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

UNIVERSITY OF OTTAWA HEART INSTITUTE

FINANCIAL STATEMENTS

For the Year Ended March 31, 2014

June 26, 2014

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 comprise the statement of financial position as at March 31, 2014 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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.

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.

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We believe that the audit evidence we have obtained in our audit 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, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

UNIVERSITY OF OTTAWA HEART INSTITUTE
STATEMENT OF OPERATIONS
For the Year Ended March 31, 2014
(000'S)

	2014		2013
	BUDGET Unaudited	ACTUAL	ACTUAL
Revenue			
MOH			
- Base	120,648	121,764	120,648
- One Time : Cardiac Priority program	5,051	4,737	4,503
- One Time : Cardiac Recovery (clawback)	-	(1,683)	(937)
- One Time : Cardiac HOCC	625	652	661
- Other Votes	330	326	326
MOH Revenue	126,654	125,796	125,201
Patient Revenue			
- In patient	14,240	16,096	14,107
- Out patient	12,544	12,321	12,354
- Differential	1,544	1,566	1,498
Other Operating	5,841	6,448	5,627
Amortization of Deferred Contributions	3,485	2,649	3,382
Total Revenue	**164,308**	**164,876**	**162,169**
Expense			
Salaries and Wages	79,375	78,773	78,516
Medical Staff Remuneration	6,431	6,356	6,329
Medical Surgical Supplies	36,497	36,647	35,784
Drugs and Medical Gases	4,735	4,162	4,592
Supplies and Other Expenses	10,056	11,415	9,586
Service Agreements	19,948	19,925	19,832
Interest Charges	669	595	629
Amortization of Capital Assets	6,228	5,372	6,205
Bad Debts	200	40	499
Rental/Lease of Equipment	125	167	131
Total Expense	**164,264**	**163,452**	**162,103**
Net Revenue for the year	**44**	**1,424**	**66**

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

UNIVERSITY OF OTTAWA HEART INSTITUTE
STATEMENT OF FINANCIAL POSITION
As at March 31, 2014
(000'S)

		2014		2013
Assets				
Current Assets				
Cash	$	7,649	$	3,729
Accounts Receivable:				
Ministry of Health		60		616
Patients and Others		8,089		7,069
Sundry		1,836		1,443
Inventories		1,670		1,816
		19,304		14,673
Capital Assets (note 3)		51,807		46,934
Total Assets	**$**	**71,111**	**$**	**61,607**
Liabilities and Net Assets				
Current Liabilities				
Accounts Payable	$	2,804	$	1,818
Accrued Liabilities		8,989		9,486
Due to The Ottawa Hospital (note 5)		8,226		1,441
Current Portion of Long-Term Debt (note 7)		2,484		1,537
		22,503		14,282
Deferred Contributions (note 4)		37,191		35,071
Employee Future Benefits (note 6)		4,293		4,070
Long-Term Debt (note 7)		4,814		7,298
		68,801		60,721
Net Assets (Liabilities)				
Unrestricted		(9,141)		(13,344)
Invested in Capital Assets		11,451		14,230
		2,310		886
Total Liabilities and Net Assets	**$**	**71,111**	**$**	**61,607**

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

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, 2014
(000'S)

	Unrestricted	Invested in Capital Assets	Total
Balance - Beginning of year	**$ (13,344)**	**$ 14,230**	**$ 886**
Net revenue (expense) for the year	4,147	(2,723)	1,424
Purchase of capital assets	(10,245)	10,245	-
Deferred contributions received relating to purchases of capital assets	11,838	(11,838)	-
Repayment of long-term debt	(1,537)	1,537	-
Balance - End of year	**$ (9,141)**	**$ 11,451**	**$ 2,310**

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, 2014
(000'S)

	2014	2013
Cash flows from (used in)		
Operating activities		
Net revenue for the year	$ 1,424	$ 66
Items not affecting cash -		
Amortization of deferred contributions	(2,649)	(3,382)
Amortization of capital assets	5,372	6,205
Employee future benefits	223	110
Net change in non-cash working capital items	(222)	(7,378)
	$ 4,148	**$ (4,379)**
Investing activity		
Purchase of capital assets	**$ (10,245)**	**$ (2,405)**
Financing activities		
Deferred contributions received	4,769	9,578
Increase (decrease) in Due to The Ottawa Hospital	6,785	(7,834)
Repayments of long-term debt	(1,537)	(1,510)
Repayments of obligations under capital leases	-	(53)
	$ 10,017	**$ 181**
Net change in cash for the year	3,920	(6,603)
Cash - Beginning of year	3,729	10,332
Cash - End of year	**$ 7,649**	**$ 3,729**
Supplementary cash information:		
Interest paid	$ 595	$ 629

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

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

The preparation of financial statements in conformity with Canadian public sector accounting standards (PSAS), including accounting standards that apply to government not-for-profit organizations, 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

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.

(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

	2014		
	Cost	Accumulated Amortization	Net
Buildings and building Improvements	$ 56,034	$ 22,060	$ 33,974
Diagnostic/Operating Equipment	37,560	29,604	7,956
Construction in Progress	9,877		9,877
	$ 103,471	$ 51,664	$ 51,807

	2013		
	Cost	Accumulated Amortization	Net
Buildings and building improvements	$ 56,034	$ 19,158	$ 36,876
Diagnostic/Operating equipment	35,155	27,134	8,021
Construction in progress	2,037	-	2,037
	$ 93,226	**$ 46,292**	**$ 46,934**

Construction in progress represents costs incurred to date on the planning costs for a new building and other additions to the Institute. Once construction is completed on the related asset the total costs will be transferred to capital assets and amortization will commence.

4 Deferred Contributions

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

	2014	2013
Balance - Beginning of period	$ 35,071	$ 28,875
Contributions received	4,769	9,578
Amortization	(2,649)	(3,382)
Balance - End of period	**$ 37,191**	**$ 35,071**

(000's)

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.

6 Employee Future Benefits

Pension - HOOPP

Employer contributions to the Plan as at March 31, 2014 is $4,825 (2013 – $4,597) and are included in salaries and wages expense in the statement of operations.

The most recent financial results for HOOPP indicate that, as at December 31, 2013, 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.

Extended Health, Dental and Life Benefits

Actuarial valuations prepared for accounting purposes indicated the following:

	March 31, 2014	March 31, 2013
Accrued benefit obligation	$ 4,535	$ 4,617
Unamortized actuarial losses	(242)	(547)
Liability for employee future benefits	**$ 4,293**	**$ 4,070**

The related expense recorded for the period is $223 (2013 – $110) 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:

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	2014	2013
Discount rate - accrued benefit obligation	4.36%	3.94%
Dental cost increases	3.50%	3.50%
Extended health care cost increases*	7.50%	7.50%

*decreasing by 0.5% per annum to an ultimate rate of 4.5%.

The movement in the employee future benefits liability during the year is as follows:

(000's)

	2014	2013
Beginning balance	$ 4,070	$ 3,960
Current service cost	264	236
Plan amendments	(23)	(104)
Interest cost	181	189
Benefits paid	(235)	(223)
Amortization of actuarial losses	36	12
Ending balance	**$ 4,293**	**$ 4,070**

7 Long-Term Debt

Long-term loans are secured under a general security agreement.

	2014	2013
3.121% fixed rate term note with principal payments of $11 monthly Maturity date: March 17, 2015	$ 127	$ 251
5.45% fixed rate term note with principal payments of $44 monthly Maturity date: April 5, 2015	3,289	3,822
6.15% fixed rate term note with principal payments of $27 monthly Maturity date: April 23, 2015	350	675
6.15% fixed rate term note with principal payments of $36 monthly Maturity date: December 14, 2015	2,467	2,900
3.70% fixed rate term note with principal payments of $9 monthly Maturity date: February 14, 2015	1,065	1,187
Total	$ 7,298	$ 8,835
Less: current portion	2,484	1,537
	$ 4,814	$ 7,298

Future principal repayments are required as follows:

2014-15	2,484
2015-16	4,814
	$ 7,298

(000's)

In addition to the outstanding loans noted above, the following other credit facility exists:

An overdraft lending agreement with the Bank of Nova Scotia for the amount of $500 for the purpose of financing operating requirements. The revolving facility is repayable on demand and bears interest at prime, payable monthly. 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. No amounts have been drawn on this facility for the years ended March 31, 2014 and 2013.

8 Financial Instruments

Classification of Financial Instruments

	2014		
	Fair Value	**Amortized Cost**	**Total**
Cash	$7,649		$7,649
Accounts Receivable		9,985	9,985
Accounts Payable		2,804	2,804
Accrued Liabilities		8,989	8,989
Due to the Ottawa Hospital		8,226	8,226
Long-Term Debt		7,298	7,298

The following classification system is used to describe the basis of the measurement of fair value subsequent to initial recognition, grouped into different levels based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from market based inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques for the asset of liability that are not based on observable market data.

Cash is measured as a Level 1 financial instrument. There were no transfers from Level 1 for the periods ended March 31, 2014 and March 31, 2013.

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.

(000's)

Credit Risk

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.

At March 31, 2014, the following patient accounts receivable were outstanding:

	30 days	60 days	90 days	Over 90 days	Total
Patient Accounts					
Receivable balances	$ 2,780	$ 2,933	$ 1,210	$ 1,742	$ 8,665
Less: allowance	(28)	(29)	(36)	(483)	(576)
Net	**$ 2,752**	**$ 2,904**	**$ 1,174**	**$ 1,259**	**$ 8,089**

Interest Rate Risk

Interest rate risk arises from fluctuations in interest rates and the degree of volatility of these rates. Amounts owing to The Ottawa Hospital bear a floating rate of interest based on prime rates. These are short-term borrowings and balances fluctuate over time. Long-term debt is typically for a fixed term at a fixed rate (note 7).

Liquidity risk

Liquidity risk is the risk the Hospital 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.

The table below is a maturity analysis of the Institute's financial liabilities:

(000's)

	2014				
	Up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
Accounts Payable and Accrued Liabilities	$ 6,332	$ 619	$ 1,634	$ 3,208	$ 11,793
Long-Term Debt	-	-	7,298	-	7,298
	$ 6,332	**$ 619**	**$ 8,932**	**$ 3,208**	**$ 19,091**

9 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 honor 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.

10 Related Party Balances and Transactions

a) University of Ottawa Heart Institute Foundation
The Institute has an economic interest in The University of Ottawa Heart Institute Foundation (the "Foundation"). The Foundation was established to raise, receive, maintain and manage funds to benefit or be distributed towards various programs and capital projects of the Institute and the Ottawa Heart Institute Research Corporation (the "Corporation").The Foundation is a tax-exempt registered charity and is a non-share corporation constituted under Federal legislation. Included in accounts receivable is $44 (2013 – $55) owing from the Foundation. During the period, the Institute recorded $3,065 (2013 – $1,510) of funding received from the Foundation to support clinical programs and equipment purchases.

b) Alumni and Auxiliary
The Institute also is related to Ottawa Heart Institute Alumni Association and the Heart Institute 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.

c) Ottawa Heart Institute Research Corporation
The Institute has an economic interest in the Corporation which carries on and exclusively promotes scientific research and experimental development for the benefit of the general public. The Corporation is a tax-exempt registered charity incorporated under the laws of Canada.

Included in accounts receivable is $173 (2013 – $383) relating to construction projects and other costs incurred on behalf of the Corporation. Included in accounts payable is $1,272 (2013 – $590) relating to payroll and other support costs incurred by the Corporation. These amounts are non-interest bearing and have no specified terms of repayment. During the period, the Institute provided $4,501 (2013 – $4,219) 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.