

Consolidated Financial Statements of

THE OTTAWA HOSPITAL

Year ended March 31, 2018

THE OTTAWA HOSPITAL

Consolidated Financial Statements

Year ended March 31, 2018

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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 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, 2018, the consolidated statements of operations, changes in net assets, remeasurement gains and losses 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, 2018, and its results of operations, changes in net assets, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 6, 2018

Ottawa, Canada

THE OTTAWA HOSPITAL

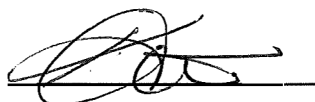
Consolidated Statement of Financial Position

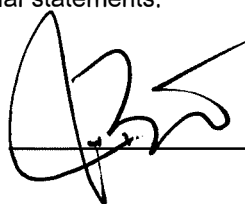
March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Assets		
Current assets:		
Cash	\$ 7,934	\$ 11,327
Short-term investments	2,102	1,962
Accounts receivable (note 2)	99,321	79,730
Inventories	15,850	16,252
Prepaid expenses	15,228	14,265
	<u>140,435</u>	<u>123,536</u>
Capital grants receivable (note 2)	44,807	10,892
Assets restricted for capital purchases (note 3)	98,021	95,910
Capital assets (note 4)	755,523	623,123
Funds held in trust (note 5)	29,663	30,658
	<u>\$ 1,068,449</u>	<u>\$ 884,119</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 211,352	\$ 185,594
Deferred contributions	3,796	6,513
Current portion of long-term debt (note 8)	3,125	943
	<u>218,273</u>	<u>193,050</u>
Employee future benefits (note 7)	63,066	60,354
Long-term debt (note 8)	29,572	7,232
Derivative liability (note 8)	258	—
Other long-term liability (note 4(c))	31,027	—
Deferred contributions related to capital assets (note 9)	571,973	463,168
Funds held in trust (note 5)	29,663	30,658
Net assets (deficiency):		
Investment in capital assets (note 10)	208,947	216,420
Unrestricted deficiency	(84,072)	(86,763)
	<u>124,875</u>	<u>129,657</u>
Accumulated remeasurement losses	(258)	—
	<u>124,617</u>	<u>129,657</u>
Commitments, contingencies and guarantees (note 14)		
	<u>\$ 1,068,449</u>	<u>\$ 884,119</u>

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, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Revenue:		
Ministry of Health and Long-Term Care of Ontario	\$ 1,039,208	\$ 1,016,605
Patient services	160,009	153,872
Recoveries and other operating	68,490	67,131
Preferred accommodation	12,235	11,674
Marketed services	7,946	7,694
Investment	1,709	1,277
Amortization of deferred contributions related to major equipment (note 9)	8,762	8,030
Connecting Ontario Northern and Eastern Region program (note 15)	9,203	8,359
	<u>1,307,562</u>	<u>1,274,642</u>
Expenses:		
Salaries and wages	634,471	610,831
Employee benefits	171,673	161,816
Supplies and other operating	217,972	213,295
Medical and surgical supplies	103,743	104,164
Medical staff remuneration	68,719	74,829
Drugs	71,288	67,360
Interest	714	458
Amortization of major equipment	27,999	29,912
Connecting Ontario Northern and Eastern Region program (note 15)	9,203	8,359
	<u>1,305,782</u>	<u>1,271,024</u>
Excess of revenue over expenses before undernoted items	1,780	3,618
Parking revenue	19,501	19,142
Parking expenses	(11,900)	(9,791)
Amortization of deferred contributions related to buildings (note 9)	16,714	15,852
Amortization of buildings and land improvements	(30,877)	(29,978)
Deficiency of revenue over expenses	<u>\$ (4,782)</u>	<u>\$ (1,157)</u>

See accompanying notes to consolidated financial statements.

THE OTTAWA HOSPITAL

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	Investment in capital assets	Unrestricted	Total 2018	Total 2017
Balance, beginning of year	\$ 216,420	\$ (86,763)	\$ 129,657	\$ 130,814
Deficiency of revenue over expenses	(2,403)	(2,379)	(4,782)	(1,157)
Net change in investment in capital assets	(5,070)	5,070	–	–
Balance, end of year	\$ 208,947	\$ (84,072)	\$ 124,875	\$ 129,657

See accompanying notes to consolidated financial statements.

THE OTTAWA HOSPITAL

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Accumulated remeasurement gains (losses), beginning of year	\$ —	\$ —
Unrealized losses attributable to: Derivative (note 8)	(258)	—
Accumulated remeasurement losses, end of year	\$ (258)	\$ —

See accompanying notes to non-consolidated financial statements.

THE OTTAWA HOSPITAL

Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Cash provided by (used for):		
Operating activities:		
Deficiency of revenue over expenses	\$ (4,782)	\$ (1,157)
Items not involving cash:		
Amortization of capital assets	58,876	59,890
Amortization of deferred contributions related to capital assets (note 9)	(25,476)	(23,882)
Loss on disposal of capital assets	-	129
Net increase in employee future benefits (note 7)	2,712	2,654
Net increase in other long-term liability	31,027	-
Net change in non-cash operating working capital (note 11)	2,749	1,357
	<u>65,106</u>	<u>38,991</u>
Financing activities:		
Deferred contributions related to capital assets received (note 9)	134,281	28,153
Repayment of long-term debt	(943)	(923)
Proceeds from long-term debt	25,465	-
	<u>158,803</u>	<u>27,230</u>
Investing activities:		
Purchase of capital assets	(191,276)	(48,397)
Net decrease (increase) in capital grants receivable	(33,915)	3,266
Net decrease (increase) in assets restricted for capital purchases	(2,111)	28,476
	<u>(227,302)</u>	<u>31,742</u>
Net increase (decrease) in cash during the year	(3,393)	49,566
Cash (bank indebtedness), beginning of year	11,327	(38,239)
Cash, end of year	<u>\$ 7,934</u>	<u>\$ 11,327</u>
Consisting of:		
Operating cash (deficiency)	\$ (608)	\$ 3,632
Restricted cash for HIROC Claim Defense Fund	8,542	7,695
	<u>\$ 7,934</u>	<u>\$ 11,327</u>

See accompanying notes to consolidated financial statements.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements

Year ended March 31, 2018
(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 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 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 Consolidated Financial Statements (continued)

Year ended March 31, 2018
(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 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 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:

The Hospital's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities, long-term debt and derivatives.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(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 and assets acquired under capital lease are recorded at cost. Minor equipment replacements are expensed in the year of replacement. Construction in progress comprises construction, development costs and interest capitalized during the construction period.

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 Consolidated Financial Statements (continued)

Year ended March 31, 2018

(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
Software and network infrastructure	5 to 10 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, 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 15.6 years (2017 - 16.1 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 Consolidated Financial Statements (continued)

Year ended March 31, 2018
(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.

(j) Cap and Trade Program:

The Ontario Cap and Trade Program, which came into effect on January 1, 2017 under the Climate Change Mitigation and Low-carbon Economy Act, 2016 sets out a framework for the reduction in greenhouse gas (“GHG”) emissions for the province of Ontario. The Hospital has elected to be a voluntary participant in the program. The first compliance period for the Cap and Trade program is January 1, 2017 to December 31, 2020. The Hospital has received free GHG emission allowances in 2017 and 2018, which are reasonably expected to exceed the Hospital’s GHG emissions during each year. The Hospital is currently assessing the accounting implications of the emission allowances and does not expect a significant impact to the financial statements.

(k) Accounting changes:

On April 1, 2017, the Hospital adopted Canadian public sector accounting standards PS 2200 Related Party Disclosures, PS 3420 Inter-entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights.

The adoption of these accounting standards did not result in an accounting policy change for the Hospital, and did not result in any adjustments to the financial statements as at April 1, 2017.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars)

2. Accounts and capital grants receivable:

(a) Accounts receivable:

	2018	2017
Accounts receivable from patients	\$ 46,704	\$ 38,107
Ministry of Health and Long-Term Care of Ontario	26,611	11,769
Eastern Ontario Regional Laboratory Association Inc. (note 13)	4,406	3,868
Other	26,251	30,550
	103,972	84,294
Less allowance for doubtful accounts	4,651	4,564
	\$ 99,321	\$ 79,730

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.

	2018	2017
Ministry of Health and Long-Term Care of Ontario	\$ 28,047	\$ –
Eastern Ontario Regional Laboratory Association Inc. (note 13)	6,274	7,054
The Ottawa Hospital Foundation (note 13)	2,021	3,674
University of Ottawa Heart Institute Foundation	8,014	–
Other	451	164
	\$ 44,807	\$ 10,892

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

3. Assets restricted for capital purchases:

Assets restricted for capital purchases is comprised of \$56,462 (2017 - \$61,829) related to funding received and restricted for the purpose of capital purchases and \$41,559 (2017 - \$34,081) 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% (2017 - 1.6%) and are classified as long-term as the associated cash outflow is not expected to occur within one year. At March 31, 2018, an additional amount of \$1,632 (2017 - \$2,811) restricted for capital purchases was receivable by the Hospital from the Ottawa Hospital Foundation.

During the year, the Board approved a transfer of \$Nil (2017 - \$40,000) from the funds restricted for capital purchases to unrestricted cash.

4. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Land	\$ 897	\$ –	\$ 897	\$ 897
Land improvements	5,336	5,336	–	–
Leasehold improvements	310	62	248	–
Buildings	778,185	360,723	417,462	428,712
Building service equipment	175,562	115,168	60,394	62,747
Health information system	17,382	–	17,382	–
Major equipment	505,036	420,621	84,415	92,145
Software and network infrastructure	1,650	255	1,395	–
Construction-in-progress	173,330	–	173,330	38,622
	\$ 1,657,688	\$ 902,165	\$ 755,523	\$ 623,123

(a) Cost and accumulated amortization of capital assets at March 31, 2017 amounted to \$1,466,412 and \$843,289, respectively.

(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 \$147 (2017 – \$Nil).

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

4. Capital assets (continued):

- (c) Construction-in-progress represents costs incurred to date for construction projects at the Hospital:

In November 2014, the Hospital entered into a project agreement with a third party construction company to build and finance a facility expansion project which is primarily funded by the Ministry of Health and Long Term Care. As at March 31, 2018, the amount included in the construction-in-progress related to this project was \$148,000 (2017 - \$26,908). The amount included in deferred contributions related to capital assets received and receivable from the Ministry of Health and Long Term Care and the University of Ottawa Heart Institute Foundation for this this project was \$150,388 (2017 - \$26,027).

The Hospital commenced operations in the newly constructed facility on April 2, 2018. The asset will be transferred from construction-in-progress to buildings in the next fiscal year.

Since Interim Completion, the construction company has incurred \$31,027 in additional project related construction costs, which are not payable until the project achieves substantial completion. This amount has been recorded as construction in progress with a corresponding long-term liability. An amount equal to the funding expected from the Ministry of Health and the Ottawa Heart Institute Foundation has been recorded as capital grant receivable and deferred contribution.

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 with one of its corporate bankers, of which no amount was drawn against at March 31, 2018 (2017 - \$Nil). This line of credit is unsecured and bears interest at prime less 0.75%.

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, 2018 (2017 - \$Nil).

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

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:

	2018	2017
Accrued benefit obligation	\$ 67,161	\$ 66,635
Unamortized experience losses	(4,095)	(6,281)
Employee future benefit liability	\$ 63,066	\$ 60,354

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:

	2018	2017
Discount rate to determine accrued benefit obligation	3.37%	3.56%
Dental cost increases	3.50%	3.50%
Extended healthcare cost escalations	7.50%	7.50%
Expected average remaining service life of employees	16 years	16 years

The employee future benefit liability change is comprised of:

	2018	2017
Current service cost	\$ 3,703	\$ 3,520
Interest on accrued benefit obligation during the year	2,371	2,327
Amortization of net experience losses	408	231
Benefit payments made by the Hospital during the year	(3,770)	(3,424)
	\$ 2,712	\$ 2,654

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

7. 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 \$54,992 (2017 - \$52,338) 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, 2017 indicates the plan is fully funded.

8. Long-term debt:

Long-term debt consists of the following:

	2018	2017
Term note, secured under a general assignment agreement, bearing interest at 2.23%, repayable in principal and interest payments of \$93 monthly, maturing March 2025.	\$ 7,232	\$ 8,175
Operating line of credit, unsecured, bearing interest at prime less 0.75%, interest only payments, repayable on demand, to be re-financed with long-term debt in October 2019.	1,200	—
Term loan, unsecured, bearing interest at bankers' acceptance rate plus 0.56%, repayable in principal plus interest payments effective October 2019, maturing September 2034.	17,000	—
Capital lease obligation related to imaging equipment, repayment in monthly installments of \$80 for the first 5 years, and \$77.50 per month for the remainder of the term, expiring in May 2028.	7,265	—
	32,697	8,175
Less current portion of long-term debt	3,125	943
	\$ 29,572	\$ 7,232

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

8. Long-term debt (continued):

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:

2019	\$	3,125
2020		2,513
2021		3,101
2022		3,124
2023 and thereafter		20,834
	\$	32,697

The Hospital entered into a 15-year forward interest rate swap agreement with an effective date of September 1, 2019 and maturity date of September 1, 2034. The Hospital is obligated to pay fixed interest of 3.144% while receiving variable rate interest which offsets the variable rate interest paid on its term loan. At March 31, 2018, the interest rate swap contract had a negative fair value of \$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 \$258.

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:

	2018	2017
Balance, beginning of year	\$ 463,168	\$ 458,897
Add cash contributions received or receivable during the year	134,281	28,153
Less amounts amortized for major equipment	(8,762)	(8,030)
Less amounts amortized for buildings	(16,714)	(15,852)
Balance, end of year	\$ 571,973	\$ 463,168

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars)

9. Deferred contributions related to capital assets (continued):

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

	2018	2017
Unamortized capital contributions (note 10)	\$ 513,879	\$ 398,528
Unspent capital contributions (note 3)	58,094	64,640
	<u>\$ 571,973</u>	<u>\$ 463,168</u>

10. Investment in capital assets:

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

	2018	2017
Capital assets	\$ 755,523	\$ 623,123
Amounts financed by:		
Deferred contributions related to capital assets (note 9)	(513,879)	(398,528)
Long-term debt (note 8)	(32,697)	(8,175)
	<u>\$ 208,947</u>	<u>\$ 216,420</u>

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

	2018	2017
Purchase of capital assets	\$ 191,276	\$ 48,397
Amounts funded by deferred contributions	(140,827)	(25,180)
Amounts funded by long-term debt	(25,465)	–
Repayment of long-term debt	943	923
Loss on disposal of capital assets	–	(129)
Amortization of deferred contributions related to capital assets	25,476	23,882
Amortization of capital assets	(58,876)	(59,890)
	<u>\$ (7,473)</u>	<u>\$ (11,997)</u>

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars)

11. Net change in non-cash working capital:

	2018	2017
Short-term investments	\$ (140)	\$ (281)
Accounts receivable	(19,591)	12,731
Inventories	402	358
Prepaid expenses	(963)	(3,347)
Accounts payable and accrued liabilities	26,100	(4,672)
Deferred contributions	(3,059)	(3,432)
Net change in non-cash working capital	\$ 2,749	\$ 1,357

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 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 Hospital Food Services - Ontario 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.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

12. Financial instruments (continued):

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.

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 8).

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.

13. 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. The Corporation provides 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 \$1,200 (2017 - \$7,000) from the Corporation. As at March 31, 2018 the Hospital had a payable to the Corporation, amounting to \$1,141 (2017 - \$1,481), 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 OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars)

13. 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:

	2017	2016
Financial position:		
Total assets	\$ 3,458	\$ 5,905
Total liabilities	\$ 1,278	\$ 3,236
Net assets	2,180	2,669
	\$ 3,458	\$ 5,905
Results of operations:		
Total revenue	\$ 2,155	\$ 2,124
Total expenses	1,444	1,305
Excess of revenue over expenses	\$ 711	\$ 819
Cash flows:		
Operating activities	\$ (2,282)	\$ (3,082)
Investing activities	(70)	(53)
Net cash flows	\$ (2,352)	\$ (3,135)

(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 \$5,422 (2017 - \$8,616) from the Foundation. As at March 31, 2018, the Hospital had a capital grant receivable from the Foundation amounting to \$2,021 (2017 - \$3,674), an endowment and funds in trust receivable of \$1,026 (2017 - \$512), and \$661 (2017 - \$554) 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.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

13. 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, 2018, the Hospital had an operational receivable from the Institute amounting to \$1,634 (2017 - \$1,702). The Hospital provided \$7,486 (2017 - \$6,420) of base funding in support of resources to the Institute during fiscal 2018. The Hospital also provided \$80 (2017 - \$80) 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, 2018, the Hospital had an economic interest of \$1,470 (2017 - \$653) of total net assets of \$2,510 (2017 - \$1,106). The Hospital also had a capital grant receivable from EORLA in the amount of \$6,274 (2017 - \$7,054) relating to construction of a regional laboratory and investments in capital equipment. The Hospital also had an operational receivable of \$4,406 (2017 - \$3,868).

(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.

At March 31, 2018, the Hospital had an economic interest of \$4,469 (2017 - \$3,927) of total net assets of \$7,626 (2017 - \$6,563) of HFS. The corresponding interest in ORHLS was \$7,370 (2017 - \$7,286) of total net assets of \$12,836 (2017 - \$12,687).

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

13. Related entities (continued):

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

For the year ended March 31, 2018, the Hospital provided \$1,561 (2017 - \$1,478) to HFS for food services and \$9,274 (2017 - \$9,639) 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 \$45 (2017 - \$33) 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) 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. Included in accounts receivable is \$169 (2017 - \$297) relating to construction projects and other costs incurred on behalf of the OHIRC. Included in accounts payable is \$4,073 (2017 - \$1,336) relating to payroll and other support costs incurred by the OHIRC. These amounts are non-interest bearing and have no specified terms of repayment. During the period, the University of Ottawa Heart Institute provided \$4,604 (2017 - \$3,413) of base funding in support of research to the OHIRC. 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.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

13. Related entities (continued):

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

(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 the UOHIF as the UOHIF holds resources that are used to benefit the University of Ottawa Heart Institute. Included in capital grants receivable is \$8,014 (2017 - \$25) owing from UOHIF. Included in accounts payable is \$48 (2017 - \$52) owing to UOHIF. During the period, the University of Ottawa Heart Institute recorded \$27,268 (2017 - \$8,040) of funding received or receivable 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 UOHIF cash flow requirements. The outstanding balance at March 31, 2018 was \$10,000.

(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, OHIRC and the UOHIF. The Auxiliary and Alumni are tax-exempt entities created under the laws of Ontario.

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, 2018, 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.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

14. Commitments, contingencies and guarantees (continued):

- (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, 2018.
- (c) At March 31, 2018, HFS had \$3,140 (2017 - \$4,501) outstanding on an available line of credit of \$5,140 (2017 - \$6,043), 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, 2018, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$1,510 (2017 - \$2,165). 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, 2018, 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, 2018, the Hospital has construction-in-progress recorded in capital assets of \$173,330 (2017 - \$38,622) and health information system in development of \$15,655 (2017 - \$Nil). The cost to complete the construction-in-progress is estimated at \$84,517 (2017 - \$166,753) and the health information system at \$122,345 (2017 - \$Nil).
- (g) 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.

THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

(In thousands of dollars)

14. Commitments, contingencies and guarantees (continued):

- (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 entered into a ground lease agreement for 99 years for the land required for the construction and operation of the new campus. The lease commenced in February 2018 and provides for a nominal rent payment over the term of the agreement.
- (j) The Hospital has operating lease agreements with future minimum annual payments as follows:

2019	\$	6,212
2020		5,556
2021		4,548
2022		4,230
2023 and thereafter		6,534
	\$	27,080

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 OTTAWA HOSPITAL

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018
(In thousands of dollars)

15. ConnectingOntario Northern and Eastern Region Program (continued):

The NER program revenue and expenses of \$9,203 were recognized in 2018 (2017 - \$8,359). As at March 31, 2018, the Hospital had deferred contributions of \$3,305 (2017 - \$4,808) for funds not yet spent by the NER program. As at March 31, 2018, the Hospital has accounts receivable of \$1,599 (2017 - \$1,167) for funds advanced to service delivery partners but not yet spent on the NER program.