

Financial Statements of

**THE OTTAWA HOSPITAL RESEARCH  
INSTITUTE**

(Formerly known as The Ottawa Health Research Institute)

Year ended March 31, 2009



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## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the statement of financial position of The Ottawa Hospital Research Institute (formerly known as The Ottawa Health Research Institute) as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Corporations Act of Ontario, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that serves as a flourish or underline.

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

August 14, 2009

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

## Statement of Financial Position

March 31, 2009, with comparative figures for 2008

	Externally restricted	Unrestricted	Total 2009	Total 2008
<b>Assets</b>				
Current assets:				
Cash	\$ 5,301,276	\$ –	\$ 5,301,276	\$ 1,865,743
Due from The Ottawa Hospital Foundation (note 5(b))	285,152	2,015,527	2,300,679	2,279,078
Prepaid expenses	79,370	–	79,370	152,152
Amounts receivable	11,948,098	2,300,354	14,248,452	14,706,916
	17,613,896	4,315,881	21,929,777	19,003,889
Investments (note 6)	33,102,751	–	33,102,751	37,706,602
Deferred costs (note 7)	–	–	–	661,544
Capital assets (note 8)	34,936,482	–	34,936,482	37,979,833
	\$ 85,653,129	\$ 4,315,881	\$ 89,969,010	\$ 95,351,868
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 2,150,313	\$ 1,656,090	\$ 3,806,403	\$ 4,869,048
Loan payable (note 5(d))	700,000	–	700,000	700,000
Due to The Ottawa Hospital (note 5(a))	–	1,033,386	1,033,386	6,563,957
Unearned income	–	1,480,015	1,480,015	1,420,510
Unexpended research project funding (note 9)	48,566,334	–	48,566,334	41,266,331
	51,416,647	4,169,491	55,586,138	54,819,846
Long-term liabilities:				
Deferred capital contributions (note 10)	32,132,989	–	32,132,989	34,885,062
Sick leave (note 14)	–	154,979	154,979	192,619
	32,132,989	154,979	32,287,968	35,077,681
Net assets:				
Unrestricted	–	(8,589)	(8,589)	1,466,518
Internally restricted (note 11)	–	–	–	1,593,052
Invested in capital assets	2,103,493	–	2,103,493	2,394,771
	2,103,493	(8,589)	2,094,904	5,454,341
Commitments (note 12)				
	\$ 85,653,129	\$ 4,315,881	\$ 89,969,010	\$ 95,351,868

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

## Statement of Operations

Year ended March 31, 2009, with comparative figures for 2008

	Externally restricted	Unrestricted	Total 2009	Total 2008
<b>Revenue:</b>				
The Ottawa Hospital Foundation (note 5(b)):				
Research and salary funding	\$ –	\$ 548,996	\$ 548,996	\$ 1,637,028
Endowment fund income	–	2,358,749	2,358,749	1,805,631
Indirect cost funding	–	5,620,848	5,620,848	5,279,495
The Ottawa Hospital (note 5(a))	–	4,721,408	4,721,408	4,320,100
University of Ottawa (note 5(c)):				
Salary support	–	1,792,425	1,792,425	1,822,569
Endowment fund income	–	298,619	298,619	154,023
Medical practice plans	–	4,250,771	4,250,771	3,278,867
Research project funding	64,603,549	–	64,603,549	66,848,796
Miscellaneous funding	–	384,334	384,334	753,878
Investment (note 6)	–	(1,460,329)	(1,460,329)	1,454,346
Amortization of deferred capital contributions	4,600,134	–	4,600,134	4,868,147
	69,203,683	18,515,821	87,719,504	92,222,880
<b>Expenses:</b>				
Scientific programs	–	13,572,179	13,572,179	12,638,093
General research administration	–	2,640,067	2,640,067	2,989,765
Technology transfer program	–	400,478	400,478	336,237
Hospital services	–	3,992,919	3,992,919	4,015,643
Other research	–	937,844	937,844	836,658
Research ethics board	–	287,464	287,464	203,716
Research project costs (note 9)	64,603,549	–	64,603,549	66,848,796
Amortization of capital assets	4,644,441	–	4,644,441	4,912,454
	69,247,990	21,830,951	91,078,941	92,781,362
Deficiency of revenue over expenses	\$ (44,307)	\$ (3,315,130)	\$ (3,359,437)	\$ (558,482)

See accompanying notes to financial statements.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

## Statement of Changes in Net Assets

Year ended March 31, 2009, with comparative figures for 2008

	Unrestricted	Internally Restricted (note 11)	Externally Restricted	Investment in capital assets	2009	2008
Net assets, beginning of year	\$ 1,466,518	\$ 1,593,052	\$ –	\$ 2,394,771	\$ 5,454,341	\$ 6,012,823
Deficiency of revenue over expenses	(3,315,130)	–	(44,307)	–	(3,359,437)	(558,482)
Amortization of capital assets	–	–	4,644,441	(4,644,441)	–	–
Capital asset additions	–	–	(1,601,090)	1,601,090	–	–
Deferred capital contributions received	–	–	1,848,061	(1,848,061)	–	–
Amortization of deferred capital contributions	–	–	(4,600,134)	4,600,134	–	–
Transfer to externally restricted (note 11)	–	(44,307)	44,307	–	–	–
Transfer from internally restricted	1,840,023	(1,548,745)	(291,278)	–	–	–
Net assets, end of year	\$ (8,589)	\$ –	\$ –	\$ 2,103,493	\$ 2,094,904	\$ 5,454,341

See accompanying notes to financial statements.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

## Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (3,359,437)	\$ (558,482)
Items not involving cash:		
Amortization of capital assets	4,644,441	4,912,454
Amortization of deferred capital contributions	(4,600,134)	(4,868,147)
Changes in non-cash operating working capital:		
Increase in due from The Ottawa Hospital Foundation	(21,601)	(407,384)
Decrease (increase) in prepaid expenses	72,782	(152,152)
Decrease (increase) in amounts receivable	458,464	(2,052,866)
Increase (decrease) in accounts payable and accrued liabilities	(1,062,645)	947,355
Decrease in loans payable	-	(700,000)
Increase (decrease) in due to The Ottawa Hospital	(5,530,571)	6,380,585
Increase in unearned income	59,505	720,510
Increase (decrease) in unexpended research funding	7,300,003	(2,588,916)
Increase (decrease) in sick leave	(37,640)	19,785
	<u>(2,076,833)</u>	<u>1,652,742</u>
Financing and investment activities:		
Decrease (increase) in investments	4,603,851	(1,225,508)
Decrease (increase) in deferred costs	661,544	(509,932)
Purchase of capital assets	(1,601,090)	(5,218,529)
Deferred capital contributions received	1,848,061	5,962,566
	<u>5,512,366</u>	<u>(991,403)</u>
Increase in cash	3,435,533	661,339
Cash, beginning of year	1,865,743	1,204,404
Cash, end of year	<u>\$ 5,301,276</u>	<u>\$ 1,865,743</u>

See accompanying notes to financial statements.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements

Year ended March 31, 2009

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## 1. Objectives:

The Ottawa Hospital Research Institute (the "Institute") is an independent health research facility, closely affiliated with the Ottawa Hospital and the University of Ottawa, committed to excellence in the creation of scientific knowledge that contributes to the prevention, diagnosis, and treatment of human disease. The Institute was incorporated without share capital under the Corporations Act of Ontario on December 5, 2000. It began operations on April 1, 2001 as a result of the combination of the Loeb Health Research Institute at The Ottawa Hospital and The Ottawa General Hospital Research Institute. On January 1, 2004, as a result of the integration of the Ottawa Regional Cancer Centre and The Ottawa Hospital, the clinical research activities of the Cancer Centre were absorbed into the Institute. The Institute legally changed its name from The Ottawa Health Research Institute to The Ottawa Hospital Research Institute effective March 19, 2009.

The Institute is a registered charity under paragraph 149 [1] [f] of the Income Tax Act and while registered, is exempt from income taxes and may issue tax deductible receipts to donors. Furthermore, the Institute has approved research institute status for purposes of clause 37 [1] [a] [ii] [B] of the Act, whereby a donor is eligible for a Scientific Research and Experimental Development (SR&ED) tax credit in the year the contribution is made.

## 2. Significant accounting policies:

### (a) Basis of presentation:

The financial statements are prepared under the deferral method of accounting for not-for-profit organizations. On the statement of financial position and the statement of operations, the externally restricted column presents the Institute's assets, liabilities and results of operations related to its research activities that are funded by externally restricted research grants and contributions. The unrestricted column presents the Institute's administrative and non-restricted research operations.

### (b) Revenue recognition:

- (i) Research project funding is recognized as revenue in the period in which the related expenses are incurred.
- (ii) Grants and contributions related to capital assets are deferred and amortized over the estimated useful life of the purchased assets.
- (iii) Unrestricted funding is recognized as revenue in the period in which the related expenses are incurred.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## 2. Significant accounting policies (continued):

### (c) Investments:

Investments are designated as held for trading and are recorded at fair value.

Shares in private companies acquired by the Institute in exchange for patent or license rights are recorded at a nominal value when the fair value of the transaction is not determinable.

### (d) Capital assets:

Capital assets are stated at cost. Contributed equipment is recorded at fair value at the date of contribution. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are:

Asset	Useful Life
Computer equipment	3 to 5 years
Furniture and fixtures	5 years
Portable	10 years
Laboratory equipment	5 to 10 years
Stem Cell and Vision Research floors	21 years

Minor equipment acquisitions are expensed in the year of purchase.

Patents are recorded at a nominal value and are not amortized.

### (e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the period in which they become known.



# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

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### 3. Adoption of new accounting standards:

#### (a) Capital disclosures:

Effective April 1, 2008, the Institute adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures* which establishes standards for disclosing information about the entity's capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ending March 31, 2009, except for the additional note disclosure included in note 16.

#### (b) Financial instruments:

In December 2006, the CICA issued new accounting standards: Handbook Section 3862, *Financial Instruments – Disclosures* and Handbook Section 3863, *Financial Instruments – Presentation*. These standards were expected to be effective for the Institute's financial statements for the year ended March 31, 2009. However, in December 2008, the CICA eliminated the requirement for not-for-profit entities to adopt these standards. The Institute has continued to disclose and present financial instruments under Handbook Section 3861, *Financial Instruments – Disclosure and Presentation* for the year ended March 31, 2009.

### 4. Future accounting standards:

The CICA has issued the following amendments and new accounting standards that will come into effect for the Institute's fiscal year beginning April 1, 2009:

#### *Amendments to Accounting Standards that Apply Only to Not-for-Profit Organizations*

In September 2008, the CICA issued amendments to the existing accounting standards applicable to not-for-profit organizations. The amendments affect the financial statement presentation and disclosure requirements for not-for-profit organizations.

#### *Disclosure of Allocated Expenses by Not-for-Profit Organizations*

In September 2008, the CICA issued Section 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. This new section establishes disclosure requirements for not-for-profit organizations that report expenses by function and allocate expenses to a number of functions to which the expenses relate. These not-for-profit organizations will be required to disclose additional information regarding their accounting policies adopted for the allocation of expenses among functions, the nature of these expenses, the basis on which the allocations are being made, and the value of the allocations.

The Institute is currently assessing the impact of these amendments and new accounting standard on its financial statements.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

## 5. Related entities:

### (a) The Ottawa Hospital:

The Ottawa Hospital deposits a significant amount of the Institute's research grants and contributions and distributes these funds to cover research expenses on behalf of the Institute. The Ottawa Hospital also acts as paymaster for the Institute. The Institute has an amount due to The Ottawa Hospital of \$1,033,386 (2008 - \$6,563,957). This balance represents the difference between funds deposited at the Hospital and disbursements made on behalf of the Institute at year end.

The Ottawa Hospital provided the Institute with grants as follows:

	2009	2008
General operating	\$ 4,142,928	\$ 4,020,100
Specific purpose operating	578,480	300,000
	<u>\$ 4,721,408</u>	<u>\$ 4,320,100</u>

### (b) The Ottawa Hospital Foundation:

The Foundation provides administrative and research funding to the Institute. During the year, the Foundation contributed the following:

	2009	2008
Unrestricted research and salary funding	\$ 548,996	\$ 1,637,028
Unrestricted endowment fund interest	2,358,791	1,805,631
Restricted research project funding	519,096	1,907,933
Deferred contributions relating to capital assets and assets under construction	370,578	2,356,119
	<u>\$ 3,797,461</u>	<u>\$ 7,706,711</u>

At year end, \$2,300,679 (2008 - \$2,279,078) of these amounts were receivable from the Foundation.

The Institute has recorded \$2,358,791 (2008 - \$1,805,631) of unrestricted revenue and \$45,976 (2008 - \$144,182) of restricted project funding revenue in the year.

At March 31, 2009, the Foundation manages funds in the amount of \$46,646,979 (2008 - \$39,460,575), which are designated as The Ottawa Hospital Research Institute Endowment Funds. While these funds have been designated to the Institute they are legally the assets of the Foundation. Of this amount, \$883,803 (2008 - \$1,018,206) is restricted for the Clinical Epidemiology Unit Director's Research Chair.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

## 5. Related entities (continued):

### (c) The University of Ottawa:

The University of Ottawa contributed \$1,792,425 (2008 - \$1,822,569) during the year to the Institute for salary support.

At March 31, 2009, endowment funds in the amount of \$921,424 (2008 - \$1,161,658) for the Clinical Epidemiology Unit Director's Research Chair, \$1,222,714 (2008 - \$1,514,438) for the Dr. J. David Grimes Research Chair and \$1,458,923 (2008 - \$1,879,651) for the Neuroscience Research Institute chair are held by the University of Ottawa. In the year, the Institute received \$298,619 (2008 - \$154,023) interest on these endowments.

The University provides premises and related maintenance and repairs to the Institute's on-site researchers at no charge. These amounts are not included in these financial statements.

### (d) Loan payable:

The University of Ottawa provided a loan to the Institute for the purpose of funding the construction of the Vision floor. The loan from the University of Ottawa is non-interest bearing and is repayable starting in 2010, as agreed, if fundraising and/or grant submissions are not successful. The balance of the loan is \$700,000 (2008 - \$700,000).

## 6. Investments:

The following table presents the carrying values and fair values of the Institute's investments:

	2009		2008	
	Market value	Market value	Market value	Carrying value
Money market funds	\$ 7,006,996	\$ 6,953,775	\$ 6,964,761	
Bonds	22,205,708	24,298,957	23,617,050	
Common stocks	3,890,046	6,453,869	5,724,099	
Shares in private companies	1	1	1	
	\$ 33,102,751	\$ 37,706,602	\$ 36,305,911	

The Institute holds shares in private companies that were received in exchange for an amendment to a patent/licence agreement previously negotiated and in other cases, patent or license agreements to be negotiated. These shares do not give the Institute the ability to significantly influence or exercise control over these private companies. The shares are recorded in these financial statements at a nominal value as the value of the consideration given or received could not be determined. The market value of these shares in private companies is not determinable.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

## 6. Investments (continued):

The following table presents the breakdown of the investment gain (losses) for investments held by the Institute:

	2009	2008
Gain on investments	\$ 891,856	\$ 1,476,677
Unrealized gain (loss)	(2,451,074)	78,379
Bank interest	98,889	74,472
Market adjustment	–	(175,182)
	<b>\$(1,460,329)</b>	<b>\$ 1,454,346</b>

## 7. Deferred costs:

The costs incurred in 2008 and 2009 relating to the Clinical Research and Cancer Centres have been assumed by The Ottawa Hospital.

## 8. Capital assets:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Computer equipment	\$ 5,480,801	\$ 5,167,935	\$ 312,866	\$ 606,430
Furniture and fixtures	1,813,100	1,668,103	144,997	168,792
Portable	409,970	327,976	81,994	163,988
Laboratory equipment	32,767,722	19,764,089	13,003,633	14,882,699
Stem Cell and Vision Research floors	24,846,518	3,453,527	21,392,991	22,157,923
Patents	1	–	1	1
	<b>\$ 65,318,112</b>	<b>\$ 30,381,630</b>	<b>\$ 34,936,482</b>	<b>\$ 37,979,833</b>

Cost and accumulated amortization at March 31, 2008 amounted to \$63,717,022 and \$25,737,189 respectively.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

## 9. Unexpended research project funding:

Unexpended research project funding represents amounts received by the Institute which will be used in subsequent periods on active research projects. Changes in the unexpended research project funding balance are as follows:

	2009	2008
Balance, beginning of year	\$ 41,266,331	\$ 43,855,247
Amounts received in the current period	73,751,613	70,222,446
	115,017,944	114,077,693
Less:		
Research project costs	(64,603,549)	(66,848,796)
Amount transferred to deferred capital contributions	(1,848,061)	(5,962,566)
	(66,451,610)	(72,811,362)
Balance, end of year	\$ 48,566,334	\$ 41,266,331

## 10. Deferred capital contributions:

	2009	2008
Balance, beginning of year	\$ 34,885,062	\$ 33,790,643
Additions	1,848,061	5,962,566
Amortization	(4,600,134)	(4,868,147)
Balance, end of year	\$ 32,132,989	\$ 34,885,062

## 11. Internally restricted:

Internally restricted net assets comprise the following:

	2009	2008
Equalization fund	\$ –	\$ 1,145,996
General Capital Reserve Fund	–	447,056
Balance, end of year	\$ –	\$ 1,593,052

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## 11. Internally restricted (continued):

### (a) Equalization fund:

The equalization fund was established by the Board of Directors to provide the Institute with a stable investment income budget for short and long term budget planning. For the current year the Board set the budgeted return on its investments at 4.5%. Investment income in excess (deficiency) of this amount is transferred to (from) the fund. During the year, \$1,145,996 was transferred from the fund to unrestricted net assets.

### (b) General Capital Reserve Fund:

The General Capital Reserve Fund was established to provide permanent or temporary funding for the acquisition or construction of capital assets. During the year, \$402,749 was transferred to unrestricted net assets and \$44,307 was transferred to externally restricted net assets. During the year ended March 31, 2008, \$44,037 was transferred to externally restricted net assets.

## 12. Commitments:

### Assets under construction:

The Institute is committed to the construction of the Clinical Research Center (a joint venture with The Ottawa Hospital) and the Cancer Centre Project. The estimated additional cost for completion if the projects proceed is approximately \$21.5 million and \$13 million respectively.

## 13. Pension plan:

Substantially all of the full-time employees of the Institute 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.

# THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2009

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## **13. Pension plan (continued):**

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with the 1.3% of 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.

Variations 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 triennial actuarial valuation of the Plan as at December 31, 2006 indicates the plan is fully funded. Contributions to the plan made during the year by the Institute on behalf of its employees amounted to \$1,596,617 (2008 - \$1,766,860) and are included in the statement of operations.

## **14. Sick leave:**

Accrued sick leave relates to the accumulated balance for compensated absences for employees of the former Ottawa Civic Hospital before amalgamation. Under the amalgamation agreement, this balance has been frozen and will be paid out to employees upon their departure from the Institute and related entities.

## **15. Fair value of financial instruments:**

The carrying value of cash and cash equivalents, amounts receivable, due from The Ottawa Hospital Foundation, accounts payable and accrued liabilities, loans payable and due to The Ottawa Hospital, approximates their fair value because of the relatively short period to maturity of the instruments.

## **16. Capital disclosures:**

The Institute defines capital as its unrestricted net assets and its net assets invested in capital assets. The Institute's overall objective with its capital is to fund capital asset acquisition, ongoing operations and future health research. The purpose of the net assets invested in capital assets is to fund the past acquisition of capital assets required for operation purposes.

The Institute is not subject to externally imposed capital requirements and its overall strategy with respect to capital remains unchanged from the year ended March 31, 2008.