

Financial Statements

**Children's Hospital of Eastern Ontario
Foundation/La Fondation du Centre hospitalier
pour enfants de l'est de l'Ontario**
December 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Directors of
Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

We have audited the accompanying financial statements of **Children's Hospital of Eastern Ontario Foundation/La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario**, which comprise the balance sheet as at December 31, 2011 and the statements of operations, changes in fund balances 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.

Auditors' 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 auditors' judgment, 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 auditors consider 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.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Children's Hospital of Eastern Ontario Foundation/La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario** as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ottawa, Canada,
April 17, 2012.

Chartered Accountants
Licensed Public Accountants

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario
 Incorporated under the laws of Ontario

BALANCE SHEET

As at December 31

	General Fund	Restricted Fund	Endowment Fund	Total 2011	Total 2010
	\$	\$	\$	\$	\$
ASSETS					
Current					
Cash and cash equivalents	6,342,181	—	—	6,342,181	5,388,558
Short-term investments					
<i>[note 4]</i>	766,692	642,667	—	1,409,359	2,437,141
Interest and other receivables	844,401	—	—	844,401	659,365
Prepaid expenses	177,399	—	—	177,399	242,762
Total current assets	8,130,673	642,667	—	8,773,340	8,727,826
Long-term investments					
<i>[note 4]</i>	3,341,051	8,224,452	31,624,298	43,189,801	45,121,584
Property and equipment, net					
<i>[note 5]</i>	28,188	—	—	28,188	35,213
Other assets	89,077	—	—	89,077	75,534
	11,588,989	8,867,119	31,624,298	52,080,406	53,960,157
LIABILITIES AND FUND BALANCES					
Current liabilities					
Accounts payable and					
accrued charges	1,394,770	—	—	1,394,770	1,680,254
Deferred revenue	1,646,084	—	—	1,646,084	1,597,469
Total current liabilities	3,040,854	—	—	3,040,854	3,277,723
Commitments <i>[note 10]</i>					
Fund balances <i>[note 6]</i>					
Donor restricted		8,867,119	8,123,520	16,990,639	19,563,210
Internally restricted	8,519,947	—	21,658,074	30,178,021	29,110,573
Unrestricted	—	—	1,842,704	1,842,704	1,973,438
Invested in property					
and equipment	28,188	—	—	28,188	35,213
Total fund balances	8,548,135	8,867,119	31,624,298	49,039,552	50,682,434
	11,588,989	8,867,119	31,624,298	52,080,406	53,960,157

See accompanying notes

On behalf of the Board:

Director

Director

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

STATEMENT OF OPERATIONS

For the year ended December 31

	General Fund \$	Restricted Fund \$	Endowment Fund \$	Total 2011 \$	Total 2010 \$
REVENUE					
Lotteries <i>[note 7]</i>	8,481,097	—	—	8,481,097	8,198,754
Fundraising <i>[note 7]</i>	6,335,874	1,036,751	—	7,372,625	7,446,998
Investment income	1,874,703	189,472	150,363	2,214,538	2,349,933
Bequests	767,887	—	332,837	1,100,724	1,364,211
Direct mail	292,646	—	—	292,646	316,141
Capital campaign	—	2,325,648	—	2,325,648	2,650,970
Miscellaneous revenue	255,509	—	—	255,509	158,361
	18,007,716	3,551,871	483,200	22,042,787	22,485,368
EXPENSES					
Direct fundraising expenses	6,707,023	45,753	—	6,752,776	6,911,527
Revenue, net of direct fundraising expenses	11,300,693	3,506,118	483,200	15,290,011	15,573,841
INDIRECT EXPENSES <i>[note 9]</i>					
Other fundraising expenses	1,559,785	246,929	—	1,806,714	1,695,611
Administrative expenses	848,259	—	—	848,259	856,296
	2,408,044	246,929	—	2,654,973	2,551,907
Excess of revenue over expenses before distributions	8,892,649	3,259,189	483,200	12,635,038	13,021,934

See accompanying notes

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

STATEMENT OF CHANGES IN FUND BALANCES

For the year ended December 31

	General Fund \$	Restricted Fund \$	Endowment Fund \$	Total 2011 \$	Total 2010 \$
Balance, beginning of year	7,852,558	11,510,801	31,319,075	50,682,434	45,238,363
Excess of revenue over expenses before distributions	8,892,649	3,259,189	483,200	12,635,038	13,021,934
Distributions to Children's Hospital of Eastern Ontario and outside agencies					
Capital and programs <i>[note 8]</i>	(153,519)	(10,347,214)	—	(10,500,733)	(9,400,826)
Contribution of services <i>[note 8]</i>	(29,694)	—	—	(29,694)	(29,736)
Net change in fund balances for the year	8,709,436	(7,088,025)	483,200	2,104,611	3,591,372
Interfund transfers	(7,360,629)	5,121,949	2,238,680	—	—
Net change in unrealized (loss) gain on investments	(653,230)	(677,606)	(2,416,657)	(3,747,493)	1,852,699
Balance, end of year	8,548,135	8,867,119	31,624,298	49,039,552	50,682,434

See accompanying notes

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

STATEMENT OF CASH FLOWS

For the year ended December 31

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses before distributions	12,635,038	13,021,934
Items not affecting cash		
Amortization	8,891	21,309
Loss (gain) on disposal of investments	(893,131)	(1,197,272)
Net change in non-cash working capital balances related to operations <i>[note 11]</i>	(370,085)	332,200
Cash provided by operating activities	11,380,713	12,178,171
FINANCING AND INVESTING ACTIVITIES		
Sale (purchase) of investments, net	105,203	(3,434,789)
Additions to property and equipment	(1,866)	(24,573)
Distributions <i>[note 8]</i>	(10,530,427)	(9,430,562)
Cash used in financing and investing activities	(10,427,090)	(12,889,924)
Net change in cash and cash equivalents during the year	953,623	(711,753)
Cash and cash equivalents, beginning of year	5,388,558	6,100,311
Cash and cash equivalents, end of year	6,342,181	5,388,558

See accompanying notes

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. PURPOSE OF THE ORGANIZATION

The Children's Hospital of Eastern Ontario Foundation/La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario, [the "Foundation" or "CHEO"] is incorporated under the laws of Ontario as a corporation without share capital. The Foundation is a registered charity under the *Income Tax Act (Canada)* and, while registered, is exempt from income taxes and may issue tax donation receipts.

The Foundation furthers the physical, mental and social well being of children and their families in Eastern Ontario and Western Quebec by raising, managing, and disbursing funds through its support of the Children's Hospital of Eastern Ontario [the "Hospital"]. The Foundation also promotes awareness of children's health issues as well as the Hospital's achievements.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"] and applied on a basis consistent with that of the preceding year. Since precise determination of many assets and liabilities is dependent on future events, the preparation of periodic financial statements necessarily makes the use of estimates and approximations. These have been made using careful judgment. The more significant accounting policies are presented below:

Fund accounting

The Foundation follows the restricted fund method of accounting for contributions. To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are classified for reporting purposes into funds in accordance with activities or objectives specified by the donors or in accordance with the directives issued by the Board of Directors. The Foundation recognizes broad based fundraising such as the telethon and other events as General Fund revenue unless specifically designated by the donor. Transfers from the General Fund to the Restricted Fund and the Endowment Fund are made as may be directed by the donors during the year. Other transfers between funds are reported as approved by the Foundation's President. The assets of the various funds reflect allocations arrived at by management given that such assets are pooled for internal management purposes. For financial reporting purposes, the fund balances have been classified into three funds consisting of the following:

- [i] The General Fund includes the day-to-day transactions of the Foundation. Unless otherwise specified, any interest earned is included in the General Fund.

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- [ii] The Restricted Fund includes donations, the use of which is restricted by the donor, and allocations of resources, recorded as interfund transfers, resulting from Board approved internal restrictions.
- [iii] The Endowment Fund includes gifts to the Foundation, the income from which is used according to conditions attaching to the gifts or directives issued by the Board of Directors. It is intended that the principal portion of the Endowment Fund be maintained intact. The Foundation's long-term goal is to attain sufficient income through the endowment investments in order to pay for annual operating costs.

Cash and cash equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments and investment income

The Foundation's investments have been classified as available-for-sale under Canadian Institute of Chartered Accountants ["CICA"] *Handbook* Section 3855: *Financial Instruments – Recognition and Measurement*. As a result, they are recorded at fair value. Unrealized gains and losses on available-for-sale financial assets are recorded through the statement of changes in fund balances. Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term securities are stated at market value. Transactions are recorded on a settlement date basis and transaction costs are expensed as incurred unless directly attributable to the acquisition of a financial asset in which it is added to the value of the asset. If there has been a decline in the value of investments on an overall basis that is other than temporary, the unrealized loss reported in the statement of changes in fund balances is accounted for as a realized loss and included in investment income.

Investment income, which consists of interest, dividends, income distributions from pooled funds, and realized gains and losses, is recorded as investment income in the statement of operations. Unrealized gains and losses are recorded in the statement of changes in fund balances.

Investment income recorded in the Restricted Fund and the Endowment Fund represents income earned on endowments where the donor has stipulated that the income must be used for restricted purposes. Management has a policy that income at a specified rate will be added to certain funds included in the Restricted Fund and the Endowment Fund. This income is transferred from the General Fund to the Restricted and Endowment funds in the statement of operations.

Children's Hospital of Eastern Ontario Foundation
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NOTES TO FINANCIAL STATEMENTS

December 31, 2011

Foreign currency translation

Cash, investments, interest and other receivables denominated in foreign currencies have been translated to Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Other financial instruments

Financial instruments in the form of investments subject the Foundation to investment risks. These include the risks arising from changes in interest rates and in rates of exchange for foreign currency. They also include the risks arising from the failure of a party to a financial instrument to discharge an obligation when due.

The investment policy of the Foundation is designed to avoid undue risk of loss due to impairment of assets and to provide a reasonable expectation of fair return given the nature of the investments.

The Foundation's other financial instruments consist of cash and cash equivalents, interest and other receivables, and accounts payable and accrued charges. Unless otherwise noted, it is management's opinion that the Foundation is not exposed to significant interest, currency or credit risks arising from these financial instruments. These are initially recognized at fair value and subsequently recorded at amortized cost.

Property and equipment

Property and equipment are capitalized when purchased if they meet the Foundation's approved threshold for capitalization; otherwise they are expensed as incurred. Amortization is provided on a straight-line basis over the estimated useful lives of the property and equipment, as follows:

Computer hardware	4 to 5 years
Furniture and fixtures	5 to 20 years
Rolling stock	10 to 15 years

Other assets

Other assets include life insurance policies recorded at cash surrender values.

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NOTES TO FINANCIAL STATEMENTS

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Revenue recognition

Donations are recognized as revenue when received unless they relate to fundraising events of a subsequent year, in which case they are deferred and recognized in the statement of operations of that year. Included in deferred revenue are CHEO Foundation Telethon donations received in 2011 to be presented for charitable purposes on the 2012 CHEO Foundation Telethon. Bequests are recognized as revenue when received. Other revenue is recorded on an accrual basis. Pledges are not recorded until the donations are actually received, except when the amount to be received can be reasonably estimated and collection is ultimately assured.

Donations that are restricted by the donors are recognized as revenue of the Donor Restricted Fund, while contributions for endowment are recognized as revenue of the Endowment Fund. All unrestricted donations are recognized as revenue of the General Fund.

The Foundation receives from time to time donated equipment, materials and services. Restricted gift-in-kind donations are recorded as revenue, at fair value, when received if they would have otherwise been purchased. Donated goods to be sold are recorded as revenue when sold.

Expenses

Expenses are recorded on the accrual basis. The costs of each function include the costs of personnel and other expenses that are directly related to the function. General support and other costs are not allocated.

3. FUTURE ACCOUNTING POLICIES

According to the Accounting Standard Board ["AcSB"], private sector not-for-profit organizations will have a choice between Canadian GAAP for not-for-profit organizations and International Financial Reporting Standards ["IFRS"] relating to fiscal years beginning on or after January 1, 2012.

Canadian GAAP for not-for-profit organizations

The new accounting standards for not-for-profit organizations in the private sector will look quite familiar to stakeholders. The AcSB has approved a new framework that is based on existing Canadian GAAP and incorporates the 4400 series of standards which relate to situations unique to not-for-profit organizations. The standards will be effective January 1, 2012. Earlier application is permitted.

The Foundation is following the ongoing developments to assess any impact, and will adopt Canadian GAAP for not-for profit organizations for its December 31, 2012 year-end.

Children's Hospital of Eastern Ontario Foundation
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NOTES TO FINANCIAL STATEMENTS

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4. INVESTMENTS

Investments at fair value are comprised of the following:

	2011 \$	2010 \$
Equities		
Canadian	27,546,887	28,850,883
Foreign	2,151,908	2,524,616
	29,698,795	31,375,499
Canadian bonds	13,491,006	13,746,085
Short-term	1,409,359	2,437,141
	44,599,160	47,558,725

Short-term investments are comprised of relatively liquid investments maturing in less than one year.

The Foundation has established investment policy guidelines providing direction and restriction as to the mix and quality of its investment portfolio.

5. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	2011		2010	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Furniture and fixtures	44,878	37,285	44,878	33,937
Computer hardware	147,714	146,122	147,714	145,558
Rolling stock	26,439	7,436	24,573	2,457
	219,031	190,843	217,165	181,952
Less: accumulated amortization	190,843		181,952	
Net book value	28,188		35,213	

Children's Hospital of Eastern Ontario Foundation
La Fondation du Centre hospitalier pour enfants de l'est de l'Ontario

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

6. FUND BALANCES

The fund balances as at December 31, 2011 are as follows:

Fund balances	General Fund \$	Restricted Fund \$	Endowment Fund \$	Total \$
Donor restricted	—	8,867,119	8,123,520	16,990,639
Internally restricted	8,519,947	—	21,658,074	30,178,021
Unrestricted	—	—	1,842,704	1,842,704
Invested in property and equipment	28,188	—	—	28,188
Total fund balances	8,548,135	8,867,119	31,624,298	49,039,552

The fund balances as at December 31, 2010 are as follows:

Fund balances	General Fund \$	Restricted Fund \$	Endowment Fund \$	Total \$
Donor restricted	—	11,510,801	8,052,410	19,563,210
Internally restricted	7,817,345	—	21,293,228	29,110,573
Unrestricted	—	—	1,973,437	1,973,438
Invested in property and equipment	35,213	—	—	35,213
Total fund balances	7,852,558	11,510,801	31,319,075	50,682,434

Children's Hospital of Eastern Ontario Foundation
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NOTES TO FINANCIAL STATEMENTS

December 31, 2011

7. STATEMENT OF OPERATIONS

Fundraising and lotteries revenue includes the proceeds of a variety of events, including the following examples:

Fundraising

- Telethon
- CN Cycle for CHEO
- Trees of Hope
- CHEO B.B.Q.
- TD Bank Group Softball Tournament
- Hike for CHEO
- Costco Head Office Golf Tournament
- Moore Wrinn Golf Tournament
- Astral Day of Caring Radiothon
- Y101 Radiothon
- Ski for Kids
- Walmart Walk for Miracles
- Farm Boy
- Ryan Williams Golf Tournament

Lotteries

- Dream of a Lifetime Lottery
- Ottawa Hospital/CHEO Lottery
- Nevada Ticket Sales

8. DISTRIBUTIONS TO CHILDREN'S HOSPITAL OF EASTERN ONTARIO AND OUTSIDE AGENCIES

The capital and programs and contribution of services distributions are comprised of the following:

	2011	2010
	\$	\$
Research and equipment	5,003,477	4,889,171
Research grants and programs	2,819,369	1,900,822
Programs and services	1,402,531	1,501,636
Capital equipment	1,086,322	944,349
Fellowships	60,000	60,000
Gifts in kind	108,728	84,584
Research building	50,000	50,000
	10,530,427	9,430,562

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NOTES TO FINANCIAL STATEMENTS

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In lieu of occupancy cost, the Foundation provides a grant to the Hospital toward the operating costs of the Research Institute Facility. Donated items totalling approximately \$90,209 [2010 – \$84,585] were recorded in fundraising revenue in the Restricted Fund.

9. PENSION PLAN

Substantially all of the full-time employees of the Foundation are members of the Hospitals of Ontario Pension Plan [the "HOOPP"] which is a multi-employer final average pay contributory pension plan. Contributions to the HOOPP during the year by the Foundation on behalf of these employees amounted to \$179,018 [2010 – \$163,638] and are included in other fundraising expenses and administration expenses in the statement of operations.

10. COMMITMENTS

As at December 31, 2011, commitments amounting to \$11,922,095 have been approved by the Board of Directors to fund expenditures on behalf of the Children's Hospital of Eastern Ontario, as follows:

	\$
Other Capital	2,115,895
Research and equipment	3,650,000
Capital equipment	796,000
Research grants and programs	3,104,000
Programs and services	2,206,200
Research building	50,000
	<u>11,922,095</u>

Of the committed amount, the Board of Directors has approved an amount of up to \$150,000 per year to 2021 related to Phase 2 of the Research Institute Facility.

Of the committed amount, an appropriation of fund balances has been earmarked for the Hospital redevelopment program.

The Foundation has letters of credit outstanding, required in connection with its lotteries, amounting to approximately \$5,537,479, of which an amount of \$2,805,000 expires on February 25, 2012, and an amount of \$2,732,479 expires on August 26, 2012.

Children's Hospital of Eastern Ontario Foundation
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NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**11. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES
RELATED TO OPERATIONS**

The net change in non-cash working capital balances related to operations consists of the following:

	2011	2010
	\$	\$
Interest and other receivables	(185,036)	(333,014)
Prepaid expenses	65,363	(24,044)
Other assets	(13,543)	(11,070)
Accounts payable and accrued charges	(285,484)	504,251
Deferred revenue	48,615	196,077
	(370,085)	332,200

12. CAPITAL MANAGEMENT

In managing capital, the Foundation focuses on liquid resources available for operations. The Foundation's objective is to have sufficient liquid resources to continue operating despite events with adverse financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at December 31, 2011, the Foundation has met its objective of having sufficient liquid resources to meet its current obligations.

13. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation adopted for the current year.