

Financial Statements of

**ROYAL OTTAWA HEALTH
CARE GROUP**

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Royal Ottawa Health Care Group

Opinion

We have audited the financial statements of the Royal Ottawa Health Care Group (the "Entity"), 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 fund balances for the year then ended
- the statement of cash flows for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A stylized, handwritten-style signature of 'KPMG LLP' in black ink, with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 20, 2019

ROYAL OTTAWA HEALTH CARE GROUP

Financial Statements

Year ended March 31, 2019

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ROYAL OTTAWA HEALTH CARE GROUP

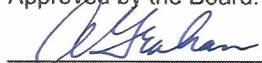
Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 7,603,493	\$ 12,825,303
Short-term investments (note 3(a))	23,435,993	19,958,598
Accounts receivable (note 4)	4,535,884	3,984,537
Receivable from Provinces and Territories	1,830,395	4,796,844
Due from related entities (note 5)	1,227,064	1,680,706
Inventories	506,086	500,958
Prepaid expenses	2,886,637	2,979,145
	42,025,552	46,726,091
Restricted investments - building reserves (note 3(b))	16,917,841	16,856,738
Capital assets (note 6)	159,757,937	162,676,209
	\$ 218,701,330	\$ 226,259,038
Liabilities and Fund Balances		
Current liabilities:		
Payable to the Province of Ontario	\$ 15,275,511	\$ 15,460,368
Accounts payable and accrued liabilities	19,563,287	24,041,407
Advance payments for designated projects	1,082,765	1,278,196
Current portion of deferred revenue	2,315,616	3,095,282
Scheduled cash repayments of loans (note 7)	900,419	868,135
Current portion of capital lease obligation (note 7)	8,409,212	7,879,398
Current liabilities before callable debt	47,546,810	52,622,786
Callable debt (note 7)	4,178,341	5,078,760
	51,725,151	57,701,546
Long-term debt (note 7)	81,106,199	89,562,731
Deferred revenue	12,343,728	11,800,961
Deferred capital asset contributions (note 8)	54,088,835	50,232,450
Employee future benefits (note 14)	7,026,700	6,748,500
Due to external parties - vested benefits	201,914	234,917
Fund balances:		
Internally restricted	1,466,062	1,329,235
Unrestricted	9,645,650	8,840,206
	11,111,712	10,169,441
Accumulated remeasurement gains (losses)	1,097,091	(191,508)
	12,208,803	9,977,933
Commitments (notes 13 and 16(a))		
Contingencies (notes 16(b), 16(c) and 17)		
	\$ 218,701,330	\$ 226,259,038

See accompanying notes to financial statements.

Approved by the Board:



Director



Director

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Operations

Year ended March 31, 2019, with comparative information for 2018

	Operations Fund	Non- Operations Fund	2019	2018
Revenue:				
Funding from the Province of Ontario:				
Ministry of Health and Long-Term Care	\$ 126,551,637	\$ 6,203,323	\$ 132,754,960	\$ 130,979,063
Ministry of Children and Youth Services	3,093,475	—	3,093,475	3,220,687
Ministry of Community Safety and Correctional Services	15,357,204	—	15,357,204	14,653,646
Department of Veterans Affairs	6,030,518	—	6,030,518	4,624,454
Patient revenues	4,519,023	—	4,519,023	4,317,939
Differential revenues	166,109	—	166,109	182,459
Amortization of deferred contributions - major equipment	2,253,551	—	2,253,551	1,804,051
Amortization of deferred contributions - land, buildings, services	194,634	5,022,557	5,217,191	5,338,960
Recoveries and other revenue	9,554,729	—	9,554,729	6,992,304
Investment income	924,590	—	924,590	1,075,584
	168,645,470	11,225,880	179,871,350	173,189,147
Expenses:				
Salaries and wages	94,784,240	—	94,784,240	92,189,474
Employee benefits	24,555,179	—	24,555,179	24,325,644
Medical staff remuneration	10,240,814	—	10,240,814	10,244,116
Medical and surgical supplies	533,966	—	533,966	451,664
Drugs	1,425,454	—	1,425,454	1,388,449
Contracts and other (note 12)	32,041,359	—	32,041,359	28,520,947
Amortization of equipment	3,091,201	—	3,091,201	2,369,461
Amortization of buildings and land improvements	476,170	5,327,796	5,803,966	5,831,267
Mortgage interest	249,555	6,203,345	6,452,900	6,938,513
	167,397,938	11,531,141	178,929,079	172,259,535
Excess (deficiency) of revenue over expenses	\$ 1,247,532	\$ (305,261)	\$ 942,271	\$ 929,612

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Changes in Fund Balances

Year ended March 31, 2019, with comparative information for 2018

	<u>Operations</u>		<u>Non-Operations</u>		2019 Total	2018 Total
	Internally restricted	Unrestricted	Unrestricted			
Fund balance, beginning of year	\$ 1,329,235	\$ 8,840,206	\$ —	\$ 10,169,441	\$ 9,239,829	
Excess (deficiency) of revenue over expenses	—	1,247,532	(305,261)	942,271	929,612	
Transfer of ancillary revenue for local share of ROH Redevelopment Project	136,827	(442,088)	305,261	—	—	
Fund balance, end of year	\$ 1,466,062	\$ 9,645,650	\$ —	\$ 11,111,712	\$ 10,169,441	

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 942,271	\$ 929,612
Items not affecting cash:		
Amortization of deferred capital asset contributions	(7,470,742)	(7,143,011)
Amortization of capital assets	8,895,167	8,200,727
Gain on disposal of capital assets	(655)	(6,359)
Fair value adjustment in investments	156,114	255,826
Decrease in due to external parties - vested benefits	(33,003)	(34,671)
Increase in employee future benefits	278,200	163,500
Changes in non-cash operating working capital items (note 10(a))	(2,681,950)	(3,271,577)
	85,402	(905,953)
Capital activities:		
Increase in deferred capital asset contributions	11,327,127	12,911,468
Purchase of capital assets	(5,976,895)	(2,677,629)
Proceeds on sale of capital assets	655	6,359
	5,350,887	10,240,198
Financing activities:		
Increase in deferred revenue	542,767	175,512
Principal repayments on long-term debt	(8,747,535)	(8,220,368)
	(8,204,768)	(8,044,856)
Investing activities:		
Net acquisitions on short-term investments	(2,631,680)	(654,722)
Net disposals (acquisitions) on restricted investments	178,349	(1,907,893)
	(2,453,331)	(2,562,615)
Decrease in cash	(5,221,810)	(1,273,226)
Cash, beginning of year	12,825,303	14,098,529
Cash, end of year	\$ 7,603,493	\$ 12,825,303

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Statement of Remeasurement Gains and Losses

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Accumulated remeasurement gains (losses), beginning of year	\$ (191,508)	\$ 163,884
Change in cumulative gains (losses) in the year:		
Realized gain/(loss) on investments	(111,259)	74,199
Unrealized gain/(loss) on investments	1,352,540	(775,025)
Derivatives (note 7(f)(ii))	47,318	345,434
Net remeasurement gains (losses) for year	1,288,599	(355,392)
Accumulated remeasurement gains (losses), end of year	\$ 1,097,091	\$ (191,508)

See accompanying notes to financial statements.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements

Year ended March 31, 2019

1. Nature of entity:

Royal Ottawa Health Care Group (the "Group") was incorporated under the Corporations Act of Ontario. The Group is a not-for-profit organization under the Income Tax Act (Canada) and as such is exempt from income taxes. The Group is comprised of the Royal Ottawa Mental Health Center ("ROMHC"), Brockville Mental Health Center ("BMHC"), and Royal Ottawa Place, a long-term care facility.

The financial statements do not include the assets, liabilities or operations of Royal Ottawa Foundation for Mental Health, University of Ottawa Institute of Mental Health Research, Royal Ottawa Volunteer Association, NCE-IKTP Youth Mental Health, Friends of Royal Ottawa Foundation, Inc. or Healthcare Food Services Inc. Each of these entities shares a relationship with the Group as disclosed in note 5.

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations and include the following significant accounting policies:

(a) Basis of presentation:

The Group follows the deferral method of accounting for contributions for government not-for-profit organizations which includes provincial government allocations, other contributions and grants.

(b) Revenue recognition and fund accounting:

The accounts of the Group are classified for reporting purposes into funds in accordance with activities or objectives specified by the external parties or in accordance with the directives issued by the Board of Trustees. For financial reporting purposes, the fund balances have been classified into two funds consisting of the following:

- (i) The Operations Fund includes the day-to-day transactions in regard to the operations of the Group. Unless otherwise specified, any interest earned is included in the Operations Fund.
- (ii) The Non-Operations Fund includes transactions of a capital nature related to the funding and financing of the cost of construction and the life cycle costs of the ROH Redevelopment Project.

The Group receives the majority of its funding from the Ministry of Health and Long-Term Care of Ontario, the Ministry of Community Safety and Correctional Services, and the Ministry of Children and Youth Services (collectively, the "Ministries").

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(b) Revenue recognition and fund accounting (continued):

Annual provincial allocations are determined by the Ministries and are recorded as revenue in the year to which they relate. The Group is responsible for any incurred deficit. The final amount of operating revenue recorded cannot be determined until the Ministries have reviewed the Group's financial and statistical returns for the year. Any adjustments arising from the Ministries' review are recorded in the period in which the adjustment is made. The total receivable balance from the Ministries in respect of the Group's operations comprises the remaining balance of the agreed allocation and outstanding amounts, if any, from earlier years.

Other contributions and grants are received primarily for capital, research and development and other purposes. Contributions received for capital purposes are credited to deferred capital asset contributions and amortized on the same basis as the related asset. Grants received for research and development and other purposes are deferred and offset against related costs as incurred.

Patient revenues, differential revenues and other revenue are recognized when the goods are sold or the service is provided.

Investment income is recorded in the statement of operations when earned.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(c) Financial instruments (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost. The related interest rate swaps are recorded at fair value.

Canadian public sector accounting standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 - Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

The Group uses derivative financial instruments to manage interest rate risk. The only derivative products used are interest rate swaps (see notes 7 and 11 for further details). Derivative instruments are recorded on the statement of financial position as assets or liabilities and are measured at fair value. Derivatives with positive fair value are reported as assets and derivatives with negative fair value are reported as liabilities.

The Group uses hedge interest rate swaps to hedge variability in forecasted cash flows. Changes in the fair value of the swap are included directly in the statement of remeasurement gains and losses.

The periodic exchanges of payments on interest rate swaps designated as hedges of debt are recorded as an adjustment to interest expenses of the hedged item in the same period.

The fair values of over-the-counter derivatives are based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis, or are determined by using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Counterparty credit risk and liquidity valuation adjustments are recorded, as appropriate.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(d) Inventories:

Inventories are comprised of pharmaceutical, medical and office supplies and are valued at the lower of cost, determined on a weighted average basis, and net realizable value.

(e) Capital assets:

Purchased capital assets, other than minor equipment, are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of future minimum lease payments and amortized over the estimated life of the assets. When a capital asset no longer contributes to the Group's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis, over the estimated useful service lives, as follows:

Asset	Useful life
Buildings	40 to 50 years
Leasehold improvements	10 to 20 years
Furniture, equipment and software	5 to 10 years
Medical equipment	10 to 15 years
Land improvements	10 to 25 years

Construction-in-progress is amortized in the period that the assets are put into use.

(f) Employee future benefits:

The Group is an employer member of the Healthcare 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.

The Group provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include life insurance and health care benefits, retirement gratuity, sick leave and worker's compensation.

The Group accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension, compensated absences and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the benefit plans for funding purposes was as of March 31, 2017, and the next required valuation will be as of March 31, 2020.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(f) Employee future benefits (continued):

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. 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 net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 13 years (2018 - 13 years). The other retirement benefits plan does not have any active members.

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

The costs of multi-employer defined contribution pension plan benefits, such as the Healthcare of Ontario Pension Plan ("HOOPP"), are the employer's contributions due to the plan in the period.

(g) Contributed services:

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

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Significant areas requiring the use of management's estimates include management's estimates used to develop actuarial assumptions with respect to employee future benefits. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period they become known.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Investments:

(a) Short-term investments:

	2019		2018	
	Cost	Carrying and fair value	Cost	Carrying and fair value
Cash, Marketable Securities and Other Short Term	\$ 866,163	\$ 866,655	\$ 954,507	\$ 954,457
Government of Canada bonds, 1.25% to 2.35% (2018 - 1.5% to 3.75%) maturing June 2021 to June 2027 (2018 - December 2018 to June 2026)	1,915,282	1,991,813	2,548,940	2,472,798
Provincial bonds, 1.25% to 4.2% (2018 - 1.35% to 4.2%) maturing June 2020 to June 2026 (2018 - September 2018 to June 2026)	7,103,598	7,247,895	4,482,106	4,413,991
Canadian corporate bonds (2018 - 2.13% to 2.84%) maturing (2018 - June 2020)	—	—	814,298	804,019
Canadian bond funds	5,790,661	5,690,435	5,453,387	5,283,981
Canadian equities	3,932,935	4,914,893	3,115,277	3,749,825
U.S. equities	1,816,372	2,261,587	1,692,007	2,119,792
International equities	432,520	462,715	165,330	159,735
	\$ 21,857,531	\$ 23,435,993	\$ 19,225,852	\$ 19,958,598

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Investments (continued):

(b) Restricted investments - building reserves:

	2019		2018	
	Cost	Carrying and fair value	Cost	Carrying and fair value
<i>Sinking fund trust investments:</i>				
Cash, Marketable Securities and Other Short Term	\$ 178,129	\$ 178,010	\$ 247,907	\$ 247,698
Government of Canada bonds, 1.25% to 2.35% (2018 - 1.5% to 3.75%) maturing June 2021 to June 2027 (2018 - December 2018 to June 2026)	352,225	361,592	465,494	451,906
Provincial bonds, 1.25% to 4.2% (2018 - 1.35% to 4.2%) maturing June 2020 to June 2026 (2018 - September 2018 to June 2025)	1,295,319	1,319,531	1,360,452	1,343,909
Canadian corporate bonds, (2018 - 2.13%) maturing (2018 - June 2020)	—	—	126,060	124,412
Canadian bond funds	1,035,335	1,016,335	1,308,265	1,264,796
Canadian equities	740,730	897,990	785,676	902,707
US equities	300,484	392,383	389,355	509,176
International equities	82,886	91,506	69,600	67,717
	\$ 3,985,108	\$ 4,257,347	\$ 4,752,809	\$ 4,912,321

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Investments (continued):

(b) Restricted investments - building reserves (continued):

	2019		2018	
	Cost	Carrying and fair value	Cost	Carrying and fair value
<i>Life cycle reserve investments:</i>				
Cash, Marketable Securities and Other Short Term	\$ 336,053	\$ 336,514	\$ 939,841	\$ 939,841
Government of Canada bonds, 1.5% to 3.8% (2018 - 1.5% to 3.8%) maturing June 2019 to June 2027 (2018 - December 2018 to June 2026)	3,393,036	3,263,236	3,303,249	3,159,407
Provincial bonds, 1.25% to 3.7% (2018 - 1.25% to 3.70%) maturing June 2020 to June 2025 (2018 - September 2018 to June 2025)	5,061,528	5,071,614	4,586,829	4,499,392
Canadian corporate bonds, 1.83% to 3.226% (2018 - 2.13% to 3.226%) maturing June 2020 to December 2026 (2018 - June 2020 to July 2024)	2,554,205	2,540,756	2,102,274	2,074,126
	\$ 11,344,822	\$ 11,212,120	\$ 10,932,193	\$ 10,672,766
<i>Facility reserve investments:</i>				
Cash	\$ 1,448,374	\$ 1,448,374	\$ 1,271,651	\$ 1,271,651
Total building reserves - investments	\$ 16,778,304	\$ 16,917,841	\$ 16,956,653	\$ 16,856,738

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Investments (continued):

(b) Restricted investments - building reserves (continued):

(i) Building reserves - investments:

The market value of the bonds fluctuates with changes in market interest rates. There is no significant concentration of investments in any one issuer or industry sector and the Group invests only in liquid securities.

(ii) Sinking fund trust:

The Group is required to fund a portion of the cost of the Royal Ottawa Hospital Redevelopment Project which will be met through various revenue streams as well as a \$15,000,000 capital campaign which was undertaken by the Royal Ottawa Foundation for Mental Health. At March 31, 2019, the balance of the fund was \$4,257,347 (2018 - \$4,912,321).

(iii) Life cycle reserve:

The ROH Redevelopment Project agreements include a life cycle plan which recognizes that over time various capital parts of the new facility will need to be restored or replaced. The purpose of the account is to pay for certain capital costs regarding the new facility. At March 31, 2019, the balance of the fund was \$11,212,120 (2018 - \$10,672,766).

(iv) Facility reserve:

The ROH Redevelopment Project agreements include provision for modification to tenant space which recognizes that over time the facility space requirements will change. The purpose of the account is to pay for the Group's special initiatives in the facility. At March 31, 2019, the balance of the fund was \$1,448,374 (2018 - \$1,271,651).

(v) Fair value:

All of the Group's investments are measured using Level 1 on the fair value hierarchy.

4. Accounts receivable:

	2019	2018
Accounts receivable	\$ 4,763,974	\$ 4,409,815
Less allowance for doubtful accounts	228,090	425,278
	<u>\$ 4,535,884</u>	<u>\$ 3,984,537</u>

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

5. Related entities:

(a) Royal Ottawa Foundation for Mental Health:

The Group has an economic interest in the Royal Ottawa Foundation for Mental Health (the "Foundation"). The Foundation was established to raise, receive, maintain and manage funds to be distributed towards various programs and capital projects of the Group. The Group has a balance receivable from the Foundation in the amount of \$611,604 (2018 - \$511,722) relating to inter-entity charges. The balance is non-interest-bearing, has no fixed terms of repayment and is repayable on demand. During the year, the Foundation has transferred an amount of \$313,228 (2018 - \$767,931) to the Group as part of its capital campaign.

(b) University of Ottawa Institute of Mental Health Research:

The Group has control over the University of Ottawa Institute of Mental Health Research (the "Institute") through its ability to elect the majority of voting board members. The Institute carries on and promotes scientific research for the benefit of the general public. The Group has a balance receivable from the Institute in the amount of \$3,269 (2018 - \$176,941). The balance is non-interest-bearing, has no fixed terms of repayment and is repayable on demand. The Group also has a balance receivable from the Institute of \$524,805 (2018 - \$442,159) relating to accrued payroll liabilities.

The Institute's assets, liabilities, revenue and expenses are as follows for the years ended March 31:

	2019	2018
Assets		
Other assets	\$ 9,847,500	\$ 10,305,339
Liabilities and Net Assets		
Liabilities:		
Due to Royal Ottawa Health Care Group	\$ 528,074	\$ 619,100
Other liabilities	7,371,793	6,872,281
	7,899,867	7,491,381
Net assets	1,947,633	2,813,958
	\$ 9,847,500	\$ 10,305,339

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

5. Related entities:

(b) University of Ottawa Institute of Mental Health Research (continued):

	2019	2018
Revenue	\$ 5,442,868	\$ 4,882,559
Expenses	6,476,627	4,810,757
Excess (deficiency) of revenue over expenses	\$ (1,033,759)	\$ 71,802

(c) Royal Ottawa Volunteer Association:

The Group has an economic interest in the Royal Ottawa Volunteer Association (the "Association"). The Association assists the Group in improving the health, rehabilitation and well-being of patients by providing funding to the Group. The Group has a balance receivable from the Association in the amount of \$11,668 (2018 - \$10,589).

(d) NCE-IKTP Youth Mental Health:

The Group has an economic interest in the NCE-IKTP Youth Mental Health ("Frayme"). Frayme's purpose is to transform youth mental health systems in Canada and around the world by establishing a platform to address urgent priorities, influencing internal services and policies, filling the gaps between research and the need for dissemination and clinical implementation and identifying gaps in research. The Group incurs some expenses on behalf of Frayme, for which Frayme reimburses the Group. The Group also provides certain administrative support services to Frayme at no charge. The Group has a balance receivable from Frayme of \$75,718 (2018 - \$45,761) relating to this reimbursement of expenses. The balance is non-interest-bearing, has no fixed terms of repayment and is repayable on demand.

(e) Friends of Royal Ottawa Foundation, Inc.

The purpose of the Friends of Royal Ottawa Foundation Inc., is to further educational, scientific, and charitable purposes pursuant to the provisions of the Delaware General Corporation Law (the "DGCK") and other applicable laws. The Friends of Royal Ottawa Foundation Inc., is exempt from income taxes under subsection 149 (a)(1) of the Income Tax Act (Canada).

The Group has an economic interest in the Friends of Royal Ottawa Foundation, Inc. The Friends was established to raise, receive, maintain and manage funds to be distributed towards various programs and capital projects of the Group. The Friends of Royal Ottawa Foundation, Inc. has no amounts owing to the Group as at March 31, 2019.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

5. Related entities (continued):

(f) Healthcare Food Services Inc.:

The Group is a founding member of Healthcare Food Services Inc. ("HFS"). HFS was established provide food services, respectively to member hospitals on a cost of service basis.

Subsequent to year-end, HFS entered into an agreement to sell its business in the form of an asset sale, which closed on May 13, 2019. The proceeds of the sale, subject to certain closing adjustments, will be distributed to the member hospitals.

6. Capital assets:

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 786,626	\$ –	\$ 786,626	\$ 786,626
Buildings	21,146,066	6,659,333	14,486,733	14,975,608
Buildings - capital lease	157,750,427	47,792,982	109,957,445	113,844,509
Leasehold Improvements	27,860,525	8,720,676	19,139,849	20,192,147
Furniture, equipment and software	29,839,540	18,720,728	11,118,812	3,480,664
Medical equipment	10,292,320	6,544,602	3,747,718	8,801,619
Land improvements	1,435,203	914,449	520,754	595,036
	\$ 249,110,707	\$ 89,352,770	\$ 159,757,937	\$ 162,676,209

During the year, the Group disposed of/sold assets with a cost of \$4,260,717 (2018 - \$81,044) and accumulated amortization of \$4,260,717 (2018 - \$81,044). The resulting gain on disposal of \$655 (2018 - \$6,359) is recorded in recoveries and other revenue in the statement of operations.

At March 31, 2018, cost and accumulated amortization amounted to \$247,394,529 and \$84,718,320, respectively.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

7. Long-term debt:

	2019	2018
(a) Callable bank loan, unsecured, maturing May 1, 2024. The balance is repayable in monthly installments of \$29,259 including principal and interest at the bank's public sector rate plus 0.29%.	\$ 2,452,131	\$ 2,626,362
Callable bank loan, unsecured, maturing May 11, 2029. The balance is repayable in monthly installments of \$26,406 including principal and interest at the bank's public sector rate plus 0.29%.	1,575,583	1,832,158
Callable bank loan, unsecured, maturing July 15, 2021. The balance is repayable in monthly installments of \$38,347 including interest at 1.77%.	1,051,046	1,488,375
Total loans	5,078,760	5,946,895
Capital lease obligation related to the Royal Ottawa Hospital Redevelopment Project. The obligation will be amortized over 248 months to June 2027, at an interest rate of 6.33%, with monthly principal and interest payments of \$1,163,990.	88,894,503	96,773,903
Fair value of interest rate swaps (note 7(f))	620,908	668,226
	94,594,171	103,389,024
Less:		
Scheduled cash repayments of loans	900,419	868,135
Current portion of capital lease obligation	8,409,212	7,879,398
Callable debt	4,178,341	5,078,760
	13,487,972	13,826,293
	\$ 81,106,199	\$ 89,562,731

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

7. Long-term debt (continued):

- (b) The Group has access to a \$7,000,000 credit facility. The facility can be utilized as an overdraft at a rate of prime or at fixed terms between 30 and 364 days at the bank's cost of funds plus 1.6% per annum. As at year end, this facility had not been utilized.
- (c) The Group has access to a \$500,000 commercial letter of credit. At March 31, 2019, there were no standby letters of credit issued against this (2018 - \$Nil).
- (d) The Group has a \$1,006,800 letter of credit issued to Hydro Ottawa as performance security for the Cogeneration Project.
- (e) Canadian public sector accounting standards require that loans that the lender can require to be repaid on demand be classified as current liabilities.

Management does not believe that the demand features of the callable debt will be exercised in the current period. Assuming payment of the callable debt is not demanded; regular principal payments required on all long-term debt for the next five fiscal years and thereafter are due as follows:

	Loans	Capital lease	Total
2020	\$ 900,419	\$ 8,409,212	\$ 9,309,631
2021	934,299	8,974,802	9,909,101
2022	661,468	9,578,590	10,240,058
2023	537,539	10,223,166	10,760,705
2024	568,124	10,911,292	11,479,416
2025 and thereafter	1,476,911	40,797,441	42,274,352
	\$ 5,078,760	\$ 88,894,503	\$ 93,973,263

(f) 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.

The Group incurred \$8,475,667 in construction loans at an interest rate of prime less 0.5% related to the financing of construction of the Royal Ottawa Place which opened in June 2004. During 2004/05, the Group purchased two interest rate swaps in order to eliminate exposure to interest rate fluctuation on long-term debt. The annualized payments including principal, interest and spread are \$667,991.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

7. Long-term debt (continued):

(f) Interest rate derivative agreements (continued):

(i) Notional amounts:

The notional amount of the interest rate swaps at March 31, 2019 is \$4,027,714 (2018 - \$4,458,519).

(ii) Fair value:

The interest rate swaps have unrealized accumulated losses of \$620,908 (2018 - \$668,226) which are recorded in long-term debt as at March 31, 2019. The fair market value of the loans as at March 31, 2019, excluding the interest rate swaps impact, is \$5,099,412 (2018 - \$4,826,134) and the fair value of the capital lease obligation is \$100,892,981 (2018 - \$110,045,318). The current year impact of the change in fair value of the interest rate swap is a reduction in accumulated remeasurement gains of \$47,318. The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

8. Deferred capital asset contributions:

	2019	2018
Balance, beginning of year	\$ 50,232,450	\$ 44,463,993
Contributions for specified capital projects received during the year	11,327,127	12,911,468
Amount recognized as revenue during the year	(7,470,742)	(7,143,011)
Balance, end of year	\$ 54,088,835	\$ 50,232,450

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

9. Investment in capital assets:

The Group has \$11,074,931 (2018 - \$9,054,735) invested in capital assets, included in the unrestricted fund balance, calculated as follows:

	2019	2018
Capital assets	\$ 159,757,937	\$ 162,676,209
Amounts financed by:		
Long-term debt (note 7)	94,594,171	103,389,024
Deferred contributions related to capital assets (note 8)	54,088,835	50,232,450
	\$ 11,074,931	\$ 9,054,735

10. Statement of cash flows:

(a) Changes in non-cash operating working capital:

	2019	2018
Accounts receivable	\$ (551,347)	\$ 392,078
Receivable from Provinces and Territories	2,966,449	2,322,810
Due from related entities	453,642	(965,082)
Inventories	(5,128)	8,417
Prepaid expenses	92,508	(259,333)
Payable to the Province of Ontario	(184,857)	(446,983)
Accounts payable and accrued liabilities	(4,478,120)	(1,908,691)
Advance payments for designated projects	(195,431)	(532,872)
Current portion of deferred revenue	(779,666)	(1,881,921)
	\$ (2,681,950)	\$ (3,271,577)

(b) Supplementary information:

	2019	2018
Interest paid during the year	\$ 6,475,731	\$ 6,969,192

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

11. Financial risks and concentration of credit risk:

The Group's financial statements consist of cash, investments, receivables, due from related entities, accounts payable and accrued liabilities, debt, and amounts due to entities. It is management's opinion that the Group is not exposed to significant credit, market or liquidity risks arising from these instruments.

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Group is exposed to this risk relating to its cash, investments and accounts receivable. The Group holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation.

Accounts receivable are ultimately due from the Ministries. The Group's statement of investment policy, which is reviewed annually, defines permitted investments and provides guidelines and restrictions on acceptable investments which minimize credit risk. The Group measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Group's historical experience regarding collections.

An amount of \$228,090 (2018 - \$425,278) has been provided for an impairment allowance. The maximum exposure to credit risk of the Group at March 31, 2019 is the carrying value of these assets. The maximum exposure to investment credit risk is outlined in note 3.

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

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors.

The Group monitors market risk by adhering to a Board-approved investment policy.

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

(i) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Group's cash flows, financial position and investment revenue. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at March 31, 2019, a 1% change to the market interest rate with all other variables held constant would have an estimated effect of \$1,164,000 (2018 - \$627,500) on the value of the bond portfolio.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

11. Financial risks and concentration of credit risk (continued):

(b) Market risk (continued):

(i) Interest rate risk (continued):

Financial assets and financial liabilities with variable interest rates expose the Group to cash flow interest rate risk. The Group is exposed to this risk through its interest bearing investments. The Group's investments, including interest-bearing securities, are disclosed in note 3.

The Group mitigates interest rate risk on its long-term debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the demand loans and term debt for a fixed rate (see note 7(e)). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the long-term debt.

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

(ii) Currency risk:

Foreign currency exposure arises from the Group's holdings of foreign cash balances, equities and bonds. The Group monitors foreign cash balances and adjusts these to meet operating requirements. The Group's exposure to investments denominated in U.S. Dollars is disclosed in note 3.

(iii) Other price risk:

Other price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Group is exposed to this risk through its equity holdings within its investment portfolio. At March 31, 2019, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Group's equities of approximately \$942,600 (2018 - \$750,924).

(d) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet all cash outflow obligations as they come due. The Group mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near-term if unexpected cash outflows arise. Accounts payable are all current and the terms of the long-term debt are disclosed in note 7.

Derivative financial liabilities mature as described 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 the risk.

ROYAL OTTAWA HEALTH CARE GROUP

Notes to Financial Statements (continued)

Year ended March 31, 2019

12. Contracts and other expenses:

	2019	2018
Office supplies and rentals	\$ 3,695,059	\$ 3,669,783
Staff development and travel	1,325,909	1,506,503
Food, housekeeping and facility services	15,348,010	14,123,505
Data communication and software	2,053,044	1,797,186
Professional fees and services	3,360,022	3,110,108
Other supplies and expenses	6,259,315	4,313,862
	\$ 32,041,359	\$ 28,520,947

The Group has entered into long-term contracts with The Healthcare Infrastructure Company of Canada ("THICC") and Telus to provide infrastructure and communication services. These costs have been reflected as operating expenses in the Statement of Operations.

13. Lease obligations:

The Group has a number of operating leases for computer hardware, software, automobiles, office space and office equipment. Future minimum lease payments for these leases for the next five years and thereafter are as follows:

2020	\$ 2,131,964
2021	2,041,647
2022	1,340,022
2023	1,264,796
2024	974,906
Thereafter	2,650,457
	\$ 10,403,792