Financial statements of

Queensway Carleton Hospital

March 31, 2015

Queensway Carleton Hospital
March 31, 2014

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Independent Auditor's Report

To the Board of Directors of
Queensway Carleton Hospital

We have audited the accompanying financial statements of Queensway Carleton Hospital (the "Hospital"), which comprise the statement of financial position as at March 31, 2015, and the statements of operations, changes in net assets, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

May 29, 2015

Queensway Carleton Hospital

Statement of financial position
as at March 31, 2015

(tabular amounts in thousands of dollars)

	2015	2014
	$	$
Assets		
Current assets		
Cash	**40,995**	24,646
Receivable from governments (Note 4)	**634**	7,734
Accounts receivable	**6,821**	11,388
Due from Queensway Carleton Hospital Foundation	**323**	663
Inventories	**966**	799
Prepaid expenses	**1,322**	1,319
	51,061	46,549
Cash held for capital purposes	**5,104**	8,246
Capital assets (Note 5)	**224,727**	231,728
	280,892	286,523
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**23,531**	24,141
Accrued vacation and overtime pay	**4,760**	4,362
Deferred revenue (Note 6)	**7,594**	12,185
Current portion of long-term debt (Note 7)	**538**	506
	36,423	41,194
Long-term debt (Note 7)	**2,652**	3,242
Employee future benefits (Note 8)	**5,019**	4,119
Deferred contributions related to capital assets (Note 9)	**217,261**	223,263
	261,355	271,818
Net assets		
Invested in capital assets (Note 10)	**9,694**	13,329
Unrestricted	**10,157**	1,742
	19,851	15,071
Accumulated remeasurement losses	**(314)**	(366)
	280,892	286,523

Commitments, guarantees and contingent liabilities (Notes 11 and 12)

On behalf of the Board

Clare I Beckton Director

Director

See accompanying notes to the financial statements.

Queensway Carleton Hospital
Statement of operations
year ended March 31, 2015
(tabular amounts in thousands of dollars)

	2015	2014
	$	$
Revenue		
Funding from governments	**155,957**	153,270
Inpatient and outpatient	**4,249**	4,155
Ontario Health Insurance Plan	**14,249**	14,088
Preferred accommodation	**4,308**	4,247
Recoveries and other	**9,567**	11,539
Amortization of deferred contributions related to major equipment	**4,422**	3,961
Investment income	**216**	192
	192,968	191,452
Expenses		
Salaries and benefits	**134,536**	128,363
Medical and surgical supplies	**12,146**	12,401
Drugs	**3,611**	3,487
Supplies and other	**28,993**	29,101
Amortization of major equipment	**7,997**	6,237
	187,283	179,589
Excess of revenue over expenses before undernoted items	**5,685**	11,863
Amortization of deferred contributions related to buildings	**7,968**	7,642
Amortization of buildings and other	**(8,873)**	(9,093)
	(905)	(1,451)
Excess of revenue over expenses	**4,780**	10,412

See accompanying notes to the financial statements.

Queensway Carleton Hospital
Statement of changes in net assets
year ended March 31, 2015
(tabular amounts in thousands of dollars)

	Invested in capital assets	**Unrestricted**	Total **2015**	2014
	$	**$**	**$**	$
Balance, beginning of year	**13,329**	**1,742**	**15,071**	4,659
Excess of revenue over expenses	**-**	**4,780**	**4,780**	10,412
Net change in net assets invested in capital assets (Note 10)	**(3,635)**	**3,635**	**-**	-
Balance, end of year	**9,694**	**10,157**	**19,851**	15,071

See accompanying notes to the financial statements.

Queensway Carleton Hospital

Statement of changes in remeasurement gains and losses
year ended March 31, 2015

(tabular amounts in thousands of dollars)

	2015	2014
	$	$
Balance, beginning of year	**(366)**	(517)
Decrease in unrealized losses on interest rate swaps designated as hedges	**52**	151
Balance, end of year (Note 7)	**(314)**	(366)

See accompanying notes to the financial statements.

Queensway Carleton Hospital

Statement of cash flows
year ended March 31, 2015
(tabular amounts in thousands of dollars)

	2015	2014
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Excess of revenue over expenses	**4,780**	10,412
Items not affecting cash		
Amortization of capital assets	**16,870**	15,330
Amortization of contributions related to capital assets	**(12,390)**	(11,603)
Provision for employee future benefits	**900**	370
	10,160	14,509
Changes in non-cash operating working capital capital items (Note 15)	**6,306**	(10,848)
	16,466	3,661
Investing		
Decrease in cash held for capital purposes	**3,142**	14,893
Financing		
Principal payments under long-term debt	**(506)**	(476)
Capital		
Purchase of capital assets	**(8,587)**	(18,405)
Contributions received for capital assets	**5,834**	7,888
	(2,753)	(10,517)
Net cash inflow	**16,349**	7,561
Cash, beginning of year	**24,646**	17,085
Cash, end of year	**40,995**	24,646

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:

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 and, if applicable, charges for other than temporary impairment of investments. Unrealized gains and losses related to deferred contributions are recorded directly in deferred contributions, as appropriate, until disposal or impairment of the asset. At that time, the related gains and losses are reclassified and included in the Statement of operations.

Classification of financial instruments

Cash	Fair value
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

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.

2. Significant accounting policies (continued)

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:

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.

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, 2013 and extrapolated to March 31, 2015. The next required valuation will be as at April 1, 2016.

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 sixteen years (2014 - sixteen 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.

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.

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.

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.

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued)

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.

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, estimated useful lives of capital assets, valuation of swaps, collectibility of accounts receivable and the amount of certain accrued liabilities. 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.

4. Receivable from governments

	2015	2014
	$	$
Ministry of Health and Long-Term Care		
Capital	**554**	3,934
Operating	**72**	175
Champlain Local Health Integrated Network	**-**	3,606
Cancer Care Ontario	**8**	19
	634	7,734

(tabular amounts in thousands of dollars)

5. Capital assets

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land improvements	**3,272**	**2,701**	**571**	701
Buildings	**167,741**	**35,290**	**132,451**	135,609
Building service equipment	**97,140**	**29,681**	**67,459**	71,003
Major equipment	**101,469**	**86,301**	**15,168**	18,961
Construction in progress	**9,078**	**-**	**9,078**	5,454
	378,700	**153,973**	**224,727**	231,728

Cost and accumulated amortization as at March 31, 2014 amounted to $368,831,000 and $137,103,000, respectively.

6. Deferred revenue

	2015	2014
	$	$
Balance, beginning of year	**12,185**	20,721
Amount received during the year	**153,451**	147,254
Amount recognized to revenue	**(156,419)**	(151,607)
Amount reclassified to deferred contributions related to capital assets	**(1,623)**	(4,183)
Balance, end of year	**7,594**	12,185

7. Long-term debt

	2015	2014
	$	$
Co-generation project bank loan, reaching maturity on December 31, 2019, interest rate of 5.88% annual payments of $693, principal and interest	**2,876**	3,382
Unrealized losses on interest rate swaps	**314**	366
Total loans	**3,190**	3,748
Less current portion	**538**	506
	2,652	3,242

(tabular amounts in thousands of dollars)

7. Long-term debt (continued)

Principal payments required are as follows:

	$
2016	538
2017	572
2018	608
2019	646
2020	512
	2,876

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.

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 transactions is $2,876,000 (2014 - $3,382,000).

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.

During the year ended March 31, 2015, the Hospital amended the plans to provide for additional benefits to certain employees covered under the plans. Under the previous plans, retirees were responsible for 100% of the cost of retirement benefits. Under the amended plan, the Hospital pays for 50% of the cost of retirement benefits. The effect of this amendment was an additional cost of $505,000, which was recognized as a benefit expense during the year.

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

	2015	2014
	$	$
Accrued benefit obligation and funded status - plan deficit	**6,752**	5,121
Unamortized actuarial losses	**(1,733)**	(1,002)
Accrued benefit liability	**5,019**	4,119

(tabular amounts in thousands of dollars)

8. Employee future benefits (continued)

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

	2015	2014
	$	$
Benefit expense, included in Statement of operations	**990**	438
Payments made by the Hospital during the year	**(90)**	(68)
Change in accrued benefit liability	**900**	370

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

	2015	2014
	%	%
Discount rate for calculation of net benefit costs	**4.00**	4.00
Discount rate for calculation of accrued benefit obligation	**2.75**	4.00
Dental costs rate increase	**4.00**	4.00
Extended health care costs rate increase	**8.00**	8.00

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:

	2015	2014
	$	$
Balance, beginning of year	**223,263**	223,044
Contributions received during the year		
Ministry of Health and Long-Term Care	**2,473**	4,030
Queensway Carleton Hospital Foundation	**3,611**	6,454
Other	**135**	1,112
Interest earned on cash held for capital purposes	**169**	226
Amortization to revenue during the year	**(12,390)**	(11,603)
Balance, end of year	**217,261**	223,263

(tabular amounts in thousands of dollars)

9. Deferred contributions related to capital assets (continued)

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

	2015	2014
	$	$
Unspent contributions	**5,104**	8,246
Unamortized capital contributions	**212,157**	215,017
	217,261	223,263

10. Net assets invested in capital assets

Net assets invested in capital assets are calculated as follows:

	2015	2014
	$	$
Capital assets	**224,727**	231,728
Less amounts financed by:		
Deferred contributions	**(212,157)**	(215,017)
Long-term debt	**(2,876)**	(3,382)
Net assets invested in capital assets	**9,694**	13,329

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

	2015	2014
	$	$
Purchase of capital assets	**9,869**	21,891
Amounts funded by deferred contributions	**(6,388)**	(11,822)
Changes in unspent contributions	**(3,142)**	(14,893)
Repayment of long-term debt	**506**	476
Amortization of contributions related to capital assets	**12,390**	11,603
Amortization of capital assets	**(16,870)**	(15,330)
Net change in net assets invested in capital assets invested in capital asset	**(3,635)**	(8,075)

11. Commitments and guarantees

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.

11. Commitments and guarantees (continued)

Hospital redevelopment projects

The Hospital received commitment from the MOHLTC to support the planning and implementation for the Acute Care of the Elderly (“ACE”) unit. The total project is estimated to cost $9,670,600 including architect and related fees and equipment. The MOHLTC has approved a maximum capital grant for the project of $8,866,100 towards this cost. The balance of the project will be funded by the Queensway Carleton Hospital Foundation and the Queensway Carleton Hospital.

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, 2015, the Foundation has an outstanding balance of $8,790,465 (2014 - $9,367,000).

Line of credit

At March 31, 2015, Hospital Food Services - Ontario, Inc. ("HFS") has an outstanding balance of $6,922,686 (2014 - $7,076,000) 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, 2015 is 11.3% (2014 - 11.3%). This rate was fixed in 2008 - 2009 based on the percentage of the Hospital's purchases in that year.

At March 31, 2015, the Hospital's share of the potential debt repayment should HFS default on the line of credit is $782,264 (2014 - $800,000). As at the date of approval of the financial statements, there has been no such request by the debtor.

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, 2015, 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.

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, 2015.

The Hospital is contingently liable under 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 construction of the Phase IIIA Redevelopment project (Note 11).

13. Related party transactions

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, 2015, the Foundation contributed $3,611,000 (2014 - $6,454,000) to the Hospital for capital purposes. In addition, the Foundation contributed $47,000 (2014 - $64,000) in other contributions. As at March 31, 2015, the Foundation has a fund balance of $8,242,000 (2014 - $7,652,000).

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, 2015, the Foundation paid the Hospital $623,000 (2014 - $632,000) for maintenance and repairs and $226,000 (2014 - $219,000) for management of the parking facilities.

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, and as such, are exempt from income taxes. The Hospital maintains an economic interest in both entities.

At March 31, 2015, the Hospital had an economic interest of $318,991 (2014 - $390,000) of total net assets of $5,275,714 (2014 - $6,157,000) of HFS. The corresponding interest in ORHLS is $1,365,681 (2014 - $1,348,000) of total net assets of $12,338,944 (2014 - $12,189,000).

For the year ended March 31, 2015, the Hospital provided a total of $261,000 (2014 - $346,000) to HFS for food purchases. The Hospital also provided $2,128,000 (2014 - $2,091,000) to ORHLS for linen services. These amounts have been included in supplies and other on the Statement of operations.

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, 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 expense are $7,661,000 (2014 - $6,784,000) in laboratory charges from EORLA. Included in accounts payable at March 31, 2015 is a payable to EORLA of $786,000 (2014 - $227,000).

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.

During the year, the Hospital paid $128,000 (2014 - $170,000) to CHSS for the Hospital’s portion of CHSS’ operating expenses.

Included in accounts receivable at March 31, 2015 is an amount receivable from CHSS of $417,000 (2014 - $1,292,000) for payments made by the Hospital on behalf of CHSS.

(tabular amounts in thousands of dollars)

14. Pension plan

Substantially all of the employees of the Hospital are members of the Hospitals 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, 2013 indicated the Plan is fully funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $7,417,000 (2014 - $7,037,000) and are included in the Statement of operations.

15. Changes in non-cash operating working capital items

	2015	2014
	$	$
Receivable from governments	**7,654**	357
Accounts receivable	**4,567**	141
Due from related parties	**340**	3,284
Inventories	**(167)**	4
Prepaid expenses	**(3)**	(328)
Accounts payables and accrued liabilities	**(1,892)**	(5,764)
Accrued vacation and overtime pay	**398**	(6)
Deferred revenue	**(4,591)**	(8,536)
	6,306	(10,848)

In 2015, capital assets additions totalling $1,282,000 (2014 - $3,486,000) were excluded from the Statement of cash flows as they were unpaid at March 31. In addition, deferred contributions for capital assets totalling $554,000 (2014 - $3,934,000) were excluded from the Statement of cash flow as they were receivable as at March 31, 2015 (Note 4).

16. Financial instruments

Fair value

The fair values of cash, 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 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.

Fair value hierarchy

Financial instruments are grouped into Levels 1 to 3 based on the degree to which fair value is observable:

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).

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) is 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, 2015.

<u>Financial instrument risk management</u>

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.

16. Financial instruments (continued)

Credit risk (continued)

The Hospital considers receivables to be past due when they are over 90 days old. At March 31, 2015, the balance of receivables over 90 days is $891,000 (2014 - $5,780,000). Of this amount, $561,000 (2014 - $3,934,000) is receivable from Governments, and $120,000 (2014 - $1,577,000) relates to sales tax recovery. 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 agreements 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.

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 equity or currency risks.