

Consolidated Financial Statements of

# **THE OTTAWA HOSPITAL**

Year ended March 31, 2011



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## INDEPENDENT AUDITORS' REPORT

To the Board of Governors of The Ottawa Hospital

We have audited the accompanying consolidated financial statements of The Ottawa Hospital, which comprise the consolidated statement of financial position as at March 31, 2011, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *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 consolidated financial position of The Ottawa Hospital as at March 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

June 22, 2011

Ottawa, Canada

# THE OTTAWA HOSPITAL

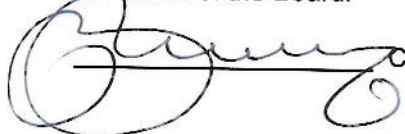
## Consolidated Statement of Financial Position

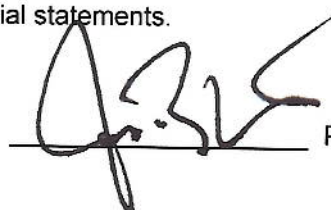
March 31, 2011, with comparative figures for 2010  
(In thousands of dollars)

	2011	2010
<b>Assets</b>		
Current assets:		
Short-term investments	\$ 1,255	\$ 1,308
Accounts receivable (note 2(a))	49,800	50,261
Inventories	12,114	11,938
Prepaid expenses	6,115	5,097
	69,284	68,604
Capital grants receivable (note 2(b))	28,129	17,754
Investments held for capital purchases (note 11(c))	71,425	74,966
Capital assets (note 3)	622,497	571,294
Receivable from Royal Ottawa Health Care Group – vested benefits (note 4)	–	325
Cash held in trust (note 9(a))	33,472	25,544
	\$ 824,807	\$ 758,487
<b>Liabilities, Deferred Contributions and Net Assets</b>		
Current liabilities:		
Bank indebtedness (note 5)	\$ 43,818	\$ 47,771
Accounts payable and accrued liabilities	221,250	208,763
Payable to The Ottawa Hospital Residence Corporation (note 14(d))	4,212	3,656
Current portion of obligation under capital lease (note 8)	112	329
Current portion of long-term debt (note 7)	1,408	1,376
	270,800	261,895
Long-term liabilities:		
Employee future benefits (note 6)	26,318	22,627
Obligation under capital lease (note 8)	53	165
Long-term debt (note 7)	9,060	10,481
	35,431	33,273
Deferred contributions related to capital assets (note 9(b))	430,454	394,235
Deferred contributions related to funds held in trust (note 9(a))	33,472	25,544
Net assets (note 10):		
Investment in capital assets (note 11(a))	214,256	194,841
Unrestricted deficiency	(159,606)	(151,301)
	54,650	43,540
Commitments, contingencies and guarantees (note 16)		
	\$ 824,807	\$ 758,487

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, 2011, with comparative figures for 2010  
(In thousands of dollars)

	2011	2010
Revenue:		
Patient care:		
Ministry of Health and Long-Term Care	\$ 927,111	\$ 899,254
Other	148,060	140,562
Recoveries and other	52,561	44,734
Other funding	13,765	15,122
Marketed services	8,311	8,689
Investment	289	202
Amortization of deferred contributions related to equipment (note 9(b))	7,137	7,688
	<u>1,157,234</u>	<u>1,116,251</u>
Expenses:		
Salaries and wages	586,517	572,590
Employee benefits	144,242	143,643
Supplies and other	155,351	144,709
Medical and surgical	88,324	82,805
Medical staff remuneration	80,006	77,065
Drugs	60,598	61,429
Interest	751	796
Amortization of equipment	33,321	29,673
	<u>1,149,110</u>	<u>1,112,710</u>
Excess of revenue over expenses before undernoted items	8,124	3,541
Parking revenues	15,247	14,434
Parking expenses	(4,265)	(3,950)
Amortization of deferred contributions related to buildings (note 9(b))	14,170	11,530
Amortization of buildings and land improvements	(22,166)	(19,389)
Excess of revenue over expenses	<u>\$ 11,110</u>	<u>\$ 6,166</u>

See accompanying notes to consolidated financial statements.



# THE OTTAWA HOSPITAL

## Consolidated Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010  
(In thousands of dollars)

	Investment in capital assets (note 11)	Unrestricted	Total 2011	Total 2010
Balance, beginning of year	\$ 194,841	\$ (151,301)	\$ 43,540	\$ 37,374
Excess of revenue over expenses	–	11,110	11,110	6,166
Net change in investment in capital assets (note 11(b))	19,415	(19,415)	–	–
Balance, end of year	\$ 214,256	\$ (159,606)	\$ 54,650	\$ 43,540

See accompanying notes to consolidated financial statements.

# THE OTTAWA HOSPITAL

## Consolidated Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010  
(In thousands of dollars)

	2011	2010
Cash provided by (used for):		
Operating activities:		
Excess of revenue over expenses	\$ 11,110	\$ 6,166
Items not involving cash:		
Amortization of capital assets	55,487	48,892
Amortization of deferred contributions related to capital assets	(21,307)	(19,218)
Loss on disposal of assets	25	226
Decrease in Royal Ottawa Health Care Group – Vested benefits	325	168
Net increase in employee future benefits (note 6)	3,691	3,160
Net change in non-cash working capital (note 15)	3,879	(13,269)
	<u>53,210</u>	<u>26,125</u>
Financing activities:		
Deferred contributions related to capital assets received	57,526	88,913
Repayment of long-term debt	(1,389)	(1,292)
Amount funded by long-term debt	–	600
Repayment of obligation under capital lease	(329)	(319)
Increase in deferred contributions related to funds held in trust	7,928	2,722
Increase in payable to The Ottawa Hospital Residence Corporation	556	1,727
Proceeds on disposal of equipment	10	96
	<u>64,302</u>	<u>92,447</u>
Investing activities:		
Purchase of capital assets	(106,725)	(113,991)
Net increase in capital grants receivable	(10,375)	(2,347)
Net decrease (increase) in investments held for capital purchases	3,541	(13,574)
	<u>(113,559)</u>	<u>(129,912)</u>
Net decrease (increase) in bank indebtedness	3,953	(11,340)
Bank indebtedness, beginning of year	(47,771)	(36,431)
Bank indebtedness, end of year	<u>\$ (43,818)</u>	<u>\$ (47,771)</u>

See accompanying notes to consolidated financial statements.

# THE OTTAWA HOSPITAL

## Notes to Consolidated Financial Statements

Year ended March 31, 2011  
(In thousands of dollars)

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The Ottawa Hospital (the "Hospital") is an academic health sciences centre and is principally involved in providing health care services to the residents of the Champlain Local Health Integration Network. The Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes.

### 1. Significant accounting policies:

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

#### (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 financial statements include the assets, liabilities and operations of the University of Ottawa Heart Institute, a controlled entity. The University of Ottawa Heart Institute provides cardiac services to the patients of the Hospital. The business relationship between the Hospital and the University of Ottawa Heart Institute is governed by a service agreement pursuant to which clinical and administrative support is provided at fair market value, and premises provided at no charge by the Hospital. The University of Ottawa Heart Institute is incorporated under the laws of Ontario and is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes.

These financial statements do not include the assets, liabilities or operations of The Ottawa Hospital Residence Corporation, a controlled entity, nor the following entities where the Hospital has an economic interest including; The Ottawa Hospital Foundation, Ottawa Hospital Research Institute, its auxiliaries, Hospital Food Services – Ontario Inc., Ottawa Regional Hospital Linen Services Incorporated and Eastern Ontario Regional Laboratory Association Inc.

#### (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. 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, page 2

Year ended March 31, 2011  
(In thousands of dollars)

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## 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 is recorded in the period in which the adjustment is made.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue when the conditions for the restriction have been met. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

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

### (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 consolidated financial statements.

### (d) Inventories:

Inventories are recorded on a first in first out basis and are valued at lower of cost and net realizable value.

### (e) Short-term investment and investments:

Investments are designated as available-for-sale and are recorded at fair value. Transaction costs related to the acquisition of investments are recorded against investment income. Sales and purchases of investments are recorded on the settlement date.

Fair value is determined at quoted market prices. The calculation of fair value is based upon market conditions at a specific point in time and may not be reflective of future fair value.

### (f) Capital assets:

Purchased capital assets, other than minor equipment, are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.



# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 3

Year ended March 31, 2011

(In thousands of dollars)

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## 1. Significant accounting policies (continued):

### (f) Capital assets (continued):

Minor equipment replacements are expensed in the year of replacement. Construction in progress is not amortized until the project is complete and the facilities come into use. Capital assets are amortized on a straight-line basis over their expected useful lives at rates varying from 2% to 30% per annum.

### (g) Deferred contributions related to funds held in trust:

The Hospital holds resources and makes disbursements on behalf of various unrelated individuals or groups. The Hospital has no discretion over such transactions. Resources received in connection with such trust fund transactions are reported as liabilities not revenue and subsequent distributions are reported as decreases to the liability.

### (h) Employee benefit plans:

The Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

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

The Hospital is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

### (i) Use of estimates:

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles 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 revenues and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known. Significant areas requiring estimate include the valuation of accounts receivable and inventories, accruals for outstanding salary agreements and management's estimates used to develop actuarial assumptions with respect to employee future benefits, and management's estimates used to determine certain payroll related accrued liabilities.

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 4

Year ended March 31, 2011

(In thousands of dollars)

## 2. Accounts and capital grants receivable:

### (a) Accounts receivable:

	2011	2010
Accounts receivable from patients	\$ 36,450	\$ 37,083
Ottawa Hospital Research Institute (note 14(b))	1,884	6,018
Other	15,569	10,754
	53,903	53,855
Less allowance for doubtful accounts	4,103	3,594
	\$ 49,800	\$ 50,261

### (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.

	2011	2010
The Ottawa Hospital Foundation (note 14(a))	\$ 9,015	\$ 8,028
Eastern Ontario Regional Laboratory Association (note 14(f))	7,834	7,834
University of Ottawa	2,112	1,496
Ministry of Health and Long term Care	8,035	427
Children's Hospital of Eastern Ontario	1,164	-
Other	(31)	(31)
	\$ 28,129	\$ 17,754

## 3. Capital assets:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Land	\$ 1,618	\$ -	\$ 1,618	\$ 1,618
Land improvements	5,336	5,153	183	235
Buildings	638,013	213,576	424,437	343,033
Building service equipment	99,256	69,729	29,527	28,568
Major equipment	561,472	467,791	93,681	85,365
Construction-in-progress	73,051	-	73,051	112,475
	\$ 1,378,746	\$ 756,249	\$ 622,497	\$ 571,294

Cost and accumulated amortization of capital assets at March 31, 2010 amounted to \$1,274,060 and \$702,766 respectively.

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 5

Year ended March 31, 2011  
(In thousands of dollars)

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#### 4. Receivable from Royal Ottawa Health Care Group – vested benefits:

Under the agreement transferring The Rehabilitation Centre to The Ottawa Hospital, the Royal Ottawa Health Care Group ("ROHCG") reimbursed the Hospital for the employee future benefits liability relating to transferred employees based on the actuarial valuation completed as at March 31, 2001. The amount receivable by the Hospital from ROHCG for vested benefits is \$Nil (2010 - \$325).

#### 5. Bank indebtedness:

The Hospital has an available line of credit of \$24,000 with its corporate bankers, of which no amount was drawn against at March 31, 2011 (2010 - \$Nil). This line of credit is unsecured and bears interest at prime. The Hospital also had an overdraft of \$43,818 (2010 - \$47,771) that was borrowed against investment held for capital purchases.

#### 6. Employee future benefits:

The Hospital provides extended health care and dental insurance benefits to certain of its employees and extends this coverage to the post-retirement period. The most recent actuarial valuation of employee future benefits was completed as at April 1, 2009.

At March 31, the Hospital's employee future benefits accrued liability and accrued benefit obligation is as follows:

	2011	2010
Accrued benefit obligation	\$ 42,532	\$ 38,160
Unamortized past service costs	(1,588)	(1,866)
Unamortized experience losses	(14,626)	(13,667)
Accrued liability	\$ 26,318	\$ 22,627

Similar to most post-employment benefit plans (other than pension) in Canada, the Hospital's plan is not pre-funded, resulting in a plan deficit equal to the accrued benefit obligation.



# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 6

Year ended March 31, 2011  
(In thousands of dollars)

## 6. Employee future benefits (continued):

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations are as follows:

	2011	2010
Discount rate to determine accrued benefit obligation	5.00%	5.50%
Dental cost increases	6.00%	6.00%
Extended healthcare cost escalations, 7.5% in 2011 decreasing by 0.5% per annum to an ultimate rate of 5.0% thereafter	7.50%	7.50%
Expected average remaining service life of employees	15 years	15 years

Included in the statement of operations is an amount of \$3,691 (2010 - \$3,148) regarding employee future benefits. This amount is comprised of:

	2011	2010
Additional benefit expense	\$ 4,350	\$ 3,780
Benefit payments made by the Hospital during the year	(659)	(632)
	\$ 3,691	\$ 3,148

### Health care sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health and dental care plans. A 1% change in assumed health and dental care cost trend rates would have the following effects for 2011.

	Increase	Decrease
Net benefit cost	\$ 458	\$ 382
Accrued benefit obligation	4,148	3,574

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 7

Year ended March 31, 2011  
(In thousands of dollars)

## 7. Long-term debt:

	2011	2010
5.45% fixed rate term note with principal payments of \$44 monthly, maturing April 2021	\$ 4,889	\$ 5,378
6.26% fixed rate term note with principal payments of \$27 monthly, maturing April 2015	1,325	1,679
6.27% fixed rate term note with principal payments of \$36 monthly, maturing December 2019	3,767	4,200
3.12% fixed rate term note with principal payments of \$10 monthly, maturing March 2015	487	600
Total loans	10,468	11,857
Less current portion of long-term debt	1,408	1,376
	\$ 9,060	\$ 10,481

Loans are secured under a general assignment agreement.

Future principal repayments are as follows:

2012	\$ 1,408
2013	1,412
2014	1,415
2015	1,419
2016 and thereafter	4,814
	\$ 10,468

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

An overdraft lending agreement with the Bank of Nova Scotia for the amount of \$500 for the purpose of financing operating requirements. The revolving facility is repayable on demand and bears interest at prime, payable monthly in arrears. The Hospital has provided the following collateral for the facility: a General Security Agreement, representing a first charge over all accounts receivable, inventory and equipment other than leased assets. The current amount drawn on this facility is \$Nil at March 31, 2011 (2010 - \$Nil).

A term facility lending agreement in the amount of \$1,500 for the purpose of replenishing working capital spent on upgrades to surgery facilities. The facility is repayable over a period of up to three years and bears interest at prime plus 0.50%, payable monthly in arrears. The Hospital has provided the following collateral for the facility: a General Security Agreement, registered in second position behind the Bank of Nova Scotia with specific priority charge on fixed assets being financed and an assignment of fire insurance. The current amount drawn on this facility is \$Nil at March 31, 2011 (2010 - \$Nil).

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 8

Year ended March 31, 2011  
(In thousands of dollars)

## 7. Long-term debt (continued):

A term facility lending agreement in the amount of \$1,000 for the purpose of replenishing working capital spent on upgrades to air circulation equipment for surgery facilities. The revolving facility is repayable on demand and bears interest at prime plus 0.25%, payable monthly in arrears. The Hospital has provided the following collateral for the facility: a General Security Agreement, registered in second position behind the Bank of Nova Scotia with specific priority charge on fixed assets being financed and an assignment of fire insurance. The current amount drawn on this facility is \$Nil at March 31, 2011 (2010 – \$Nil).

## 8. Obligations under capital lease:

The Hospital is committed under capital leases for diagnostic equipment.

	2011	2010
5.95% capital lease obligation with principal payments of \$19 monthly, maturing June 2011	\$ 57	\$ 277
6.10% capital lease obligation with principal payments of \$5 monthly, maturing February 2013	108	160
5.68% capital lease obligation with principal payments of \$5 monthly, maturing March 2011	–	57
Total capital lease obligation	165	494
Less current portion of capital lease obligation	112	329
	\$ 53	\$ 165
Future principal repayments are as follows:		
2012		\$ 112
2013		53
		\$ 165



# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 9

Year ended March 31, 2011  
(In thousands of dollars)

## 9. Deferred contributions:

### (a) Related to funds held in trust:

Deferred contributions related to funds held in trust represent the aggregate balance of funds held in trust for third parties. The changes in the deferred balance for the period are as follows:

	2011	2010
Balance, beginning of year	\$ 25,544	\$ 22,822
Add contributions received during the year	14,414	13,998
Interest earned during the year	257	30
Less disbursements made during the year	(6,743)	(11,306)
Balance, end of year	\$ 33,472	\$ 25,544

### (b) Related to capital assets:

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

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

	2011	2010
Balance, beginning of year	\$ 394,235	\$ 324,540
Add contributions received during the year	57,526	88,913
Less amounts amortized for equipment	(7,137)	(7,688)
Less amounts amortized for buildings	(14,170)	(11,530)
	\$ 430,454	\$ 394,235

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

	2011	2010
Unamortized capital contributions	\$ 397,608	\$ 364,102
Unspent capital contributions	32,846	30,133
	\$ 430,454	\$ 394,235

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 10

Year ended March 31, 2011  
(In thousands of dollars)

## 10. Capital disclosures:

The Hospital defines capital as its unrestricted net assets and its net assets invested in capital assets. The Hospital currently has an accumulated deficiency of net assets due to past operations. As profitable operations are achieved, this deficiency of net assets will be reduced. Once the deficiency in net assets is eliminated, the object of the Hospital with respect to its unrestricted net assets is to fund future operations. The purpose of the net assets invested in capital assets is to fund the past acquisition of capital assets required for operational purposes.

The Hospital is not subject to externally imposed capital requirements and its overall strategy with respect to capital remains unchanged from the year ended March 31, 2010.

## 11. Investment in capital assets:

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

	2011	2010
Capital assets	\$ 622,497	\$ 571,294
Amounts financed by:		
Deferred contributions related to capital assets (note 9(b))	(397,608)	(364,102)
Long-term debt (note 7)	(10,468)	(11,857)
Capital lease obligations (note 8)	(165)	(494)
	\$ 214,256	\$ 194,841

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

	2011	2010
Purchase of capital assets	\$ 106,725	\$ 113,991
Amounts funded by deferred contributions	(54,813)	(83,824)
Proceeds on disposal of equipment	(10)	(96)
Loss on disposal of capital assets	(25)	(226)
Amortization of deferred contributions related to capital assets	21,307	19,218
Amortization of capital assets	(55,487)	(48,892)
Repayment of long-term debt	1,389	1,292
Amount funded by long-term debt	—	(600)
Repayment of obligation under capital leases	329	319
	\$ 19,415	\$ 1,182

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 11

Year ended March 31, 2011  
(In thousands of dollars)

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## 11. Investment in capital assets (continued):

- (c) Investments held for capital purposes relates to funding received and restricted for the purpose of capital expenditures. The funds are held with the Hospital's bank and are classified as long term as the associated cash outflow is not expected to occur within one year.

## 12. Pension plan:

Substantially all of the employees of the Hospital are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Contributions to the plan made during the year by the Hospital on behalf of its employees amounted to \$45,944 (2010 - \$43,889) and are included in the statement of operations.

Pension expense is based on Plan management's best estimates, 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, 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, 2009 indicates the plan is fully funded.

## 13. Financial instruments:

The carrying value of accounts receivable, accounts payable and accrued liabilities, bank indebtedness and payable to Ottawa Hospital Residence Corporation approximates their fair value because of the relatively short period to maturity of the instruments. The carrying value of long-term debt and obligation under capital lease approximates fair value.

The fair value of capital grants receivable is not determinable as there are no fixed repayment terms.

The fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reported borrowing date. In situations in which there is no market for these guarantees and they were issued without explicit costs, it is not practicable to determine their fair value with sufficient reliability. Unless otherwise noted, it is management's opinion that the Hospital is not subject to significant interest or currency risk arising from these instruments.

### *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.



# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 12

Year ended March 31, 2011  
(In thousands of dollars)

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## 14. Related entities:

### (a) The Ottawa Hospital Foundation:

The Hospital has an economic interest in The Ottawa Hospital Foundation (the "Foundation"). 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 \$18,291 (2010 - \$13,841) from the Foundation. As at March 31, 2011, the Hospital had a capital grant receivable from the Foundation amounting to \$9,015 (2010 - \$8,028) and an endowment receivable of \$350 (2010 - \$297). 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.

### (b) 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, 2011, the Hospital had a receivable from the Institute amounting to \$1,884 (2010 - \$6,018). The Hospital provided \$4,793 (2010 - \$4,695) of base funding in support of resources to the Institute during fiscal 2011. The Hospital also provided \$150 (2010 - \$150) for specific operating expenditures to the Institute. These amounts are recorded in supplies and other expense on the statement of operations.

### (c) Auxiliaries:

The Hospital has an economic interest in the Ottawa Civic Hospital Auxiliary, the Riverside Hospital Auxiliary and the Friends of the Ottawa General Hospital (the "Auxiliaries") and the Rehabilitation Centre Volunteer Association. The object of the Auxiliaries is to raise and receive funds to be distributed towards various programs and capital projects of the Hospital and its related Foundations. The Auxiliaries are tax-exempt entities created under the laws of Ontario.

### (d) The Ottawa Hospital Residence Corporation:

The Hospital exercises control over The Ottawa Hospital Residence Corporation (the "Corporation"), a tax-exempt entity without share capital incorporated under the laws of Ontario providing residences to the interns and residents of the Hospital. The amount payable to the Corporation, amounting to \$4,212 (2010 - \$3,656), is subject to an interest rate of prime minus 1.85%, is due on demand and has no fixed terms of repayment.

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 13

Year ended March 31, 2011  
(In thousands of dollars)

## 14. Related entities (continued):

(d) The Ottawa Hospital Residence Corporation (continued):

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

	2010	2009
Financial position:		
Total assets	\$ 6,145	\$ 5,671
Total liabilities	\$ 205	\$ 149
Net assets	5,940	5,522
	\$ 6,145	\$ 5,671
Results of operations:		
Total revenue	\$ 3,349	\$ 2,883
Total expenses	1,431	1,483
Excess of revenue over expenses	\$ 1,918	\$ 1,400

(e) 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, 2011, the Hospital had an economic interest of \$3,496 (2010 - \$3,604) of total net assets of \$5,639 (2010 - \$5,883) of HFS. The corresponding interest in ORHLS was \$6,518 (2010 - \$5,788) of total net assets of \$11,412 (2010 - \$10,229).

For the year ended March 31, 2011, the Hospital provided \$1,253 (2010 - \$1,235) to HFS for food services and \$11,380 (2010 - \$8,159) to ORHLS for linen services. These amounts have been included in Supplies and Other on the Statement of Operations.



# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 14

Year ended March 31, 2011  
(In thousands of dollars)

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## 14. Related entities (continued):

(f) Eastern Ontario Regional Laboratory Association Inc.:

The Hospital is a founding member of Eastern Ontario Regional Laboratory Association Inc. ("EORLA"). EORLA was established to provide specialized laboratory services to the 16 member hospitals on a cost of service basis.

The Ottawa Hospital entered into a contract with the Ministry of Health and Long-term Care of Ontario to construct a regional laboratory, including investment in capital equipment. As at March 31, 2011, The Ottawa Hospital had completed the project, at a total cost \$25,376, of which \$7,834 (2010 - \$7,834) is to be funded by EORLA. In return for this capital investment, EORLA will be permitted to occupy the premises, under the provisions set out in the member Site Use Agreements.

As at March 31, 2011, The Ottawa Hospital had a capital grant receivable from EORLA in the amount of \$7,834 (2010 - \$7,834) and an operational payable of \$817 (2010 - \$210).

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

As at March 31, the Hospital had a receivable of \$503 (2010 - \$1,056) from CHSS relating to reimbursement of expenses paid by the Hospital on behalf of CHSS.

(h) The Hospital is related to the University of Ottawa Heart Institute Foundation, the Ottawa Heart Institute Alumni Association and the Heart Institute Auxiliary. These entities hold resources that are to be used to benefit the Hospital and the Ottawa Heart Institute Research Corporation ("OHIRC"). Included in accounts receivable is \$110 (2010 - \$50) owing from the Ottawa Heart Institute Foundation. During the year, the Hospital recorded revenue of \$1,873 (2010 - \$706) from the Ottawa Heart Institute Foundation.

The Hospital has significant influence over the OHIRC by virtue of the Hospital's representation on the OHIRC's Board of Directors. Included in accounts receivable is \$363 (2010 - \$933) relating to construction projects and other costs incurred on behalf of the OHIRC. This amount is non-interest bearing and has no specified terms of repayment. During the year, the Hospital provided \$4,384 (2010 - \$4,231) of base funding in support of research to the OHIRC. These amounts are recorded in supplies and other expenses on the statement of operations.



# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 15

Year ended March 31, 2011  
(In thousands of dollars)

## 14. Related entities (continued):

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

## 15. Net change in non-cash working capital:

	2011	2010
Short-term investments	\$ 53	\$ (448)
Accounts receivable	461	(9,793)
Inventories	(176)	(1,910)
Prepaid expenses	(1,018)	(571)
Cash held in trust	(7,928)	(2,722)
Accounts payable and accrued liabilities	12,487	2,175
Net change in non-cash working capital	\$ 3,879	\$ (13,269)

## 16. Commitments, contingencies and guarantees:

- (a) The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2011, 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, 2011.
- (c) At March 31, 2011, HFS had \$8,715 (2010 - \$10,019) outstanding on an available line of credit of \$10,300 (2010 - \$11,243), 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, 2011, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$4,192 (2010 - \$4,819). As at the date of the audit report, there has been no such request by the debtor.

# THE OTTAWA HOSPITAL

Notes to Consolidated Financial Statements, page 16

Year ended March 31, 2011  
(In thousands of dollars)

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## 16. Commitments, contingencies and guarantees (continued):

- (d) The Hospital has construction in progress recorded in capital assets of \$73,051 at March 31, 2011 (2010 - \$112,475). The cost to complete this construction is estimated at \$28,064 (2010 - \$103,200).
- (e) 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.
- (f) At March 31, 2011, letters of credit totaling \$1,335 (2010 - \$660) were issued primarily to governmental authorities to guarantee fulfillment of the Hospital's obligations with respect to the installation of road, water, sewer and drainage improvements on Hospital-owned land.
- (g) The Hospital has entered into an agreement to upgrade their laboratory systems and recorded in capital assets an amount of \$2,727 as of March 31, 2011. The cost to complete the upgrade is estimated at \$2,937.

## 17. Comparative figures:

Certain 2010 comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted for 2011.