Financial Statements of

QUEENSWAY CARLETON HOSPITAL

Year ended March 31, 2019

QUEENSWAY CARLETON HOSPITAL

Financial Statements

Year ended March 31, 2019

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MANAGEMENT REPORT

Management's Responsibility for the Financial Statements

The accompanying financial statements of Queensway Carleton Hospital (the "Hospital") as at and for the year ended March 31, 2019 are the responsibility of the Hospital's management and have been prepared in accordance with Canadian public sector accounting standards. The accounting policies followed by the Hospital are included in the summary of significant accounting policies outlined in note 2 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Hospital's management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Audit Committee of the Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Board of Directors' approval of the financial statements.

The financial statements have been audited by KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, independent external auditors appointed by the Hospital. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Hospital's financial statements.

May 29, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Queensway Carleton Hospital

Opinion

We have audited the financial statements of Queensway Carleton Hospital (the "Hospital), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of remeasurement gains and losses 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 Hospital as at March 31, 2019, 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 Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

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

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

In preparing the financial statements, management is responsible for assessing the Hospital'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 Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital Hospital'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.

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 Hospital '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 Hospital'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 Hospital 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

May 29, 2019

QUEENSWAY CARLETON HOSPITAL

Statement of Financial Position

March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Assets		
Current assets:		
Cash	$ 14,317	$ 22,359
Short-term investments (note 4)	38,000	29,000
Accounts receivable	7,477	10,579
Due from Queensway Carleton Hospital Foundation (note 13)	422	135
Inventories	935	899
Prepaid expenses	1,715	1,550
	62,866	64,522
Cash held for capital purposes	8,459	5,111
Capital assets (note 5)	223,988	214,692
	$ 295,313	$ 284,325
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 38,906	$ 32,010
Accrued vacation and overtime pay	4,771	4,905
Deferred revenue (note 6)	2,906	2,834
Current portion of long-term debt (note 7)	518	646
	47,101	40,395
Long-term debt (note 7)	–	547
Employee future benefits liability (note 8)	6,333	6,022
Deferred contributions related to capital assets (note 9)	201,145	201,949
	254,579	248,913
Net assets:		
Invested in capital assets (note 10)	30,791	16,697
Unrestricted	9,950	18,751
	40,741	35,448
Accumulated remeasurement losses	(7)	(36)
	40,734	35,412
Commitments, guarantees and contingent liabilities (notes 11 and 12)		
Subsequent event (note 11)		
	$ 295,313	$ 284,325

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

QUEENSWAY CARLETON HOSPITAL

Statement of Operations

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

		2019		2018
Revenue:				
Funding from governments	$	167,097	$	163,817
Inpatient and outpatient		6,260		6,169
Ontario Health Insurance Plan		14,615		14,553
Preferred accommodation		4,535		4,815
Recoveries and other		9,967		13,168
Amortization of deferred contributions related to major equipment		7,343		5,780
		209,817		208,302
Expenses:				
Salaries and benefits		146,521		142,740
Medical and surgical supplies		12,806		12,248
Drugs		4,027		3,862
Supplies and other		32,373		31,355
Amortization of major equipment		7,587		6,647
		203,314		196,852
Excess of revenue over expenses before undernoted items		6,503		11,450
Amortization of deferred contributions related to buildings		8,145		8,128
Amortization of buildings and other		(9,355)		(9,291)
		(1,210)		(1,163)
Excess of revenue over expenses	$	5,293	$	10,287

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL

Statement of Changes in Net Assets

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	Invested in capital assets	Unrestricted	Total 2019	Total 2018
Balance, beginning of year	$ 16,697	$ 18,751	$ 35,448	$ 25,161
Excess of revenue over expenses	–	5,293	5,293	10,287
Net change in net assets invested in capital assets (note 10)	14,094	(14,094)	–	–
	$ 30,791	$ 9,950	$ 40,741	$ 35,448

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL

Statement of Remeasurement Gains and Losses

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

		2019		2018
Balance, beginning of year	$	(36)	$	(108)
Decrease in unrealized losses attributable to interest rate swaps		29		72
Balance, end of year	$	(7)	$	(36)

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018
(In thousands of dollars)

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 5,293	$ 10,287
Items not involving cash:		
Amortization of capital assets	16,942	15,938
Amortization of contributions related to capital assets	(15,488)	(13,908)
Change in employee future benefits liability	311	273
Change in non-cash operating working capital (note 15)	9,448	(3,414)
	16,506	9,176
Investing activities:		
Purchase of short-term investments	(50,000)	(54,000)
Maturity of short-term investment	41,000	45,000
Increase in cash held for capital purposes	(3,348)	(2,914)
	(12,348)	(11,914)
Financing activities:		
Principal repayments of long-term debt	(646)	(609)
Capital activities:		
Purchase of capital assets	(26,238)	(14,089)
Contributions received for capital assets	14,684	9,363
	(11,554)	(4,726)
Decrease in cash	(8,042)	(8,073)
Cash, beginning of year	22,359	30,432
Cash, end of year	$ 14,317	$ 22,359

See accompanying notes to the financial statements.

1. Nature of entity:

The Queensway Carleton Hospital (the "Hospital") is a provincially funded, charitable, not-for-profit organization providing health care within various clinical programs in an inpatient and outpatient setting. It is a secondary referral hospital that provides primary and secondary services to the residents of the City of Ottawa and specifically to the West Ottawa community and portions of the Ottawa Valley.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for government not-for-profit organizations and include the following significant accounting policies:

(a) Revenue recognition:

The Hospital follows the deferral method of accounting for contributions.

The Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care ("MOHLTC") and Champlain Local Health Integrated Network ("LHIN"). Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of the year are accrued. Where a portion of a grant is related to a future period, it is deferred and recognized in that subsequent period. The final amount of operating revenue recorded cannot be confirmed until the MOHLTC has reviewed the Hospital's financial and statistical returns for the year. Any adjustments arising from the MOHLTC review are recorded in the period in which the adjustment is made.

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.

Contributions restricted for the purchase of capital assets, together with any interest earned thereon, are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Revenue from the Ontario Health Insurance Plan ("OHIP"), preferred accommodation, and marketed services are recognized when the service is provided.

Investment income is included in the statement of operations and includes dividend and interest income, realized gains and losses on disposal of investments, amortization of bond discounts and, if applicable, charges for other than temporary impairment of investments. At that time, the related gains and losses are reclassified and included in the statement of operations.

2. Significant accounting policies (continued):

(b) Classification of financial instruments:

Cash	Fair value
Short-term investments	Amortized cost
Receivable from governments	Amortized cost
Accounts receivable	Amortized cost
Due from Queensway Carleton Hospital Foundation	Amortized cost
Cash held for capital purposes	Fair value
Accounts payable and accrued liabilities	Amortized cost
Accrued vacation and overtime pay	Amortized cost
Long-term debt - excluding interest rate swap	Amortized cost
Long-term debt - interest rate swap	Fair value

(c) Inventories:

Inventories of supplies are valued at the lower of average cost and replacement cost, less a provision for any obsolete or unusable inventory on hand.

(d) Investments:

Purchases of investments are recorded on the settlement date.

(e) Capital assets:

Capital assets are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of future minimum lease payments. Minor equipment replacements are expensed in the year of replacement. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value. Amortization is provided on the straight-line basis over the following useful lives:

Asset	Useful life
Land improvements	up to 25 years
Buildings	up to 40 years
Building service equipment	up to 35 years
Major equipment	up to 10 years

Construction in progress and various projects in process are not amortized until the project is complete and the facilities come into use.

2. Significant accounting policies (continued):

(f) Employee future benefits:

The Hospital accrues its obligations for benefit plans as the employees render the services necessary to earn these benefits. The cost of post-retirement 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 and dental care costs. The most recent actuarial valuation of the benefit plans was performed as at April 1, 2016 and extrapolated to March 31, 2019. The next required valuation will be as at April 1, 2019.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over the accrued benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the benefit plans is fifteen years (2018 - fifteen years).

Adjustments arising from plan amendments are recognized immediately in the period of plan amendment.

The Hospital is an employer member of the Hospitals of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

(g) Long-term debt:

Long-term debt is recorded at amortized cost using the effective interest rate method. The fair values of the loans are based on an assessment of interest rate risk and credit risk. Fair value is determined under a discounted cash flow methodology using a discount rate based on interest rates currently charged for new loans with similar terms and remaining maturities, adjusted for a credit risk factor, which is reviewed at least annually. For certain variable rate loans that reprise frequently and for loans without a stated maturity, fair values are assumed to be equal to carrying values.

(h) Derivative financial instruments:

The Hospital uses derivative financial instruments to manage interest rate risk. The only derivative products used by the Hospital are interest rate swaps. Derivative instruments are recorded on the statement of financial position as assets and/or liabilities and are measured at fair value. Derivatives with a positive fair value are reported as assets, and derivatives with a negative fair value are reported as liabilities.

2. Significant accounting policies (continued):

(h) Derivative financial instruments (continued):

Changes in the fair value of derivative financial instruments are included in statement of remeasurement gains and losses.

The periodic exchanges of payments on interest rate swaps are recorded as an adjustment to interest expense in the same period.

(i) Donated services:

Volunteers donate significant time each year to assist the Hospital in carrying out its services. These donated services are not recognized in the financial statements because of the difficulty associated with measurement.

(j) Use of estimates:

The preparation of financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include judgments as to the valuation of the employee future benefits liability and the valuation of swaps. Actual results could differ from these estimates. 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 management:

The Hospital defines its capital as long-term debt, deferred contributions related to capital assets and its net assets. The conditions and restrictions for the long-term debt are described in note 7.

Through the management of its capital, the Hospital strives to maintain and expand capacity, where possible, to continue operations, including the renewal of capital assets, in order to remain a viable charitable, not-for-profit organization providing health care services. The Hospital relies on grants from the MOHLTC and other government agencies as well as community contributions through the Queensway Carleton Hospital Foundation (note 13). The Hospital's definition of capital has not changed from the prior year, and the Hospital has complied with the conditions and requirements of capital grants, contributions and long-term debt throughout the year.

(Tabular amounts in thousands of dollars)

4. Short-term investments:

Short-term investments consist of:

	2019 Fair value	2019 Cost and carrying value
Bank term deposit, face value $6,000,000, maturity date April 22, 2019.	$ 6,000	$ 6,000
Bank term deposit, face value $6,000,000, maturity date July 22, 2019.	6,000	6,000
Bank Term deposit, face value $6,000,000, maturity date August 27, 2019.	6,000	6,000
Bank term deposit, face value $10,000,000, maturity date September 30, 2019.	10,000	10,000
Non-redeemable Bank term deposit, face value $10,000,000, maturity date March 27, 2020.	10,000	10,000
Total short-term investments	$ 38,000	$ 38,000

	2018 Fair value	2018 Cost and carrying value
Bank term deposit, face value $3,000,000, maturity date April 26, 2018.	$ 3,000	$ 3,000
Bank term deposit, face value $4,000,000, maturity date July 26, 2018.	4,000	4,000
Bank Term deposit, face value $6,000,000, maturity date August 27, 2018.	6,000	6,000
Bank term deposit, face value $10,000,000, maturity date September 28, 2018.	10,000	10,000
Bank term deposit, face value $6,000,000, maturity date December 24, 2018.	6,000	6,000
Total short-term investments	$ 29,000	$ 29,000

(Tabular amounts in thousands of dollars)

4. Short-term investments:

During the year, the Hospital purchased bank term deposits with a total face value of $ 38,000,000, with interest rates ranging from 2.23% to 2.52% as at March 31, 2019 (2018 – 1.65% to 1.98%).

5. Capital assets:

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land improvements	$ 3,948	$ 3,334	$ 614	$ 749
Buildings	173,735	51,304	122,431	125,872
Building service equipment	103,741	48,832	54,909	58,428
Major equipment	113,767	88,455	25,312	20,150
Construction-in-progress	20,722	–	20,722	9,493
	$ 415,913	$ 191,925	$ 223,988	$ 214,692

Cost and accumulated amortization as at March 31, 2018 amounted to $389,675,000 and $174,983,000, respectively. During the year, the Hospital expired assets with a cost of $Nil (2018 - $17,000) and accumulated depreciation of $Nil (2018 - $17,000).

6. Deferred revenue:

	2019	2018
Balance, beginning of year	$ 2,834	$ 2,934
Amount received during the year	181,200	162,203
Amount recognized as revenue	(176,720)	(163,952)
Amount reclassified to accounts payable	(1,979)	3,276
Amount reclassified to accounts receivable	(377)	425
Amount reclassified to deferred contributions related to capital assets	(2,052)	(2,052)
	$ 2,906	$ 2,834

(Tabular amounts in thousands of dollars)

7. Long-term debt:

		2019		2018
Co-generation project bank loan, reaching maturity on December 31, 2019, interest rate of 5.88% with annual payments of $693, principal and interest	$	511	$	1,157
Accumulated unrealized losses on interest rate swaps		7		36
		518		1,193
Less current portion		518		646
	$	–	$	547

Principal repayments required are as follows:

2020	$	511

(a) Interest rate derivative agreements:

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities.

The Hospital has entered into the following interest rate derivative arrangement:

The Hospital converted $6,000,000 of floating rate debt of the Co-generation project bank loan to fixed rate debt of 5.88%. This derivative agreement is effective from September 15, 2003 to December 31, 2019.

(b) Derivatives - notional amounts:

Notional amounts, which are not recorded in the financial statements, serve as a point of reference for calculating payments and are a common measure of business volume. The notional amount of the Hospital's derivative transaction is $511,000 (2018 - $1,157,000).

(Tabular amounts in thousands of dollars)

8. Employee future benefits:

The Hospital has defined post-retirement benefit plans covering certain employee groups. These plans provide health and dental benefits to eligible employees up to the age of 65.

The reconciliation of the funded status of the benefit plans to the amount recorded in the financial statements is as follows:

	2019	2018
Accrued benefit obligation and funded status - plan deficit	$ 7,445	$ 7,079
Unamortized actuarial losses	(1,112)	(1,057)
Accrued benefit liability	$ 6,333	$ 6,022

The following table provides details of the changes in accrued benefit liability during the year ended March 31:

	2019	2018
Benefit expense, included in the statement of operations	$ 475	$ 439
Payments made by the Hospital during the year	(164)	(166)
Change in accrued benefit liability	$ 311	$ 273

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations and net benefit costs are as follows:

	2019	2018
Discount rate for calculation of net benefit costs	3.10%	3.10%
Discount rate for calculation of accrued benefit obligation	2.90	3.10
Dental costs rate increase	2.75	2.75
Extended health care costs rate increase	6.00	6.00

(Tabular amounts in thousands of dollars)

9. Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized balance of grants and donations received for the purchase of capital assets, plus any interest earned thereon. The amortization of deferred contributions related to capital assets is recorded as revenue in the Statement of Operations. The changes for the year are as follows:

	2019	2018
Balance, beginning of year	$ 201,949	$ 206,494
Contributions received during the year:		
Ministry of Health and Long-Term Care (net contributions received less payable)	3,455	4,130
Queensway Carleton Hospital Foundation	5,887	4,834
Other	5,267	368
Interest earned on cash held for capital purposes	75	31
Amortization to revenue during the year	(15,488)	(13,908)
Balance, end of year	$ 201,145	$ 201,949

The balance of unamortized and unspent funds consists of the following:

	2019	2018
Unspent capital contributions	$ 8,459	$ 5,111
Unamortized capital contributions	192,686	196,838
	$ 201,145	$ 201,949

10. Net assets invested in capital assets:

Net assets invested in capital assets are calculated as follows:

	2019	2018
Capital assets	$ 223,988	$ 214,692
Less amounts financed by:		
Deferred contributions	(192,686)	(196,838)
Long-term debt	(511)	(1,157)
Net assets invested in capital assets	$ 30,791	$ 16,697

(Tabular amounts in thousands of dollars)

10. Net assets invested in capital assets (continued):

Changes in net assets invested in capital assets during the year are calculated as follows:

		2019		2018
Purchase of capital assets	$	26,238	$	14,089
Amounts funded by deferred contributions		(14,684)		(9,363)
Changes in unspent contributions		3,348		2,914
Repayment of long-term debt		646		609
Amortization of contributions related to capital assets		15,488		13,908
Amortization of capital assets		(16,942)		(15,938)
Net change in net assets invested in capital assets	$	14,094	$	6,219

11. Commitments and guarantees:

(a) Operating leases:

In July 1973, the Hospital entered into a lease with the National Capital Commission ("NCC") for approximately 50 acres on which the Hospital is located. The lease was amended in November 2006 to extend it to July 2048 at an annual lease cost of $1.00.

(b) Hospital redevelopment project:

In February 2017, the Hospital received Phase 1 approval of the implementation of the Mental Health project from the MOHLTC. The total project costs to date are estimated to be $9,989,500 including architect and related fees and equipment. The MOHLTC will provide a maximum capital grant of up to $9,058,700 towards this cost. The final project cost and corresponding grant will be determined at the time of award of the contract based on bid results. The balance of the project will be funded by the Queensway Carleton Hospital Foundation and the Queensway Carleton Hospital.

(c) Bank loan:

The Hospital has guaranteed a bank loan obtained by the Queensway Carleton Hospital Foundation for the maximum amount of $12,375,000, excluding interest and expenses. The Foundation used the proceeds of this loan to pay the License fee disclosed in note 13. The Hospital is not aware of any facts which would cause a default of the loan by the Foundation. At March 31, 2019, the Foundation has an outstanding balance of $5,402,739 (2018 - $6,627,268).

11. Commitments and guarantees (continued):

(d) Line of credit:

At March 31, 2019, Hospital Food Services - Ontario, Inc. ("HFS") has an outstanding balance of $2,615,500 (2018 - $3,139,900) on an available line of credit for which the Hospital is one of the guarantors. In the event of any breach of covenants associated with this line of credit, the Hospital may be required to advance funds to HFS in accordance with its guarantee of the debt. The Hospital's share of the potential debt repayment is based on the agreement between HFS and the member hospitals, which at March 31, 2019 is 11.3% (2018 - 11.3%). This rate was fixed in 2008 - 2009 based on the percentage of the Hospital's purchases in that year.

At March 31, 2019, the Hospital's share of the potential debt repayment should HFS default on the line of credit is $295,551 (2018 - $354,819). As at the date of approval of the financial statements, there has been no such request by the debtor.

(e) Subsequent event:

During the year-ended March 31, 2019, the Board of Directors of HFS (“the Board”) undertook an exercise to divest the assets of HFS. On April 6, 2019, the Board signed a letter of intent with a third party purchaser to sell substantially all of the assets of HFS to the purchaser. The effective closing date of the transaction was May 13, 2019.

12. Contingent liabilities:

The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2019, management believes the Hospital has valid defences and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have material effect on the Hospital's financial position.

The Hospital has indemnified its past, present and future directors, officers, employees and volunteers against expenses (including legal expenses), judgments, and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding in which the directors are sued as a result of their service if they acted honestly and in good faith with a view to the best interest of the Hospital. The Hospital has purchased directors' liability insurance with respect to this indemnification.

12. Contingent liabilities (continued):

A group of hospitals, including the Hospital, formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its members. All members of the pool pay annual premiums which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they were members and these losses could be material. No reassessments have been made to March 31, 2019.

The Hospital is contingently liable under three (3) letter of credits:

i) A letter of credit in the amount of $217,275 as required by the Hospital's site plan agreement with the City of Ottawa related to the 2014 completion of the construction of the Hospital's Phase 111A Redevelopment project.

ii) A letter of credit in the amount of $13,882 as required by the Hospital's site plan agreement with the City of Ottawa for a new 47-space surface parking lot which is nearing completion at March 31, 2019.

iii) A letter of credit for $49,860 as required by the Hospital's site plan agreement with the City of Ottawa related to the Mental Health project per note 11 (b).

13. Related party transactions:

(a) Queensway Carleton Hospital Foundation:

The Hospital has an economic interest in the Queensway Carleton Hospital Foundation (the "Foundation"). The Foundation was established to raise, receive, maintain and manage funds to be distributed towards various programs and capital projects of the Hospital.

During the year ended March 31, 2019, the Foundation contributed $5,887,000 (2018 - $4,834,000) to the Hospital for capital purposes. In addition, the Foundation contributed $106,000 (2018 - $95,000) in other contributions. As at March 31, 2019, the Foundation has a fund balance of $12,278,000 (2018 - $11,691,000).

In 2009, the Hospital signed a twenty-year License Agreement with the Foundation whereby the Foundation has the exclusive right to operate the parking facilities in exchange for a one-time upfront license fee in the amount of $11,927,000 plus applicable taxes, equal to the fair value of the parking facilities at the time of the agreement. In connection with the License Agreement, in 2009, the Hospital and the Foundation signed two separate agreements whereby the Foundation purchases services from the Hospital for maintenance/repair and management of the parking facilities. For the year ended March 31, 2019, the Foundation paid the Hospital $851,000 (2018 - $699,000) for maintenance and repairs and $249,000 (2018 - $245,000) for management of the parking facilities.

13. Related party transactions (continued):

(b) Hospital Food Services - Ontario, Inc. and Ottawa Regional Hospital Linen Services Incorporated:

The Hospital is a founding member of Hospital Food Services - Ontario, Inc. ("HFS") and of the Ottawa Regional Hospital Linen Services Incorporated ("ORHLS"). HFS and ORHLS were established to provide food and laundry services, respectively, to member hospitals on a cost of service basis. Both HFS and ORHLS are incorporated without share capital under the Ontario Business Corporations Act. Both corporations are not-for-profit organizations under the Income Tax Act (Canada), and as such, are exempt from income taxes. The Hospital maintains an economic interest in both entities.

At March 31, 2019, the Hospital had an economic interest of $550,413 (2018 - $473,325) of total net assets of $ 8,722,146 (2018 - $7,626,258) of HFS. The corresponding interest in ORHLS is $1,450,665 (2018 - $1,425,927) of total net assets of $13,016,413 (2018 - $12,835,900).

For the year ended March 31, 2019, the Hospital provided a total of $230,000 (2018 - $220,000) to HFS for food purchases. The Hospital also provided $2,010,653 (2018 - $2,224,000) to ORHLS for linen services. These amounts have been included in supplies and other on the Statement of Operations.

(c) Eastern Ontario Regional Laboratory Association:

The Hospital is a founding member of Eastern Ontario Regional Laboratory Association ("EORLA"). EORLA was established to provide laboratory services to member hospitals on a cost of service basis. EORLA is incorporated without share capital under the Ontario Business Corporations Act. EORLA is a not-for-profit organization under the Income Tax Act (Canada), and as such, is exempt from income taxes. The Hospital maintains an economic interest in EORLA.

EORLA charges member hospitals, including the Hospital, on a cost-per-test basis. Included in supplies and other expenses are $7,781,000 (2018 - $7,578,000) in laboratory charges from EORLA. Included in accounts payable at March 31, 2019 is a payable to EORLA of $309,000 (2018 - $282,000).

(d) Champlain Health Supply Services:

The Hospital is a founding member of Champlain Health Supply Services ("CHSS"). CHSS was established to provide sourcing, procurement and logistics services to member hospitals within the Champlain LHIN. CHSS is incorporated without share capital under the Ontario Business Corporations Act. CHSS is a not-for-profit organization under the Income Tax Act, and as such, is exempt from income taxes. The Hospital maintains an economic interest in CHSS.

13. Related party transactions:

(d) Champlain Health Supply Services (continued):

During the year, the Hospital paid $145,000 (2018 - $149,000) to CHSS for the Hospital's portion of CHSS' operating expenses.

Included in accounts receivable at March 31, 2019 is an amount receivable from CHSS of $773,000 (2018 - $715,000) for payments made by the Hospital on behalf of CHSS.

14. Pension plan:

Substantially all of the employees of the Hospital are members of the Healthcare 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. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death that provide the highest earnings.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investment policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with the salary contributed by employees, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan.

The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial valuation of the Plan as at December 31, 2018 indicated the Plan is fully funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $8,501,000 (2018 - $8,137,000) and are included in the statement of operations.

(Tabular amounts in thousands of dollars)

15. Changes in non-cash operating working capital:

		2019		2018
Accounts receivable	$	3,102	$	(2,144)
Due from Queensway Carleton Hospital Foundation		(287)		56
Inventories		(36)		(21)
Prepaid expenses		(165)		316
Accounts payable and accrued liabilities		6,896		(1,393)
Accrued vacation and overtime pay		(134)		(128)
Deferred revenue		72		(100)
	$	9,448	$	(3,414)

16. Financial instruments:

(a) Fair value:

The fair values of receivable from governments, accounts receivable, accounts payable and accrued liabilities, and accrued vacation and overtime pay approximates fair value due to the relatively short period to maturity of the instruments.

The fair value of the due from Queensway Carleton Hospital Foundation balance is not determinable due to the related party nature of the receivable.

The fair value of long-term debt is not materially different from the carrying value.

(b) Fair value hierarchy:

Financial instruments are grouped into Levels 1 to 3 based on the degree to which 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 inputs other than quoted prices included within Level 1 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 that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

16. Financial instruments (continued):

(b) Fair value hierarchy (continued):

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash (including cash held for capital purchases) and short-term investments are classified as a level 1 financial asset and the interest rate swap is a level 2 financial liability.

There were no transfers between levels for the year ended March 31, 2019.

(c) Financial instrument risk management:

Credit risk:

Credit risk arises from the potential that a counterparty to an investment will fail to perform its obligations. Concentrations of credit risk exists when a significant proportion of investments are invested in securities with similar characteristics or subject to similar economic, political or other conditions.

The Hospital is exposed to credit risk on its accounts receivable and receivable from Governments. The maximum exposure to credit risk is the carrying value reported in the statement of financial position. Credit risk is mitigated through collection practices and the diverse nature of amounts with accounts receivable and receivable from Governments.

The Hospital considers receivables to be past due when they are over 90 days old. At March 31, 2019, the balance of receivables over 90 days is $298,000 (2018 - $640,000). Of this amount, $19,000 (2018 - $371,000) is receivable from partner hospital organizations. The Hospital does not consider these amounts to be impaired due to the nature of the receivables and the nature of the counterparty. The remaining balance relates to patient and other receivables. The Hospital actively manages and monitors these receivables balances. An impairment allowance is set up based on the Hospital’s historical experience regarding collections.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure credit risk.

Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments due to changes in market interest rates.

There is a risk to the Hospital’s earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. To effectively manage this risk, the Hospital entered into an interest rate swap agreement on September 15, 2003. The Hospital has established strict guidelines that are monitored regularly and does not hold or issue derivative financial instruments for trading or speculative purposes.

16. Financial instruments (continued):

(c) Financial instrument risk management (continued):

Credit risk (continued):

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure interest rate risk.

Liquidity risk:

Liquidity risk is the risk that the Hospital will not be able to meet all cash flow obligations as they come due. The Hospital mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and cash flow analysis.

Accounts payable and accrued vacation and overtime pay mature within one year. Long-term debt matures according to the table in note 7.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure liquidity risk.

Price and currency risks:

The Hospital is not exposed to significant price or currency risks.

17. Accounting changes:

On April 1, 2018, the Hospital adopted Canadian public sector accounting standard PS 3430 Restructuring Transactions

The adoption of this standard did not result in an accounting policy change for the Hospital and did not result in any adjustments to the financial statements as at April 1, 2018.

18. Comparative information:

Certain comparative information has been reclassified to conform with the presentation in the current year.