

Consolidated financial statements of

The Ottawa Hospital

March 31, 2014

The Ottawa Hospital

March 31, 2014

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Deloitte LLP
1600 - 100 Queen Street
Ottawa ON K1P 5T8
Canada

Tel: (613) 236-2442
Fax: (613) 236-2195
www.deloitte.ca

Independent Auditor's Report

To the Board of Governors of The Ottawa Hospital and the Ministry of Health and Long-Term Care of Ontario

We have audited the accompanying consolidated financial statements of The Ottawa Hospital (the "Hospital"), which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of operations, changes in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

June 4, 2014

The Ottawa Hospital

Consolidated statement of financial position

as at March 31, 2014

(in thousands of dollars)

	2014	2013
	\$	\$
Assets		
Current assets		
Cash	28,259	23,436
Short-term investments	1,551	1,157
Accounts receivable (Note 3)	63,790	72,483
Inventories	16,543	15,331
Prepaid expenses	7,205	6,712
	117,348	119,119
Capital grants receivable (Note 3)	11,719	11,397
Investments held for capital purchases	88,443	81,022
Capital assets (Note 4)	628,711	639,872
Funds held in trust (Note 8)	31,231	33,239
	877,452	884,649
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	227,900	265,292
Payable to The Ottawa Hospital Residence Corporation (Note 13)	5,806	4,118
Current portion of long-term debt (Note 7)	2,484	1,537
	236,190	270,947
Employee future benefits (Note 6)	50,510	47,877
Long-term debt (Note 7)	4,814	7,298
Deferred contributions related to capital assets (Note 8)	448,069	450,363
Deferred contributions related to funds held in trust (Note 8)	31,231	33,239
	770,814	809,724
Commitments, contingencies and guarantees (Note 15)		
Net assets (deficiency)		
Invested in capital assets (Note 10)	224,513	239,581
Unrestricted deficiency	(117,875)	(164,656)
	106,638	74,925
	877,452	884,649

Approved by the Board

Chairman

President and CEO

See accompanying notes to the consolidated financial statements.

The Ottawa Hospital

Consolidated statement of operations

year ended March 31, 2014

(in thousands of dollars)

	2014	2013
	\$	\$
Revenue		
Patient care:		
Ministry of Health and Long-Term Care	1,003,022	988,326
Other	147,355	145,040
Recoveries and other	61,896	56,866
Other funding	12,372	12,548
Marketed services	7,447	7,470
Investment	874	1,161
Amortization of deferred contributions related to equipment (Note 8)	6,427	6,661
	1,239,393	1,218,072
Expenses		
Salaries and wages	566,449	589,256
Employee benefits	148,845	151,238
Supplies and other	232,118	195,120
Medical and surgical	98,411	94,499
Medical staff remuneration	79,744	87,141
Drugs	64,051	59,061
Interest	667	733
Amortization of equipment	37,395	38,443
	1,227,680	1,215,491
Excess of revenue over expenses before the undernoted items and non-recurring item	11,713	2,581
Parking revenues	17,330	16,933
Parking expenses	(9,239)	(4,765)
Amortization of deferred contributions related to buildings (Note 8)	15,601	15,258
Amortization of buildings and land improvements	(26,799)	(25,482)
Excess of revenue over expenses after the overnoted item but before non-recurring item	8,606	4,525
Non-recurring funding (Note 17)	23,107	23,107
Excess of revenue over expenses	31,713	27,632

See accompanying notes to the consolidated financial statements.

The Ottawa Hospital

Consolidated statement of changes in net assets year ended March 31, 2014 (in thousands of dollars)

	Invested in capital assets (Note 10)	Unrestricted	2014 \$	2013 \$
Balance, beginning of year	239,581	(164,656)	74,925	47,293
Excess of revenue over expenses	-	31,713	31,713	27,632
Net change in investment in capital assets (Note 10)	(15,068)	15,068	-	-
Balance, end of year	224,513	(117,875)	106,638	74,925

See accompanying notes to the consolidated financial statements.

The Ottawa Hospital

Consolidated statement of cash flows

year ended March 31, 2014

(in thousands of dollars)

	2014	2013
	\$	\$
Operating activities		
Excess of revenue over expenses	31,713	27,632
Items not affecting cash		
Amortization of capital assets	64,194	63,925
Amortization of deferred contributions related to capital assets	(22,028)	(21,919)
Loss (gain) on disposal of capital assets	(7)	74
Net increase in employee future benefits (Note 6)	2,633	1,294
	76,505	71,006
Changes in non-cash operating working capital items (Note 14)	(30,798)	(10,019)
	45,707	60,987
Financing activities		
Deferred contributions related to capital assets received (Note 8)	19,734	31,316
Repayment of long-term debt	(1,537)	(1,520)
Repayment of obligation under capital lease	-	(53)
Increase (decrease) in deferred contributions related to funds held in trust	(2,008)	490
Increase (decrease) in payable to The Ottawa Hospital Residence Corporation	1,688	(447)
Proceeds on disposal of capital assets	7	20
	17,884	29,806
Capital activities		
Purchase of capital assets	(53,033)	(61,013)
Investing activities		
Net decrease (increase) in capital grants receivable	(322)	13,368
Net decrease (increase) in funds held in trust	2,008	(490)
Net increase in investments held for capital purchases	(7,421)	(6,687)
	(5,735)	6,191
Net cash inflow	4,823	35,971
Cash (bank indebtedness), beginning of year	23,436	(12,535)
Cash, end of year	28,259	23,436

See accompanying notes to the consolidated financial statements.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

1. Description of the organization

The Ottawa Hospital (the "Hospital") is an academic health sciences centre and is principally involved in providing health care services to the Champlain Local Health Integration Network. The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes.

2. Significant accounting policies

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Basis of presentation

These consolidated financial statements reflect the assets, liabilities and operations of the Hospital. The Hospital consolidates the financial activities of controlled entities that provide clinical services.

These financial statements include the assets, liabilities and operations of the University of Ottawa Heart Institute, a controlled entity. The University of Ottawa Heart Institute provides cardiac services to the patients of the Hospital. The business relationship between the Hospital and the University of Ottawa Heart Institute is governed by a service agreement pursuant to which clinical and administrative support is provided at fair market value, and premises are provided at no charge by the Hospital. The University of Ottawa Heart Institute is incorporated under the laws of Ontario and is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes.

These financial statements do not include the assets, liabilities or operations of The Ottawa Hospital Residence Corporation, a controlled entity, nor the following entities where the Hospital has an economic interest including: The Ottawa Hospital Foundation, Ottawa Hospital Research Institute, its auxiliaries, Hospital Food Services - Ontario Inc., Ottawa Regional Hospital Linen Services Incorporated, Eastern Ontario Regional Laboratory Association Inc. and Champlain Health Supply Services. The summarized financial information of The Ottawa Hospital Residence Corporation is disclosed in Note 13.

Revenue recognition

The Hospital follows the deferral method of accounting for contributions.

Under the Health Insurance Act and Regulations thereto, the Hospital is funded, primarily by the Province of Ontario, in accordance with budget arrangements established by the Ministry of Health and Long-Term Care of Ontario. 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.

The Hospital receives funding for operations for certain programs from the Ministry of Health and Long-Term Care of Ontario. The final amount of operating revenue recorded cannot be determined until the Ministry of Health and Long-Term Care of Ontario has reviewed the Hospital's financial and statistical returns for the year. Any adjustments arising from the Ministry of Health and Long-Term Care of Ontario review is recorded in the period in which the adjustment is made.

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.

Externally restricted contributions are recognized as revenue when 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.

Revenues from the Provincial Insurance Plan and marketed services are recognized when the goods are sold or the service is provided.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

2. Significant accounting policies (continued)

Contributed services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty in determining the fair value, contributed services are not recognized in the consolidated financial statements.

Inventories

Inventories are recorded at average cost and are valued at lower of cost and net realizable value.

Classification of financial instruments

All financial instruments reported on the Statement of financial position of the Hospital are classified as follows:

Cash	Fair value
Short-term investments	Fair value
Accounts receivable	Amortized cost
Capital grants receivable	Amortized cost
Investments held for capital purchases	Fair value
Funds held in trust	Fair value
Accounts payable and accrued liabilities	Amortized cost
Payable to The Ottawa Hospital Residence Corporation	Amortized cost
Long-term debt	Amortized cost

Short-term investments and investments

Transaction costs related to the acquisition of investments are recorded against investment income. Sales and purchases of investments are recorded on the settlement date.

Fair value is determined at quoted market prices. The calculation of fair value is based upon market conditions at a specific point in time and may not be reflective of future fair value. Investment income on restricted investments is capitalized until the related expenditures are incurred.

Capital assets

Purchased capital assets, other than minor equipment, are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Minor equipment replacements are expensed in the year of replacement. Construction in progress is not amortized until the project is complete and the facilities come into use. Capital assets are amortized on a straight-line basis over their expected useful lives as follows:

Land improvements	3-25 years
Buildings	10-50 years
Building service equipment	5-25 years
Major equipment	3-20 years

Deferred contributions related to funds held in trust

The Hospital holds resources and makes disbursements on behalf of various unrelated individuals or groups. The Hospital has no discretion over such transactions. Resources received in connection with such trust fund transactions are reported as liabilities not revenue and subsequent distributions are reported as decreases to the liability not expenses.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

2. Significant accounting policies (continued)

Employee benefit plans

The Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

Adjustments arising from plan amendments, including past service costs, are recognized in the year that the plan amendments occur. Actuarial gains or losses are amortized over the average remaining service period of active employees.

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

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known. The most significant estimates used in preparing these financial statements include the estimated useful lives of capital assets, the assumptions underlying the employee future benefit liability calculation, the amount of accrued liabilities and the allowance for doubtful accounts.

Future accounting changes

The Hospital is required to adopt PS 3260, Liability for Contaminated Sites, for fiscal years beginning on or after April 1, 2014. This new Section establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments or those organizations applying the CPA Canada Public Sector Accounting Handbook.

The Hospital is currently evaluating the impacts of this new standard, which is applicable retrospectively with restatement.

3. Accounts and capital grants receivable

Accounts receivable

	2014	2013
	\$	\$
Accounts receivable from patients	38,416	38,147
Ministry of Health and Long-Term Care	5,922	14,051
Ottawa Hospital Research Institute (Note 13)	-	3,838
Eastern Ontario Regional Laboratory (Note 13)	7,750	4,798
Other	15,288	15,554
	67,376	76,388
Less: allowance for doubtful accounts	(3,586)	(3,905)
	63,790	72,483

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

3. Accounts and capital grants receivable (continued)

An analysis of the age of the Hospital's receivables as at March 31, 2014 is as follows:

	0-30 days	31-60 days	61-90 days	Over 90 days	Total
	\$	\$	\$	\$	\$
Accounts receivables from patients	13,093	11,442	4,003	9,878	38,416
Ministry of Health and Long-Term Care	2,395	2,511	471	545	5,922
Eastern Ontario Regional Laboratory Association Inc. (Note 13)	7,750	-	-	-	7,750
Other	12,455	1,854	137	842	15,288
Allowance for doubtful accounts	(474)	(361)	(125)	(2,626)	(3,586)
	35,219	15,446	4,486	8,639	63,790

An analysis of the age of the Hospital's receivables as at March 31, 2013 is as follows:

	0-30 days	31-60 days	61-90 days	Over 90 days	Total
	\$	\$	\$	\$	\$
Accounts receivables from patient	11,782	10,875	3,700	11,790	38,147
Ministry of Health and Long-Term Care	8,436	713	380	4,522	14,051
Ottawa Hospital Research Institute (Note 13)	3,838	-	-	-	3,838
Eastern Ontario Regional Laboratory Association Inc. (Note 13)	4,798	-	-	-	4,798
Other	9,910	4,043	248	1,353	15,554
Allowance for doubtful accounts	(608)	(341)	(124)	(2,832)	(3,905)
	38,156	15,290	4,204	14,833	72,483

The allowance for doubtful accounts relates to accounts receivables from patients and is determined based on prior experience with similar accounts.

Capital grants receivable

Capital grants receivable relate to grants restricted in use for capital asset acquisitions or projects, which have been approved by the funder and are receivable by the Hospital at year-end. These amounts have also been included in deferred contributions related to capital assets.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

3. Accounts and capital grants receivable (continued)

	2014	2013
	\$	\$
The Ottawa Hospital Foundation (Note 13)	3,888	3,694
Eastern Ontario Regional Laboratory Association Inc. (Note 13)	7,834	7,834
Other	(3)	(131)
	11,719	11,397

4. Capital assets

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,618	-	1,618
Land improvements	5,336	5,311	25
Buildings	733,729	274,420	459,309
Building service equipment	134,453	85,934	48,519
Major equipment	394,543	300,758	93,785
Construction in progress	25,455	-	25,455
	1,295,134	666,423	628,711
	2013		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,618	-	1,618
Land improvements	5,336	5,258	78
Buildings	712,062	253,369	458,693
Building service equipment	128,352	80,140	48,212
Major equipment	362,241	263,480	98,761
Construction in progress	32,510	-	32,510
	1,242,119	602,247	639,872

5. Bank indebtedness

The Hospital has an available line of credit of \$24,000 with its corporate bankers, of which no amount was drawn against at March 31, 2014 (2013 - \$NIL). This line of credit is unsecured and bears interest at prime.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

6. Employee future benefits

The Hospital offers a defined benefit plan which provides extended health care and dental insurance benefits to certain of its employees and extends this coverage to the post-retirement period. The most recent actuarial valuation of employee future benefits was completed as at March 31, 2013.

At March 31, the Hospital's liability associated with the benefit plan is as follows:

	2014	2013
	\$	\$
Accrued benefit obligation	53,353	54,307
Unamortized experience losses	(2,843)	(6,430)
Employee future benefit liability	50,510	47,877

The Hospital's defined benefit plan is not funded, resulting in a plan deficit equal to the accrued benefit obligation. The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations are as follows:

	2014	2013
Discount rate to determine accrued benefit obligation	4.36%	3.94%
Dental cost increases	3.50%	3.50%
Extended healthcare cost escalations, decreasing by 0.5% per annum to an ultimate rate of 4.5% thereafter	7.50%	7.50%
Expected average remaining service life of employees	15 years	15 years

The employee future benefit liability change for the year ended March 31, 2014 is \$2,633 (2013 - \$1,294) regarding employee future benefits. This amount is comprised of:

	2014	2013
	\$	\$
Current service cost	3,109	2,779
Interest on accrued benefit obligation during the year	2,135	2,227
Amortization of net experience losses (gains)	429	137
April 1, 2013 transfer to EORLA	(279)	(1,226)
Benefit payments made by the Hospital during the year	(2,761)	(2,623)
	2,633	1,294

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

7. Long-term debt

	2014	2013
	\$	\$
5.45% fixed rate term note with principal payments of \$44 monthly, maturing April 2015	3,289	3,822
6.15% fixed rate term note with principal payments of \$27 monthly, maturing April 2015	350	675
6.15% fixed rate term note with principal payments of \$36 monthly, maturing December 2015	2,467	2,900
3.12% fixed rate term note with principal payments of \$10 monthly, maturing March 2015	127	251
3.70% fixed rate term note with principal payments of \$9 monthly, maturing March 2015	1,065	1,187
Total loans	7,298	8,835
Less current portion of long-term debt	2,484	1,537
	4,814	7,298

Loans are secured under a general assignment agreement.

Future principal repayments are as follows:

	\$
2015	2,484
2016	4,814
	7,298

In addition to the outstanding loans noted above, the following other credit facilities exist:

An overdraft lending agreement with the Bank of Nova Scotia for the amount of \$500 for the purpose of financing operating requirements. The revolving facility is repayable on demand and bears interest at prime, payable monthly in arrears. The Hospital has provided the following collateral for the facility: a General Security Agreement, representing a first charge over all accounts receivable, inventory and equipment other than leased assets. No amounts have been drawn on this facility for the periods ended March 31, 2014 (2013 - \$NIL).

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

8. Deferred contributions

Related to funds held in trust

Deferred contributions related to funds held in trust represent the aggregate balance of funds held in trust for third parties.

The changes in the deferred balance for the year are as follows:

	2014	2013
	\$	\$
Balance, beginning of year	33,239	32,749
Add contributions received during the year	14,457	12,154
Interest earned during the year	42	41
Less disbursements made during the year	(16,507)	(11,705)
	31,231	33,239

Related to capital assets

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

The changes in the deferred balance for the year are as follows:

	2014	2013
	\$	\$
Balance, beginning of the year	450,363	440,976
Add contributions received during the year	19,734	31,306
Less amounts amortized for equipment	(6,427)	(6,661)
Less amounts amortized for buildings	(15,601)	(15,258)
	448,069	450,363

The balance of unamortized and unspent capital contributions consists of the following:

	2014	2013
	\$	\$
Unamortized capital contributions (Note 10)	396,900	391,456
Unspent capital contributions	51,169	58,907
	448,069	450,363

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

9. Capital disclosures

The Hospital defines capital as its unrestricted net assets and its net assets invested in capital assets. The Hospital currently has an accumulated deficiency of unrestricted net assets due to past operations. As profitable operations are achieved, this deficiency of unrestricted net assets will be reduced. Once the deficiency in unrestricted net assets is eliminated, the objective of the Hospital with respect to its unrestricted net assets is to fund future operations. The purpose of the net assets invested in capital assets is to fund the past acquisition of capital assets required for operational purposes.

The Hospital is not subject to externally imposed capital requirements and its overall strategy with respect to capital remains unchanged from the prior year.

10. Invested in capital assets

Invested in capital assets is calculated as follows:

	2014	2013
	\$	\$
Capital assets	628,711	639,872
Amounts financed by deferred contributions related to capital assets (Note 8)	(396,900)	(391,456)
Long-term debt (Note 7)	(7,298)	(8,835)
	224,513	239,581

Net change in invested in capital assets is calculated as follows:

	2014	2013
	\$	\$
Purchase of capital assets	53,033	61,013
Amounts funded by deferred contributions	(27,472)	(13,624)
Proceeds on disposal of equipment	(7)	(20)
Gain (loss) on disposal of capital assets	7	(74)
Amortization of deferred contributions related to capital assets	22,028	21,919
Amortization of capital assets	(64,194)	(63,925)
Repayment of long-term debt	1,537	1,510
Repayment of obligation under capital leases	-	53
	(15,068)	6,852

Investments held for capital purchases relates to funding received and restricted for the purpose of capital expenditures. The funds are held with the Hospital's bank and are classified as long-term as the associated cash outflow is not expected to occur within one year.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

11. Pension plan

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$48,957 (2013 - \$48,642) and are included in the consolidated Statement of operations.

In consultation with its actuaries, pension expense is based on 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 triennial actuarial valuation of the Plan as at December 31, 2012 indicates the plan is fully funded.

12. Financial instruments

Establishing fair value

The carrying value of accounts receivable, accounts payable and accrued liabilities, and payable to The Ottawa Hospital Residence Corporation approximates their fair value because of the relatively short period to maturity of the instruments. The fair value of long-term debt is not materially different from their carrying values.

The fair value of capital grants receivable is not determinable as there are no fixed repayment terms.

The fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reported borrowing date. In situations in which there is no market for these guarantees and they were issued without explicit costs, it is not practicable to determine their fair value with sufficient reliability. Unless otherwise noted, it is management's opinion that the Hospital is not subject to significant interest or currency risk arising from these instruments.

Fair value hierarchy

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash, short-term investments, investments held for capital purchases, funds held in trust and bank indebtedness are Level 1 fair values.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

12. Financial instruments (continued)

Credit risk

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and incur a financial loss. The Hospital is exposed to credit risk on its accounts receivable as disclosed in Note 3. Management believes its allowance for doubtful accounts is sufficient on its receivables from patients and has implemented collection recovery procedures to mitigate its credit risk.

13. Related entities

The Ottawa Hospital Foundation:

The Hospital has an economic interest in The Ottawa Hospital Foundation (the "Foundation"), a tax-exempt entity without share capital incorporated under the laws of Ontario. The Foundation was established to raise, receive, maintain and manage funds to be distributed towards various programs and capital projects of the Hospital.

During the year, the Hospital received \$9,567 (2013 - \$8,137) from the Foundation. As at March 31, 2014, the Hospital had a capital grant receivable from the Foundation amounting to \$3,888 (2013 - \$3,694) and an endowment receivable of \$150 (2013 - \$530). In addition, the Foundation donated gifts-in-kind to the Hospital, which were recorded by the Hospital at no value. The Hospital provides the Foundation with office premises without charge.

Ottawa Hospital Research Institute:

The Hospital has an economic interest in the Ottawa Hospital Research Institute (the "Institute"). The Institute carries on and exclusively promotes scientific research and experimental development for the benefit of the general public. The Institute is a tax-exempt entity incorporated under the laws of Ontario.

As at March 31, 2014, the Hospital had an operational payable to the Institute amounting to \$3,741 (2013 - operational receivable of \$3,838). The Hospital provided \$8,936 (2013 - \$4,352) of base funding in support of resources to the Institute during fiscal 2014. The Hospital also provided \$150 (2013 - \$155) for specific operating expenditures to the Institute. These amounts are recorded in supplies and other on the consolidated Statement of operations.

Auxiliaries:

The Hospital has an economic interest in the Ottawa Civic Hospital Auxiliary, the Riverside Hospital Auxiliary and the Friends of the Ottawa General Hospital (the "Auxiliaries") and the Rehabilitation Centre Volunteer Association. The object of the Auxiliaries is to raise and receive funds to be distributed towards various programs and capital projects of the Hospital and its related Foundations. The Auxiliaries are tax-exempt entities created under the laws of Ontario.

The Ottawa Hospital Residence Corporation:

The Hospital exercises control over The Ottawa Hospital Residence Corporation (the "Corporation"), a tax-exempt entity without share capital incorporated under the laws of Ontario providing residences to the interns and residents of the Hospital. The amount payable to the Corporation, amounting to \$5,806 (2013 - \$4,118), is subject to an interest rate of prime minus 1.85%, is due on demand and has no fixed terms of repayment.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

13. Related entities (continued)

The Ottawa Hospital Residence Corporation: (continued)

The summarized assets, liabilities and results of operations for the Corporation for the year ended December 31 is as follows:

	2013	2012
	\$	\$
Financial position:		
Total assets	7,193	5,590
Total liabilities	267	218
Net assets	6,926	5,372
	7,193	5,590
	2013	2012
	\$	\$
Results of operations:		
Total revenue	2,838	2,801
Total expenses	1,284	4,809
Excess (deficiency) of revenue over expenses	1,554	(2,008)
	2013	2012
	\$	\$
Cash flows:		
Operating	1,708	(1,594)
Investing	(14)	(184)
Cash flows for the year	1,694	(1,778)

Hospital Food Services - Ontario Inc. and Ottawa Regional Hospital Linen Services Incorporated:

The Hospital is a founding member of Hospital Food Services - Ontario Inc. ("HFS") and of the Ottawa Regional Hospital Linen Services Incorporated ("ORHLS"). HFS and ORHLS were established to provide food and laundry services, respectively to member hospitals on a cost of service basis.

At March 31, 2014, the Hospital had an economic interest of \$3,723 (2013 - \$3,664) of total net assets of \$6,157 (2013 - \$6,027) of HFS. The corresponding interest in ORHLS was \$6,998 (2013 - \$6,965) of total net assets of \$12,189 (2013 - \$12,133).

For the year ended March 31, 2014, the Hospital provided \$1,557 (2013 - \$1,564) to HFS for food services and \$10,650 (2013 - \$10,196) to ORHLS for linen services. These amounts have been included in supplies and other on the consolidated Statement of operations

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

13. Related entities (continued)

Eastern Ontario Regional Laboratory Association Inc.:

The Hospital is a founding member of Eastern Ontario Regional Laboratory Association Inc. ("EORLA"). EORLA was established to provide specialized laboratory services to the 16-member hospitals on a cost of service basis.

The Hospital entered into a contract with the Ministry of Health and Long-term Care of Ontario to construct a regional laboratory, including investments in capital equipment. As at March 31, 2014, The Ottawa Hospital had completed the project, at a total cost of \$25,376, of which \$7,834 (2013 - \$7,834) is to be funded by EORLA. In return for this capital investment, EORLA will be permitted to occupy the premises, under the provisions set out in the member Site Use Agreements.

At March 31, 2014, the Hospital had an economic interest of \$1,233 of total net assets of \$2,418. The Hospital also had a capital grant receivable from EORLA in the amount of \$7,834 (2013 - \$7,834) and an operational receivable of \$7,750 (2013 - \$4,798).

Champlain Health Supply Services:

The Hospital is a founding member of Champlain Health Supply Services ("CHSS"). CHSS was established to implement shared service collaboration for the hospitals in the Champlain Region that will integrate the operations of sourcing, procurement and logistics across the region.

As at March 31, 2014, the Hospital had a payable of \$150 (2013 - \$601) to CHSS relating to expenses paid by CHSS on behalf of the Hospital.

14. Changes in non-cash operating working capital items

	2014	2013
	\$	\$
Short-term investments	(394)	(147)
Accounts receivable	8,693	(16,168)
Inventories	(1,212)	(2,894)
Prepaid expenses	(493)	(1,085)
Accounts payable and accrued liabilities	(37,392)	10,275
	(30,798)	(10,019)

15. Commitments, contingencies and guarantees

The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2014, management believes the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.

A group of hospitals, including the Hospital, have formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces and territories where it is licensed. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the year in which they were a subscriber. No such assessments have been made to March 31, 2014.

The Ottawa Hospital

Notes to the consolidated financial statements

March 31, 2014

(in thousands of dollars)

15. Commitments, contingencies and guarantees (continued)

At March 31, 2014, HFS had \$7,075 (2013 - \$6,423) outstanding on an available line of credit of \$7,576 (2013 - \$7,851), with the Hospital guaranteeing 48.1%. The guarantee continues until the loan, including accrued interest and fees, has been paid in full. In the event of any breach of covenants associated with this line of credit, the Hospital may be required to advance capital to HFS in accordance with its guarantee of the debt. At March 31, 2014, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$3,403 (2013 - \$3,089). As at the date of the audit report, there has been no such request by the debtor.

To the extent permitted by law the Hospital indemnifies present and former directors and officers against certain claims that may be made against them as a result of their service as directors or officers. The Hospital purchases directors' and officers' liability insurance that may be available in certain instances. The nature and likelihood of these arrangements preclude the Hospital from making a reasonable estimate of the maximum potential amount the Hospital could be required to pay to counterparties. The Hospital believes the likelihood that it will incur significant liability under these arrangements is remote and accordingly, no amount has been recorded in the consolidated financial statements for these guarantees.

At March 31, 2014, the Hospital has not recorded an environmental liability as the probability and the measurement of such costs are indeterminable at this time.

At March 31, 2014, letters of credit totaling \$NIL (2013 - \$1,335) were issued primarily to governmental authorities to guarantee fulfillment of the Hospital's obligations with respect to the installation of road, water, sewer and drainage improvements on Hospital-owned land.

The Hospital has construction in progress recorded in capital assets of \$25,455 at March 31, 2014 (2013 - \$32,510). The cost to complete this construction is estimated at \$40,247 (2013 - \$43,934).

The Hospital has entered into an agreement to upgrade their laboratory systems and recorded in capital assets an amount of \$5,307 as of March 31, 2014 (2012 - \$5,244). The cost to complete the upgrade is estimated at \$357 (2013 - \$420).

16. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

17. Non-recurring funding

The Hospital will be receiving up to \$69,319 in one time funding over the three fiscal years ending March 31, 2013, 2014 and 2015 to specifically address the Hospital's adjusted working funds deficit position. As indicated in the funding agreement, this funding is non-recurring and must be used solely to address the working funds deficit position. The amount of additional one-time funding recognized for the year ending March 31, 2014 is \$23,107 (2013 - \$23,107).