

Consolidated financial statements of

**The Ottawa Hospital**

March 31, 2016

# The Ottawa Hospital

March 31, 2016

## Table of contents

Independent Auditor's Report .....	1-2
Consolidated statement of financial position .....	3
Consolidated statement of operations .....	4
Consolidated statement of changes in net assets .....	5
Consolidated statement of cash flow .....	6
Notes to the consolidated financial statements .....	7-19

## **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, 2016, 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, 2016, 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.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants

June 1, 2016

# The Ottawa Hospital

## Consolidated statement of financial position

### as at March 31, 2016

(in thousands of dollars)

	2016	2015
	\$	\$
<b>Assets</b>		
Current assets		
Cash	-	14,940
Short-term investments	1,681	1,572
Accounts receivable (Note 3)	90,988	81,222
Inventories	16,610	17,862
Prepaid expenses	10,918	10,203
	<b>120,197</b>	<b>125,799</b>
Capital grants receivable (Note 3)	14,158	10,201
Assets restricted for capital purchases (Note 4)	124,386	104,992
Capital assets (Note 5)	634,745	640,913
Funds held in trust (Note 6)	31,072	29,713
	<b>924,558</b>	<b>911,618</b>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness (Note 7)	38,239	-
Accounts payable and accrued liabilities	188,793	212,588
Deferred contributions	9,945	13,965
Current portion of long-term debt (Note 9)	923	902
	<b>237,900</b>	<b>227,455</b>
Employee future benefits (Note 8)	57,700	54,935
Long-term debt (Note 9)	8,175	9,098
Deferred contributions related to capital assets (Note 10)	458,897	458,619
Funds held in trust (Note 6)	31,072	29,713
	<b>793,744</b>	<b>779,820</b>
Commitments, contingencies and guarantees (Note 17)		
<b>Net assets (deficiency)</b>		
Invested in capital assets (Note 12)	228,417	223,389
Unrestricted deficiency	(97,603)	(91,591)
	<b>130,814</b>	<b>131,798</b>
	<b>924,558</b>	<b>911,618</b>

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, 2016

(in thousands of dollars)

	2016	2015
	\$	\$
<b>Revenue</b>		
Ministry of Health and Long-Term Care of Ontario	996,961	985,911
Patient services	150,357	150,145
Recoveries and other operating	70,147	73,181
Preferred accommodation	12,016	11,210
Marketed services	7,370	7,475
Investment	1,238	1,382
Amortization of deferred contributions related to major equipment (Note 10)	7,924	8,320
Connecting Northern & Eastern Ontario program (Note 18)	6,987	9,107
	<b>1,253,000</b>	<b>1,246,731</b>
<b>Expenses</b>		
Salaries and wages	605,063	599,401
Employee benefits	156,481	152,389
Supplies and other operating (Note 15)	201,515	203,922
Medical and surgical supplies	102,210	100,654
Medical staff remuneration	76,170	77,222
Drugs	70,636	70,125
Interest	624	888
Amortization of major equipment	31,787	30,992
Connecting Northern & Eastern Ontario program (Note 18)	6,987	9,107
	<b>1,251,473</b>	<b>1,244,700</b>
Excess of revenue over expenses before the undernoted items and non-recurring item	<b>1,527</b>	2,031
Parking revenue	19,110	18,400
Parking expenses	(8,168)	(5,912)
Amortization of deferred contributions related to buildings (Note 10)	15,857	15,240
Amortization of buildings and land improvements	(29,310)	(27,705)
Excess (deficiency) of revenue over expenses after the overnoted items but before non-recurring item	<b>(984)</b>	2,054
Non-recurring funding (Note 20)	-	23,106
<b>Excess (deficiency) of revenue over expenses</b>	<b>(984)</b>	<b>25,160</b>

See accompanying notes to the consolidated financial statements.

# The Ottawa Hospital

## Consolidated statement of changes in net assets year ended March 31, 2016

(in thousands of dollars)

	Invested in capital assets	Unrestricted	2016	2015
	\$	\$	\$	\$
	(Note 12)			
<b>Balance, beginning of year</b>	<b>223,389</b>	<b>(91,591)</b>	<b>131,798</b>	106,638
Excess (deficiency) of revenue over expenses	-	<b>(984)</b>	<b>(984)</b>	25,160
Net change in investment in capital assets (Note 12)	<b>5,028</b>	<b>(5,028)</b>	-	-
<b>Balance, end of year</b>	<b>228,417</b>	<b>(97,603)</b>	<b>130,814</b>	131,798

See accompanying notes to the consolidated financial statements.

# The Ottawa Hospital

## Consolidated statement of cash flow

### year ended March 31, 2016

(in thousands of dollars)

	2016	2015
	\$	\$
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenses	(984)	25,160
Items not affecting cash:		
Amortization of capital assets	61,097	58,697
Amortization of deferred contributions related to capital assets (Note 10)	(23,781)	(23,560)
Loss (gain) on disposal of capital assets	74	(969)
Net increase in employee future benefits (Note 8)	2,765	4,425
	<b>39,171</b>	<b>63,753</b>
Changes in non-cash operating working capital items (Note 16)	(37,153)	(28,923)
	<b>2,018</b>	<b>34,830</b>
<b>Financing activities</b>		
Deferred contributions related to capital assets received (Note 10)	24,059	18,234
Repayment of long-term debt	(902)	(7,298)
Proceeds from long term debt	-	10,000
Proceeds on disposal of capital assets	-	4,083
	<b>23,157</b>	<b>25,019</b>
<b>Capital activities</b>		
Purchase of capital assets	(55,003)	(58,137)
<b>Investing activities</b>		
Net decrease (increase) in capital grants receivable	(3,957)	1,518
Increase in assets restricted for capital purchases	(19,394)	(16,549)
	<b>(23,351)</b>	<b>(15,031)</b>
Net cash outflow	(53,179)	(13,319)
Cash, beginning of year	14,940	28,259
<b>Cash (bank indebtedness), end of year</b>	<b>(38,239)</b>	<b>14,940</b>

Cash includes \$6,465 (2015 - \$5,342) that is restricted for the HIROC Claim Defense Fund.



# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

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### 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 and reflect the following significant accounting policies:

#### *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, Eastern Ontario Regional Laboratory Association Inc., its auxiliaries, Hospital Food Services - Ontario Inc., Ottawa Regional Hospital Linen Services Incorporated, and Champlain Health Supply Services. The summarized financial information of The Ottawa Hospital Residence Corporation is disclosed in Note 15.

#### *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 are recorded in the period in which the adjustments are 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 Patient services, Preferred accommodation, Marketed services and other operating are recognized when the goods are sold or the services are provided.

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

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### 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. Net realizable value is the estimated selling price less the estimated costs necessary to make the sale.

#### *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
Assets restricted for capital purchases	Fair value
Funds held in trust	Fair value
Bank indebtedness	Fair value
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost

#### *Short-term 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. Minor equipment replacements are expensed in the year of replacement. 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.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. 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.

Land is not amortized due to its infinite life. Construction in progress is not amortized until the project is complete and the assets come into use. Capital assets are amortized on a straight-line basis over their expected useful lives as follows:

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

#### *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, 2016

(in thousands of dollars)

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### 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. The most recent actuarial valuation was performed as at March 31, 2016. The next scheduled valuation will be as at March 31, 2019.

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 revenue 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 certain accrued liabilities and the allowance for doubtful accounts.

### 3. Accounts and capital grants receivable

#### *Accounts receivable*

	<b>2016</b>	2015
	\$	\$
Accounts receivable from patients	<b>41,776</b>	37,384
Ministry of Health and Long-Term Care of Ontario	<b>25,031</b>	18,184
Eastern Ontario Regional Laboratory Association Inc. (Note 15)	<b>5,490</b>	4,102
Other	<b>22,649</b>	25,099
Less: allowance for doubtful accounts	<b>(3,958)</b>	(3,547)
	<b>90,988</b>	81,222

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

### 3. Accounts and capital grants receivable (continued)

#### *Accounts receivable (continued)*

An analysis of the aging of the Hospital's receivables as at March 31, 2016 is as follows:

	0-30 days	31-60 days	61-90 days	Over 90 days	Total
	\$	\$	\$	\$	\$
Accounts receivable from patients	14,033	11,092	7,547	9,104	<b>41,776</b>
Ministry of Health and Long-Term Care of Ontario	20,898	3,448	685	-	<b>25,031</b>
Eastern Ontario Regional Laboratory Association Inc. (Note 15)	5,490	-	-	-	<b>5,490</b>
Other	13,272	4,176	683	4,518	<b>22,649</b>
Less: allowance for doubtful accounts	(404)	(348)	(254)	(2,952)	<b>(3,958)</b>
	<b>53,289</b>	<b>18,368</b>	<b>8,661</b>	<b>10,670</b>	<b>90,988</b>

An analysis of the aging of the Hospital's receivables as at March 31, 2015 is as follows:

	0-30 days	31-60 days	61-90 days	Over 90 days	Total
	\$	\$	\$	\$	\$
Accounts receivable from patients	13,636	11,012	2,792	9,944	37,384
Ministry of Health and Long-Term Care of Ontario	16,080	1,056	-	1,048	18,184
Eastern Ontario Regional Laboratory Association Inc. (Note 15)	4,102	-	-	-	4,102
Other	20,691	2,842	303	1,263	25,099
Less: allowance for doubtful accounts	(626)	(270)	(194)	(2,457)	(3,547)
	<b>53,883</b>	<b>14,640</b>	<b>2,901</b>	<b>9,798</b>	<b>81,222</b>

The allowance for doubtful accounts relates to accounts receivable 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.

	2016	2015
	\$	\$
The Ottawa Hospital Foundation (Note 15)	<b>2,924</b>	2,367
Eastern Ontario Regional Laboratory Association Inc. (Note 15)	<b>7,834</b>	7,834
e-Health Ontario (Note 18)	<b>3,400</b>	-
	<b>14,158</b>	10,201

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

#### 4. Assets restricted for capital purchases

Assets restricted for capital purchases is comprised of \$59,547 (2015 - \$51,095) related to funding received and restricted for the purpose of capital expenditures and \$64,839 (2015 - \$53,897) in net parking revenue that has been restricted for the purchase of capital expenditures. The funds are held with the Hospital's bank, earning interest at a rate of prime less 1.75% (2015 - 1.75%) and are classified as long-term as the associated cash outflow is not expected to occur within one year. At March 31, 2016, an additional amount of \$2,120 (2015 - \$Nil) restricted for capital purchases was receivable by the Hospital.

#### 5. Capital assets

	2016			2015
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	897	-	897	897
Land improvements	5,336	5,336	-	-
Buildings	755,029	315,356	439,673	442,876
Building service equipment	164,239	99,811	64,428	56,574
Major equipment	465,675	363,300	102,375	102,137
Construction in progress	27,372	-	27,372	38,429
	<b>1,418,548</b>	<b>783,803</b>	<b>634,745</b>	640,913

During the year ended March 31, 2015, the Hospital recorded a transfer of radiation equipment from Cancer Care Ontario at a net book value of \$15,876 which was donated. An equal amount was also set up as capital contribution (Note 10). There were no transfers for the year ended March 31, 2016.

During the year ended March 31, 2016, the Hospital disposed of equipment with a cost of \$295 (2015 - \$5,306) and accumulated amortization of \$221 (2015 - \$2,192) for proceeds of \$Nil (2015 - \$4,083), resulting in a loss of \$74 (2015 - gain of \$969).

Cost and accumulated amortization at March 31, 2015 were \$1,363,841 and \$722,928, respectively.

#### 6. Funds held in trust

Funds held in trust are held with the Hospital's bank and represent the aggregate balance of funds held in trust for third parties.

#### 7. 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, 2016 (2015 - \$Nil). This line of credit is unsecured and bears interest at prime.

The Hospital also has an overdraft lending agreement with one of its corporate bankers 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. The Hospital has provided the following collateral for the facility: a General Security Agreement, representing a first charge over all accounts receivable, inventory and major equipment other than leased assets. No amounts have been drawn on this facility for the periods ended March 31, 2016 (2015 - \$Nil).

The Hospital also had an overdraft of \$38,239 (2015 - \$Nil) that was borrowed against assets restricted for capital purchases.

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

### 8. 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 Hospital also has a pension plan as described in Note 13. The most recent actuarial valuation of employee future benefits was completed as at March 31, 2016.

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

	2016	2015
	\$	\$
Accrued benefit obligation	61,828	62,728
Unamortized experience losses	(4,128)	(7,793)
Employee future benefit liability	57,700	54,935

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:

	2016	2015
Discount rate to determine accrued benefit obligation	3.76%	3.31%
Dental cost increases	3.50%	3.50%
Extended healthcare cost escalations	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, 2016 is \$2,765 (2015 - \$4,425) regarding employee future benefits. This amount is comprised of:

	2016	2015
	\$	\$
Current service cost	3,440	4,840
Interest on accrued benefit obligation during the year	2,080	2,326
Amortization of net experience losses	519	189
Benefit payments made by the Hospital during the year	(3,274)	(2,930)
	2,765	4,425

### 9. Long-term debt

	2016	2015
	\$	\$
2.23% fixed rate term note with principal and interest payments of \$93 monthly, maturing March 2025	9,098	10,000
Less: current portion of long-term debt	923	902
	8,175	9,098

Long-term debt is secured under a general assignment agreement.

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

### 9. Long-term debt (continued)

Future principal repayments are as follows:

	\$
2017	923
2018	943
2019	965
2020	986
2021 and thereafter	5,281
	<u>9,098</u>

### 10. Deferred contributions 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 consolidated statement of operations.

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

	2016	2015
	\$	\$
Balance, beginning of the year	458,619	448,069
Add cash contributions received or receivable during the year	24,059	18,234
Add non-cash contributions received during the year (Note 5)	-	15,876
Less amounts amortized for equipment	(7,924)	(8,320)
Less amounts amortized for buildings	(15,857)	(15,240)
	<u>458,897</u>	<u>458,619</u>

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

	2016	2015
	\$	\$
Unamortized capital contributions (Note 12)	397,230	407,524
Unspent capital contributions (Note 4)	61,667	51,095
	<u>458,897</u>	<u>458,619</u>

### 11. 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.

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

### 12. Invested in capital assets

Invested in capital assets are calculated as follows:

	2016	2015
	\$	\$
Capital assets	634,745	640,913
Amounts financed by deferred contributions related to capital assets (Note 10)	(397,230)	(407,524)
Long-term debt (Note 9)	(9,098)	(10,000)
	<b>228,417</b>	<b>223,389</b>

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

	2016	2015
	\$	\$
Purchase of capital assets	55,003	58,137
Amounts funded by deferred cash contributions	(13,487)	(14,175)
Proceeds on disposal of equipment	-	(4,083)
Gain (loss) on disposal of capital assets	(74)	969
Amortization of deferred contributions related to capital assets	23,781	23,560
Amortization of capital assets	(61,097)	(58,697)
Repayment of long-term debt	902	7,298
Proceeds from long term debt	-	(10,000)
	<b>5,028</b>	<b>3,009</b>

### 13. 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 \$51,025 (2015 - \$49,897) 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, 2014 indicates the plan is fully funded.

### 14. Financial instruments

#### *Establishing fair value*

The carrying value of accounts receivable and accounts payable and accrued liabilities 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 its carrying value.



# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

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### 14. Financial instruments (continued)

#### *Establishing fair value (continued)*

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

#### *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.

There have been no significant changes from the previous year in the exposure to risk on policies, procedures and methods used to measure credit risk.

#### *Liquidity risk*

The Hospital's objective is to have sufficient liquidity to meet its liabilities when due. The Hospital monitors its cash balances and cash flows generated from operations to meet its requirements. As at March 31, 2016, the most significant financial liabilities are the bank indebtedness and accounts payable and accrued liabilities. Long-term debt matures according to the table in Note 9

### 15. Related entities

#### *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 accommodation to the interns and family of patients of the Hospital, parking facilities to patients and staff of the Hospital and manages other business activities.

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

### 15. Related entities (continued)

#### *The Ottawa Hospital Residence Corporation (continued)*

During the year, the Hospital received \$4,000 (2015 - \$Nil) from the Corporation. As at March 31, 2016 the Hospital had a payable to the Corporation, amounting to \$3,906 (2015 - \$6,706), this amount is subject to an interest rate of prime minus 1.75%, is due on demand and has no fixed terms of repayment.

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

	2015	2014
	\$	\$
Financial position:		
Total assets	9,106	8,239
Total liabilities	256	330
Net assets	8,850	7,909
	9,106	8,239
	2015	2014
	\$	\$
Results of operations:		
Total revenue	2,179	2,300
Total expenses	1,239	1,317
Excess of revenue over expenses	940	983
	2015	2014
	\$	\$
Cash flows:		
Operating	1,016	1,252
Investing	(114)	13
Cash flows for the year	902	1,265

#### *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 \$6,521 (2015 - \$7,945) from the Foundation. As at March 31, 2016, the Hospital had a capital grant receivable from the Foundation amounting to \$2,924 (2015 - \$2,367) and an endowment receivable of \$575 (2015 - \$564). 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.

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

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### 15. Related entities (continued)

#### *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, 2016, the Hospital had an operational payable to the Institute amounting to \$1,473 (2015 - \$3,234). The Hospital provided \$8,612 (2015 - \$4,336) of base funding in support of resources to the Institute during fiscal 2016. The Hospital also provided \$230 (2015 - \$150) for specific operating expenditures to the Institute. These amounts are recorded in supplies and other on the consolidated Statement of operations.

#### *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 sixteen 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, 2016, The Ottawa Hospital had completed the project, at a total cost of \$25,376 (2015 - \$25,376), of which \$7,834 (2015 - \$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, 2016, the Hospital had an economic interest of \$293 (2015 - \$2,096) of total net assets of \$722 (2015 - \$5,071). The Hospital also had a capital grant receivable from EORLA in the amount of \$7,834 (2015 - \$7,834) and an operational receivable of \$5,490 (2015 - \$4,102).

#### *Auxiliaries and Association*

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 "Association"). The object of the Auxiliaries and the Association is to raise and receive funds to be distributed towards various programs and capital projects of the Hospital and its related Foundations. The Auxiliaries and the Association are tax-exempt entities. The Auxiliaries were created under the laws of Ontario.

#### *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, 2016, the Hospital had an economic interest of \$3,719 (2015 - \$3,312) of total net assets of \$6,126 (2015 - \$5,276) of HFS. The corresponding interest in ORHLS was \$7,174 (2015 - \$7,045) of total net assets of \$12,484 (2015 - \$12,368).

For the year ended March 31, 2016, the Hospital provided \$1,627 (2015 - \$1,515) to HFS for food services and \$10,784 (2015 - \$11,076) to ORHLS for linen services. These amounts have been included in supplies and other on the consolidated Statement of operations.

#### *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, the Hospital had a payable of \$65 (2015 - \$30) to CHSS relating to expenses paid by CHSS on behalf of the Hospital. These amounts are recorded in supplies and other operating expenses on the non-consolidated statement of operations.

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

### 16. Changes in non-cash operating working capital items

	2016	2015
	\$	\$
Short-term investments	(109)	(21)
Accounts receivable	(9,766)	(17,432)
Inventories	1,252	(1,319)
Prepaid expenses	(715)	(2,998)
Accounts payable and accrued liabilities	(23,795)	(8,357)
Deferred contributions	(4,020)	1,204
	(37,153)	(28,923)

### 17. 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, 2016, 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, 2016.

At March 31, 2016, HFS had \$5,870 (2015 - \$6,923) outstanding on an available line of credit of \$6,590 (2015 - \$7,066), 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, 2016, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$2,823 (2015 - \$3,330). 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, 2016, the Hospital has an environmentally contaminated site and has not recorded a liability for remediation costs as the probability and the measurement of such costs are indeterminable at this time.

At March 31, 2016, letters of credit totaling \$36 (2015 - \$36) 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 \$27,372 at March 31, 2016 (2015 - \$38,429). The cost to complete this construction is estimated at \$246,312 (2015 - \$222,393).

# The Ottawa Hospital

## Notes to the consolidated financial statements

March 31, 2016

(in thousands of dollars)

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### 18. Connecting Northern & Eastern Ontario program

On November 20, 2014 the Hospital entered into an implementation agreement with e-Health Ontario to help establish a region-wide governance and collaborative delivery model, known as the Connecting Northern and Eastern Ontario ("cNEO") program. The cNEO program will give clinicians in Northern and Eastern Ontario secure and timely access to electronic patient health information by connecting health service providers through the integration of electronic health care systems. The project will be delivered by the Hospital who will engage four service delivery partners, one from each of the LHIN's in Northern and Eastern Ontario (South East, Champlain, North East, and North West) to provide local support to their respective health service providers. The Hospital is also engaged as the service delivery partner for the Champlain LHIN. The maximum funds under the agreement with an effective end date of February 28, 2017 is \$37,119. Prior to this agreement the Hospital was engaged in two separate agreements related to the planning and development for the implementation of cNEO.

The cNEO program revenue and expenses of \$6,987 were recognized in 2016 (2015 - \$9,107) of which \$6,312 (2015 - \$1,147) related to the implementation agreement. As at March 31, 2016, the Hospital had deferred contributions of \$2,365 (2015 - \$1,263) for funds not yet spent by the project. As at March 31, 2016, the Hospital has a capital grant receivable from e-Health Ontario of \$3,400 (2015 - \$Nil) and accounts receivable of \$611 (2015 - \$535) for funds advanced to service delivery partners but not yet spent on the project.

### 19. Comparative figures

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

### 20. Non-recurring funding

The Hospital has received \$69,319 in one time funding over the three fiscal years ended 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, 2016 is \$Nil (2015 - \$23,106).