Consolidated Financial Statements of

THE OTTAWA HOSPITAL

Year ended March 31, 2017

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Consolidated Financial Statements

Year ended March 31, 2017

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INDEPENDENT AUDITORS' 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, 2017, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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, 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.

Auditors’ 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 our 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, we consider 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 Ottawa Hospital as at March 31, 2017, and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of The Ottawa Hospital as at and for the year ended March 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on June 1, 2016.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 7, 2017

Ottawa, Canada

THE OTTAWA HOSPITAL

Consolidated Statement of Financial Position

March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
Assets		
Current assets:		
Cash	$ 11,327	$ –
Short-term investments	1,962	1,681
Accounts receivable (note 2)	79,730	92,461
Inventories	16,252	16,610
Prepaid expenses	14,265	10,918
	123,536	121,670
Capital grants receivable (note 2)	10,892	14,158
Assets restricted for capital purchases (note 3)	95,910	124,386
Capital assets (note 4)	623,123	634,745
Funds held in trust (note 5)	30,658	31,072
	$ 884,119	$ 926,031
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness (note 6)	$ –	$ 38,239
Accounts payable and accrued liabilities	185,594	190,266
Deferred contributions	6,513	9,945
Current portion of long-term debt (note 8)	943	923
	193,050	239,373
Employee future benefits (note 7)	60,354	57,700
Long-term debt (note 8)	7,232	8,175
Deferred contributions related to capital assets (note 9)	463,168	458,897
Funds held in trust (note 5)	30,658	31,072
Net assets (deficiency):		
Investment in capital assets (note 10)	216,420	228,417
Unrestricted deficiency	(86,763)	(97,603)
	129,657	130,814
Commitments, contingencies and guarantees (note 14)		
	$ 884,119	$ 926,031

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_______________ Chairman _______________ President and CEO

THE OTTAWA HOSPITAL

Consolidated Statement of Operations

Year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
Revenue:		
Ministry of Health and Long-Term Care of Ontario	$ 1,016,605	$ 996,961
Patient services	153,872	150,357
Recoveries and other operating	67,131	70,147
Preferred accommodation	11,674	12,016
Marketed services	7,694	7,370
Investment	1,277	1,238
Amortization of deferred contributions related to major equipment (note 9)	8,030	7,924
ConnectingOntario Northern and Eastern Region program (note 15)	8,359	6,987
	1,274,642	1,253,000
Expenses:		
Salaries and wages	610,831	605,063
Employee benefits	161,816	156,481
Supplies and other operating (note 12)	213,295	201,515
Medical and surgical supplies	104,164	102,210
Medical staff remuneration	74,829	76,170
Drugs	67,360	70,636
Interest	458	624
Amortization of major equipment	29,912	31,787
ConnectingOntario Northern and Eastern Region program (note 15)	8,359	6,987
	1,271,024	1,251,473
Excess of revenue over expenses before the undernoted items	3,618	1,527
Parking revenues	19,142	19,110
Parking expenses	(9,791)	(8,168)
Amortization of deferred contributions related to buildings (note 9)	15,852	15,857
Amortization of buildings and land improvements	(29,978)	(29,310)
Deficiency of revenue over expenses	$ (1,157)	$ (984)

See accompanying notes to consolidated financial statements.

THE OTTAWA HOSPITAL

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	Investment in capital assets (note 10)	Unrestricted	Total 2017	Total 2016
Balance, beginning of year	$ 228,417	$ (97,603)	$ 130,814	$ 131,798
Excess (deficiency) of revenue over expenses	(2,665)	1,508	(1,157)	(984)
Net change in investment in capital assets (note 10)	(9,332)	9,332	–	–
Balance, end of year	$ 216,420	$ (86,763)	$ 129,657	$ 130,814

See accompanying notes to consolidated financial statements.

THE OTTAWA HOSPITAL

Consolidated Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
Cash provided by (used for):		
Operating activities:		
Deficiency of revenue over expenses	$ (1,157)	$ (984)
Items not involving cash:		
Amortization of capital assets	59,890	61,097
Amortization of deferred contributions related to capital assets (note 9)	(23,882)	(23,781)
Loss on disposal of capital assets	129	74
Net increase in employee future benefits (note 7)	2,654	2,765
	37,634	39,171
Change in non-cash operating working capital items (note 13)	1,357	(37,153)
	38,991	2,018
Financing activities:		
Deferred contributions related to capital assets received (note 9)	28,153	24,059
Repayment of long-term debt	(923)	(902)
	27,230	23,157
Capital activities		
Purchase of capital assets	(48,397)	(55,003)
Investing activities:		
Net decrease (increase) in capital grants receivable	3,266	(3,957)
Net decrease (increase) in assets restricted for capital purchases	28,476	(19,394)
	31,742	(23,351)
Net decrease (increase) in bank indebtedness	49,566	(53,179)
Cash (bank indebtedness), beginning of year	(38,239)	14,940
Cash (bank indebtedness), end of year	$ 11,327	$ (38,239)

Cash includes $7,695 (2016 - $6,465) that is restricted for the HIROC Claim Defense Fund.

See accompanying notes to consolidated financial statements.

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.

1. Significant accounting policies:

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations and reflect the following significant accounting policies:

(a) 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 consolidated 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 consolidated 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 12.

(b) 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.

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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.

(c) 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.

(d) 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.

(e) Financial instruments:

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

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

1. Significant accounting policies (continued):

(e) Financial instruments (continued):

Financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement as remeasurement gains and losses are reversed and recognized in the statement of operations.

The Hospital does not have any amounts to record on the statement of remeasurement gains and losses and therefore this statement has not been included in these consolidated financial statements.

The standards require the Hospital to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;

Level 2 – Observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of these assets and liabilities.

(f) 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.

(In thousands of dollars)

1. **Significant accounting policies (continued):**

(f) Capital assets (continued):

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:

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

(g) 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.

(h) Employee benefit plans:

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

The Hospital accrues its obligations for employee benefit plans as the employees render the services necessary to earn the benefits. 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 heath 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 average remaining service period of active employees covered by the employee benefit plan is 16.1 years (2016 - 15 years).

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.

(In thousands of dollars)

1. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of these consolidated 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 consolidated 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 consolidated financial statements include the assumptions underlying the employee future benefit liability calculation.

2. Accounts and capital grants receivable:

(a) Accounts receivable:

	2017	2016
Accounts receivable from patients	$ 38,107	$ 41,776
Ministry of Health and Long-Term Care of Ontario	11,769	25,031
Eastern Ontario Regional Laboratory Association Inc. (note 12)	3,868	5,256
Other	30,550	24,356
	84,294	96,419
Less allowance for doubtful accounts	4,564	3,958
	$ 79,730	$ 92,461

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

(b) 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.

	2017	2016
The Ottawa Hospital Foundation (note 12)	$ 3,674	$ 2,924
Eastern Ontario Regional Laboratory Association Inc. (note 12)	7,054	7,834
e-Health Ontario (note 15)	–	3,400
Other	164	–
	$ 10,892	$ 14,158

(In thousands of dollars)

3. Assets restricted for capital purchases:

Assets restricted for capital purchases is comprised of $61,829 (2016 - $59,547) related to funding received and restricted for the purpose of capital expenditures and $34,081 (2016 - $64,839) 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 1.6% (2016 - 1.75%) and are classified as long-term as the associated cash outflow is not expected to occur within one year. At March 31, 2017, an additional amount of $2,811 (2016 - $2,120) restricted for capital purchases was receivable by the Hospital.

During the year, the Board approved a transfer of $40,000 from the funds restricted for capital expenditures, to unrestricted cash as part of the TOH 2017-2018 Capital and Operating Plan.

4. Capital assets:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	$ 897	$ –	$ 897	$ 897
Land improvements	5,336	5,336	–	–
Buildings	766,471	337,759	428,712	439,673
Building service equipment	170,064	107,317	62,747	64,428
Major equipment	485,022	392,877	92,145	102,375
Construction-in-progress	38,622	–	38,622	27,372
	$ 1,466,412	$ 843,289	$ 623,123	$ 634,745

During the year ended March 31, 2017, the Hospital disposed of equipment with a cost of $533 (2016 - $295) and accumulated amortization of $404 (2016 - $221) for proceeds of $Nil (2016 - $Nil), resulting in a loss of $129 (2014 - loss of $74).

Cost and accumulated amortization at March 31, 2016 were $1,418,548 and $783,803, respectively.

5. 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.

(In thousands of dollars)

6. 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, 2017 (2016 - $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, 2017 (2016 - $Nil).

The Hospital also had an overdraft of $Nil (2016 - $38,239) that was borrowed against assets restricted for capital purchases.

7. 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, 2016.

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

	2017	2016
Accrued benefit obligation	$ 66,635	$ 61,828
Unamortized experience losses	(6,281)	(4,128)
Employee future benefit liability	$ 60,354	$ 57,700

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:

	2017	2016
Discount rate to determine accrued benefit obligation	3.56%	3.76%
Dental cost increases	3.50%	3.50%
Extended healthcare cost escalations	7.50%	7.50%
Expected average remaining service life of employees	16 years	15 years

(In thousands of dollars)

7. Employee future benefits (continued):

The employee future benefit liability change for the year ended March 31, 2017 is $2,654 (2016 - $2,765) regarding employee future benefits. This amount is comprised of:

	2017	2016
Current service cost	$ 3,520	$ 3,440
Interest on accrued benefit obligation during the year	2,327	2,080
Amortization of net experience losses	231	519
Benefit payments made by the Hospital during the year	(3,424)	(3,274)
	$ 2,654	$ 2,765

Hospital of Ontario 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 $52,338 (2016 - $51,025) 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, 2016 indicates the plan is fully funded.

(In thousands of dollars)

8. Long-term debt:

	2017	2016
2.23% fixed rate term note with principal and interest payments of $93 monthly, maturing March 2025	$ 8,175	$ 9,098
Less current portion of long-term debt	943	923
	$ 7,232	$ 8,175

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

Future principal repayments are as follows:

2018	$ 943
2019	965
2020	986
2021	1,008
2022 and thereafter	4,273
	$ 8,175

9. 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:

	2017	2016
Balance, beginning of year	$ 458,897	$ 458,619
Add cash contributions received or receivable during the year	28,153	24,059
Less amounts amortized for equipment	(8,030)	(7,924)
Less amounts amortized for buildings	(15,852)	(15,857)
Balance, end of year	$ 463,168	$ 458,897

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

	2017	2016
Unamortized capital contributions (note 10)	$ 398,528	$ 397,230
Unspent capital contributions (note 3)	64,640	61,667
	$ 463,168	$ 458,897

(In thousands of dollars)

10. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

	2017	2016
Capital assets	$ 623,123	$ 634,745
Amounts financed by deferred contributions related to capital assets (note 9)	(398,528)	(397,230)
Long-term debt (note 8)	(8,175)	(9,098)
	$ 216,420	$ 228,417

(b) Net change in investment in capital assets is calculated as follows:

	2017	2016
Purchase of capital assets	$ 48,397	$ 55,003
Amounts funded by deferred cash contributions	(25,180)	(13,487)
Loss on disposal of capital assets	(129)	(74)
Amortization of deferred contributions related to capital assets	23,882	23,781
Amortization of capital assets	(59,890)	(61,097)
Repayment of long-term debt	923	902
	$ (11,997)	$ 5,028

11. Financial instruments:

(a) 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 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.

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

11. Financial instruments (continued):

(b) 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 2. 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.

(c) 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, 2017, 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 8.

(d) Market risk:

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

The Hospital believes it is not subject to significant interest rate, foreign currency or other price risks arising from its financial instruments.

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.

12. Related entities:

(a) 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.

During the year, the Hospital received $7,000 (2016 - $4,000) from the Corporation. As at March 31, 2017 the Hospital had a payable to the Corporation, amounting to $1,481 (2016 - $3,906), this amount is subject to an interest rate of prime minus 1.75%, is due on demand and has no fixed terms of repayment.

(In thousands of dollars)

12. Related entities (continued):

(a) 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:

	2016	2015
Financial position:		
Total assets	$ 5,905	$ 9,106
Total liabilities	$ 3,236	$ 256
Net assets	2,669	8,850
	$ 5,905	$ 9,106
Results of operations:		
Total revenue	$ 2,124	$ 2,179
Total expenses	1,305	1,239
Excess of revenue over expenses	$ 819	$ 940
Cash flows:		
Operating activities	$ (3,082)	$ 1,016
Investing activities	(53)	(114)
Net cash flows	$ (3,135)	$ 902

(b) 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 $8,616 (2016 - $6,521) from the Foundation. As at March 31, 2017, the Hospital had a capital grant receivable from the Foundation amounting to $3,674 (2016 - $2,924), an endowment receivable of $512 (2016 - $575), and $554 (2016 - $705) related to other operating expenses paid by the Hospital on behalf of the Foundation. 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.

12. Related entities (continued):

(c) 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, 2017, the Hospital had an operational receivable from the Institute amounting to $1,702 (2016 – payable of $1,473). The Hospital provided $6,420 (2016 - $8,612) of base funding in support of resources to the Institute during fiscal 2017. The Hospital also provided $80 (2016 - $230) for specific operating expenditures to the Institute. These amounts are recorded in supplies and other on the consolidated statement of operations.

(d) 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.

At March 31, 2017, the Hospital had an economic interest of $653 (2016 - $452) of total net assets of $1,106 (2016 - $722). The Hospital also had a capital grant receivable from EORLA in the amount of $7,054 (2016 - $7,834) relating to construction of a regional laboratory and investments in capital equipment. The Hospital also had an operational receivable of $3,868 (2016 - $5,256).

(e) 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.

(f) 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.

12. Related entities (continued):

(f) Hospital Food Services - Ontario Inc. and Ottawa Regional Hospital Linen Services Incorporated (continued):

At March 31, 2017, the Hospital had an economic interest of $3,927 (2016 - $3,719) of total net assets of $6,563 (2016 - $6,126) of HFS. The corresponding interest in ORHLS was $7,286 (2016 - $7,174) of total net assets of $12,687 (2016 - $12,484).

For the year ended March 31, 2017, the Hospital provided $1,478 (2016 - $1,627) to HFS for food services and $9,639 (2016 - $10,784) to ORHLS for linen services. These amounts have been included in supplies and other on the consolidated statement of operations.

(g) 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 $33 (2016 - $65) 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.

(h) University of Ottawa Heart Institute related parties:

By virtue of its interest in the University of Ottawa Heart Institute, The Ottawa Hospital is related to the following entities as described below.

(i) University of Ottawa Heart Institute Foundation

The University of Ottawa Heart Institute Foundation (“the Foundation”) is incorporated without share capital under the Canada Not-for-Profit Corporations Act. The Foundation coordinates and promotes fundraising and endowment activities to support and fund research, patient care, education and other activities concerning cardiovascular health at the Institute and the Ottawa Heart Institute Research Corporation (“the Corporation”). The Foundation is a registered charity and, as such, is exempt from income taxes under subsection 149(1)(l) of the Income Tax Act.

The Institute has an economic interest in the Foundation as the Foundation holds resources that are used to benefit the Institute. Included in accounts receivable is $25 (2016 - $nil) owing from the Foundation. During the period, the Institute recorded $6,439 (2016 - $547) of funding received from the Foundation to support clinical programs, equipment purchases, and capital programs.

(In thousands of dollars)

12. Related entities (continued):

(h) University of Ottawa Heart Institute related parties (continued):

(ii) Alumni and Auxiliary:

The Institute also is related to the Ottawa Heart Institute Alumni Association ("the Alumni") and the Heart Institute Auxiliary ("the Auxiliary"). The object of the Auxiliary and the Alumni is to raise and receive funds to be distributed towards various programs and capital projects of the Institute, the Corporation and the Foundation. The Auxiliary and Alumni are tax-exempt entities created under the laws of Ontario.

(iii) Ottawa Heart Institute Research Corporation:

The Corporation is incorporated without share capital under the Canada Not-for-Profit Corporations Act. The purpose of the Corporation is to conduct, acquire, solicit or receive research money to operate and maintain laboratories and a research facility. The Corporation is a registered charity and, as such, is exempt from income taxes under subsection 149(1)(l) of the Income Tax Act. In addition, the Corporation is classified as a non-profit corporation for scientific research and experimental development as defined in subsection 149(1)(l) of the Income Tax Act.

The Institute has an economic interest in the Corporation. Included in accounts receivable is $297 (2016 - $280) relating to construction projects and other costs incurred on behalf of the Corporation. Included in accounts payable is $1,336 (2016 - $749) relating to payroll and other support costs incurred by the Corporation. These amounts are non-interest bearing and have no specified terms of repayment. During the period, the Institute provided $3,413 (2016 - $4,220) of base funding in support of research to the Corporation. These amounts are recorded in supplies and other expenses on the statement of operations.

These transactions are considered to be in the normal course of operations and are measured at the exchange amount.

13. Net change in non-cash working capital:

	2017	2016
Short-term investments	$ (281)	$ (109)
Accounts receivable	12,731	(11,239)
Inventories	358	1,252
Prepaid expenses	(3,347)	(715)
Accounts payable and accrued liabilities	(4,672)	(22,322)
Deferred contributions	(3,432)	(4,020)
Net change in non-cash working capital	$ 1,357	$ (37,153)

14. Commitments, contingencies and guarantees:

(a) The nature of the Hospital's activities is such that there is usually litigation pending or in process at any time. With respect to claims at March 31, 2017, 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.

(b) 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, 2017.

(c) At March 31, 2017, HFS had $4,501 (2016 - $5,870) outstanding on an available line of credit of $6,043 (2016 - $6,590), 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, 2017, the Hospital's share of the potential debt repayment should HFS default on the line of credit is $2,165 (2016 - $2,823). As at the date of the audit report, there has been no such request by the debtor.

(d) 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.

(e) At March 31, 2017, 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.

(f) At March 31, 2017, letters of credit totaling $Nil (2016 - $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.

(g) The Hospital has construction in progress recorded in capital assets of $38,622 at March 31, 2017 (2016 - $27,372). The cost to complete this construction is estimated at $166,753 (2016 - $246,312).

(In thousands of dollars)

14. Commitments, contingencies and guarantees (continued):

(h) As a member of the Ottawa Health Sciences Centre Inc., the Hospital is party to a Thermal Energy Agreement (TEA) with Trans/Alta Corporation for the purchase of thermal energy for heating and humidifying the Hospital. In 2009, the TEA was re-negotiated and resulted in a ten-year extension of its term from January 1, 2013 to January 1, 2023.

(i) The University of Ottawa Heart Institute leases equipment requiring annual minimum payments as follows:

Year ending March 31:		
2018	$	658
2019		658
2020		625
2021		256
2022		150

15. ConnectingOntario Northern and Eastern Region Program:

On November 20, 2014, the Hospital entered into an Implementation Transfer Payment Agreement (the “TPA”) with e-Health Ontario to help establish a region-wide governance and collaborative delivery model, known as the ConnectingOntario Northern and Eastern Region (“NER”) Program (formerly known as the Connecting Northern & Eastern Ontario (“cNEO”) program). During the year, Amendment #1 to the MOU was signed, effective June 25, 2016, which had limited changes, except to extend the NER program up to June 30, 2018.The NER 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 NER Program will be delivered by the Hospital who will engage four service delivery partners, one from each of the Local Health Integration Networks (“LHIN”) 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 TPA are $37,119. Prior to this MOU, the Hospital was engaged in two separate agreements related to the planning and development for the implementation of the NER Program.

The NER Program revenue and expenses of $8,359 were recognized in 2017 (2016 - $6,987) of which $8,359 (2016 - $6,312) related to the implementation agreement. As at March 31, 2017, the Hospital had deferred contributions of $4,808 (2016 - $2,365) for funds not yet spent by the NER Program. As at March 31, 2017, the Hospital has a capital grant receivable from e-Health Ontario of $Nil (2016 - $3,400) and accounts receivable of $1,167 (2016 - $611) for funds advanced to service delivery partners but not yet spent on the NER Program.

16. Comparative information:

Certain 2016 comparative information has been reclassified to conform with the consolidated financial statement presentation adopted for 2017.