



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

UNIVERSITY OF OTTAWA HEART INSTITUTE

FINANCIAL STATEMENTS

MARCH 31, 2022



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the University of Ottawa Heart Institute (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2022;
- the statement of operations for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.

Other Information

Management is responsible for the other information. The other information comprises:

- Information, other than the financial statements and the auditors' report thereon, included in the University of Ottawa Heart Institute Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information and, identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the University of Ottawa Heart Institute Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 for government not-for-profit organizations, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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.



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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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 29, 2022

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2022

(in thousands of dollars)

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	\$ 49,439	\$ 37,229
Accounts receivable		
Ministry of Health of Ontario	11,052	8,495
Patient services	8,185	7,370
Sundry	1,789	2,307
Inventories	1,207	1,737
Prepaid expenses	2,179	551
	73,851	57,689
CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (Note 3)	190,812	206,526
INTANGIBLE ASSETS AND ASSETS UNDER CAPITAL LEASE (Note 4)	9,913	10,724
	200,725	217,250
	\$ 274,576	\$ 274,939
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 37,846	\$ 32,758
Accounts payable - Ministry of Health of Ontario	31,278	15,659
Accounts payable - The Ottawa Hospital (Note 13)	6,323	5,696
Current portion of long-term debt (Note 8)	1,500	2,531
Current portion of obligation under capital lease (Note 9)	1,143	1,091
	78,090	57,735
LONG-TERM DEBT (Note 8)	9,875	14,617
OBLIGATION UNDER CAPITAL LEASE (Note 9)	4,802	5,945
EMPLOYEE FUTURE BENEFITS (Note 6)	6,516	6,422
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 7)	172,589	187,581
	193,782	214,565
	271,872	272,300
NET ASSETS		
Unrestricted (deficiency)	(8,112)	(2,846)
Invested in capital assets and assets under capital lease (Note 10)	10,816	5,485
	2,704	2,639
	\$ 274,576	\$ 274,939

Contractual Obligations (Note 14)

APPROVED BY THE BOARD OF DIRECTORS



Director



Director

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 2022

(in thousands of dollars)

	Budget (unaudited)	2022	2021
REVENUE			
Ministry of Health of Ontario			
Global allocation and Priority Program Services	\$ 109,019	\$ 111,868	\$ 97,091
Quality-based procedures (QBP)	3,834	3,834	3,538
Health Based Allocation Model (HBAM)	51,357	51,357	51,357
Post Construction Operating Plan (PCOP) funding	15,658	15,658	11,375
Priority Program Services clawback	(181)	(4,708)	(2,757)
One-time cardiac & other	1,131	16,477	24,751
Other recoveries (clawbacks)	-	(10,812)	(12,107)
Cardiac Hospital On Call Coverage (HOCC)	648	648	648
Other Votes	326	326	326
	181,792	184,648	174,222
Patient services			
In-patient	16,441	16,514	13,757
Out-patient	17,753	21,206	18,405
Preferred accommodation	960	418	332
Other operating revenues and recoveries	3,171	3,171	4,058
Amortization of deferred contributions related to capital assets	15,197	15,732	15,635
	235,314	241,689	226,409
EXPENSES			
Salaries and benefits and purchased services	106,592	104,124	97,131
Medical staff remuneration	6,780	8,447	7,553
Medical surgical supplies	50,388	46,890	42,092
Drugs and medical gases	4,497	3,757	3,457
Supplies and other expenses	22,018	34,468	34,363
Service agreements (Note 13)	21,285	21,339	19,905
Interest charges	1,166	954	1,117
Amortization of capital assets and assets under capital lease	20,214	19,675	18,527
Amortization of intangible assets and assets under capital lease	992	1,035	989
Bad debts	600	450	545
Equipment rental	750	485	716
	235,282	241,624	226,395
EXCESS OF REVENUE OVER EXPENSES	\$ 32	\$ 65	\$ 14

UNIVERSITY OF OTTAWA HEART INSTITUTE

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2022**

(in thousands of dollars)

	Unrestricted (Deficiency)	Invested in Capital Assets and Assets Under Capital Lease (Note 10)	2022 Total	2021 Total
BALANCE, BEGINNING OF YEAR	\$ (2,846)	\$ 5,485	\$ 2,639	\$ 2,625
Excess of revenue over expenses	65	-	65	14
Net change in investment in capital assets and assets under capital lease (Note 10)	(5,331)	5,331	-	-
BALANCE, END OF YEAR	\$ (8,112)	\$ 10,816	\$ 2,704	\$ 2,639

UNIVERSITY OF OTTAWA HEART INSTITUTE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2022

(in thousands of dollars)

	2022	2021
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 65	\$ 14
Items not affecting cash :		
Amortization of deferred contributions related to capital assets	(15,732)	(15,635)
Amortization of capital assets and assets under capital lease	19,675	18,527
Amortization of intangible assets and assets under capital lease	1,035	989
Net increase in employee future benefits	94	156
Net change in non-cash working capital items (Note 11)	17,382	31,936
	22,519	35,987
INVESTING ACTIVITIES		
Acquisition of capital assets	(3,961)	(12,865)
Net proceeds (acquisition) of intangible assets	(224)	23
	(4,185)	(12,842)
FINANCING ACTIVITIES		
Deferred contributions for capital assets received (Note 7)	740	4,282
Repayment of obligation under capital lease	(1,091)	(1,041)
Repayment of long-term debt	(5,773)	(2,508)
	(6,124)	733
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	12,210	23,878
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	37,229	13,351
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 49,439	\$ 37,229

Cash and cash equivalents are comprised of cash.

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

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 including the 4200 standards for government not-for-profit organizations and reflect the following significant accounting policies:

(a) 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 (MOH) of Ontario. 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.

The Institute receives funding for operations for certain programs from the Ministry of Health of Ontario. The final amount of operating revenue recorded cannot be determined until the Ministry of Health of Ontario has reviewed the Institute's financial and statistical returns for the year. Any adjustments arising from the Ministry of Health of Ontario review are recorded in the period in which the adjustments are made.

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.

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

2. Significant accounting policies (continued):

(b) 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.

(c) Contributed services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(d) Inventories:

Inventories are valued at lower of cost and replacement cost, with cost being determined using the average cost basis. Replacement cost is the estimated cost to replenish the inventory at current market prices.

(e) Financial instruments:

(i) 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 of Ontario, accounts payable - The Ottawa Hospital ("TOH"), accrued liability related to construction and long-term debt.

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

2. Significant accounting policies (continued):

(e) Financial instruments:

(ii) 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.

(iii) 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.

(f) 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:

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

(g) Intangible assets and assets under capital lease:

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

Asset	Rate
Software	5 years
Health Information System	15 years

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

2. Significant accounting policies (continued):

(a) 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.

(b) Employee future benefits:

(i) 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.

(ii) 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. The most recent actuarial valuation was performed as at March 31, 2022. The next scheduled valuation will be as at March 31, 2025.

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.

(iii) 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.

(c) 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, 2022
(in thousands of dollars)

2. Significant accounting policies (continued):

(d) Use of estimates:

The preparation of financial statements 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.

3. Capital assets and assets under capital lease:

	Cost	Accumulated Amortization	2022	2021
Capital assets:				
Buildings and buildings improvements	\$ 243,274	\$ 77,503	\$ 165,771	\$ 176,746
Diagnostic and operating equipment	79,083	58,922	20,161	23,905
Network infrastructure	786	393	393	472
Construction in progress	11	-	11	181
	323,154	136,818	186,336	201,304
Assets under capital lease:				
Operating equipment	7,460	2,984	4,476	5,222
	\$ 330,614	\$ 139,802	\$ 190,812	\$ 206,526

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 of Ontario 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.

At March 31, 2021, cost and accumulated amortization amounted to \$326,653 and \$120,127.

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

4. Intangible assets and assets under capital lease:

	Cost	Accumulated Amortization	2022 Net book value	2021 Net book value
Intangible assets:				
Software	\$ 1,024	\$ 921	\$ 103	\$ 178
Health information system	10,290	2,058	8,232	8,837
	\$ 11,314	\$ 2,979	\$ 8,335	\$ 9,015
Assets under capital lease:				
Health information system	1,973	395	1,578	1,709
	\$ 13,287	\$ 3,374	\$ 9,913	\$ 10,724

At March 31, 2021, cost and accumulated amortization amounted to \$13,063 and \$2,339.

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, 2022.

6. Employee future benefits and pension plan:

(a) 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, 2022. The next scheduled valuation will be as at March 31, 2025.

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, 2022
(in thousands of dollars)

6. Employee future benefits and pension plan (continued):

(a) Extended health, dental and life benefits:

As at March 31, 2022, the Institute's estimated extrapolated liability associated with the employee future benefits plan is as follows:

	2022	2021
Accrued benefit obligation	\$ 6,070	\$ 5,661
Unamortized experience losses	446	761
Employee future benefits liability	\$ 6,516	\$ 6,422

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:

	2022	2021
Discount rate – accrued benefit obligation	3.89%	3.21%
Dental cost increases	3.75%	3.50%
Extended health care cost increases	5.75%	7.50%
Expected average remaining service life of employees	12 years	16.6 years

The employee future benefits liability increased by \$94 for the year ended March 31, 2022 (2021: increased by \$156). This amount is included in the salaries and benefits expense in the statement of operations and is comprised of the following:

	2022	2021
Balance, beginning of year	\$ 6,422	\$ 6,266
Current service cost	318	338
Interest cost	181	189
Benefits paid	(359)	(341)
Amortization of experience losses	(46)	(30)
	\$ 6,516	\$ 6,422

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

6. Employee future benefits and pension plan (continued):

(b) 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 \$6,365 (2021: \$6,159) 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, 2021 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.

	2022	2021
Balance, beginning of year	\$ 187,581	\$ 198,934
Plus: Contributions received or recognized during the year	740	4,282
Less: Amortization of capital contributions to revenue	(15,732)	(15,635)
	<u>\$ 172,589</u>	<u>\$ 187,581</u>

In the preceding year, \$122 of the total HIRF received was deferred for later use. The funds have been used for the same purpose as the original funding in the year ending March 31, 2022.

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

8. Long-term debt

	2022	2021
Term loan secured by a general security agreement – 2.23%, repaid in fiscal 2022	\$ -	\$ 4,273
Term loan - interest rate fixed through a SWAP contract at 3.07%, maturing on October 31, 2029, payable in monthly instalments of \$125 principal	11,375	\$ 12,875
	\$ 11,375	\$ 17,148
Current portion of long-term debt	(1,500)	(2,531)
	\$ 9,875	\$ 14,617

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

	Payable	Renewable
2023	\$ 1,500	\$ -
2024	1,500	-
2025	875	7,500
	\$ 3,875	\$ 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 interest rate is fixed through an interest rate swap at 3.07%. As at March 31, 2022 the SWAP contract showed an accumulated unrealized gain of \$58 (2021: loss of \$592).

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

9. Obligation under capital lease:

	2022	2021
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.	\$ 4,938	\$ 5,634
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.	1,007	1,402
	5,945	7,036
Current portion of obligation under capital lease	(1,143)	(1,091)
	\$ 4,802	\$ 5,945

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

2023	\$ 1,418
2024	1,374
2025	1,122
2026	941
2027	941
Thereafter	941
	6,737
Interest included in instalments	391
	\$ 6,346

UNIVERSITY OF OTTAWA HEART INSTITUTE

Notes to the Financial Statements

March 31, 2022
(in thousands of dollars)

10. Investment in capital assets and assets under capital lease:

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

	2022	2021
Capital assets and assets under capital lease	\$ 190,812	\$ 206,526
Intangible assets and assets under capital lease	9,913	10,724
	200,725	217,250
Financed by:		
Deferred contributions related to capital assets	172,589	187,581
Long-term debt	11,375	17,148
Obligation under capital lease	5,945	7,036
Net investment in capital assets and assets under capital lease, end of year	\$ 10,816	\$ 5,485

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

	2022	2021
Acquisition of capital assets and assets under capital lease	\$ 3,961	\$ 11,872
Acquisition (proceeds) of intangible assets and assets under capital lease	224	(23)
Amount funded by deferred contributions related to capital assets received or receivable	(740)	(4,282)
Amounts funded by capital lease:		
Repayment	1,091	1,041
Amounts funded by long-term debt and bank loan:		
Repayment	5,773	2,508
Amortization of deferred contributions related to capital assets	15,732	15,635
Amortization of capital assets and assets under capital lease	(19,675)	(17,534)
Amortization of intangible assets	(1,035)	(989)
	\$ 5,331	\$ 8,228

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Notes to the Financial Statements

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11. Net change in non-cash working capital items:

	2022	2021
Accounts receivable	\$ (2,854)	\$ 9,906
Inventories	530	606
Prepaid expenses	(1,628)	71
Accounts payable and accrued liabilities	5,088	8,103
Accounts payable – Ministry of Health and Long-Term Care	15,619	13,089
Accounts payable – The Ottawa Hospital	627	161
Net change in non-cash working capital	\$ 17,382	\$ 31,936

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.

(a) 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 31% of the total accounts receivable is to be received from insurers and patients, 61% from the Ministry of Health of Ontario, 3% related to harmonized sales tax receivable and 5% from other organizations. The Institute considers that no significant risk arises from that situation.

At March 31, 2022, the following patients accounts receivable were outstanding:

	30 days	60 days	90 days	Over 90 days	2022 Total	2021 Total
Patients accounts Receivable balances	\$ 3,588	\$ 2,107	\$ 323	\$ 2,771	\$ 8,789	\$ 8,234
Less: allowances	(150)	(90)	(17)	(347)	(604)	(864)
Net	\$ 3,438	\$ 2,017	\$ 306	\$ 2,424	\$ 8,185	\$ 7,370

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Notes to the Financial Statements

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12. Risk management (continued):

(b) 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 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.

(c) 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, 2022, 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	2022 Total	2021 Total
Accounts payable and accrued liabilities	\$ 28,278	\$ 2,315	\$ 6,930	\$ 323	\$ 37,846	\$ 32,758
Accounts payable – MOHLTC	31,278	–	–	–	31,278	15,659
Due to TOH	6,323	–	–	–	6,323	5,696
Long-term debt	750	750	6,000	3,875	11,375	17,148
Obligation under capital lease	566	577	3,884	918	5,945	7,036
	<u>\$ 67,195</u>	<u>\$ 3,642</u>	<u>\$ 16,814</u>	<u>\$ 5,116</u>	<u>\$ 92,767</u>	<u>\$ 78,297</u>

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Notes to the Financial Statements

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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.

(a) 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, 2026 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 \$21,339 (2021: \$19,905).

Furthermore, the land used by the Institute for its premises is owned by TOH. The land is leased by the Institute for an annual nominal payment of \$1 under a long-term agreement expiring March 31, 2026 subject to the rights of renegotiation and extension set out in the lease. As at March 31, 2022, the Institute has an unsecured account payable to TOH of \$6,323 (2021: \$5,696) bearing interest at prime rate.

(b) 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 \$132 (2021: \$132) owing from the Foundation mainly for capital funding. Included in accrued liabilities is \$5,378 (2021: \$12,945) owing to the Foundation.

During the year, the Institute received funding of \$1,175 (2021: \$1,319) from the Foundation to support clinical programs, equipment purchases and capital programs.

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13. Economic Interests (continued)

(c) 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, 2022, the Institute has accounts receivable amounting to \$166 (2021: \$69) relating to construction projects and other costs incurred on behalf of the Corporation and has accrued liabilities amounting to \$8,912 (2021: \$1,236) 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 \$9,715 (2021: \$4,342) 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 \$7,226 (2021: \$6,199) in salaries and benefits were reimbursed to the Corporation by the Institute.

(d) 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 following years is estimated as follow:

2023	\$	169
2024		169
2025		125
2026		125
2027		52

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, 2022. 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 a party to various claims related to its operations. It is not possible to determine the outcome or to estimate the possible financial liability, if any, to the Institute. No provision has been made for loss in these financial statements, but in management's opinion, these claims will not have a material adverse effect on its financial position or results of operations.
- (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, 2022.
- (c) The Institute is contingently liable under a letter of credit in the amount of \$386 (2021: \$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, 2022.

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Notes to the Financial Statements

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15. Contingencies (continued)

- (d) 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 composed of a fixed rate facility (\$10,000). The fixed rate facility balance at March 31, 2022 was \$6,283, maturing January 31, 2028, bearing an interest rate of 2.44%, which is fixed through a forward SWAP contract.

16. Ministry of Health pandemic funding:

In connection with the ongoing coronavirus pandemic (“COVID-19”), the MOH has announced a number of funding programs intended to assist hospitals with incremental operating and capital costs and revenue decreases resulting from COVID-19. In addition to these funding programs, the MOH is also permitting hospitals to redirect unused funding from certain programs towards COVID-19 costs, revenue losses and other budgetary pressures through a broad-based funding reconciliation.

While the MOH has provided guidance with respect to the maximum amount of funding potentially available to the Institute, as well as criteria for eligibility and revenue recognition, this guidance continues to evolve and is subject to revision and clarification subsequent to the time of approval of these financial statements. The MOH has also indicated that all funding related to COVID-19 is subject to review and reconciliation, with the potential for adjustments during the subsequent fiscal year.

Management’s estimate of MOH revenue for COVID-19 is based on the most recent guidance provided by MOH and the impacts of COVID-19 on the Institute’s operations, revenues and expenses. Management has analyzed the requirements and has provided an estimate for the supportable amounts based on the current available information. Any adjustments to Management’s estimate of MOH revenues will be reflected in the Institute’s financial statements in the year of settlement.

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16. Ministry of Health pandemic funding (continued)

Details of the MOH funding for COVID-19 recognized as revenue in the current year are summarized below:

	2022	2021
Funding for incremental COVID-19 operating expenses	\$ 2,375	\$ 3,939
Funding for revenue losses resulting from COVID-19	–	6,729
	\$ 2,375	\$ 10,668

In addition to the above, the Institute has also recognized \$3,949 (2021 - \$7,488) in MOH funding related to COVID-19 surgical premiums.

The Institute has also recognized \$nil (2021 - \$608) in MOH funding for COVID-19 related capital expenditures, which has been recorded as an addition to deferred capital contributions during the year.

The Institute has also recognized \$378 (2021 - \$2,450) in MOH funding for other COVID-19 related expenditures such as, employee and physician pandemic pay.

17. Impact of Coronavirus COVID-19 pandemic:

In March of 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had significant financial, market, health and societal impacts. In response to COVID-19 and consistent with guidance provided by the MOH and other government agencies, the Institute has implemented a number of measures to protect patients and staff from COVID-19. In addition, the Institute has actively contributed towards the care of COVID-19 patients and the delivery of programs that protect public health.

Financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors' report which provide additional evidence relating to conditions that existed at year-end. Management has assessed the financial impacts and there are no additional adjustments required to the financial statements at this time.

The Institute continues to respond to the pandemic and plans for continued operational and financial impacts during the 2023 fiscal year and beyond. Management has assessed the impact of COVID-19 and believes there are no significant financial issues that compromise its ongoing operations. The outcome and timeframe to a recovery from the current pandemic is highly unpredictable, thus it is not practicable to estimate and disclose its effect on future operations at this time.