

Financial statements of

**Queensway Carleton  
Hospital**

March 31, 2016

# Queensway Carleton Hospital

March 31, 2016

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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, 2016, and the statements of operations, changes in net assets, remeasurement gains and losses and cash flow 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, 2016, and the results of its operations, cash flows and remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants

May 25, 2016

# Queensway Carleton Hospital

## Statement of financial position

as at March 31, 2016

(tabular amounts in thousands of dollars)

	2016	2015
	\$	\$
<b>Assets</b>		
Current assets		
Cash	41,420	40,995
Short-term investments (Note 4)	5,072	-
Receivable from governments (Note 5)	615	634
Accounts receivable	7,752	6,821
Due from Queensway Carleton Hospital Foundation	184	323
Inventories	833	966
Prepaid expenses	1,521	1,322
	<b>57,397</b>	<b>51,061</b>
Cash held for capital purposes	426	5,104
Capital assets (Note 6)	220,821	224,727
	<b>278,644</b>	<b>280,892</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	33,783	28,244
Accrued vacation and overtime pay	4,787	4,760
Deferred revenue (Note 7)	3,183	2,881
Current portion of long-term debt (Note 8)	572	538
	<b>42,325</b>	<b>36,423</b>
Long-term debt (Note 8)	1,972	2,652
Employee future benefits (Note 9)	5,473	5,019
Deferred contributions related to capital assets (Note 10)	207,825	217,261
	<b>257,595</b>	<b>261,355</b>
<b>Net assets</b>		
Invested in capital assets (Note 11)	11,084	9,694
Unrestricted	10,171	10,157
	<b>21,255</b>	<b>19,851</b>
Accumulated rereasurement losses	(206)	(314)
	<b>278,644</b>	<b>280,892</b>

Commitments, guarantees and contingent liabilities (Notes 12 and 13)

On behalf of the Board

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

See accompanying notes to the financial statements.

# Queensway Carleton Hospital

## Statement of operations

year ended March 31, 2016

(tabular amounts in thousands of dollars)

	2016	2015
	\$	\$
<b>Revenue</b>		
Funding from governments	154,209	155,957
Inpatient and outpatient	4,829	4,249
Ontario Health Insurance Plan	14,183	14,249
Preferred accommodation	3,949	4,308
Recoveries and other	10,569	9,567
Amortization of deferred contributions related to major equipment	4,693	4,422
Investment income	280	216
	<b>192,712</b>	<b>192,968</b>
<b>Expenses</b>		
Salaries and benefits	138,766	134,536
Medical and surgical supplies	12,073	12,146
Drugs	3,658	3,611
Supplies and other	29,091	28,993
Amortization of major equipment	6,926	7,997
	<b>190,514</b>	<b>187,283</b>
Excess of revenue over expenses before undernoted items	<b>2,198</b>	<b>5,685</b>
Amortization of deferred contributions related to buildings	7,928	7,968
Amortization of buildings and other	(8,722)	(8,873)
	<b>(794)</b>	<b>(905)</b>
<b>Excess of revenue over expenses</b>	<b>1,404</b>	<b>4,780</b>

See accompanying notes to the financial statements.

# Queensway Carleton Hospital

## Statement of changes in net assets

year ended March 31, 2016

(tabular amounts in thousands of dollars)

	Invested in capital assets	Unrestricted	Total 2016	2015
	\$	\$	\$	\$
Balance, beginning of year	9,694	10,157	19,851	15,071
Excess of revenue over expenses	-	1,404	1,404	4,780
Net change in net assets invested in capital assets (Note 11)	1,390	(1,390)	-	-
<b>Balance, end of year</b>	<b>11,084</b>	<b>10,171</b>	<b>21,255</b>	<b>19,851</b>

See accompanying notes to the financial statements.

# Queensway Carleton Hospital

## Statement of changes in remeasurement gains and losses year ended March 31, 2016

(tabular amounts in thousands of dollars)

	<b>2016</b>	2015
	\$	\$
<b>Balance, beginning of year</b>	<b>(314)</b>	(366)
Decrease in unrealized losses attributable to interest rate swaps	<b>108</b>	52
<b>Balance, end of year</b>	<b>(206)</b>	(314)

See accompanying notes to the financial statements.



# Queensway Carleton Hospital

## Statement of cash flow

year ended March 31, 2016

(tabular amounts in thousands of dollars)

	2016	2015
	\$	\$
Net inflow (outflow) of cash related to the following activities:		
<b>Operating</b>		
Excess of revenue over expenses	1,404	4,780
Items not affecting cash		
Amortization of capital assets	15,648	16,870
Amortization of contributions related to capital assets	(12,621)	(12,390)
Provision for employee future benefits	454	900
Amortization of discount on short-term investments	(72)	-
	<b>4,813</b>	<b>10,160</b>
Changes in non-cash operating working capital capital items (Note 16)	<b>4,718</b>	<b>6,306</b>
	<b>9,531</b>	<b>16,466</b>
<b>Investing</b>		
Purchase of short-term investments	(5,000)	-
Decrease in cash held for capital purposes	4,678	3,142
	<b>(322)</b>	<b>3,142</b>
<b>Financing</b>		
Principal payments under long-term debt	(538)	(506)
<b>Capital</b>		
Purchase of capital assets	(10,816)	(8,587)
Contributions received for capital assets	2,570	5,834
	<b>(8,246)</b>	<b>(2,753)</b>
Net cash inflow	<b>425</b>	<b>16,349</b>
Cash, beginning of year	<b>40,995</b>	<b>24,646</b>
<b>Cash, end of year</b>	<b>41,420</b>	<b>40,995</b>

See accompanying notes to the financial statements.

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

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### 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, 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.

#### *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

#### *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.

#### *Investments*

Purchases of investments are recorded on the settlement date.

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

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### 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, 2016. 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 (2015 - 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.

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

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### 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 8.

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 14). 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. Short-term investments

Short-term investments consists of:

	2016		2015	
	Fair value	Cost and carrying value	Fair value	Cost and carrying value
	\$	\$	\$	\$
Bank deposit note, face value \$5,000,000	4,949	4,958	-	-
High Interest Investment Account Fund	115	114	-	-
Total short term investments	5,064	5,072	-	-

During the year, the Hospital purchased a Bank deposit note at a discount with a face value of \$5,000,000. The Bank deposit note has an expected yield to maturity of 1.4% and a maturity date of November 22, 2016.

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

### 5. Receivable from governments

	2016	2015
	\$	\$
Ministry of Health and Long-Term Care		
Capital	615	554
Operating	-	72
Cancer Care Ontario	-	8
	<b>615</b>	<b>634</b>

### 6. Capital assets

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land improvements	3,853	2,861	992	571
Buildings	167,151	38,891	128,260	132,451
Building service equipment	97,999	34,300	63,699	67,459
Major equipment	115,757	93,227	22,530	15,168
Construction in progress	5,340	-	5,340	9,078
	<b>390,100</b>	<b>169,279</b>	<b>220,821</b>	<b>224,727</b>

Cost and accumulated amortization as at March 31, 2015 amounted to \$378,700,000 and \$153,973,000, respectively.

### 7. Deferred revenue

	2016	2015
	\$	\$
<b>Balance, beginning of year</b>	<b>2,881</b>	12,185
Amount received during the year	159,344	161,840
Amount recognized to revenue	(155,377)	(156,419)
Amount reclassified to accounts payable	(2,009)	(4,713)
Amount reclassified to accounts receivable	89	(8,389)
Amount reclassified to deferred contributions related to capital assets	(1,745)	(1,623)
<b>Balance, end of year</b>	<b>3,183</b>	2,881

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

### 8. Long-term debt

	2016	2015
	\$	\$
Co-generation project bank loan, reaching maturity on December 31, 2019, interest rate of 5.88% with an annual payments of \$693, principal and interest	2,338	2,876
Accumulated unrealized losses on interest rate swaps	206	314
Total	2,544	3,190
Less current portion	572	538
	1,972	2,652

Principal payments required are as follows:

	\$
2016-17	572
2017-18	608
2018-19	646
2019-20	512
	2,338

#### *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 \$2,338,000 (2015 - \$2,876,000).

### 9. 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:

	2016	2015
	\$	\$
Accrued benefit obligation and funded status - plan deficit	6,894	6,752
Unamortized actuarial losses	(1,421)	(1,733)
Accrued benefit liability	5,473	5,019

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

### 9. Employee future benefits (continued)

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

	2016	2015
	\$	\$
Benefit expense, included in Statement of operations	531	990
Payments made by the Hospital during the year	(77)	(90)
<b>Change in accrued benefit liability</b>	<b>454</b>	<b>900</b>

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

	2016	2015
	%	%
Discount rate for calculation of net benefit costs	2.75	4.00
Discount rate for calculation of accrued benefit obligation	3.00	2.75
Dental costs rate increase	4.00	4.00
Extended health care costs rate increase	8.00	8.00

### 10. 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:

	2016	2015
	\$	\$
<b>Balance, beginning of year</b>	<b>217,261</b>	<b>223,263</b>
Contributions payable to Ministry of Health and Long-Term Care net of contributions received during the year	(1,494)	2,473
Queensway Carleton Hospital Foundation	4,119	3,611
Other	383	135
Interest earned on cash held for capital purposes	177	169
Amortization to revenue during the year	(12,621)	(12,390)
<b>Balance, end of year</b>	<b>207,825</b>	<b>217,261</b>

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

	2016	2015
	\$	\$
Unspent contributions	426	5,104
Unamortized capital contributions	207,399	212,157
	<b>207,825</b>	<b>217,261</b>

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

### 11. Net assets invested in capital assets

Net assets invested in capital assets are calculated as follows:

	2016	2015
	\$	\$
Capital assets	220,821	224,727
Less amounts financed by:		
Deferred contributions	(207,399)	(212,157)
Long-term debt	(2,338)	(2,876)
<b>Net assets invested in capital assets</b>	<b>11,084</b>	<b>9,694</b>

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

	2016	2015
	\$	\$
Purchase of capital assets	11,742	9,869
Amounts funded by deferred contributions	(3,185)	(6,388)
Changes in unspent contributions	(4,678)	(3,142)
Repayment of long-term debt	538	506
Amortization of contributions related to capital assets	12,621	12,390
Amortization of capital assets	(15,648)	(16,870)
<b>Net change in net assets invested in capital assets</b>	<b>1,390</b>	<b>(3,635)</b>

### 12. 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.

#### *Hospital redevelopment project*

During the year, the Hospital received approval to award the construction contract to fit up the 34-bed Acute Care of the Elderly ("ACE") unit on the third floor of the Hospital's James Beach Health Care Centre. The total project is estimated to cost \$7,486,200 including architect and related fees. The MOHLTC has approved a maximum capital grant for the project of \$6,773,800 towards this cost. The balance of the project will be funded by the Queensway Carleton Hospital Foundation and the Queensway Carleton Hospital. This project is expected to be completed by March 31, 2017.

#### *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 14. The Hospital is not aware of any facts which would cause a default of the loan by the Foundation. At March 31, 2016, the Foundation has an outstanding balance of \$8,192,865 (2015 - \$8,790,465).



# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

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### 12. Commitments and guarantees (continued)

#### *Line of credit*

At March 31, 2016, Hospital Food Services - Ontario, Inc. ("HFS") has an outstanding balance of \$5,870,092 (2015 - \$6,922,686) 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, 2016 is 11.3% (2015 - 11.3%). This rate was fixed in 2008 - 2009 based on the percentage of the Hospital's purchases in that year.

At March 31, 2016, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$663,320 (2015 - \$782,264). As at the date of approval of the financial statements, there has been no such request by the debtor.

### 13. 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, 2016, 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, 2016.

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 completion of the construction of the Hospital's Redevelopment project (Note 12).

### 14. 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, 2016, the Foundation contributed \$4,119,000 (2015 - \$3,611,000) to the Hospital for capital purposes. In addition, the Foundation contributed \$58,000 (2015 - \$47,000) in other contributions. As at March 31, 2016, the Foundation has a fund balance of \$9,692,000 (2015 - \$8,242,000).

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, 2016, the Foundation paid the Hospital \$699,000 (2015 - \$623,000) for maintenance and repairs and \$238,000 (2015 - \$226,000) for management of the parking facilities.

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

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### 14. Related party transactions (continued)

#### *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, 2016, the Hospital had an economic interest of \$373,348 (2015 - \$318,991) of total net assets of \$6,126,455 (2015 - \$5,275,714) of HFS. The corresponding interest in ORHLS is \$1,382,145 (2015 - \$1,357,485) of total net assets of \$12,483,943 (2015 - \$12,267,680).

For the year ended March 31, 2016, the Hospital provided a total of \$209,000 (2015 - \$261,000) to HFS for food purchases. The Hospital also provided \$2,120,000 (2015 - \$2,128,000) 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 expenses are \$7,344,000 (2015 - \$7,661,000) in laboratory charges from EORLA. Included in accounts payable at March 31, 2016 is a payable to EORLA of \$1,279,000 (2015 - \$786,000).

#### *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 \$146,000 (2015 - \$128,000) to CHSS for the Hospital's portion of CHSS' operating expenses.

Included in accounts receivable at March 31, 2016 is an amount receivable from CHSS of \$855,000 (2015 - \$417,000) for payments made by the Hospital on behalf of CHSS.

### 15. 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.

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

### 15. Pension plan (continued)

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, 2015 indicated the Plan is fully funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$7,749,000 (2015 - \$7,417,000) and are included in the Statement of operations.

### 16. Changes in non-cash operating working capital items

	2016	2015
	\$	\$
Receivable from governments	634	7,654
Accounts receivable	(931)	4,567
Due from related parties	139	340
Inventories	133	(167)
Prepaid expenses	(199)	(3)
Accounts payables and accrued liabilities	4,613	(1,892)
Accrued vacation and overtime pay	27	398
Deferred revenue	302	(4,591)
	<b>4,718</b>	<b>6,306</b>

In 2016, capital assets additions totalling \$926,000 (2015 - \$1,282,000) were excluded from the Statement of cash flow as they were unpaid at March 31. In addition, deferred contributions for capital assets totalling \$615,000 (2015 - \$554,000) were excluded from the Statement of cash flow as they were receivable as at March 31, 2016 (Note 5).

### 17. Financial instruments

#### *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 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:

- 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).

# Queensway Carleton Hospital

## Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

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### 17. Financial instruments (continued)

#### *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, 2016.

#### *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, 2016, the balance of receivables over 90 days is \$1,332,000 (2015 - \$891,000). Of this amount, \$555,000 (2015 - \$561,000) is receivable from the MOHLTC, \$560,000 (2015 - \$194,000) is receivable from partner hospital organizations and \$Nil (2015 - \$120,000) 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 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.

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 8.

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.

# Queensway Carleton Hospital

Notes to the financial statements

March 31, 2016

(tabular amounts in thousands of dollars)

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**17. Financial instruments (continued)**

Price and currency risks

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

**18. Comparative Figures**

Certain comparative figures have been reclassified to conform with the presentation in the current year.