

# University of Ottawa Heart Institute

Financial Statements

**March 31, 2011**

(in thousands of dollars)

June 23, 2011

## **Independent Auditor's Report**

**To the Directors of  
University of Ottawa Heart Institute**

We have audited the accompanying financial statements of **University of Ottawa Heart Institute**, which are comprised of the statement of financial position as at March 31, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*PriceWaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants

**UNIVERSITY OF OTTAWA HEART INSTITUTE  
STATEMENT OF FINANCIAL POSITION**

As at March 31  
(000'S)

	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 5,986	\$ 2,576
Accounts Receivable:		
Ministry of Health	696	545
Patients and Others	6,799	8,263
Sundry	1,653	1,750
Inventories	1,168	1,242
	16,302	14,376
<b>Capital Assets (Note 3)</b>	52,566	54,517
<b>Total Assets</b>	<b>\$ 68,868</b>	<b>\$ 68,893</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 1,727	\$ 1,561
Accrued Liabilities	12,929	12,837
Due to The Ottawa Hospital (Note 5)	8,231	8,529
Current Portion of Long Term Debt (Note 7)	1,404	1,376
Current Portion of Obligations under Capital Leases (Note 8)	112	329
	24,403	24,632
<b>Deferred Contributions (Note 4)</b>	31,297	29,940
<b>Employee Future Benefits (Note 6)</b>	2,237	1,923
<b>Long Term Debt (Note 7)</b>	9,064	10,481
<b>Obligations under Capital Leases (Note 8)</b>	53	165
	67,054	67,141
<b>Net Assets (Liabilities)</b>		
Unrestricted	(8,822)	(10,474)
Invested in Capital Assets	10,636	12,226
	1,814	1,752
<b>Total Liabilities and Net Assets</b>	<b>\$ 68,868</b>	<b>\$ 68,893</b>

*The accompanying notes are an integral part of these financial statements.*

Approved by the Board of Directors:

\_\_\_\_\_  
Director

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Director

**UNIVERSITY OF OTTAWA HEART INSTITUTE**  
**STATEMENT OF OPERATIONS**  
**For the Year Ended March 31**

(000'S)

Page 2

	2011		2010
	BUDGET Unaudited	ACTUAL	ACTUAL
<b>REVENUE</b>			
MOH			
-Base	114,582	114,582	110,385
-One Time : Cardiac Priority program	1,053	2,230	3,736
-One Time : Cardiac Recovery (clawback)	(282)	(165)	(200)
-One Time : Cardiac ESRD	0	273	216
-One Time : Cardiac HOCC	625	625	625
-Other Votes	325	326	326
<b>MOH Revenue</b>	<b>116,303</b>	<b>117,871</b>	<b>115,088</b>
Patient Revenue			
-In patient	16,526	15,647	13,215
-Out patient	10,799	10,532	10,302
Differential	1,681	1,555	1,681
Other Operating	3,483	4,195	4,596
Amortization of Deferred Contributions	3,201	3,702	4,235
<b>TOTAL REVENUE</b>	<b>151,993</b>	<b>153,502</b>	<b>149,117</b>
<b>EXPENSE</b>			
Salaries and Wages	74,968	75,215	71,550
Medical Staff Remuneration	4,382	4,272	4,427
Medical Surgical Supplies	32,345	33,381	31,227
Drugs and Medical Gases	4,446	4,486	4,706
Supplies and Other Expenses	9,079	9,465	9,136
Service Agreements	18,664	18,740	17,842
Interest Charges	1,075	959	948
Amortization of Capital Assets	6,372	6,199	6,844
Bad Debts	200	427	199
Rental/Lease of Equipment	300	296	291
<b>TOTAL EXPENSE</b>	<b>151,831</b>	<b>153,440</b>	<b>147,170</b>
<b>NET REVENUE FOR THE YEAR</b>	<b>162</b>	<b>62</b>	<b>1,947</b>

The accompanying notes are an integral part of these financial statements.

**UNIVERSITY OF OTTAWA HEART INSTITUTE**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**For the Year Ended March 31**  
(000'S)

	2011			2010	
	Unrestricted	Invested in Capital Assets	Total	Total	
<b>Balance - Beginning of year</b>	\$ (10,474)	\$ 12,226	\$ 1,752	\$ (195)	
Net revenue for the year	2,559	(2,497)	62	1,947	
Purchase of capital assets	(4,248)	4,248	-	-	
Deferred contributions received	5,059	(5,059)	-	-	
Repayment of long term debt and obligations under capital leases	(1,718)	1,718	-	-	
<b>Balance - End of year</b>	\$ (8,822)	\$ 10,636	\$ 1,814	\$ 1,752	

*The accompanying notes are an integral part of these financial statements.*

**UNIVERSITY OF OTTAWA HEART INSTITUTE**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended March 31**  
(000'S)

	2011	2010
<b>Cash flows from (used in)</b>		
<b>Operating activities</b>		
Net revenue for the year	\$ 62	\$ 1,947
Items not affecting cash -		
Amortization of deferred contributions	(3,702)	(4,235)
Amortization of capital assets	6,199	6,844
Employee future benefits	314	280
Net change in non-cash working capital items	1,742	(3,820)
	<b>\$ 4,615</b>	<b>\$ 1,016</b>
<b>Investing activities</b>		
Purchase of capital assets	<b>\$ (4,248)</b>	<b>\$ (6,676)</b>
<b>Financing activities</b>		
Deferred contributions received	5,059	3,978
Increase (Decrease) in Due to The Ottawa Hospital	(298)	2,856
Proceeds from long-term debt	-	600
Repayments of long-term debt	(1,389)	(1,292)
Repayments of obligations under capital leases	(329)	(319)
	<b>\$ 3,043</b>	<b>\$ 5,823</b>
<b>Net change in cash for the year</b>	3,410	163
<b>Cash - Beginning of year</b>	2,576	2,413
<b>Cash - End of year</b>	<b>\$ 5,986</b>	<b>\$ 2,576</b>

*The accompanying notes are an integral part of these financial statements.*

# UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to Financial Statements

March 31, 2011

(000's)

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## 1 Incorporation and Purpose

The University of Ottawa Heart Institute ("the Institute") is incorporated under the laws of Ontario. 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.

The Institute has entered into a business relationship with The Ottawa Hospital where certain services such as lab services, facilities and administrative support are provided by The Ottawa Hospital by way of service agreements that are negotiated at fair market value.

## 2 Significant Accounting Policies

### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expense during the periods. Actual results could differ from these estimates.

### Inventories

Inventories are valued at lower of cost, determined on a weighted average basis, and net realizable value.

### Capital Assets

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

Buildings and building improvements	15 to 20 years
Diagnostic equipment	5 years
Operating equipment	10 years



## **UNIVERSITY OF OTTAWA HEART INSTITUTE**

Notes to Financial Statements

March 31, 2011

(000's)

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### **Revenue Recognition**

The Institute follows the deferral method of accounting for contributions.

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. Where a portion of a grant received relates to a future period, it is deferred and recognized in that subsequent period.

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. Contributions related to the acquisition of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

### **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.

### **Employee Future Benefits**

#### **HOOPP**

Substantially all of the employees of the Institute are eligible to be members of the Hospitals of Ontario Pension Plan, which is a multi-employer, best five annual consecutive average salary, contributory pension plan. The Institute has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit pension plan accounting principles. Accordingly, the Institute's contributions to the Plan are included in salaries and wages in the statement of operations.

#### **Extended Health, Dental and Life Benefits**

The expense for these benefits, which are unfunded, is actuarially determined using the projected benefit method prorated on service and the administrator's best assumptions. The cumulated excess of the amounts recorded as an expense over the amounts paid is recorded as a liability for employee future benefits in the statement of financial position.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to Financial Statements

March 31, 2011

(000's)

## 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.

## 3 Capital Assets

	2011			2010
	Cost	Accumulated Amortization	Net	Net
Buildings and building improvements	\$ 53,359	\$ 13,557	\$ 39,802	\$ 40,911
Diagnostic/Operating equipment	39,949	29,022	10,927	11,914
Construction in progress	1,837	-	1,837	1,692
	<u>\$ 95,145</u>	<u>\$ 42,579</u>	<u>\$ 52,566</u>	<u>\$ 54,517</u>

## 4 Deferred Contributions

Deferred contributions represent contributions received for purchases of capital assets. The changes in the deferred contributions balance for the year are as follows:

	2011	2010
Balance - Beginning of year	\$ 29,940	\$ 30,197
Contributions received	5,059	3,978
Amortization	(3,702)	(4,235)
Balance - End of year	<u>\$ 31,297</u>	<u>\$ 29,940</u>

## 5 Due to The Ottawa Hospital

The relationship between the Institute and The Ottawa Hospital is governed by a service agreement pursuant to which certain services are provided at fair market value. The Institute has an unsecured amount payable to The Ottawa Hospital bearing interest at prime less 0.75%.

The balance owing to The Ottawa Hospital is as follows:

	2011	2010
Balance - Beginning of year	\$ 8,529	\$ 5,673
Transactions for the year, net	(298)	2,856
Balance - End of year	<u>\$ 8,231</u>	<u>\$ 8,529</u>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to Financial Statements

March 31, 2011

(000's)

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## 6 Employee Future Benefits

### Pension - HOOPP

Employer contributions to the plan during the year amounted to \$4,332 (2010 - \$4,066) and are included in salaries and wage expense in the statement of operations.

The most recent financial results for HOOPP indicate that, as at December 31, 2010, the plan was fully funded. Variances between actuarial funding estimates and actual experience may be material and differences are generally funded by the participating members. Insufficient information is available to determine the Institute's portion of the pension asset/liability as at March 31, 2011.

### Extended Health, Dental and Life Benefits

An extrapolation of an actuarial valuation for accounting purposes at April 1, 2009, indicated an accrued benefit obligation of \$2,237 (2010 - \$1,923) with respect to the above-noted benefits as at the measurement date of March 31, 2011. The related expense recorded to date for the year is \$314 (2010 - \$280) and is included in salaries and wage expense in the statement of operations.

The significant actuarial assumptions adopted in measuring the Institute's accrued benefit obligation for these benefits are as follows:

Discount rate - accrued benefit obligation	5.50%
Dental cost increases	6.00%
Extended health care cost increases	7.50%; in 2011 decreasing by 0.5% per annum to an ultimate rate of 5.0%.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to Financial Statements

March 31, 2011

(000's)

## 7 Long-Term Debt

Long term loans are secured under a general security agreement

	<u>2011</u>	<u>2010</u>
3.12% fixed rate term note with principal payments of \$10 monthly Maturity date: March 17, 2015	487	600
5.45% fixed rate term note with principal payments of \$44 monthly Maturity date: April 5, 2015	4,889	5,378
6.15% fixed rate term note with principal payments of \$27 monthly Maturity date: April 23, 2015	1,325	1,679
6.15% fixed rate term note with principal payments of \$36 monthly Maturity date: December 14, 2015	3,767	4,200
Total	<u>10,468</u>	<u>11,857</u>
Less: current portion	1,404	1,376
	<u>9,064</u>	<u>10,481</u>
Future principal repayments are required as follows:		
Year ending March 31, 2012	1,404	
2013	1,404	
2014	1,404	
2015	1,404	
2016	1,404	
Thereafter	3,448	
	<u>10,468</u>	

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

An overdraft lending agreement with the Bank of Nova Scotia for the amount of \$500,000 for the purpose of financing operating requirements. The revolving facility is repayable on demand and bears interest at prime, payable monthly in arrears. The Institute has provided the following collateral for the facility: a General Security Agreement, representing a first charge over all accounts receivable, inventory and equipment other than leased assets. The current amount drawn on this facility is \$nil at March 31, 2011 (2010 - \$nil).

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## Notes to Financial Statements

March 31, 2011

(000's)

A term facility lending agreement in the amount of \$1,500,000 for the purpose of replenishing working capital spent on upgrades to surgery facilities. The facility is repayable over a period of up to three years and bears interest at prime plus 0.50%, payable monthly in arrears. The Institute has provided the following collateral for the facility: a General Security Agreement, registered in second position behind the Bank of Nova Scotia with specific priority charge on fixed assets being financed and an assignment of fire insurance. The current amount drawn on this facility is \$nil at March 31, 2011 (2010 – \$nil).

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

### 8 Obligations Under Capital Leases

The Institute is committed under capital leases for diagnostic equipment.

	<u>2011</u>	<u>2010</u>
6.10% fixed rate term note with principal payments of \$4 monthly Maturity date: February 1, 2013	108	160
5.68% fixed rate term note with principal payments of \$5 monthly Maturity date: October 9, 2010	-	57
5.95% fixed rate term note with principal payments of \$17 monthly Maturity date: June 11, 2011	\$ 57	\$ 277
Total obligations under capital leases	165	494
Less: current portion of obligations under capital leases	112	329
	<u>\$ 53</u>	<u>\$ 165</u>

Future principal repayments are required as follows:

Year ending March 31, 2012	112
2013	53
	<u>\$ 165</u>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to Financial Statements

March 31, 2011

(000's)

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## 9 Financial Instruments

### Classification of Financial Instruments

The Institute has chosen to apply the recommendations found in Section 3861, "Financial Instruments - Disclosure and Presentation", of the Handbook of the Canadian Institute of Chartered Accountants. Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held to maturity, available for sale, loans and receivables, other financial liabilities and derivatives. As at March 31, 2011, the classification of the financial instruments is shown in the table below.

	<b>Classification</b>	<b>Measurement</b>
Cash	Held for trading	Fair value
Accounts Receivable	Loans and receivables	Amortized cost
Accounts Payable	Other financial liabilities	Amortized cost
Accrued Liabilities	Other financial liabilities	Amortized cost
Due to The Ottawa Hospital	Other financial liabilities	Amortized cost
Long Term Debt	Other financial liabilities	Amortized cost
Obligations under Capital Leases	Other financial liabilities	Amortized cost

### Fair Value

Cash, accounts receivable, accounts payable and accrued liabilities are short-term financial instruments whose fair values approximates their carrying values due to their short terms to maturity. The fair values of amounts due to Ottawa Hospital, long-term debt and obligations under capital leases are not materially different from their carrying values.

## 10 Capital Management

The Institute defines its capital as its net assets. The Institute's objectives when managing capital are to safeguard its ability to continue as a going concern as well as invest in facilities so that it can continue to provide excellent cardiac care to the population that it serves. Management has been authorized to use operating funds to provide for needed capital equipment for short periods of time, otherwise the Institute would be required to draw upon its credit facility.

The Board of Directors approves the operating and capital budgets for the Institute. The Board also reviews and approves the strategic planning for the Institute including its capital management plans.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to Financial Statements

March 31, 2011

(000's)

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## 11 Gift Plus Annuity

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 honour the original obligation and continue to fund the annuities. The value of these obligations has been actuarially determined as \$55 as at March 31, 2005. There have been no additions to these agreements in the current year.

## 12 Related Party Balances and Transactions

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

The Institute has significant influence over the Corporation by virtue of the Institute's representation on the Corporation's Board of Directors. Included in accounts receivable is \$406 (2010 - \$933) relating to construction projects and other costs incurred on behalf of the Corporation. This amount is non-interest bearing and has no specified terms of repayment. During the year, the Institute provided \$4,384 (2010 - \$4,231) of base funding in support of research to the Corporation. These amounts are recorded in supplies and other expenses on the statement of operations.

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