



UNIVERSITY OF OTTAWA
HEART INSTITUTE
INSTITUT DE CARDIOLOGIE
DE L'UNIVERSITÉ D'OTTAWA

UNIVERSITY OF OTTAWA HEART INSTITUTE

FINANCIAL STATEMENTS

MARCH 31, 2020

UNIVERSITY OF OTTAWA HEART INSTITUTE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
University of Ottawa Heart Institute

Opinion

We have audited the financial statements of the University of Ottawa Heart Institute (“the Institute”), which comprise the statement of financial position as at March 31, 2020, and the statements of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2020, and the results of its operations and its cashflows for the year then ended, in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditor's Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Institute in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
June 25, 2020

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2020

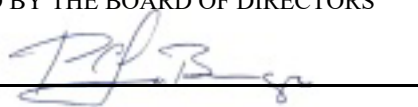
(in thousands of dollars)

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	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 13,351	\$ 4,540
Accounts receivable		
Ministry of Health and Long-Term Care	2,952	1,826
Patient services	13,215	7,573
Sundry	11,911	1,143
Inventories	2,343	2,142
Prepaid expenses	622	419
	44,394	17,643
CAPITAL GRANTS RECEIVABLE (Note 3)		
Ministry of Health and Long-Term Care	-	46,055
CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (Note 3)	212,188	205,224
INTANGIBLE ASSETS AND ASSETS UNDER CAPITAL LEASE (Note 4)	11,736	10,197
	223,924	261,476
	\$ 268,318	\$ 279,119
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank loan (Note 5)	\$ -	\$ 3,200
Accounts payable and accrued liabilities	24,655	16,673
Accounts payable - Ministry of Health and Long-Term Care	2,570	2,772
Accounts payable - The Ottawa Hospital (Note 13)	5,535	4,683
Current portion of long-term debt (Note 8)	2,508	986
Current portion of obligation under capital lease (Note 9)	1,041	625
	36,309	28,939
LONG-TERM DEBT (Note 8)	17,148	5,281
OBLIGATION UNDER CAPITAL LEASE (Note 9)	7,036	6,191
ACCRUED LIABILITY RELATED TO CONSTRUCTION (Note 3)	-	50,808
EMPLOYEE FUTURE BENEFITS (Note 6)	6,266	5,435
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 7)	198,934	179,893
	229,384	247,608
	265,693	276,547
NET ASSETS		
Unrestricted (deficiency)	5,368	(11,920)
Invested in capital assets and assets under capital lease (Note 10)	(2,743)	14,492
	2,625	2,572
	\$ 268,318	\$ 279,119

APPROVED BY THE BOARD OF DIRECTORS

Director



Director



UNIVERSITY OF OTTAWA HEART INSTITUTE**STATEMENT OF CHANGES IN NET ASSETS****FOR THE YEAR ENDED MARCH 31, 2020****(in thousands of dollars)****4**

	Unrestricted (Deficiency)	Invested in Capital Assets and Assets Under Capital Lease (Note 10)	2020 Total	2019 Total
BALANCE, BEGINNING OF YEAR	\$ (11,920)	\$ 14,492	\$ 2,572	\$ 2,508
Excess of revenue over expenses	53	-	53	64
Net change in investment in capital assets and assets under capital lease (Note 10)	17,235	(17,235)	-	-
BALANCE, END OF YEAR	\$ 5,368	\$ (2,743)	\$ 2,625	\$ 2,572

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2020

(in thousands of dollars)

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	Budget	2020	2019
REVENUE			
Ministry of Health and Long-Term Care			
Global allocation and Priority Program Services	\$ 91,591	\$ 95,249	\$ 91,591
Quality-based procedures (QBP)	3,239	3,432	3,272
Health Based Allocation Model (HBAM)	51,357	51,357	51,357
Post Construction Operating Plan (PCOP) funding	8,384	8,962	7,507
Priority Program Services clawback	3,497	(1,353)	(2,757)
One-time cardiac & other	873	2,679	1,274
Other recoveries (clawbacks)	-	(668)	(592)
Cardiac Hospital On Call Coverage (HOCC)	622	625	622
Other Votes	326	326	326
	159,889	160,609	152,600
Patient services			
In-patient	17,935	17,730	15,591
Out-patient	14,341	16,123	15,473
Preferred accommodation	1,003	991	1,132
Other operating revenues and recoveries	6,968	4,667	7,574
Amortization of deferred contributions related to capital assets	8,818	14,055	9,215
	208,954	214,175	201,585
EXPENSES			
Salaries and benefits and purchased services	96,132	95,794	92,028
Medical staff remuneration	6,055	6,605	6,195
Medical surgical supplies	46,704	47,475	44,650
Drugs and medical gases	4,011	4,263	3,920
Supplies and other expenses	15,975	17,640	17,849
Service agreements (Note 13)	24,840	21,295	22,299
Interest charges	1,088	1,085	967
Amortization of capital assets and assets under capital lease	11,571	18,034	12,095
Amortization of intangible assets and assets under capital lease	1,512	992	179
Bad debts	250	190	635
Equipment rental	768	749	704
	208,906	214,122	201,521
EXCESS OF REVENUE OVER EXPENSES	\$ 48	\$ 53	\$ 64

UNIVERSITY OF OTTAWA HEART INSTITUTE**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED MARCH 31, 2020****(in thousands of dollars)****6**

	2020	2019
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 53	\$ 64
Items not affecting cash :		
Amortization of deferred contributions related to capital assets	(14,055)	(9,215)
Deferred contributions applied to cover equipment expenses	(280)	(1,700)
Transfer from capital assets to equipment expenses	726	2,241
Amortization of capital assets and assets under capital lease	18,034	12,095
Amortization of intangible assets and assets under capital lease	992	179
Net increase in employee future benefits	831	185
Net change in non-cash working capital items (Note 11)	(9,308)	4,177
	(3,007)	8,026
INVESTING ACTIVITIES		
Acquisition of capital assets	(25,707)	(10,370)
Acquisition of intangible assets	(575)	(7,934)
	(26,282)	(18,304)
FINANCING ACTIVITIES		
Repayment of liability related to construction	(50,808)	-
Deferred contributions for capital assets received (Note 7)	33,376	10,614
Repayment of obligation under capital lease	(712)	(644)
Proceeds from capital grants receivable	46,055	-
Net change in bank loan	(3,200)	2,000
Proceeds from long-term debt	15,000	-
Repayment of long-term debt	(1,611)	(965)
	38,100	11,005
NET CHANGE IN CASH AND CASH EQUIVALENTS		
DURING THE YEAR	8,811	727
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,540	3,813
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 13,351	\$ 4,540

Cash and cash equivalents are comprised of cash.

Non-cash transactions include the acquisition of an intangible asset under capital lease for \$1,973 and the assumption of an obligation under capital lease for the same amount.

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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1. PURPOSE OF THE ORGANIZATION

The University of Ottawa Heart Institute (“the Institute”) is incorporated without share capital under the *Ontario Corporations Act*. It provides a full range of cardiac services including primary and secondary prevention, diagnosis and treatment, rehabilitation, research and education. It is the sole provider of interventional cardiology and cardiac surgery for Eastern Ontario and Western Quebec. The Institute focuses its clinical activity in three major areas: open heart surgery, interventional cardiology and arrhythmia procedures. As a registered charity, the Institute is exempt from income taxes under subsection 149(1)(f) of the *Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian public sector accounting standards that apply only to government not-for-profit organizations (PSAS-GNFPO) and include the following significant accounting policies:

Use of estimates

The preparation of financial statements in compliance with the PSAS-GNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the period covered. Actual amounts could differ from these estimates. The main estimates relate to the impairment of financial assets such as the allowance for doubtful accounts, the useful life of capital assets, the valuation of accrued liabilities and of the employee future benefits liability. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period they become known.

Financial instruments

Measurement of financial instruments

The Institute initially measures its financial assets and financial liabilities at fair value, except for certain non-arm’s length transactions.

The Institute subsequently measures all of its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable and capital grants receivable.

Financial liabilities measured at amortized cost include the bank loan, accounts payable and accrued liabilities, accounts payable – Ministry of Health and Long-Term Care, accounts payable - The Ottawa Hospital (“TOH”), accrued liability related to construction and long-term debt.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. The Institute determines whether a significant adverse change has occurred in the expected timing or amount of future cash flows from the financial asset. If this is the case, the carrying amount of the asset is reduced directly to the higher of the present value of the cash flows expected to be generated by holding the asset, and the amount that could be realized by selling the asset at the balance sheet date. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

Transaction costs related to financial instruments subsequently measured at amortized cost adjust the carrying amount of the financial asset or liability and are accounted for in the statement of operations using the straight-line method.

Contribution and capital grants receivable

A contribution receivable is recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Capital grants receivable are related to grants obtained for capital assets acquisitions or projects, which have been approved by the funder and are receivable by the Institute at year-end. Capital grants receivable are also being added to the deferred contributions related to capital assets and amortized in future years at the same rate as the rate of amortization of the related assets.

Revenue recognition

Under the *Health Insurance Act* and regulations thereto, the Institute is funded primarily by the Province of Ontario in accordance with the 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 when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. Where a portion of a grant received relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect funding arrangements approved by the Ministry with respect to the year ended March 31, 2020.

Some of the Institute's operational financing is part of certain programs managed by the Local Health Integrated Network (LHIN) and other funding agencies. The final operating revenue recorded under these programs can only be confirmed once the financial reports and statistics of the Institute have been reviewed by the funding agencies. Any adjustments required to these revenues following the funding agencies' review are recorded in the year they are determined.

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The Institute follows the deferral method of accounting for contributions which include government grants and donations. 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 in the year in which the related expenses are incurred. Where a portion of a restricted contribution relates to a future period, it is deferred and recognized in the subsequent period. Contributions restricted for the purchase of capital assets are deferred and amortized as revenue in the statement of operations at a rate corresponding with the amortization rate for the related capital assets.

Revenues from patient services, preferred accommodation and other operating revenues and recoveries are recognized when the services are provided and when collection is reasonably assured.

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 financial statements.

Inventories

Inventories are valued at lower of cost and replacement cost, with cost being determined using the average cost basis.

Capital assets and assets under capital lease

Purchased capital assets and assets under capital lease are recorded at cost. Construction in progress is not amortized until the project is complete and the facilities come into use. Equipment is not amortized until it is ready to be used. Capital assets are amortized on a straight-line basis over the following periods:

Buildings and building improvements	20 years
Diagnostic and operating equipment	5 to 15 years
Network Infrastructure	10 to 20 years

Intangible assets and assets under capital lease

Purchased intangible assets are recorded at cost and are amortized on a straight-line basis as follows:

Software	5 years
Health Information System	15 years

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Write-down of capital assets

When a capital asset no longer contributes to the Institute's ability to provide services, its carrying amount is written down to residual value, if any. The excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

Employee future benefits

Pension plan

Substantially all Institute employees are eligible to be members of the Hospitals of Ontario Pension Plan, which is a multi-employer defined benefit plan. The Institute considers the Plan as a defined contributions plan for accounting purposes since there is not sufficient information available to apply defined benefit pension plan accounting standards. Accordingly, the Institute's contributions to the Plan are recognized as expenses based on accounting standards for defined contributions plans.

Extended health, dental and life benefits

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

The Institute 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.

Extended health, dental and life benefits (continued)

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 expected average remaining service life of active employees.

Compensated absences

Compensation expense is accrued for all employees as entitlement to these payments is earned, in accordance with the Institute's benefit plans for vacation and sick leave.

Cash and cash equivalents

The Institute's policy is to present bank balances under cash and cash equivalents, including bank overdrafts with balances that can fluctuate from being positive to overdrawn.

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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3. CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE

	Cost	Accumulated Amortization	2020
Capital assets			
Buildings and buildings improvements	\$ 239,005	\$ 53,235	\$ 185,770
Diagnostic and operating equipment	67,276	47,630	19,646
Network Infrastructure	786	236	550
Construction in progress	254	-	254
	307,321	101,101	206,220
Assets under capital lease			
Operating equipment	7,460	1,492	5,968
	\$ 314,781	\$ 102,593	\$ 212,188
<hr/>			
	Cost	Accumulated Amortization	2019
Capital assets			
Buildings and buildings improvements	\$ 151,444	\$ 41,284	\$ 110,160
Diagnostic and operating equipment	57,541	42,372	15,169
Network Infrastructure	786	157	629
Construction in progress	72,552	-	72,552
	282,323	83,813	198,510
Assets under capital lease			
Operating equipment	7,460	746	6,714
	\$ 289,783	\$ 84,559	\$ 205,224

The Institute entered into an agreement with a third-party construction company to build and finance the construction of a new building and the renovation of its existing facilities. The total estimated cost of the construction and interest component of this project was \$134,998 plus HST, which was primarily funded by the Ministry of Health and Long-Term Care and by the University of Ottawa Heart Institute Foundation. On January 18, 2020, the project achieved *Substantial Completion* (as defined in the project's agreement), and therefore the related assets were transferred from construction in progress to the appropriate capital asset categories and were amortized in the current fiscal year. All funds receivable by the Ministry of Health and Long-Term Care were received for this project.

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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4. INTANGIBLE ASSETS AND ASSETS UNDER CAPITAL LEASE

	Cost	Accumulated Amortization	2020	2019
Intangible assets				
Software	\$ 894	\$ 537	\$ 357	\$ 536
Health Information System	10,219	681	9,538	-
Health Information System in development	-	-	-	9,661
	\$ 11,113	\$ 1,218	\$ 9,895	\$ 10,197
Assets under capital lease				
Health Information System	1,973	132	1,841	-
	\$ 13,086	\$ 1,350	\$ 11,736	\$ 10,197

5. BANK LOAN

On October 31, 2019 the Institute repaid their operating line of credit with a pre-approved term loan of \$15,000, with an interest rate fixed through a SWAP contract at 3.07% and maturing on October 31, 2024.

The Institute also has an overdraft lending agreement with the Toronto Dominion Bank for an amount of \$500 for the purpose of financing a Letter of Credit for the City of Ottawa in connection with the construction in progress. This operating loan is repayable on demand, bears interest at prime rate minus 0.75% and is secured by a general security agreement. This operating loan was not used by the Institute as of March 31, 2020.

6. EMPLOYEE FUTURE BENEFITS AND PENSION PLAN

Extended health, dental and life benefits

The Institute offers a defined benefit plan which provides extended health care and dental insurance benefits to certain of its employees. This coverage is extended to the post-retirement period. The most recent complete actuarial valuation of employee future benefits was completed as at March 31, 2020. The next scheduled valuation will be as at March 31, 2021.

As The Ottawa Hospital (TOH) manages all human resources functions for the Institute, the Institute's employees are offered the same future benefits as are offered to the employees of TOH and are included in the overall calculation of estimated future benefits. The Institute's share of the employee future benefits is calculated using the Institute's management best estimate.

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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6. EMPLOYEE FUTURE BENEFITS AND PENSION PLAN (continued)

As at March 31, 2020, the Institute's estimated extrapolated liability associated with the employee future benefits plan is as follows:

	2020	2019
Accrued benefit obligation	\$ 5,754	\$ 5,738
Unamortized experience losses	512	(303)
Employee future benefits liability	\$ 6,266	\$ 5,435

The Institute's defined benefit plan for employee future benefits is not funded, resulting in a plan deficit equal to the accrued benefit obligation.

The significant actuarial assumptions used in measuring the Institute's accrued benefit obligation are as follows:

	2020	2019
Discount rate – accrued benefit obligation	3.29%	3.18%
Dental cost increases	3.50%	3.50%
Extended health care cost increases*	7.50%	7.50%
Expected average remaining service life of employees	17.1 years	17.6 years

* Decreasing by 0.5% per annum to an ultimate rate of 4.50%.

The employee future benefits liability increased by \$831 for the year ended March 31, 2020 (2019: increased by \$185). This amount is included in the salaries and benefits expense in the statement of operations and is comprised of the following:

	2020	2019
Balance, beginning of year	\$ 5,435	\$ 5,250
Current service cost	961	311
Interest cost	202	188
Benefits paid	(351)	(336)
Amortization of experience losses	19	22
	831	185
Balance, end of year	\$ 6,266	\$ 5,435

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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6. EMPLOYEE FUTURE BENEFITS AND PENSION PLAN (continued)

Hospital of Ontario Pension Plan

Substantially all of the employees of the Institute are members of the Hospital 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 Institute for the benefit of its employees amounted to \$6,182 (2019: \$6,025) and are included in the salaries and benefits expense in the statement of operations.

Variances between actuarial funding estimates and actual experience may be material and differences are generally funded by the participating members. The most recent actuarial valuation of the Plan as at December 31, 2017 indicates that the Plan is fully funded.

7. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets represent unamortized amount of donations and grants restricted for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations at a rate corresponding to the amortization rate of the related capital assets.

	2020	2019
Buildings and buildings improvements	\$ 176,873	\$ 164,267
Equipment	22,061	15,626
	\$ 198,934	\$ 179,893

Changes in the deferred contributions for capital assets during the year are as follows:

	2020	2019
Balance, beginning of year	\$ 179,893	\$ 165,166
Plus: Contributions received	33,376	25,642
Less: Contributions applied to cover equipment expenses	(280)	(1,700)
Less: Amortization of capital contributions to revenue	(14,055)	(9,215)
Balance, end of year	\$ 198,934	\$ 179,893

During the year, a contribution of \$298 was received for the Health Infrastructure Fund (HIRF). In light of the unprecedented and exceptional circumstances related to COVID-19, the Institute was unable to spend \$38 of the total contribution. It was deferred and will be used for the same purpose as the original funding in the year ending March 31, 2021.

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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8. LONG-TERM DEBT

	2020	2019
Term loan secured by a general security agreement – 2.23%, maturing on March 27, 2025, payable in monthly instalments of \$93, principal and interest	\$ 5,281	\$ 6,267
Term loan - interest rate fixed through a SWAP contract at 3.07%, maturing on October 31, 2024, payable in monthly instalments of \$125, principal plus interest ^(a)	14,375	-
	19,656	6,267
Current portion of long-term debt	(2,508)	(986)
	\$ 17,148	\$ 5,281

Long-term debt estimated principal repayments and renewable balance over the next years are as follows:

	Payable	Renewable
2021	\$ 2,508	\$ -
2022	2,531	-
2023	2,554	-
2024	2,578	-
2025	1,985	7,500
	\$ 12,156	\$ 7,500

- ^(a) The Institute has entered into a \$15,000 term loan with Scotiabank on October 31, 2019. This term loan is secured by a general security agreement. The variable interest as at March 31, 2020 was 1.52% and is fixed through an interest rate swap at 3.07%. As at March 31, 2020 the SWAP contract showed an accumulated unrealized loss of \$1,075.

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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9. OBLIGATION UNDER CAPITAL LEASE

	2020	2019
Imaging equipment lease contract with a net book value of \$5,968 – 5.45%, maturing in April 2028 after a renewable period of five years, payable in monthly instalments of \$82 until April 2023 and of \$79 from May 2023 to April 2028, with a purchase option at maturity of one dollar	\$ 6,293	\$ 6,816
Software license contract for the Health Information System with a net book value of \$1,841 – 3.14%, maturing in August 2024, payable in monthly instalments of \$36, with ownership automatically transferred to the Institute at the end of the contract at no cost.	1,784	-
	8,077	6,816
Current portion of obligation under capital lease	(1,041)	(625)
	\$ 7,036	\$ 6,191
Future minimum lease payments of the obligation under capital lease for the next years are as follows:		
2021	\$ 1,418	
2022	1,418	
2023	1,418	
2024	1,383	
2025	1,128	
Other	2,922	
	9,687	
Interest included in instalments	1,610	
	\$ 8,077	

UNIVERSITY OF OTTAWA HEART INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(in thousands of dollars)

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10. INVESTMENT IN CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE

a. Investment in capital assets and assets under capital lease is calculated as follows:

	2020	2019
Capital grants receivable	\$ -	\$ 46,055
Capital assets and assets under capital lease	212,188	205,224
Intangible assets and assets under capital lease	11,736	10,197
	223,924	261,476
Financed by:		
Bank loan	-	3,200
Deferred contributions related to capital assets	198,934	179,893
Long-term debt	19,656	6,267
Obligation under capital lease	8,077	6,816
Accrued liability related to construction	-	50,808
Net investment in capital assets and assets under capital lease, end of year	\$ (2,743)	\$ 14,492

b. Net change in investment in capital assets and assets under capital lease is calculated as follows:

	2020	2019
Recognition of capital grants receivable	\$ (46,055)	\$ 15,028
Acquisition of capital assets and assets under capital lease	24,998	28,105
Acquisition of intangible assets and asset under capital lease	2,531	7,934
Amount funded by deferred contributions related to capital assets received or receivable	(33,376)	(25,642)
Amounts funded by capital lease:		
Additions	(1,973)	(195)
Repayment	712	644
Amounts funded by long-term debt and bank loan:		
Proceeds	(15,000)	(2,000)
Repayment	4,811	965
Amounts funded by accrued liability related to construction	50,808	(19,781)
Contributions applied to cover equipment expense	280	1,700
Amortization of deferred contributions related to capital assets	14,055	9,215
Amortization of capital assets and assets under capital lease	(18,034)	(12,095)
Amortization of intangible assets and assets under capital lease	(992)	(179)
	\$ (17,235)	\$ 3,699

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11. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2020	2019
Accounts receivable	\$ (17,536)	\$ 7,010
Inventories	(201)	959
Prepaid expenses	(203)	151
Accounts payable and accrued liabilities	7,982	(3,212)
Accounts payable – Ministry of Health and Long-Term Care	(202)	73
Accounts payable – The Ottawa Hospital	852	(804)
Net change in non-cash working capital	\$ (9,308)	\$ 4,177

12. RISK MANAGEMENT

The Institute is exposed to a variety of financial risks including credit, interest rate and liquidity risks. The Institute's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Institute's financial performance.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Institute's main credit risks relate to its accounts receivable. The Institute provides credit to its patients in the normal course of its operations.

The Institute is exposed to credit risk in the event of non-payment by patients for non-insured services and services provided to non-resident patients. This risk is common to hospitals as they are required to provide care for patients regardless of their ability to pay for services.

The Institute establishes allowances for doubtful accounts while keeping in mind the specific credit risk of patients and their historic tendencies and economic situation. Approximately 47% of the total accounts receivable is to be received from insurers and patients, 11% from the Ministry of Health and Long-Term Care, 27% related to harmonized sales tax receivable and 15% from other organizations. The Institute considers that no significant risk arises from that situation.

At March 31, 2020, the following patients accounts receivable were outstanding:

	30 days	60 days	90 days	Over 90 days	2020 Total	2019 Total
Patients accounts Receivable balances	\$ 1,992	\$ 3,501	\$ 1,556	\$ 6,996	\$ 14,045	\$ 8,334
Less: allowances	(139)	(151)	(56)	(484)	(830)	(761)
Net	\$ 1,853	\$ 3,350	\$ 1,500	\$ 6,512	\$ 13,215	\$ 7,573

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12. RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Institute is exposed to interest risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Institute to a fair value risk while the floating-rate instruments subject it to a cash flow risk.

To manage its interest rate risk, the Institute has entered into an interest rate swap agreement as described in Note 8. Consequently, the Institute's long-term debt bears a fixed interest rate and, as a result, the risk exposure is minimal.

For the Institute's bank loan and balance due to TOH bearing a variable interest rate, the Institute's interest risk exposure is function of the changes of the underlying variable. However, a variation of 1% of the variable would not have a significant effect on the net earnings and financial position of the Institute.

Liquidity risk

Liquidity risk is the risk the Institute will not be able to meet its financial obligations when they come due. The Institute 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.

As at March 31, 2020, the Institute had the following financial liabilities with the following due dates:

	Up to 6 months	More than 6 months and up to 1 year	More than 1 year and up to 5 years	More than 5 years	2020 Total	2019 Total
Bank loan	\$ -	\$ -	\$ -	\$ -	\$ -	3,200
Accounts payable and accrued liabilities	17,940	2,309	4,045	361	24,655	16,673
Accounts payable – MOHLTC	2,570	-	-	-	2,570	2,772
Due to TOH	5,535	-	-	-	5,535	4,683
Long-term debt	1,240	1,269	17,147	-	19,656	6,267
Obligation under capital lease	515	527	4,352	2,683	8,077	6,816
Accrued liability related to construction	-	-	-	-	-	50,808
	\$ 27,800	\$ 4,105	\$ 25,544	\$ 3,044	\$ 60,493	\$ 91,219

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13. ECONOMIC INTERESTS

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

The Ottawa Hospital

The Institute has an economic interest in TOH due to the relationship between the Institute and TOH. The Institute has entered into service agreements with TOH where several services such as laboratory services, facilities and administrative support are provided by TOH. Therefore, the services rendered by TOH are currently essential to the Institute's operational activities. The service agreement is in effect until March 31, 2021 and each service level agreement is negotiated annually at fair market value per service rendered and based on the volume of activities. During the year, the Institute made total payments to TOH under the service agreements in the amount of \$21,295 (2019: \$22,299).

Furthermore, the land used by the Institute for its premises is owned by TOH. The land is leased to the Institute under a long-term agreement expiring March 31, 2035 for an annual nominal payment of \$1.

As at March 31, 2020, the Institute has an unsecured account payable to TOH of \$5,535 (2019: \$4,683) bearing interest at prime rate.

University of Ottawa Heart Institute Foundation

The Institute has an economic interest in the Ottawa Heart Institute Foundation (the "Foundation") since the Foundation raises funds and holds resources that are used to benefit the Institute. The Foundation coordinates and promotes fundraising and endowment activities to support and fund capital projects of the Institute and various other programs and activities such as research, patient care, education and other activities concerning cardiovascular health at the Institute and the Ottawa Heart Institute Research Corporation ("the Corporation"). The Foundation is incorporated without share capital under the *Canada Not-for-Profit Corporations Act*. The Foundation is a registered charity and, as such, is exempt from income taxes under subsection 149(1)(l) of the *Income Tax Act*.

Included in accounts receivable is \$22 (2019: \$-) owing from the Foundation mainly for capital funding. Included in accrued liabilities is \$- (2019: \$1,746) owing to the Foundation.

During the year, the Institute received funding of \$17,762 (2019: \$8,151) from the Foundation to support clinical programs (2020: \$1,429; 2019: \$1,447), and equipment purchases and capital programs (2020: \$16,333; 2019: \$6,704).

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13. ECONOMIC INTERESTS (continued)

Ottawa Heart Institute Research Corporation

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

As at March 31, 2020, the Institute has accounts receivable amounting to \$202 (2019: \$283) relating to construction projects and other costs incurred on behalf of the Corporation and has accrued liabilities amounting to \$2,810 (2019: \$1,726) which consists of funding received on behalf of the Corporation and payroll and other support costs incurred by the Corporation on behalf of the Institute. These amounts are non-interest bearing and have no specified terms of repayment.

During the year, the Institute provided \$5,613 (2019: \$4,520) of base funding in support of research to the Corporation. These amounts are included under supplies and other expenses in the statement of operations.

The Corporation provides payroll management services to the Institute for a limited group of employees at no cost. All salaries and benefits’ costs are reimbursed on a monthly basis by the Institute. During the year, a total of \$7,200 (2019: \$6,234) in salaries and benefits were reimbursed to the Corporation by the Institute.

Alumni and Auxiliary

The Institute has an economic interest in the Ottawa Heart Institute Alumni Association (“the Alumni”) and the Heart Institute Auxiliary (“the Auxiliary”). The object of the Auxiliary and the Alumni is to raise and receive funds to be distributed towards various programs and capital projects of the Institute, the Corporation and the Foundation. The Auxiliary and Alumni are tax-exempt entities created under the laws of Ontario.

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14. CONTRACTUAL OBLIGATIONS

The Institute is committed under long-term leases and supplier contracts for various services and equipment to make payments over the next two years estimated as follow:

2021	\$	658
2022		351

As explained in Note 3, the Institute entered into a project agreement with a third-party construction company for the construction of a new building and the renovation of existing facilities. The total estimated cost for the construction and financing components of the project under this agreement was \$134,998 plus HST. The net remaining commitment of the Institute as of March 31, 2020 before HST amounts to \$3,989, of which \$1,790 was accrued as of March 31, 2020.

As described in Note 13, the Institute has entered into a long-term service agreement with TOH for several services provided by TOH. The agreement is in effect until March 31, 2021. Each service level agreement is negotiated annually at fair market value per service rendered and based on the volume of activities.

15. CONTINGENCIES

- a) The Institute is involved in employee related grievances and litigation matters, the outcome of which is not determinable at this time. Any liability or payments resulting from these matters will be recognized in the year when the outcome is reasonably determinable and the amounts involved can be estimated.
- b) A group of hospitals, including the Institute, 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, 2020.
- c) The Institute is contingently liable under a letter of credit in the amount of \$386 (2019: \$386) as required by the Institute's site plan agreement with the City of Ottawa related to the completion of the construction and renovation project described in Note 3. This letter of credit expires on December 31, 2020.

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15. CONTINGENCIES (continued)

- d) The Institute has received eight charitable donations in the form of gift plus annuities, whereby individuals have deposited funds into insurance policies payable to the Institute in exchange for guaranteed annuities for five years and subsequent fixed lifetime annuities to the donors' designated beneficiaries. At the time when the money is deposited, the Institute receives a pre-determined percentage of the total contribution as a cash donation. In the event that the insurance company defaults on these payments, the Institute must honor the original obligation and continue to fund the annuities. The value of these obligations has been actuarially determined at \$55 as at March 31, 2005. There have been no additions to these agreements in the current year.
- e) The Institute has guaranteed, in the form of a second ranking security in all of its personal property, a credit facility the University of Ottawa Heart Institute Foundation has entered into with the Royal Bank of Canada to provide up to \$20,000 in borrowing subject to the Foundation's cash flow requirements. This financing is composed of a fixed rate facility (\$10,000) and a floating rate facility (\$10,000).

The fixed rate facility balance at March 31, 2020 was \$8,188, maturing January 31, 2028, bearing an interest rate of 2.44%, which is fixed through a forward SWAP contract.

The floating rate facility is available on demand, maturing on March 31, 2020, and bears interest at bank prime minus 75 basis points. No amount had been borrowed as at March 31, 2020.