

Consolidated Financial Statements of

THE OTTAWA HOSPITAL

March 31, 2012

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, 2012 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 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.

Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The consolidated financial statements as at March 31, 2011 and for the year then ended were audited by other auditors whose report dated June 22 2011, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

June 6, 2012

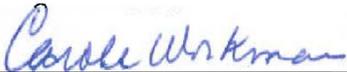
THE OTTAWA HOSPITAL
Consolidated Financial Statements
March 31, 2012
(in thousands of dollars)

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THE OTTAWA HOSPITAL
Consolidated Statement of Financial Position
as at March 31, 2012
(in thousands of dollars)

	2012	2011
CURRENT ASSETS		
Short-term investments	\$ 1,010	\$ 1,255
Accounts receivable (Note 3)	56,315	60,847
Inventories	12,437	12,114
Prepaid expenses	5,627	6,115
	75,389	80,331
CAPITAL GRANTS RECEIVABLE (Note 3)	24,765	28,129
INVESTMENTS HELD FOR CAPITAL PURCHASES (Note 11)	74,335	71,425
CAPITAL ASSETS (Note 4)	642,877	622,497
FUNDS HELD IN TRUST (Note 9)	32,749	33,472
	\$ 850,115	\$ 835,854
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	\$ 11,919	\$ 43,818
Accounts payable and accrued liabilities	255,633	232,297
Payable to The Ottawa Hospital Residence Corporation (Note 14)	4,565	4,212
Current portion of long-term debt (Note 7)	1,520	1,408
Current portion of obligation under capital lease (Note 8)	53	112
	273,690	281,847
EMPLOYEE FUTURE BENEFITS (Note 6)	34,139	26,318
LONG-TERM DEBT (Note 7)	8,825	9,060
OBLIGATION UNDER CAPITAL LEASE (Note 8)	-	53
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 9)	440,976	430,454
DEFERRED CONTRIBUTIONS RELATED TO FUNDS HELD IN TRUST (Note 9)	32,749	33,472
	790,379	781,204
COMMITMENTS, CONTINGENCIES AND GUARANTEES (Note 16)		
NET ASSETS (DEFICIENCY)		
Invested in capital assets (Note 11)	230,129	214,256
Unrestricted deficiency	(170,393)	(159,606)
	59,736	54,650
	\$ 850,115	\$ 835,854

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, 2012
(in thousands of dollars)

	<u>2012</u>	<u>2011</u>
Revenue		
Patient care:		
Ministry of Health and Long-Term Care	\$ 975,854	\$ 927,111
Other	139,368	148,060
Recoveries and other	51,155	52,561
Other funding	12,487	13,765
Marketed services	8,300	8,311
Investment	441	289
Amortization of deferred contributions related to equipment (Note 9)	7,094	7,137
	1,194,699	1,157,234
Expenses		
Salaries and wages	606,694	586,517
Employee benefits	155,806	144,242
Supplies and other	151,876	155,351
Medical and surgical	95,071	88,324
Medical staff remuneration	87,198	80,006
Drugs	58,910	60,598
Interest	629	751
Amortization of equipment	36,378	33,321
	1,192,562	1,149,110
Excess of revenue over expenses before the undernoted items	2,137	8,124
Parking revenues	16,650	15,247
Parking expenses	(4,330)	(4,265)
Amortization of deferred contributions related to buildings (Note 9)	15,455	14,170
Amortization of buildings and land improvements	(24,826)	(22,166)
EXCESS OF REVENUE OVER EXPENSES	\$ 5,086	\$ 11,110

See accompanying notes to the consolidated financial statements

THE OTTAWA HOSPITAL
Consolidated Statement of Changes in Net Assets
year ended March 31, 2012
(in thousands of dollars)

	Invested in Capital <u>Assets</u> (Note 8)	<u>Unrestricted</u>	<u>2012</u>	<u>2011</u>
BALANCE, BEGINNING OF YEAR	\$ 214,256	\$ (159,606)	\$ 54,650	\$ 43,540
Excess of revenue over expenses	-	5,086	5,086	11,110
Net change in investment in capital assets (Note 11)	15,873	(15,873)	-	-
BALANCE, END OF YEAR	\$ 230,129	\$ (170,393)	\$ 59,736	\$ 54,650

See accompanying notes to the consolidated financial statements

THE OTTAWA HOSPITAL
Consolidated Statement of Cash Flows
year ended March 31, 2012
(in thousands of dollars)

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 5,086	\$ 11,110
Items not affecting cash		
Amortization of capital assets	61,204	55,487
Amortization of deferred contributions related to capital assets	(22,549)	(21,307)
Loss on disposal of capital assets	-	25
Decrease in Royal Ottawa Health Care Group - vested benefits	-	325
Net increase in employee future benefits (Note 6)	7,821	3,691
	51,562	49,331
Changes in non-cash operating working capital items (Note 15)	28,278	11,807
	79,840	61,138
FINANCING ACTIVITIES		
Deferred contributions related to capital assets received	33,071	57,526
Repayment of long-term debt	(1,408)	(1,389)
Amount funded by long-term debt	1,285	-
Repayment of obligation under capital lease	(112)	(329)
Increase (decrease) in deferred contributions related to funds held in trust	(723)	7,928
Increase in payable to The Ottawa Hospital Residence Corporation	353	556
Proceeds on disposal of capital assets	-	10
	32,466	64,302
INVESTING ACTIVITIES		
Purchase of capital assets	(81,584)	(106,725)
Net decrease (increase) in capital grants receivable	3,364	(10,375)
Net decrease (increase) in funds held in trust	723	(7,928)
Net decrease (increase) in investments held for capital purchases	(2,910)	3,541
	(80,407)	(121,487)
NET CASH INFLOW	31,899	3,953
BANK INDEBTEDNESS, BEGINNING OF YEAR	(43,818)	(47,771)
BANK INDEBTEDNESS, END OF YEAR	\$ (11,919)	\$ (43,818)

See accompanying notes to the consolidated financial statements

THE OTTAWA HOSPITAL

Notes to the Consolidated Financial Statements

year ended March 31, 2012
(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 generally accepted accounting.

Future changes in accounting policies

In December 2010, the Public Sector Accounting Board changed the accounting framework required to be followed by Government Not-For-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, Government not-for-profit Organizations will be required to select from either (a) the CICA Public Sector Accounting Handbook, including Sections PS 4200 to PS 4270 or, alternatively, (b) the CICA Public Sector Accounting Handbook without Sections PS 4200 to PS 4270. Early adoption of these new standards is permitted. The Hospital plans to adopt the new accounting standards for Government Not-For-Profit Organizations, including Sections PS 4200 to 4270, for its fiscal year beginning on April 1, 2012. The Hospital is currently assessing the impact of these changes on its financial statements.

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 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.

THE OTTAWA HOSPITAL

Notes to the Consolidated Financial Statements

year ended March 31, 2012
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (Continued)

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 and Eastern Ontario Regional Laboratory Association Inc. The summarized financial information of The Ottawa Hospital Residence Corporation is disclosed in Note 14.

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.

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

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(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 of determining the fair value, contributed services are not recognized in the consolidated financial statements.

Inventories

Inventories are recorded on a first in first out basis 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:

Short-term investments	Held-for-trading
Accounts receivable	Loans and receivables
Investments held for capital purchases	Held-for-trading
Cash held in trust	Held-for-trading
Bank indebtedness	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Payable to The Ottawa Hospital Residence Corporation	Other liabilities
Long-term debt	Other liabilities

Held for trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the statement of financial position date.

Loans and receivables and other liabilities

Loans and receivables and other liabilities are financial assets and liabilities which have been designated as loans and receivables and other liabilities. Loans and receivables and other liabilities are measured at amortized cost using the effective interest rate method.

THE OTTAWA HOSPITAL

Notes to the Consolidated Financial Statements

year ended March 31, 2012
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefit plans (Continued)

Adjustments arising from plan amendments, including past service costs, are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. The excess of the net actuarial gain or loss over 10% of the benefit obligation is amortized over the average remaining service period of the 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.

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

3. ACCOUNTS AND CAPITAL GRANTS RECEIVABLE

Accounts receivable:

	<u>2012</u>	<u>2011</u>
Accounts receivable from patients	\$ 35,535	\$ 36,450
Ministry of Health and Long-Term Care	10,266	11,047
Ottawa Hospital Research Institute (Note 14)	1,851	1,884
Eastern Ontario Regional Laboratory Association Inc. (Note 14)	1,119	13
Other	11,604	15,556
	<u>60,375</u>	64,950
Less allowance for doubtful accounts	<u>4,060</u>	4,103
	<u>\$ 56,315</u>	<u>\$ 60,847</u>

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.

	<u>2012</u>	<u>2011</u>
The Ottawa Hospital Foundation (Note 14)	\$ 6,261	\$ 9,015
Eastern Ontario Regional Laboratory Association Inc. (Note 14)	7,834	7,834
University of Ottawa	477	2,112
Ministry of Health and Long-Term Care	-	8,035
Ottawa Hospital Research Institute (Note 14)	9,873	-
Children's Hospital of Eastern Ontario	143	1,164
Other	177	(31)
	<u>\$ 24,765</u>	<u>\$ 28,129</u>

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

4. CAPITAL ASSETS

	2012			2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 1,618	\$ -	\$ 1,618	\$ 1,618
Land improvements	5,336	5,206	130	183
Buildings	708,643	233,430	475,213	424,437
Building service equipment	116,405	74,650	41,755	29,527
Major equipment	608,631	503,423	105,208	93,681
Construction in progress	18,953	-	18,953	73,051
	\$1,459,586	\$ 816,709	\$ 642,877	\$ 622,497

Cost and accumulated amortization of capital assets at March 31, 2011 amounted to \$1,378,746 and \$756,249 respectively.

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, 2012 (2011 - \$NIL). This line of credit is unsecured and bears interest at prime. The Hospital also had an overdraft of \$11,919 (2011 - \$43,818) that was borrowed against investments held for capital purchases.

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(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 April 1, 2009 and has been extrapolated to March 31, 2012.

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

	<u>2012</u>	<u>2011</u>
Accrued benefit obligation	\$ 82,457	\$ 42,532
Unamortized past service costs	(23,905)	(1,588)
Unamortized experience losses	<u>(24,413)</u>	<u>(14,626)</u>
Employee future benefit liability	<u>\$ 34,139</u>	<u>\$ 26,318</u>

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:

	<u>2012</u>	<u>2011</u>
Discount rate to determine accrued benefit obligation	5.00%	5.00%
Dental cost increases	6.00%	6.00%
Extended healthcare cost escalations, decreasing by 0.5% per annum to an ultimate rate of 5.0% thereafter	7.50%	7.50%
Expected average remaining service life of employees	15 years	15 years

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

6. EMPLOYEE FUTURE BENEFITS (Continued)

Included in the statement of operations is an amount of \$7,821 (2011 - \$3,691) regarding employee future benefits. This amount is comprised of:

	<u>2012</u>	<u>2011</u>
Additional benefit expense	\$ 8,477	\$ 4,350
Benefit payments made by the Hospital during the year	<u>(656)</u>	<u>(659)</u>
	<u>\$ 7,821</u>	<u>\$ 3,691</u>

Health care sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health and dental care plans. A 1% change in assumed health and dental care cost trend rates would have the following effects for 2012.

	<u>Increase</u>	<u>Decrease</u>
Net benefit cost	\$ 922	\$ 758
Accrued benefit obligation	9,009	7,702

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

7. LONG-TERM DEBT

	<u>2012</u>	<u>2011</u>
5.45% fixed rate term note with principal payments of \$44 monthly, maturing April 2021	\$ 4,356	\$ 4,889
6.15% fixed rate term note with principal payments of \$27 monthly, maturing April 2015	1,000	1,325
6.15% fixed rate term note with principal payments of \$36 monthly, maturing December 2019	3,333	3,767
3.12% fixed rate term note with principal payments of \$10 monthly, maturing March 2015	371	487
3.70% fixed rate term note with principal payments of \$13 monthly, maturing March 2022	1,285	-
Total loans	<u>10,345</u>	10,468
Less current portion of long-term debt	<u>1,520</u>	1,408
	<u>\$ 8,825</u>	<u>\$ 9,060</u>

Loans are secured under a general assignment agreement.

Future principal repayments are as follows:

2014	\$ 1,520
2015	1,536
2016	1,113
2017	1,092
2018 and thereafter	3,564
	<u>\$ 8,825</u>

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

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

7. LONG-TERM DEBT (Continued)

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. The current amount drawn on this facility is \$NIL as at March 31, 2012 (2011 - \$NIL).

A term facility lending agreement in the amount of \$1,500 for the purpose of replenishing working capital spent on upgrades to surgery facilities. The facility is repayable over a period of up to three years and bears interest at prime plus 0.50%, payable monthly in arrears. The Hospital has provided the following collateral for the facility: a General Security Agreement, registered in second position behind the Bank of Nova Scotia with specific priority charge on fixed assets being financed and an assignment of fire insurance. The current amount drawn on this facility is \$NIL as at March 31, 2012 (2011 - \$NIL).

A term facility lending agreement in the amount of \$1,000 for the purpose of replenishing working capital spent on upgrades to air circulation equipment for surgery facilities. The revolving facility is repayable on demand and bears interest at prime plus 0.25%, payable monthly in arrears. The Hospital has provided the following collateral for the facility: a General Security Agreement, registered in second position behind the Bank of Nova Scotia with specific priority charge on fixed assets being financed and an assignment of fire insurance. The current amount drawn on this facility is \$NIL as at March 31, 2012 (2011 - \$NIL).

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

8. OBLIGATIONS UNDER CAPITAL LEASE

The Hospital is committed under capital leases for diagnostic equipment:

	<u>2012</u>	<u>2011</u>
5.95% capital lease obligation with principal payments of \$19 monthly, maturing June 2011	\$ -	\$ 57
6.10% capital lease obligation with principal payments of \$5 monthly, maturing February 2013	<u>53</u>	<u>108</u>
Total capital lease obligation	53	165
Less current portion of capital lease obligation	<u>53</u>	<u>112</u>
	\$ -	\$ 53

9. 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:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 33,472	\$ 25,544
Add contributions received during the year	10,987	14,414
Interest earned during the year	35	257
Less disbursements made during the year	<u>(11,745)</u>	<u>(6,743)</u>
	\$ 32,749	\$ 33,472

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

9. DEFERRED CONTRIBUTIONS (Continued)

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:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 430,454	\$ 394,235
Add contributions received during the year	33,071	57,526
Less amounts amortized for equipment	(7,094)	(7,137)
Less amounts amortized for buildings	(15,455)	(14,170)
	<u>\$ 440,976</u>	<u>\$ 430,454</u>

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

	<u>2012</u>	<u>2011</u>
Unamortized capital contributions (Note 11)	\$ 402,350	\$ 397,608
Unspent capital contributions	38,626	32,846
	<u>\$ 440,976</u>	<u>\$ 430,454</u>

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

10. 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 object 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 year ended March 31, 2011.

11. INVESTED IN CAPITAL ASSETS

Invested in capital assets is calculated as follows:

	<u>2012</u>	<u>2011</u>
Capital assets	\$ 642,877	\$ 622,497
Amounts financed by:		
Deferred contributions related to capital assets (Note 9)	(402,350)	(397,608)
Long-term debt (Note 7)	(10,345)	(10,468)
Capital lease obligations (Note 8)	(53)	(165)
	<u>\$ 230,129</u>	<u>\$ 214,256</u>

THE OTTAWA HOSPITAL
Notes to the Consolidated Financial Statements
year ended March 31, 2012
(in thousands of dollars)

11. INVESTED IN CAPITAL ASSETS (Continued)

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

	<u>2012</u>	<u>2011</u>
Purchase of capital assets	\$ 81,584	\$ 106,725
Amounts funded by deferred contributions	(27,291)	(54,813)
Proceeds on disposal of equipment	-	(10)
Loss on disposal of capital assets	-	(25)
Amortization of deferred contributions related to capital assets	22,549	21,307
Amortization of capital assets	(61,204)	(55,487)
Repayment of long-term debt	1,408	1,389
Amount funded by long-term debt	(1,285)	-
Repayment of obligation under capital leases	112	329
	<u>\$ 15,873</u>	<u>\$ 19,415</u>

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.

12. 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 \$50,924 (2011 - \$45,944) and are included in the 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, 2010 indicates the plan is fully funded.

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13. FINANCIAL INSTRUMENTS

The carrying value of accounts receivable, accounts payable and accrued liabilities, bank indebtedness, 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.

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.

14. 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 \$11,608 (2011 - \$18,291) from the Foundation. As at March 31, 2012, the Hospital had a capital grant receivable from the Foundation amounting to \$6,261 (2011 - \$9,015) and an endowment receivable of \$531 (2011 - \$350). 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.

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14. 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, 2012, the Hospital had a capital grant receivable from the Institute in the amount of \$9,873 (2011 - \$NIL) and an operational receivable from the Institute amounting to \$1,851 (2011 - \$1,884). The Hospital provided \$4,352 (2011 - \$4,793) of base funding in support of resources to the Institute during fiscal 2012. The Hospital also provided \$150 (2011 - \$150) for specific operating expenditures to the Institute. These amounts are recorded in supplies and other on the 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 \$4,565 (2011 - \$4,212), is subject to an interest rate of prime minus 1.85%, is due on demand and has no fixed terms of repayment.

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14. 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:

	<u>2011</u>	<u>2010</u>
Financial position:		
Total assets	\$ 7,486	\$ 6,145
Total liabilities	\$ 106	\$ 205
Net assets	7,380	5,940
	<u>\$ 7,486</u>	<u>\$ 6,145</u>
Results of operations:		
Total revenue	\$ 2,724	\$ 3,349
Total expenses	1,284	1,431
Excess of revenue over expenses	<u>\$ 1,440</u>	<u>\$ 1,918</u>
Cash flows:		
Operating	\$ 2,037	\$ 417
Investing	(81)	(106)
Cash flows for the year	<u>\$ 1,956</u>	<u>\$ 311</u>

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, 2012, the Hospital had an economic interest of \$3,557 (2011 - \$3,496) of total net assets of \$5,774 (2011 - \$5,639) of HFS. The corresponding interest in ORHLS was \$7,143 (2011 - \$6,518) of total net assets of \$12,428 (2011 - \$11,412).

For the year ended March 31, 2012, the Hospital provided \$1,463 (2011 - \$1,253) to HFS for food services and \$9,400 (2011 - \$8,914) to ORHLS for linen services. These amounts have been included in supplies and other on the Statement of Operations.

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14. 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, 2012, The Ottawa Hospital had completed the project, at a total cost of \$25,376, of which \$7,834 (2011 - \$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.

As at March 31, 2012, the Hospital had a capital grant receivable from EORLA in the amount of \$7,834 (2011 - \$7,834) and an operational receivable of \$1,119 (2011 - \$13).

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 part of the Transfer Payment Agreement between the Ministry of Finance and CHSS, each of the member hospitals is required to fund a portion of the development and start-up activities of CHSS through to December 31, 2011 through cash payments and contributions in-kind.

As at March 31, the Hospital had a payable of \$560 (2011 - receivable of \$503) from CHSS relating to expenses paid by CHSS on behalf of the Hospital.

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15. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>2012</u>	<u>2011</u>
Short-term investments	\$ 245	\$ 53
Accounts receivable	4,532	461
Inventories	(323)	(176)
Prepaid expenses	488	(1,018)
Accounts payable and accrued liabilities	23,336	12,487
	<u>\$ 28,278</u>	<u>\$ 11,807</u>

16. 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, 2012, 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, 2012.

At March 31, 2012, HFS had \$6,796 (2011 - \$8,715) outstanding on an available line of credit of \$9,806 (2011 - \$10,300), 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, 2012, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$3,269 (2011 - \$4,192). As at the date of the audit report, there has been no such request by the debtor.

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16. COMMITMENTS, CONTINGENCIES AND GUARANTEES (Continued)

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, 2012, letters of credit totaling \$1,335 (2011 - \$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 \$18,953 at March 31, 2012 (2011 - \$73,051). The cost to complete this construction is estimated at \$46,354 (2011 - \$28,064).

The Hospital has entered into an agreement to upgrade their laboratory systems and recorded in capital assets an amount of \$4,382 as of March 31, 2012 (2011 - \$2,727). The cost to complete the upgrade is estimated at \$1,281 (2011 - \$2,937).

17. SUBSEQUENT EVENTS

Subsequent to March 31, 2012, the Hospital entered into a formal arrangement with EORLA to transfer all laboratory operations to EORLA. Effective April 1, 2012, a number of Hospital non-medical laboratory employees became employees of EORLA. As a result of this transfer, the Hospital will be purchasing its laboratory services from EORLA in 2013. All existing laboratory equipment remains the property of the Hospital and will be leased to EORLA at no charge. New equipment will be acquired directly by EORLA as the need arises.

18. COMPARATIVE FIGURES

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