 66 and 77 years when they were purchased between the years 1973 and 1984 of which 28 years remain. The timing of post-closure care cannot yet be reasonably estimated, so no discounting has been applied to the liability.

(b) Contractual end of term lease obligations:

CHEO leases several properties that have contractual end of term obligations requiring the premises to be returned to their original state. The original leases were signed between 2002 and 2012 and the leases terms, including executed extensions, range from 11 to 17 years. The timing of remedial work cannot yet be reasonably estimated, so no discounting has been applied to the liability.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

15. Asset retirement obligations (continued):

(c) Fuel storage tanks:

CHEO owns fuel storage tanks which represent an environmental hazard upon removal and decommissioning and there are legal obligations regarding how they must be removed. The fuel storage tanks had an estimated useful life of 30 years when they were purchased 2008 of which 16 years remain. The timing of removal and decommissioning cannot yet be reasonably estimated, so no discounting has been applied to the liability.

The asset retirement obligations at year end are as follows:

	2023	2022
Asbestos removal	\$ 3,809	\$ 3,809
Contractual end of term lease obligations	120	120
Fuel storage tanks	58	58
	\$ 3,987	\$ 3,987

16. Net assets invested in capital assets:

Investment in capital assets is calculated as follows:

	2023	2022
Capital assets	\$ 194,818	\$ 168,923
Amounts financed by:		
Deferred contributions for capital assets	(124,652)	(110,523)
Long-term debt	(31,981)	(17,580)
	\$ 38,185	\$ 40,820

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 - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

17. Contingent liabilities and commitments:

- (a) 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 premises. In 2022, the TEA was re-negotiated and resulted in an extension of its term from January 1, 2022 to December 31, 2033.
- (b) CHEO is also committed under supplier contracts to purchase services for the next five years for a total amount of \$27,981,966 (2022 - \$25,314,080).
- (c) From time to time, CHEO is a party to claims related to its operations, the majority of which are covered under CHEO's insurance policy. No provision has been made for loss in these financial statements as, in management's opinion, these claims will not have a material adverse effect on its financial position or result of operations.
- (d) 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 at March 31, 2023.
- (e) On November 29, 2022, the Ontario Superior Court rendered a decision to declare the *Protecting a Sustainable Public Sector for Future Generations Act, 2019*, known as Bill 124, to be void and of no effect. On December 29, 2022, The Province of Ontario appealed the Superior Court's decision, but the Government has not sought a stay of decision. This ruling has triggered reopener provisions that required renewed negotiations with certain labour groups on compensation for the years that were previously capped by the legislation. CHEO has recorded liabilities based on subsequent settlement amounts and management's estimate of potential settlement amounts.

18. Related entities:

CHEO is related to the following entities: Children's Hospital of Eastern Ontario Foundation, Children's Hospital of Eastern Ontario Research Institute Inc., CHEO School Authority, Eastern Ontario Regional Laboratory Association and Ottawa Regional Hospital Linen Services by virtue of representation on their Boards or other forms of influence. CHEO does not have control of these entities and the net assets and results of operations of these entities are not included in CHEO's financial statements. In addition to the related party transactions disclosed elsewhere in these financial statements, CHEO has entered into the following transactions with these entities:

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

18. Related entities (continued):

Children's Hospital of Eastern Ontario Foundation (Foundation)

During the year, CHEO received total contributions from the Foundation in the amount of \$9,598,566 (2022 - \$8,453,724) allocated as follows: operating contributions \$1,186,419 (2022 - \$1,840,361), capital contributions \$5,904,467 (2022 - \$3,617,366) and other special purpose funds in the amount of \$2,507,680 (2022 - \$2,995,997). Special purpose funds are not included as a revenue or an expense to CHEO. The Foundation is a tax-exempt charitable entity created without share capital under the laws of Ontario.

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

CHEO provides administrative services, including financial accounting, human resources, material management and information services, to the Institute for a total annual fee of \$395,500 (2022 - \$395,500). All operating and capital expenses of the Institute are initially paid by CHEO. Costs related to building infrastructure and support, as well as insurance coverage, are billed back to the Institute on a cost recovery basis. During the year, CHEO provided funds to the Institute in the amount of \$301,300 (2022 - \$301,300) as a contribution towards operating costs. The Institute is a tax-exempt charitable entity created without share capital under the Canada Not-for-Profit Corporations Act.

CHEO School Authority (School Authority)

CHEO provides administrative services, including financial accounting, human resources, material management and information services, to the School Authority for a total annual fee of \$411,625 (2022 - \$411,265). All operating and capital expenses of the School Authority are initially paid by CHEO. The School Authority is a tax-exempt organization created without share capital under the Education Act.

Eastern Ontario Regional Laboratory Association (EORLA)

CHEO is a founding member of EORLA which was established to provide laboratory services to member hospitals on a cost-of-service basis. EORLA is incorporated without share capital under the Ontario Business Corporations Act. EORLA is a not-for-profit organization under the Income Tax Act and as such is exempt from income taxes. Effective April 1, 2013, CHEO entered into a formal arrangement with EORLA to transfer all laboratory operations (except Genetics) to EORLA. All existing laboratory equipment remains the property of CHEO and will be leased to EORLA at no charge. New equipment will be acquired directly by EORLA as the need arises. Included in CHEO's accounts receivable at March 31, 2023 is a receivable of \$36,701 (2022 - \$27,535) for costs incurred by CHEO on behalf of EORLA. During the year, CHEO paid \$9,496,800 (2022 - \$8,680,800) for laboratory services provided by EORLA. As at March 31, 2023 CHEO had a payable of \$541,285 (2022 - receivable of \$970,041) related to these services.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

18. Related entities (continued):

Ottawa Regional Hospital Linen Services (ORHLS)

CHEO is a founding member ORHLS. ORHLS was established to provide laundry services for the member hospitals on a cost-of-service basis. ORHLS is incorporated without share capital under the Ontario Business Corporations Act and is a not-for-profit organization under the Income Tax Act (Canada) and as such is exempt from income taxes. As at March 31, 2023, CHEO had an economic interest of \$1,619,189 (2022 - \$1,375,091) of total net assets of \$20,600,097 (2022 - \$18,010,425). For the year ended March 31, 2023, CHEO paid \$1,657,472 (2022 - \$1,491,409) to ORHLS for laundry services.

19. Financial instruments:

The fair value of CHEO's accounts receivable, accounts payable and accrued liabilities approximates cost due to their short-term nature. The fair value of investments is described in note 7 and the fair value of debt in note 13.

The following table presents the investments recorded at fair value in the statement of financial position, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	2023 Total
Cash	\$ 42	\$ -	\$ -	\$ 42
Short-term investments	1,778	-	-	1,778
Treasury Bill	-	2,752	-	2,752
Government of Canada bonds	-	3,910	-	3,910
Provincial bonds	-	2,053	-	2,053
Corporate bonds	-	17,884	-	17,884
Interest rate swap	-	661	-	661
	\$ 1,820	\$ 27,260	\$ -	\$ 29,080

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

19. Financial instruments (continued):

	Level 1	Level 2	Level 3	2022 Total
Short-term investments	\$ 9,517	\$ –	\$ –	\$ 9,517
Provincial bonds	–	696	–	696
Corporate bonds	–	516	–	516
Interest rate swap	–	411	–	411
	\$ 9,517	\$ 1,623	\$ –	\$ 11,140

Financial risk factors

CHEO's activities expose it to a variety of financial risks: market risk (including interest rate, currency (foreign exchange), and other price risks), credit risk and liquidity risk. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return consistent with the investment policies approved by the Board of Directors.

(a) Credit risk:

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

CHEO's receivables are with governments, government funding agencies, patients and corporate entities. CHEO believes that these receivables do not have significant credit risk in excess of allowances for doubtful accounts that have been established. The balance of the allowance for doubtful accounts at March 31, 2023 is \$2,214,930 (2022 - \$1,772,896).

(b) Liquidity risk:

Liquidity risk is the risk that CHEO will be unable to fulfill its obligations on a timely basis or at a reasonable cost. CHEO manages its liquidity risk by monitoring its operating requirements. CHEO prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

19. Financial instruments (continued):

(b) Liquidity risk (continued):

CHEO has recorded a liability at March 31, 2023 for the expected impact of salary increases related to the repeal of Bill 124 which capped public sector salary growth to 1% per year for three years. It remains uncertain whether the Ministry of Health will fund this expense; however CHEO has sufficient financing arrangements in place in the form of an unsecured revolving credit facility and a demand instalment facility to meet this additional one-time obligation in the short-term.

CHEO's liquidity risk has increased in the year due to the effect of operating losses on its overall liquidity. CHEO will require sufficient and timely funding from the Ministry of Health to fulfil its obligations on a timely basis and at a reasonable cost.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and other price risk.

(i) Currency risk:

CHEO believes it is not subject to significant foreign currency risk arising from its financial instruments.

(ii) Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. CHEO is exposed to this risk through its term debt and demand loan.

CHEO mitigates interest rate risk on certain of its debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the term debt for a fixed rate (see note 13). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

(iii) Other price risk:

CHEO believes it is not subject to significant other price risk arising from its financial instruments.

CHEO's financial risks have increased during the year due to rising interest rates, inflation and market fluctuations. Management believes that these financial risks are appropriately mitigated and do not pose significant risk to CHEO's operations. There have been no significant changes in the policies, procedures, and methods used to manage these risks in the year.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

20. Ministry of Health pandemic funding:

In connection with the ongoing coronavirus pandemic (COVID-19), the Ministry of Health (MOH) has announced a number of funding programs intended to assist hospitals with incremental operating and capital costs and revenue decreases resulting from COVID-19. In addition to these funding programs, the MOH is also permitting hospitals to redirect unused funding from certain programs towards COVID-19 costs, revenue losses and other budgetary pressures through a broad-based funding reconciliation.

The MOH has provided guidance with respect to the maximum amount of funding available to CHEO, as well as criteria for eligibility and revenue recognition. The MOH has also indicated that all funding related to COVID-19 is subject to review and reconciliation, with the potential for adjustments during the subsequent fiscal year.

Management's estimate of MOH revenue for COVID-19 is based on the most recent guidance provided by MOH and the impacts of COVID-19 on CHEO's operations, revenues and expenses. Management has analyzed the requirements and has provided an estimate for the supportable amounts based on the current available information. Due to the uncertainty of the amount of funding that will be confirmed in future years, management has recorded a provision on the receivable as noted in the chart below. Any adjustments to Management's estimate of MOH revenues will be reflected in CHEO's financial statements in the year of settlement.

Details of the MOH funding for COVID-19 recognized as revenue in the current year are summarized below:

	2023	2022
Funding for incremental COVID-19 operating expenses	\$ 2,599	\$ 10,528
Less: Provision for future changes to funding programs	(82)	(583)
	\$ 2,517	\$ 9,945

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Notes to Financial Statements (continued)

Year ended March 31, 2023

(Tabular amounts in thousands of dollars)

20. Ministry of Health pandemic funding (continued):

In addition to the above, CHEO has also recognized:

- MOH funding for COVID-19 related capital expenditures in the amount of \$nil (2022 - \$534,860), which has been recorded as an addition to deferred capital contributions during the year; and,
- MOH funding in the amount of \$5,549,797 (2022 - \$6,008,375) for other COVID-19 related initiatives including pandemic prevention and containment costs, COVID care clinics and employee and physician compensation programs.

21. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Schedule A - Other funded programs

Year ended March 31, 2023, with comparative information for 2022
(Tabular amounts in thousands of dollars)

	Revenue	Expenses	2023 Net	Revenue	Expenses	2022 Net
MOH/OH:						
Clinical Education	\$ 1,181	\$ 1,181	\$ -	\$ 1,181	\$ 1,181	\$ -
Municipal Taxes	17	17		17	17	
Integrated Home & Community Care						
Service Delivery	19,782	19,782	-	9,419	9,419	-
Temporary Wage Enhancement	51	51	-	8	8	-
Temporary Retention Incentive for Nurses	129	129	-	47	47	-
Permanent Compensation Enhancement	186	186	-	-	-	-
Special Drug Program	2,758	2,758	-	3,279	3,279	-
Community Mental Health and Addictions						
Service Delivery	1,100	1,100	-	1,113	1,113	-
Temporary Retention Incentive for Nurses	8	8	-	-	-	-
Child and Youth Mental Health						
Service Delivery	5,077	5,077	-	5,347	5,347	-
Temporary Retention Incentive for Nurses	8	8	-	7	7	-
ECHO	549	549	-	549	549	-
Knowledge Institute on Child and Youth						
Mental Health and Addictions	6,400	6,400	-	5,900	5,900	-
1Call1Click	1,700	1,700	-	1,331	1,331	-
Mental Health Eating Disorder Program Expansion	4,945	4,945	-	1,118	1,118	-
	43,891	43,891	-	29,316	29,316	-
MCCSS programs:						
Adults' DS Community Support Services	497	497	-	586	586	-
Children's DS Community Support Services	2,621	2,621	-	2,703	2,703	-
Infant Development	925	925	-	912	912	-
Early Child Development	8,319	8,319	-	7,120	7,120	-
Out-of-Home Respite	415	415	-	393	393	-
Coordinated Service Planning	1,327	1,327	-	1,327	1,327	-
Physical Rehabilitation	11,441	11,441	-	11,083	11,083	-
Autism Services	25,968	25,968	-	20,813	20,813	-
MCCSS programs balance carry forward	51,513	51,513	-	44,937	44,937	-

CHILDREN'S HOSPITAL OF EASTERN ONTARIO - OTTAWA CHILDREN'S TREATMENT CENTRE

Schedule A - Other funded programs (continued)

Year ended March 31, 2023, with comparative information for 2022
(Tabular amounts in thousands of dollars)

	Revenue	Expenses	2023 Net	Revenue	Expenses	2022 Net
MCCSS programs (continued):						
Balance carried forward	\$ 51,513	\$ 51,513	–	44,937	44,937	–
Temporary Retention Incentive for Nurses	29	29	–	9	9	–
Healthy Babies Healthy Children	354	354	\$ –	\$ 644	\$ 644	\$ –
Healthy Child Development - Integrated Services for Children Information System	87	87	–	53	53	–
	51,983	51,983	–	45,643	45,643	–
Other programs:						
First Words - Pinecrest Queensway	424	424	–	424	424	–
Champlain Maternal Newborn Regional Program	785	785	–	865	865	–
National Newcomer Navigator Program	1,499	1,499	–	1,292	1,292	–
Preschool Program – City of Ottawa	1,078	1,078	–	1,075	1,075	–
Preschool SLP – Pinecrest Queensway	1,382	1,382	–	1,362	1,362	–
Canadian Hospitals Injury Reporting and Prevention Program	107	107	–	123	123	–
Complex Care for Kids Ontario – PCMCH	1,063	1,063	–	358	358	–
Integrated Home & Community Care PSL – Pinecrest Queensway	332	332	–	166	166	–
	6,670	6,670	–	5,665	5,665	–
	\$ 102,544	\$ 102,544	\$ –	\$ 80,624	\$ 80,624	\$ –