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

UNIVERSITY OF OTTAWA HEART INSTITUTE

FINANCIAL STATEMENTS

MARCH 31, 2019

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, 2019, 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, 2019, 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.

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.

Marcil Lavallée

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
June 27, 2019

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2019

(in thousands of dollars)

		2019		2018
ASSETS				
CURRENT ASSETS				
Cash	**$**	**4,540**	$	3,813
Accounts receivable				
Ministry of Health and Long-Term Care		**1,826**		2,636
Patient services		**7,573**		9,081
Sundry		**1,143**		5,835
Inventories		**2,142**		3,101
Prepaid expenses		**419**		570
		17,643		25,036
CAPITAL GRANTS RECEIVABLE (Note 3)				
Ministry of Health and Long-Term Care		**46,055**		28,047
Ottawa Heart Institute Foundation		**-**		2,980
CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (Note 3)		**205,224**		189,214
INTANGIBLE ASSETS (Note 4)		**10,197**		2,442
		261,476		222,683
	$	**279,119**	$	247,719

APPROVED BY THE BOARD OF DIRECTORS

Director

Director

(in thousands of dollars) 4

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank loan (Note 5)	**$ 3,200**	$ 1,200
Accounts payable and accrued liabilities	**16,673**	19,885
Accounts payable - Ministry of Health and Long-Term Care	**2,772**	2,699
Accounts payable - The Ottawa Hospital (Note 13)	**4,683**	5,487
Current portion of long-term debt (Note 8)	**986**	965
Current portion of obligation under capital lease (Note 9)	**625**	528
	28,939	30,764
LONG-TERM DEBT (Note 8)	**5,281**	6,267
OBLIGATION UNDER CAPITAL LEASE (Note 9)	**6,191**	6,737
ACCRUED LIABILITY RELATED TO CONSTRUCTION (Note 3)	**50,808**	31,027
EMPLOYEE FUTURE BENEFITS (Note 6)	**5,435**	5,250
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 7)	**179,893**	165,166
	247,608	214,447
	276,547	245,211
NET ASSETS		
Unrestricted (deficiency)	**(11,920)**	(8,285)
Invested in capital assets and assets under capital lease (Note 10)	**14,492**	10,793
	2,572	2,508
	$ 279,119	$ 247,719

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2019

(in thousands of dollars)

	Unrestricted (Deficiency)	Invested in Capital Assets and Assets Under Capital Lease (Note 10)	2019 Total	2018 Total
BALANCE, BEGINNING OF YEAR	**$ (8,285)**	**$ 10,793**	**$ 2,508**	$ 2,460
Excess of revenue over expenses	**64**	**-**	**64**	48
Net change in investment in capital assets and assets under capital lease (Note 10)	**(3,699)**	**3,699**	**-**	-
BALANCE, END OF YEAR	**$ (11,920)**	**$ 14,492**	**$ 2,572**	$ 2,508

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2019
(in thousands of dollars)

	Budget	2019	2018
REVENUE			
Ministry of Health and Long-Term Care			
Global allocation and Priority Program Services	$ 91,556	$ 91,591	$ 83,386
Quality-based procedures (QBP)	3,272	3,272	3,549
Health Based Allocation Model (HBAM)	51,357	51,357	47,179
One-time operational funding	-	-	1,826
Post Construction Operating Plan (PCOP) transition funding	5,955	7,507	802
Priority Program Services clawback	1,173	(2,757)	(2,162)
One-time cardiac & other	828	1,274	1,501
Other recoveries (clawbacks)	-	(592)	818
Cardiac Hospital On Call Coverage (HOCC) and other Votes	948	948	948
	155,089	152,600	137,847
Patient services			
In-patient	16,517	15,591	18,196
Out-patient	12,710	15,473	13,453
Preferred accommodation	1,334	1,132	1,281
Other operating revenues and recoveries	6,833	7,574	7,596
Amortization of deferred contributions related to capital assets	2,940	9,215	2,734
	195,423	201,585	181,107
EXPENSES			
Salaries and benefits and purchased services	94,406	92,028	86,403
Medical staff remuneration	6,252	6,195	6,204
Medical surgical supplies	46,209	44,650	40,540
Drugs and medical gases	3,961	3,920	4,123
Supplies and other expenses	12,456	17,849	15,248
Service agreements (Note 13)	25,563	22,299	21,413
Interest charges	430	967	427
Amortization of capital assets and assets under capital lease	4,942	12,095	4,882
Amortization of intangible assets	180	179	255
Bad debts	250	635	839
Equipment rental	744	704	725
	195,393	201,521	181,059
EXCESS OF REVENUE OVER EXPENSES	$ 30	$ 64	$ 48

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2019

(in thousands of dollars)

	2019	2018
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	**$ 64**	$ 48
Items not affecting cash :		
Amortization of deferred contributions related to capital assets	**(9,215)**	(2,734)
Deferred contributions applied to cover equipment expenses	**(1,700)**	-
Transfer from capital assets to equipment expenses	**2,241**	-
Amortization of capital assets and assets under capital lease	**12,095**	4,882
Amortization of intangible assets	**179**	255
Net increase in employee future benefits	**185**	228
Net change in non-cash working capital items (Note 11)	**4,177**	2,297
	8,026	4,976
INVESTING ACTIVITIES		
Acquisition of capital assets	**(10,370)**	(124,705)
Acquisition of intangible assets	**(7,934)**	(2,621)
	(18,304)	(127,326)
FINANCING ACTIVITIES		
Deferred contributions for capital assets received (Note 7)	**10,614**	124,523
Repayment of obligation under capital lease	**(644)**	-
Proceeds from bank loan	**2,000**	9,800
Repayment of bank loan	**-**	(8,600)
Repayment of long-term debt	**(965)**	(943)
	11,005	124,780
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**727**	2,430
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**3,813**	1,383
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 4,540**	$ 3,813

Cash and cash equivalents are comprised of cash.

Non-cash transactions include the recognition of the capital grants receivable and deferred contributions in the amount of $18,008 and the assumption of the accrued liability and capital assets related to construction in the amount of $19,781.

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, 2019.

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.

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 10 years
Network Infrastructure	10 to 20 years

Intangible assets

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

Software	5 years

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Software under development

The Institute, in collaboration with TOH and other regional partners, embarked on the implementation of a comprehensive integrated hospital information system designed to enhance the processing of hospital clinical services. The Institute's share of all development costs related to this system is accounted for at cost. All development costs recorded meet the criteria for capitalization. Once the development phases are over, the costs will be amortized over the estimated useful life of the software.

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.

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.

(in thousands of dollars) 12

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE

	Cost	Accumulated Amortization	2019
Capital assets			
Buildings and buildings improvements	**$ 151,444**	**$ 41,284**	**$ 110,160**
Construction in progress	**72,552**	**-**	**72,552**
Diagnostic and Operating equipment	**57,541**	**42,372**	**15,169**
Network Infrastructure	**786**	**157**	**629**
	282,323	**83,813**	**198,510**
Assets under capital lease			
Equipment	**7,460**	**746**	**6,714**
	$ 289,783	**$ 84,559**	**$ 205,224**

	Cost	Accumulated Amortization	2018
Capital assets			
Buildings and buildings improvements	$ 59,157	$ 33,712	$ 25,445
Diagnostic and Operating equipment	44,129	38,676	5,453
Construction in progress	150,371	-	150,371
Network Infrastructure	756	76	680
	254,413	72,464	181,949
Assets under capital lease			
Equipment	7,265	-	7,265
	$ 261,678	$ 72,464	$ 189,214

(in thousands of dollars) 13

3. CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (continued)

Construction in progress represents the construction, planning and design costs incurred to date for a multi-year construction and renovation project at the Institute.

In November 2014, the Institute entered into a project agreement with a third-party construction company to build and finance the project. The total estimated cost of the construction and interest component of this project under this agreement is $135,848 plus HST, which is primarily funded by the Ministry of Health and Long-Term Care and by the University of Ottawa Heart Institute Foundation. On January 18, 2018, the project achieved *Interim Completion* (as defined in the project's agreement) and a payment of $75,000 plus HST was paid to the construction company. The Ministry of Health and Long-Term Care provided the Institute with their portion of the interim completion payment in the amount of $69,329, including non-recoverable HST. This amount has been recorded as a deferred contribution related to capital assets.

The Institute commenced operations in the newly constructed facility on April 2, 2018. The related assets were transferred from construction in progress to the appropriate capital assets categories and amortization of these assets has begun in the current fiscal year.

As at March 31, 2019, the construction company has incurred $50,808 in additional project related construction costs since Interim Completion. As per the project agreement, these costs are not due to be paid until the project achieves *Substantial Completion*, which is not expected before January 2020, as defined in the project agreement. This amount has been added to the costs of construction in progress and a corresponding long-term liability has been recognized and presented as an "Accrued liability related to construction" on the statement of financial position. An amount of $46,055 has been recorded as a capital grant receivable and as a deferred contribution related to capital assets.

4. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2019	2018
Software	$ 894	$ 358	$ 536	$ 715
Health Information System software in development	9,661	-	9,661	1,727
	$ 10,555	$ 358	$ 10,197	$ 2,442

(in thousands of dollars) 14

5. BANK LOAN

The Institute has an authorized operating line of credit of $15,000 at prime lending rate minus 0.75%. As at March 31, 2019, $3,200 was used from this facility. This line of credit is secured by a general security agreement. The line of credit is repayable on demand or by October 2019. On that date, the loan is expected to be repaid 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, 2029.

The Institute has also 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, 2019.

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, 2019. The next scheduled valuation will be as at March 31, 2020.

The Ottawa Hospital (TOH) manages all human resource 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.

As at March 31, 2019, the Institute's estimated extrapolated liability associated with the employee future benefits plan is as follows:

	2019	2018
Accrued benefit obligation	**$ 5,738**	$ 5,589
Unamortized experience losses	**(303)**	(339)
Employee future benefits liability	**$ 5,435**	$ 5,250

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

(in thousands of dollars) 15

6. EMPLOYEE FUTURE BENEFITS AND PENSION PLAN (continued)

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

	2019	2018
Discount rate – accrued benefit obligation	**3.18%**	3.37%
Dental cost increases	**3.50%**	3.50%
Extended health care cost increases *	**7.50%**	7.50%
Expected average remaining service life of employees	**17.6 years**	15.1 years

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

The employee future benefits liability increased by $185 for the year ended March 31, 2019 (2018: increased by $228). This amount is included in the salaries and benefits and purchased services expense in the statement of operations and is comprised of the following:

	2019	2018
Balance, beginning of year	**$ 5,250**	$ 5,022
Current service cost	**311**	317
Interest cost	**188**	198
Benefits paid	**(336)**	(321)
Amortization of experience losses	**22**	34
	185	228
Balance, end of year	**$ 5,435**	$ 5,250

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 $6,025 (2018: $5,499) 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.

(in thousands of dollars) 16

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.

	2019	2018
Buildings and buildings improvements	**$ 164,267**	$ 150,067
Equipment	**15,626**	15,099
	$ 179,893	$ 165,166

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

	2019	2018
Balance, beginning of year	**$ 165,166**	$ 43,377
Plus: Contributions received or recognized during the year	**25,642**	124,523
Less: Contributions applied to cover equipment expense	**(1,700)**	-
Less: Amortization of capital contributions to revenue	**(9,215)**	(2,734)
Balance, end of year	**$ 179,893**	$ 165,166

8. LONG-TERM DEBT

	2019	2018
Term loan secured by a general security agreement – 2.23%, maturing on March 27, 2025, payable in monthly instalments of $93, principal and interest	**$ 6,267**	$ 7,232
Current portion of long-term debt	**(986)**	(965)
	$ 5,281	$ 6,267

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

2020	$ 986
2021	1,008
2022	1,031
2023	1,054
2024	1,078
Other	1,110
	$ 6,267

(in thousands of dollars) 17

9. OBLIGATION UNDER CAPITAL LEASE

		2019		2018
Imaging equipment lease contract with a net book value of $6,714 – bearing interest at 5.45%, maturing in April 2028 after a renewable period of five years, payable in monthly instalments of $82 until April 2023 and of $79 from May 2023 to April 2028, with a purchase option at maturity of one dollar	**$**	**6,816**	$	7,265
Current portion of obligation under capital lease		**625**		528
	$	**6,191**	$	6,737

Future minimum lease payments of the obligation under capital lease for the next years are as follows:

2020	$	821
2021		986
2022		986
2023		986
2024		951
Other		3,869
		8,599
Interest included in instalments		1,783
	$	6,816

10. INVESTMENT IN CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE

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

		2019		2018
Capital grants receivable	**$**	**46,055**	$	31,027
Capital assets and assets under capital lease		**205,224**		189,214
Intangible assets		**10,197**		2,442
		261,476		222,683
Financed by:				
Bank loan		**3,200**		1,200
Deferred contributions related to capital assets		**179,893**		165,166
Long-term debt		**6,267**		7,232
Obligation under capital lease		**6,816**		7,265
Accrued liability related to construction		**50,808**		31,027
Net investment in capital assets and assets under capital lease, end of year	**$**	**14,492**	$	10,793

(in thousands of dollars) 18

10. INVESTMENT IN CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (continued)

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

		2019		2018
Recognition of capital grants receivable	**$**	**15,028**	$	31,027
Acquisition of capital assets and assets under capital lease		**28,105**		131,970
Acquisition of intangible assets		**7,934**		2,621
Amount funded by deferred contributions related to capital assets received or receivable		**(25,642)**		(124,523)
Amounts funded by capital lease:				
Additions		**(195)**		(7,265)
Repayment		**644**		-
Amounts funded by long-term debt:				
Proceeds		**(2,000)**		(9,800)
Repayment		**965**		9,543
Amounts funded by accrued liability related to construction		**(19,781)**		(31,027)
Contributions applied to cover equipment expense		**1,700**		-
Amortization of deferred contributions related to capital assets		**9,215**		2,734
Amortization of capital assets and assets under capital lease		**(12,095)**		(4,882)
Amortization of intangible assets		**(179)**		(255)
	$	**3,699**	$	143

11. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

		2019		2018
Accounts receivable	**$**	**7,010**	$	(3,859)
Inventories		**959**		(926)
Prepaid expenses		**151**		(377)
Accounts payable and accrued liabilities		**(3 212)**		6,501
Accounts payable – Ministry of Health and Long-Term Care		**73**		124
Accounts payable – The Ottawa Hospital		**(804)**		834
Net change in non-cash working capital	**$**	**4,177**	$	2,297

(in thousands of dollars) 19

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 72% of the total accounts receivable is to be received from insurers and patients, 17% from the Ministry of Health and Long-Term Care, and 11% from other organizations. The Institute considers that no significant risk arises from those receivables.

At March 31, 2019, the following patients accounts receivable were outstanding:

	30 days	60 days	90 days	Over 90 days	2019 Total	2018 Total
Patients accounts						
Receivable balances	$ 2,730	$ 2,636	$ 956	$ 2,012	$ 8,334	$ 9,621
Less: allowances	(52)	(43)	(24)	(642)	(761)	(540)
Net	$ 2,678	$ 2,593	$ 932	$ 1,370	$ 7,573	$ 9,081

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.

For the Institute's long-term debt bearing a fixed interest rate, 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.

(in thousands of dollars) 20

12. RISK MANAGEMENT (continued)

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, 2019, 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	2019 Total	2018 Total
Bank loan	**$ 3,200**	**$ -**	**$ -**	**$ -**	**$ 3,200**	$ 1,200
Accounts payable and accrued liabilities	**14,914**	**-**	**1,759**	**-**	**16,673**	19,885
Accounts payable – MOHLTC	**2,772**	**-**	**-**	**-**	**2,772**	2,699
Due to TOH	**4,683**	**-**	**-**	**-**	**4,683**	5,487
Long-term debt	**490**	**496**	**4,171**	**1,110**	**6,267**	7,232
Obligation under capital lease	**308**	**317**	**3,609**	**2,582**	**6,816**	9,420
Accrued liability related to construction	**-**	**-**	**50,808**	**-**	**50,808**	31,027
	$ 26,367	**$ 813**	**$ 60,347**	**$ 3,692**	**$ 91,219**	$ 76,950

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 $22,299 (2018: $21,413).

13. ECONOMIC INTERESTS (continued)

The Ottawa Hospital (continued)

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, 2019, the Institute has an unsecured account payable to TOH of $4,683 (2018: $5,487) 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 $ - (2018: $5,034) owing from the Foundation mainly for capital funding. Included in accrued liabilities is $1,746 (2018: $48) owing to the Foundation.

During the year, the Institute received funding of $8,151 (2018: $23,365) from the Foundation to support clinical programs (2019: $1,447; 2018: $856), and equipment purchases and capital programs (2019: $6,704; 2018: $22,509).

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, 2019, the Institute has accounts receivable amounting to $283 (2018: $169) relating to construction projects and other costs incurred on behalf of the Corporation and has accrued liabilities amounting to $1,726 (2018: $4,209), 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.

(in thousands of dollars) 22

13. ECONOMIC INTERESTS (continued)

Ottawa Heart Institute Research Corporation (continued)

During the year, the Institute provided $4,520 (2018: $4,604) 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 $6,234 (2018: $5,940) 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.

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 three years estimated as follow:

2020	$	625
2021	$	256
2022	$	150

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 is $135,848 plus HST, of which, $75,000 plus HST was paid in 2018. The net remaining commitment of the Institute as of March 31, 2019 amounts to $60,848 of which $50,808 was accrued as of March 31, 2019. The costs related to this project are being funded by the Ministry of Health and Long-Term Care and by the University of Ottawa Heart Institute Foundation.

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, 2019.

c) The Institute is contingently liable under a letter of credit in the amount of $386 (2018: $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, 2019.

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, 2019 was $9,105, 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, 2019.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current year's presentation.