

Non-Consolidated Financial Statements of

THE OTTAWA HOSPITAL

Year ended March 31, 2019

THE OTTAWA HOSPITAL

Non-Consolidated Financial Statements

Year ended March 31, 2019

	Page
Independent Auditors' Report	1 - 3
Non-Consolidated Statement of Financial Position	4
Non-Consolidated Statement of Operations	5
Non-Consolidated Statement of Changes in Net Assets	6
Non-Consolidated Statement of Remeasurement Gains and Losses	7
Non-Consolidated Statement of Cash Flows	8
Notes to Non-Consolidated Financial Statements	9 - 29



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of The Ottawa Hospital

Opinion

We have audited the non-consolidated financial statements of The Ottawa Hospital, which comprise:

- the non-consolidated statement of financial position as at March 31, 2019
- the non-consolidated statement of operations for the year then ended
- the non-consolidated statement of changes in net assets for the year then ended
- the non-consolidated statement of remeasurement gains and losses for the year then ended
- the non-consolidated statement of cash flows for the year then ended
- and notes to the non-consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the non-consolidated financial position of The Ottawa Hospital as at March 31, 2019, and its non-consolidated results of operations and its non-consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of The Ottawa Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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



Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report"

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the financial statements and the auditors' report thereon, included in a document likely entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing The Ottawa Hospital's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate The Ottawa Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing The Ottawa Hospital's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Ottawa Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on The Ottawa Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause The Ottawa Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 5, 2019

THE OTTAWA HOSPITAL

Non-Consolidated Statement of Financial Position

March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Assets		
Current assets:		
Cash	\$ 53,538	\$ 4,121
Short-term investments	2,037	2,102
Accounts receivable (note 2(a))	83,322	92,290
Inventories	14,839	12,749
Prepaid expenses	11,833	14,658
	165,569	125,920
Capital grants receivable (note 2(b))	7,450	8,746
Assets restricted for capital purchases (note 3)	114,264	98,021
Capital assets (note 4)	642,102	563,867
Funds held in trust (note 5)	28,657	29,663
	<u>\$ 958,042</u>	<u>\$ 826,217</u>

Liabilities and Net Assets


Current liabilities:		
Accounts payable and accrued liabilities	\$ 220,129	\$ 189,110
Deferred contributions	13,598	3,454
Current portion of long-term debt (note 7)	2,467	—
	236,194	192,564
Long-term debt (note 7)	71,533	17,000
Derivative liability (note 7)	4,029	258
Employee future benefits (note 8)	59,880	57,816
Deferred contributions related to capital assets (note 9)	409,717	406,807
Funds held in trust (note 5)	28,657	29,663
Net assets:		
Investment in capital assets (note 10)	222,201	198,154
Unrestricted deficiency	(70,140)	(75,787)
	152,061	122,367
Accumulated remeasurement losses	(4,029)	(258)
	148,032	122,109

Commitments, contingencies and guarantees (note 14)

	<u>\$ 958,042</u>	<u>\$ 826,217</u>
--	-------------------	-------------------

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

 Chair

 President and CEO

THE OTTAWA HOSPITAL

Non-Consolidated Statement of Operations

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Revenue:		
Ministry of Health and Long-Term Care	\$ 915,580	\$ 902,782
Patient services	129,997	128,360
Recoveries and other operating	67,224	65,680
Preferred accommodation	10,486	10,954
Marketed services	14,675	7,946
Investment	2,765	1,918
Amortization of deferred contributions related to major equipment (note 9)	8,641	7,675
ConnectingOntario Northern and Eastern Region program (note 15)	3,730	9,203
	1,153,098	1,134,518
Expenses:		
Salaries and wages	563,157	561,203
Employee benefits	155,954	155,125
Supplies and other operating	204,440	189,367
Drugs	72,718	67,165
Medical and surgical supplies	65,604	63,203
Medical staff remuneration	61,527	62,515
Amortization of major equipment	25,156	25,820
Interest	78	496
ConnectingOntario Northern and Eastern Region program (note 15)	3,730	9,203
	1,152,364	1,134,097
Excess of revenue over expenses before undernoted items	734	421
Parking revenue	19,984	19,501
Parking expenses	(9,859)	(11,900)
Amortization of deferred contributions related to buildings (note 9)	15,285	15,067
Amortization of buildings	(29,050)	(27,919)
Deficiency of revenue over expenses	\$ (2,906)	\$ (4,830)

See accompanying notes to non-consolidated financial statements.

THE OTTAWA HOSPITAL

Non-Consolidated Statement of Changes in Net Assets

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	Investment in capital assets	Unrestricted	Total 2019	Total 2018
Balance, beginning of year	\$ 198,154	\$ (75,787)	\$ 122,367	\$ 127,197
Deficiency of revenue over expenses	—	(2,906)	(2,906)	(4,830)
Net change in investment in capital assets (note 10)	(8,553)	8,553	—	—
Contribution of land (note 4(c))	32,600	—	32,600	—
Balance, end of year	\$ 222,201	\$ (70,140)	\$ 152,061	\$ 122,367

See accompanying notes to non-consolidated financial statements.

THE OTTAWA HOSPITAL

Non-Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Accumulated remeasurement losses, beginning of year	\$ (258)	\$ —
Unrealized losses attributable to:		
Derivative (note 7)	(3,771)	(258)
Accumulated remeasurement losses, end of year	\$ (4,029)	\$ (258)

See accompanying notes to non-consolidated financial statements.

THE OTTAWA HOSPITAL

Non-Consolidated Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Cash provided by (used for):		
Operating activities:		
Deficiency of revenue over expenses	\$ (2,906)	\$ (4,830)
Items not involving cash:		
Amortization of capital assets	54,206	53,739
Amortization of deferred contributions related to capital assets (note 9)	(23,926)	(22,742)
Loss on disposal of capital assets	128	—
Net increase in employee future benefits (note 8)	2,064	2,484
Net change in non-cash operating working capital (note 11)	50,931	(4,582)
	80,497	24,069
Financing activities:		
Deferred contributions related to capital assets received (note 9)	26,836	9,758
Proceeds from long-term debt	57,000	17,000
	83,836	26,758
Investing activities:		
Purchase of capital assets	(99,969)	(56,685)
Net decrease in capital grants receivable	1,296	2,146
Net increase in assets restricted for capital purchases	(16,243)	(2,111)
	(114,916)	(56,650)
Net increase (decrease) in cash during the year	49,417	(5,823)
Cash, beginning of year	4,121	9,944
Cash, end of year	\$ 53,538	\$ 4,121
Consisting of:		
Operating cash (deficiency)	\$ 44,717	\$ (4,421)
Restricted cash for HIROC Claim Defense Fund	8,821	8,542
	\$ 53,538	\$ 4,121

See accompanying notes to non-consolidated financial statements.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements

Year ended March 31, 2019
(In thousands of dollars)

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 (Canada) and accordingly, is exempt from income taxes.

1. Significant accounting policies:

The non-consolidated financial statements have been prepared by management in accordance with the significant accounting policies described below to comply with the financial reporting requirements of the Ministry of Health and Long-Term Care of Ontario. The Hospital has also prepared general purpose financial statements in accordance with Canadian public sector accounting standards including the 4200 series of standards for government not for profit organizations which consolidates the University of Ottawa Heart Institute and reflect the following significant accounting policies.

(a) Basis of presentation:

These non-consolidated financial statements reflect the assets, liabilities and operations of the Hospital.

These non-consolidated financial statements do not include the assets, liabilities or operations of the University of Ottawa Heart Institute and The Ottawa Hospital Residence Corporation, two controlled entities, 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, Healthcare Food Services Inc., Ottawa Regional Hospital Linen Services Incorporated and Champlain Health Supply Services. The summarized financial information of the University of Ottawa Heart Institute and, The Ottawa Hospital Residence Corporation is disclosed in note 13.

(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.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

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 recoveries and other operating are recognized when the goods are sold or the services are provided.

Investment income (loss) recorded in the statement of operations consists of interest, dividends, and realized gains and losses, net of related fees. Unrealized gains and losses are recorded in the statement of remeasurement gains and losses.

(c) 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 non-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:

The Hospital's financial instruments consist of cash, short-term investments, accounts receivable, capital grants receivable, assets restricted for capital purchases, derivative liability, funds held in trust, accounts payable and accrued liabilities and long-term debt.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

1. Significant accounting policies (continued):

(e) Financial instruments (continued):

The Hospital's financial instruments are measured 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
Derivative liability	fair value
Funds held in trust	fair value
Accounts payable and accrued liabilities	amortized cost
Long-term debt	amortized cost

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized. When the financial instrument is derecognized, the unrealized gains and losses previously recognized in the statement as remeasurement gains and losses are reversed and recognized in the statement of operations.

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

All non-derivative 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 or loss is reversed from the statement of remeasurement gains and losses.

(f) Capital assets:

Purchased capital assets, other than minor equipment, are recorded at cost. Contributed capital assets are recorded at their estimated fair value at the date of contribution. Minor equipment replacements are expensed in the year of purchase. Construction in progress comprises construction, development costs and interest capitalized during the construction period. 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.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(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:

Land improvements	5 to 25 years
Leasehold improvements	Term of lease plus expected extension of renewal option
Buildings	10 to 50 years
Building service equipment	5 to 25 years
Health information system	15 years
Major equipment	5 to 20 years

(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 health care costs. The most recent actuarial valuation was performed as at March 31, 2019. The next scheduled valuation will be as at March 31, 2022. 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 17.6 years (2018 - 15.6 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.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

1. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of the non-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 non-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 the non-consolidated financial statements include the assumptions underlying the employee future benefit liability calculation, the valuation of swaps and fair market value of contributed land.

2. Accounts and capital grants receivable:

(a) Accounts receivable:

	2019	2018
Accounts receivable from patients	\$ 34,899	\$ 37,083
Ministry of Health and Long-Term Care of Ontario	15,282	23,975
Ottawa Hospital Research Institute (note 13)	—	1,634
University of Ottawa Heart Institute (note 13)	4,683	5,487
Eastern Ontario Regional Laboratory Association Inc. (note 13)	4,963	4,406
Other	26,551	23,816
	86,378	96,401
Less allowance for doubtful accounts	(3,056)	(4,111)
	\$ 83,322	\$ 92,290

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

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

2. Accounts and capital grants receivable (continued):

(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.

	2019	2018
The Ottawa Hospital Foundation (note 13)	\$ 1,956	\$ 2,021
Eastern Ontario Regional Laboratory Association Inc. (note 13)	5,494	6,274
Other	—	451
	<u>\$ 7,450</u>	<u>\$ 8,746</u>

3. Assets restricted for capital purchases:

Assets restricted for capital purchases is comprised of \$62,581 (2018 - \$56,462) related to funding received and restricted for the purpose of capital purchases and \$51,683 (2018 - \$41,559) in net parking revenue that has been restricted for capital purchases. The funds are held with the Hospital's bank, earning interest at a rate of prime less 1.6% (2018 - 1.6%) and are classified as long-term as the associated cash outflow is not expected to occur within one year. At March 31, 2019, an additional amount of \$1,235 (2018 - \$1,632) restricted for capital purchases was receivable by the Hospital from the Ottawa Hospital Foundation.

4. Capital assets:

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 34,149	\$ —	\$ 34,149	\$ 897
Land improvements	5,336	5,336	—	—
Leasehold improvements	310	124	186	248
Buildings	740,515	347,848	392,667	392,017
Building service equipment	181,574	123,318	58,256	60,394
Health information system	65,312	—	65,312	15,655
Major equipment	487,092	406,860	80,232	71,697
Construction-in-progress	11,300	—	11,300	22,959
	<u>\$ 1,525,588</u>	<u>\$ 883,486</u>	<u>\$ 642,102</u>	<u>\$ 563,867</u>

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars)

4. Capital assets (continued):

- (a) Cost and accumulated amortization of capital assets at March 31, 2018 amounted to \$1,393,389 and \$829,522, respectively.

During the year ended March 31, 2019, the Hospital disposed of equipment with a cost of \$370 (2018 - \$Nil) and accumulated amortization of \$242 (2018 - \$Nil) for proceeds of \$Nil (2018 - \$Nil), resulting in a loss of \$128 (2018 - \$Nil).

- (b) The health information system project is the implementation of a comprehensive, integrated information system designed to enhance the processing of hospital services. The project is in development and is not amortized as the project is not completed and in use. Interest recorded and capitalized to the capital asset amounted to \$1,116 (2018 - \$147).
- (c) Land includes a contribution from the Government of Canada with an estimated fair value at the time of contribution of \$32,600. The mechanism for this contribution of land is a 99-year lease between the Government and the Hospital with annual lease payments of one dollar contingent on the land being used for the construction and operation of the new hospital campus.

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.

6. Line of credit:

The Hospital has an available line of credit of \$24,000 (2018 - \$24,000) with one of its corporate bankers, of which no amount was drawn against at March 31, 2019. This line of credit is unsecured and bears interest at prime less 0.75%.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

7. Long-term debt:

Long-term debt is unsecured and consists of the following:

	2019	2018
Term loan, bearing interest at bankers' acceptance rate plus 0.56%, repayable in principal plus interest payments beginning October 2019, maturing September 2034	\$ 74,000	\$ 17,000
Less current portion	(2,467)	—
	\$ 71,533	\$ 17,000

Term loan facility with a maximum borrowing of \$160,000. The Hospital will make interest-only payments on a monthly basis from the initial drawdown date of October 31, 2017 up to the date of September 1, 2019.

The future minimum annual principal payments related to the long-term debt consist of the following:

2020	\$ 2,467	\$ 567
2021	4,933	1,133
2022	4,933	1,133
2023	4,933	1,133
2024 and thereafter	56,734	13,034
	\$ 74,000	\$ 17,000

The Hospital entered into a 15-year forward interest rate swap agreement with a \$115,000 notional value, effective September 1, 2019 and maturing September 1, 2034. The Hospital is obligated to pay a fixed interest of 3.144% while receiving variable rate interest which offsets the variable rate interest paid on its term loan. At March 31, 2019, the interest rate swap contract had a negative fair value of \$4,029 (2018 - \$258). The current year impact of the change in fair value of the interest rate swap is a decrease to the statement of remeasurement gains and losses of \$3,771 (2018 - \$258).

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(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 some 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, 2019.

At March 31, 2019 the Hospital's liability associated with the benefit plan is as follows:

	2019	2018
Accrued benefit obligation	\$ 63,281	\$ 61,572
Unamortized experience losses	(3,401)	(3,756)
Employee future benefit liability	\$ 59,880	\$ 57,816

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:

	2019	2018
Discount rate to determine accrued benefit obligation	3.18%	3.37%
Dental cost increases	3.50%	3.50%
Extended healthcare cost escalations	7.50%	7.50%
Expected average remaining service life of employees	17.6 years	15.6 years

The employee future benefit liability change is comprised of:

	2019	2018
Current service cost	\$ 3,320	\$ 3,386
Interest on accrued benefit obligation during the year	2,071	2,174
Amortization of net experience losses	279	374
Benefit payments made by the Hospital during the year	(3,606)	(3,450)
	\$ 2,064	\$ 2,484

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

8. Employee future benefits (continued):

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 \$50,890 (2018 - \$49,517) and are included in the non-consolidated statement of operations.

Pension expense is based on Plan management's best estimates, as determined in consultation with its actuaries, of the amount required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement. 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 actuarial valuation of the Plan as at December 31, 2017 indicates the plan is fully funded.

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 non-consolidated statement of operations.

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

	2019	2018
Balance, beginning of year	\$ 406,807	\$ 419,791
Add cash contributions received or receivable during the year	26,836	9,758
Less amounts amortized for major equipment	(8,641)	(7,675)
Less amounts amortized for buildings	(15,285)	(15,067)
Balance, end of year	\$ 409,717	\$ 406,807

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

	2019	2018
Unamortized capital contributions (note 10)	\$ 345,901	\$ 348,713
Unspent capital contributions (note 3)	63,816	58,094
	\$ 409,717	\$ 406,807

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars)

10. Investment in capital assets:

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

	2019	2018
Capital assets	\$ 642,102	\$ 563,867
Amounts financed by:		
Deferred contributions related to capital assets (note 9)	(345,901)	(348,713)
Long-term debt (note 7)	(74,000)	(17,000)
	\$ 222,201	\$ 198,154

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

	2019	2018
Purchase of capital assets	\$ 99,969	\$ 56,685
Amounts funded by deferred contributions	(21,114)	(16,304)
Amounts funded by long-term debt	(57,000)	(17,000)
Loss on disposal of capital assets	(128)	—
Amortization of deferred contributions related to capital assets	23,926	22,742
Amortization of capital assets	(54,206)	(53,739)
	\$ (8,553)	\$ (7,616)

11. Net change in non-cash working capital:

	2019	2018
Short-term investments	\$ 65	\$ (140)
Accounts receivable	8,968	(21,569)
Inventories	(2,090)	1,328
Prepaid expenses	2,825	(617)
Accounts payable and accrued liabilities	31,019	19,475
Deferred contributions	10,144	(3,059)
Net change in non-cash working capital	\$ 50,931	\$ (4,582)

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

12. Financial instruments:

Establishing fair value:

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

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.

Cash, short-term investments, assets restricted for capital purchases and funds held in trust are Level 1 fair values and derivatives are Level 2 fair values.

Risk management:

The Hospital is exposed to various financial risks through its transactions and holdings in financial 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 as disclosed in note 2 and the guarantee on the Healthcare Foods Services Inc. line of credit as disclosed in note 14. 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.

Liquidity risk:

Liquidity risk is the risk the Hospital will not be able to meet its financial obligations when they come due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

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: interest rate risk, currency risk and other price risk.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019

(In thousands of dollars)

12. Financial instruments (continued):

Interest rate risk:

The Hospital is exposed to interest rate risk with respect to its long-term debt as the interest rate is linked to the bankers' acceptance rate. The Hospital entered into a forward fixed interest rate swap contract to mitigate the interest rate risk on the long-term debt (note 7).

The Hospital believes it is not subject to significant 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.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

13. Related entities:

(a) University of Ottawa Heart Institute:

The Hospital exercises control over the University of Ottawa Heart Institute, a tax-exempt charity, incorporated under the laws of Ontario. The University of Ottawa Heart Institute provides cardiac services to the patients of the Hospital. Pursuant to the Public Hospitals Act, the Hospital is ultimately responsible for the health care of patients and, all patients at the University of Ottawa Heart Institute are acknowledged to be 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 intent of the service agreement is that any deficit incurred by either party shall be managed by the party incurring the deficit. The University of Ottawa Heart Institute has an accumulated unrestricted net asset deficiency of \$11,920 at March 31, 2019 (2018 - \$8,285). As at March 31, 2019, the Hospital had a receivable from the University of Ottawa Heart Institute amounting to \$4,683 (2018 - \$5,487), bearing interest at prime. This receivable has no fixed terms of repayment.

The summarized assets, liabilities and results of operations for the University of Ottawa Heart Institute are as follows:

	2019	2018
Financial position:		
Total assets	\$ 279,119	\$ 247,719
Total liabilities	\$ 276,547	\$ 245,211
Net assets	2,572	2,508
	\$ 279,119	\$ 247,719
Results of operations:		
Total revenue	\$ 201,585	\$ 181,107
Total expenses	201,521	181,059
Excess of revenue over expenses	\$ 64	\$ 48
Cash flows:		
Operating activities	\$ 8,026	\$ 4,976
Financing activities	11,005	124,780
Capital	(18,304)	(127,326)
Net cash flows	\$ 727	\$ 2,430

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

13. Related entities (continued):

(b) 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. The Corporation provides accommodation to 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 \$1,745 (2018 - \$1,200) from the Corporation. As at March 31, 2019, the Hospital had a payable to the Corporation, amounting to \$296 (2018 - \$1,141), 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:

	2019	2018
Financial position:		
Total assets	\$ 3,350	\$ 3,458
Total liabilities	\$ 2,087	\$ 1,278
Net assets	1,263	2,180
	\$ 3,350	\$ 3,458
Results of operations:		
Total revenue	\$ 2,224	\$ 2,155
Total expenses	1,395	1,444
Excess of revenue over expenses	\$ 829	\$ 711
Cash flows:		
Operating activities	\$ 35	\$ (2,282)
Investing activities	(13)	(70)
Net cash flows	\$ 22	\$ (2,352)

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

13. Related entities (continued):

(c) 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 \$5,099 (2018 - \$5,422) from the Foundation. As at March 31, 2019, the Hospital had a capital grant receivable from the Foundation amounting to \$1,956 (2018 - \$2,021), an endowment and funds in trust receivable of \$682 (2018 - \$1,026) and \$387 (2018 - \$661) 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.

(d) 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, 2019, the Hospital had an operational payable to the Institute amounting to \$862 (2018 - \$Nil). As at March 31, 2019, the Hospital had an operational receivable from the Institute amounting to \$Nil (2018 - \$1,634). During the year, the Hospital provided \$7,336 (2018 - \$7,336) of base funding in support of resources to the Institute, and \$1,000 (2018 - \$Nil) to be used to address financial challenges in the current or future fiscal years. The Hospital also provided \$230 (2018 - \$230) for specific operating expenditures to the Institute. These amounts are recorded in supplies and other operating expenses on the non-consolidated statement of operations.

(e) 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, 2019, the Hospital had an economic interest of \$2,013 (2018 - \$1,470) of total net assets of \$3,452 (2018 - \$2,510). The Hospital also has a capital grant receivable from EORLA in the amount of \$5,494 (2018 - \$6,274) relating to construction of a regional laboratory and investments in capital equipment. The Hospital also had an operational receivable of \$4,963 (2018 - \$4,406) at year end.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

13. Related entities (continued):

(f) 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.

(g) Healthcare Food Services, Inc. and Ottawa Regional Hospital Linen Services Incorporated:

The Hospital is a founding member of Healthcare Food Services 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, 2019, the Hospital had an economic interest of \$5,035 (2018 - \$4,469) of total net assets of \$8,722 (2018 - \$7,626) of HFS. The corresponding interest in ORHLS was \$7,465 (2018 - \$7,370) of total net assets of \$13,016 (2018 - \$12,836).

For the year ended March 31, 2019, the Hospital provided \$1,519 (2018 - \$1,561) to HFS for food services and \$7,374 (2018 - \$8,298) to ORHLS for linen services. These amounts have been included in supplies and other operating expenses on the non-consolidated statement of operations.

Subsequent to year-end, HFS entered into an agreement to sell its business in the form of an asset sale, which closed on May 13, 2019. The proceeds of the sale, subject to certain closing adjustments, will be distributed to the member hospitals.

(h) 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, 2019, the Hospital had a payable of \$45 (2018 - \$45) 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 Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

13. Related entities (continued):

(i) 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) Ottawa Heart Institute Research Corporation:

The Ottawa Heart Institute Research Corporation ("OHIRC") is incorporated without share capital under the Canada Not-for-Profit Corporations Act.

The purpose of the OHIRC is to conduct, acquire, solicit or receive research money to operate and maintain laboratories and a research facility. The OHIRC is a registered charity and, as such, is exempt from income taxes under subsection 149(1)(l) of the Income Tax Act (Canada). In addition, the OHIRC 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 (Canada).

The University of Ottawa Heart Institute has an economic interest in the OHIRC. During the period, the University of Ottawa Heart Institute provided \$4,520 (2018 - \$4,604) of base funding in support of research to the OHIRC.

(ii) University of Ottawa Heart Institute Foundation:

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

The University of Ottawa Heart Institute has an economic interest in UOHIF as UOHIF holds resources that are used to benefit the University of Ottawa Heart Institute. During the period, the University of Ottawa Heart Institute recorded \$8,151 (2018 - \$27,268) of funding received from UOHIF to support clinical programs, equipment purchases, and capital programs.

The University of Ottawa Heart Institute has guaranteed, in the form of a second ranking security in all of its personal property, a credit facility the UOHIF has entered into with its corporate banker to provide up to \$20,000 in borrowing subject to the Foundation's cash flow requirements.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

13. Related entities (continued):

(i) University of Ottawa Heart Institute related parties:

(iii) Alumni and Auxiliary:

The University of Ottawa Heart Institute is also 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 University of Ottawa Heart Institute, the OHIRC and the UOHIF. The Auxiliary and Alumni are tax-exempt entities created under the laws of Ontario.

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

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, 2019, 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, 2019.
- (c) At March 31, 2019, HFS had \$2,615 (2018 - \$3,140) outstanding on an available line of credit of \$4,615 (2018 - \$5,140), 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, 2019, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$1,258 (2018 - \$1,510). As at the date of the audit report, there has been no such request by the debtor.

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

14. Commitments, contingencies and guarantees (continued):

- (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 non-consolidated financial statements for these guarantees.
- (e) At March 31, 2019, 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, 2019, the Hospital has construction-in-progress recorded in capital assets of \$14,199 (2018 - \$22,959) and health information system in development of \$65,312 (2018 - 15,655). The cost to complete the construction-in-progress is estimated at \$23,012 (2018 - \$16,517) and the health information system at \$65,331 (2018 - 122,345).
- (g) The Hospital is a member of the Ottawa Health Sciences Centre Inc. ("OHSC"). The OHSC was established to provide oversight and direction for the maintenance of the lands where The Ottawa Hospital, Children's Hospital of Eastern Ontario, University of Ottawa and The Ottawa Children's Treatment Centre are located.

As a member of the OHSC, 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.

- (h) The Hospital, in conjunction with the Ministry of Health and Long-Term Care, has undertaken a major capital redevelopment project to build a new campus for the Ottawa Hospital. The new campus will enable the Hospital to offer a state-of-the-art medical and research facility to meet the growing healthcare needs of the people of Ottawa and the surrounding communities. The Hospital is currently in the proposal and master plan stage of the project.
- (i) The Hospital has operating lease agreements with future minimum annual payments as follows:

2020	\$	4,196
2021		3,557
2022		3,305
2023		2,233
2024 and thereafter		5,096

THE OTTAWA HOSPITAL

Notes to Non-Consolidated Financial Statements (continued)

Year ended March 31, 2019
(In thousands of dollars)

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 previous year, Amendment #1 to the TPA was signed, effective June 25, 2016, which had limited changes, except to extend the NER program 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.

The NER program revenue and expenses of \$3,730 were recognized in 2019 (2018 - \$9,203). As at March 31, 2019, the NER program has deferred contributions of \$Nil (2018 - \$3,305) for funds not yet spent by the NER program. As at March 31, 2019 the hospital had accounts receivable of \$108 (2018 - \$1,599) for funds advanced to service delivery partners but not yet spent on the NER program.

16. Comparative information:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.