

Financial Statements of

**OTTAWA HOSPITAL
RESEARCH INSTITUTE**

year ended March 31, 2012

Independent Auditor's Report

To the Members of the Ottawa Hospital Research Institute

Report on the Financial Statements

We have audited the accompanying financial statements of the Ottawa Hospital Research Institute, which comprise the statement of financial position as at March 31, 2012 and the statements of operations, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

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 Ottawa Hospital Research Institute as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements as at March 31, 2011 and for the year then ended were audited by other auditors whose report dated June 22, 2011, expressed an unmodified opinion on those statements.

Report on Other Legal and Regulatory Requirements

As required by the Ontario Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

June 28, 2012

OTTAWA HOSPITAL RESEARCH INSTITUTE
Financial Statements
March 31, 2012

	PAGE
Statement of Financial Position	1
Statement of Operations	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 15

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Financial Position

as at March 31, 2012

	Externally Restricted	Unrestricted	<u>2012</u>	<u>2011</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 13,957,945	\$ 4,698,375	\$ 18,656,320	\$ 21,989,147
Due from The Ottawa Hospital Foundation (Note 3)	1,008,558	2,850,484	3,859,042	2,728,700
Amounts receivable	13,702,175	970,710	14,672,885	6,659,428
Prepaid expenses	35,888	-	35,888	13,331
	28,704,566	8,519,569	37,224,135	31,390,606
INVESTMENTS (Note 4)	46,720,294	-	46,720,294	39,186,948
CAPITAL ASSETS (Note 5)	26,208,761	-	26,208,761	28,774,869
	\$ 101,633,621	\$ 8,519,569	\$ 110,153,190	\$ 99,352,423
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 12,279,362	\$ 1,369,301	\$ 13,648,663	\$ 2,587,718
Loan payable (Note 3)	200,000	-	200,000	450,000
Due to The Ottawa Hospital (Note 3)	-	1,851,111	1,851,111	1,883,412
Unearned income	100,000	-	100,000	780,379
Unexpended research project funding (Note 6)	63,045,498	-	63,045,498	61,804,689
	75,624,860	3,220,412	78,845,272	67,506,198
DEFERRED CAPITAL CONTRIBUTIONS (Note 7)	25,296,000	-	25,296,000	27,759,574
SICK LEAVE (Note 11)	-	117,210	117,210	136,786
	100,920,860	3,337,622	104,258,482	95,402,558
COMMITMENTS (Note 9)				
NET ASSETS				
Internally restricted (Note 8)	-	2,568,047	2,568,047	1,854,961
Invested in capital assets	712,761	-	712,761	708,905
Unrestricted	-	2,613,900	2,613,900	1,385,999
	712,761	5,181,947	5,894,708	3,949,865
	\$ 101,633,621	\$ 8,519,569	\$ 110,153,190	\$ 99,352,423

ON BEHALF OF THE BOARD



Director Mr Ian Mumford



Director Mr Ken Newport

See accompanying notes to the financial statements

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Operations

year ended March 31, 2012

	Externally Restricted	Unrestricted	<u>2012</u>	<u>2011</u>
Revenue				
The Ottawa Hospital Foundation (Note 3):				
Research and salary	\$ -	\$ 1,861,303	\$ 1,861,303	\$ 1,040,148
Endowment fund income	-	2,677,401	2,677,401	2,640,077
Indirect cost recovery	-	6,552,210	6,552,210	5,333,796
The Ottawa Hospital (Note 3)	-	5,182,575	5,182,575	5,165,924
University of Ottawa (Note 3)				
Salary support	-	1,368,843	1,368,843	1,598,329
Endowment fund income	-	153,579	153,579	219,854
Medical practice plans	-	5,024,345	5,024,345	4,847,522
Research projects	83,996,310	-	83,996,310	67,877,016
Miscellaneous	-	686,493	686,493	949,542
Investment (Note 4)	-	2,513,086	2,513,086	2,533,887
Amortization of deferred capital contributions	3,708,333	-	3,708,333	4,026,341
	87,704,643	26,019,835	113,724,478	96,232,436
Expenses				
Scientific programs	-	15,524,835	15,524,835	15,210,323
General research administration	-	3,022,419	3,022,419	3,062,192
Technology transfer program	-	263,791	263,791	350,739
Hospital services	-	3,546,735	3,546,735	3,466,934
Other research	-	826,003	826,003	977,125
Research ethics board	-	846,902	846,902	747,723
Research project costs (Note 6)	83,996,310	-	83,996,310	67,877,016
Amortization of capital assets	3,752,640	-	3,752,640	4,070,648
	87,748,950	24,030,685	111,779,635	95,762,700
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (44,307)	\$ 1,989,150	\$ 1,944,843	\$ 469,736

See accompanying notes to the financial statements

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Changes in Net Assets

year ended March 31, 2012

	<u>Externally Restricted</u>	<u>Internally Restricted</u> (Note 8)	Investment in Capital Assets (Note 8)	<u>Unrestricted</u>	<u>2012</u>	<u>2011</u>
BALANCE, BEGINNING OF YEAR	\$ -	\$ 1,854,961	\$ 708,905	\$ 1,385,999	\$ 3,949,865	\$ 3,480,129
Excess (deficiency) of revenue over expenses	(44,307)	-	-	1,989,150	1,944,843	469,736
Transfer to internally restricted (Note 8)	-	713,086	-	(713,086)	-	-
Amortization of capital assets	3,752,640	-	(3,752,640)	-	-	-
Capital asset additions	(1,186,531)	-	1,186,531	-	-	-
Deferred capital contributions received (Note 7)	1,186,531	-	(1,244,759)	58,228	-	-
Amortization of deferred capital contributions	(3,708,333)	-	3,708,333	-	-	-
Repayment of loan payable	-	-	250,000	(250,000)	-	-
Reclassification of portion of loan payable to unrestricted (Note 3)	-	-	(143,609)	143,609	-	-
BALANCE, END OF YEAR	\$ -	\$ 2,568,047	\$ 712,761	\$ 2,613,900	\$ 5,894,708	\$ 3,949,865

See accompanying notes to the financial statements

THE OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Cash Flows

year ended March 31, 2012

(in thousands of dollars)

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 1,944,843	\$ 469,736
Items not affecting cash		
Amortization of capital assets	3,752,640	4,070,648
Amortization of deferred capital contributions	(3,708,333)	(4,026,341)
Unrealized losses (gains) on investments (Note 4)	176,406	(972,146)
	2,165,556	(458,103)
Changes in non-cash operating working capital items:		
Increase in due from The Ottawa Hospital Foundation	(1,130,342)	(768,676)
Decrease (increase) in prepaid expenses	(22,557)	22,285
Decrease (increase) in amounts receivable	(8,013,457)	3,620,118
Increase (decrease) in accounts payable and accrued liabilities	11,060,945	(9,236,500)
Decrease in due to The Ottawa Hospital	(32,301)	(218,815)
Decrease in unearned income	(680,379)	(261,100)
Increase in unexpended research project funding	1,240,809	496,883
Decrease in sick leave	(19,576)	(520)
	4,568,698	(6,804,428)
INVESTING ACTIVITIES		
Additions to investments	(7,709,752)	(1,331,351)
Purchase of capital assets	(1,186,531)	(1,105,385)
	(8,896,283)	(2,436,736)
FINANCING ACTIVITIES		
Repayment of loan payable	(250,000)	(250,000)
Deferred capital contribution received	1,244,759	1,560,327
	994,759	1,310,327
NET CASH OUTFLOW	(3,332,826)	(7,930,837)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	21,989,146	29,919,983
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 18,656,320	\$ 21,989,146
Cash and cash equivalents consist of:		
Cash on deposit	\$ 18,656,320	\$ 16,989,147
GIC	-	5,000,000
Cash and cash equivalents, end of year	\$ 18,656,320	\$ 21,989,147

See accompanying notes to the financial statements

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

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 Ontario Corporations Act 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 is a registered charity under paragraph 149(1)(f) of the Income Tax Act and 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

The financial statements have been prepared in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook - Part V *Pre-Changeover Accounting Standards* (Canadian GAAP) and include the following significant accounting policies:

Future changes in accounting policies

In 2010, the CICA issued a new accounting framework applicable to Canadian not-for-profit organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations may adopt either the CICA Handbook Part I - *International Financial Reporting Standards* or Part III - *Accounting Standards for Not-for-Profit Organizations*. The Institute plans to adopt Part III - *Accounting Standards for Not-for-Profit Organizations* effective April 1, 2012. The impact on these financial statements has not yet been determined.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation

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.

Revenue recognition

The Institute follows the deferral method of accounting.

The Institute generates revenue through contributions from external funding agencies and related parties. Contributions receivable are recorded at an estimated realizable value in the period in which the funding agreement is signed. Unrestricted contributions are recorded as revenue when they are received or receivable. Restricted contributions are recorded as deferred revenue and recognized as revenue when the related expenses are incurred.

Contributions restricted for the acquisition of capital assets are recorded as deferred capital contributions and recognized as revenue over the estimated useful life of the related capital assets.

Interest and dividend revenue and realized gains and losses on investments are recognized in the period earned. Unrealized gains and losses on investments are recorded in the period in which they occur.

Expenses

The Institute classifies expenses on the statement of operations by function. Expenses are recognized in the year incurred and are recorded in the applicable function to which they are related. The Institute does not allocate expenses between functions after initial recognition.

Cash and cash equivalents

Cash and cash equivalents are designated as held-for-trading and are recorded at fair value.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 nominal value when the fair value of the transaction is not determinable.

Other financial instruments

The Institute has classified due from The Ottawa Hospital Foundation and amounts receivable as loans and receivables and accounts payable and accrued liabilities, loan payable, due to The Ottawa Hospital and sick leave liability as other liabilities. Upon initial recognition, these financial assets and liabilities are measured at amortized cost using the effective interest rate method.

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 as follows:

Computer equipment	5 years
Furniture and fixtures	5 years
Buildings/portable	5 years
Laboratory equipment	5 - 10 years
Stem Cell and Vision Research floors	21 years

Patents are recorded at nominal value and are not amortized.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the capital asset no longer has any long-term service potential, the excess of its net carrying amount over its residual value is expenses.

Foreign exchange

Transactions conducted in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at year-end. Foreign exchange gains and losses are recorded in the statement of operations.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of these financial statements 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 revenues and expenses during the period. Actual results could differ from these estimates. The most significant estimates used in preparing these financial statements include the fair value of investments, the estimated useful lives of capital assets, the amount of accrued liabilities and the allowance for doubtful accounts. These estimates are reviewed annually and, as adjustments become necessary, they are reported in the periods in which they become known.

3. RELATED ENTITIES

Related party transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. The Institute has no control over these related parties.

The Ottawa Hospital

The Ottawa Hospital receives 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 \$1,851,111 (2011 - \$1,883,412). 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:

	<u>2012</u>	<u>2011</u>
General operating	\$ 4,805,775	\$ 4,681,261
Specific purpose operating	376,800	484,663
	<u>\$ 5,182,575</u>	<u>\$ 5,165,924</u>

OTTAWA HOSPITAL RESEARCH INSTITUTE
Notes to the Financial Statements
year ended March 31, 2012

3. RELATED ENTITIES (Continued)

The Ottawa Hospital Foundation

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

	<u>2012</u>	<u>2011</u>
Unrestricted endowment fund interest	\$ 2,677,401	\$ 2,640,077
Restricted endowment fund interest for research projects	155,968	54,790
Unrestricted research and salary funding	1,861,303	1,040,148
Restricted research project funding	1,592,885	547,833
Deferred contributions relating to capital assets	886,956	510,675
	<u>\$ 7,174,513</u>	<u>\$ 4,793,523</u>

At year-end, \$3,859,042 (2011 - \$2,728,700) of these amounts were receivable from the Foundation.

At March 31, 2012, the Foundation manages funds in the amount of \$43,942,419 (2011 - \$50,832,318), 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, \$942,678 (2011 - \$995,747) is restricted for the Clinical Epidemiology Unit Director's Research Chair, and \$10,400,342 (2011 - \$15,689,701) is restricted for the Sprott Endowment for Stem Cell Research.

The University of Ottawa

The University of Ottawa contributed \$1,368,843 (2011 - \$1,598,329) during the year to the Institute for salary support.

At March 31, 2012, endowment funds in the amount of \$1,155,216 (2011 - \$1,163,367) for the Clinical Epidemiology Unit Director's Research Chair, \$1,505,394 (2011 - \$1,516,623) for the Dr. J. David Grimes Research Chair and \$1,870,188 (2011 - \$1,882,480) for the Neuroscience Research Institute Chair are held by the University of Ottawa. During the year, the Institute received \$172,088 (2011 - \$219,854) 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.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

3. RELATED ENTITIES (Continued)

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 was repayable starting in 2011, as agreed, if fundraising and/or grant submissions are not successful. The balance of the loan at March 31, 2012 is \$200,000 (2011 - \$450,000) which will be paid in the upcoming year.

4. INVESTMENTS

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

	2012		2011	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Money market funds	\$ 6,745,766	\$ 6,745,766	\$ 5,822,591	\$ 5,822,591
Bonds / Fixed income funds	26,739,414	26,475,156	23,421,373	23,325,841
Mutual funds / Pooled funds	13,235,113	13,014,797	9,942,983	9,377,535
Shares in private companies	1	1	1	1
	\$ 46,720,294	\$ 46,235,720	\$ 39,186,948	\$ 38,525,968

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 fair value of these shares in private companies is not determinable.

The bonds/fixed income funds have interest rates of 1.5% to 12.2% (2011 - 1.75% to 11%) and maturity dates ranging from April 2012 to November 2050 (2011 - March 2012 to December 2040).

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

4. INVESTMENTS (Continued)

The following table presents the breakdown of the investment revenue on investments held by the Institute:

	<u>2012</u>	<u>2011</u>
Realized gains on investments	\$ 2,709,988	\$ 1,331,351
Unrealized gains (losses) on investments	(176,406)	972,146
Interest	207,029	199,932
Accrued interest	(231,038)	36,033
Foreign exchange gain (loss)	3,513	(5,575)
	<u>\$ 2,513,086</u>	<u>\$ 2,533,887</u>

5. CAPITAL ASSETS

	<u>2012</u>			<u>2011</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$5,460,018	\$5,452,270	\$ 7,748	\$ 66,714
Furniture and fixtures	2,156,428	1,892,683	263,745	52,063
Portable	409,970	409,970	-	-
Laboratory equipment	35,907,933	27,821,217	8,086,716	9,621,772
Stem Cell and Vision Research floors	24,855,382	7,004,831	17,850,551	19,034,319
Patents	1	-	1	1
	<u>\$68,789,732</u>	<u>\$42,580,971</u>	<u>\$26,208,761</u>	<u>\$28,774,869</u>

Cost and accumulated amortization of capital assets at March 31, 2011 amounted to \$67,193,227 and \$38,418,358 respectively.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

6. 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:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 61,804,689	\$ 61,307,806
Amounts received in the current period	86,481,878	69,934,226
	148,286,567	131,242,032
Less		
Research project costs	(83,996,310)	(67,877,016)
Amount transferred to deferred capital contributions	(1,244,759)	(1,560,327)
Balance, end of year	\$ 63,045,498	\$ 61,804,689

7. DEFERRED CAPITAL CONTRIBUTIONS

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 27,759,574	\$ 30,225,588
Additions	1,244,759	1,560,327
Amortization	(3,708,333)	(4,026,341)
Balance, end of year	\$ 25,296,000	\$ 27,759,574

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

8. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets are comprised of the Equalization Fund

The Equalization Fund was established by the Board of Directors to provide the Institute with stable investment income for short and long-term budget planning. On an annual basis Management along with the Investment managers set a budgeted return on investments, which is approved by the Board. Actual investment income in excess of the budgeted amount, to the maximum of net income for the year, is transferred to the Equalization Fund. When actual investment income is less than the budgeted amount the difference, to the maximum of the balance of the Equalization Fund, is transferred to the unrestricted fund from the Equalization Fund. During the year, \$713,086 (2011 - \$469,736) was transferred to the Equalization Fund.

9. COMMITMENTS

The Institute is committed to providing contributions to The Ottawa Hospital in respect of the construction or fit up of various buildings or floors as follows:

	<u>Commitment</u>
Cancer Centre	\$5.22 million
Regenerative Medicine Floors	1.84 million
The Centre for Practice Changing Research	1.16 million

At year-end, the Institute has secured external funding for these commitments in the amount of \$8.22 million, the timing of the distribution of these commitments had not yet been determined.

10. 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.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to the Financial Statements

year ended March 31, 2012

10. PENSION PLAN (Continued)

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 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.

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, 2009 indicates the Plan is fully funded. Contributions to the Plan made during the year by the Institute on behalf of its employees amounted to \$2,219,932 (2011 - \$1,804,453) and are included in the statement of operations.

11. 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.

12. FINANCIAL INSTRUMENTS

The Institute's financial instruments consist of cash and cash equivalents, due from The Ottawa Hospital Foundation, amounts receivable, investments, accounts payable and accrued liabilities, loan payable, due to The Ottawa Hospital and sick leave.

The carrying values of cash and cash equivalents, amounts receivable, due from The Ottawa Hospital Foundation, accounts payable and accrued liabilities, loan payable and due to The Ottawa Hospital approximate their fair values due to the relatively short periods to maturity of the instruments.

The fair value of investments is disclosed in Note 4. The fair value of sick leave is not determinable.

The Institute's exposure to interest rate risk includes all cash, investments, bonds and money market funds. Foreign currency risk exposure is limited to international mutual funds of \$5,196,226 (2011 - \$3,574,685).

OTTAWA HOSPITAL RESEARCH INSTITUTE
Notes to the Financial Statements
year ended March 31, 2012

12. FINANCIAL INSTRUMENTS (Continued)

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party to discharge an obligation. The Institute's main exposure comes from its investments and amounts receivable. Management does not believe it is exposed to any significant credit risk due as receivables are primarily from related parties and government organizations; investments are diversified as disclosed in Note 4.

13. CAPITAL DISCLOSURES

The Institute considers its capital to consist of its unrestricted net assets, internally restricted net assets and its net assets invested in capital assets. The Institute's overall objective with its capital is to fund capital asset acquisitions, ongoing operations and future health research. The purpose of internally restricted net assets is to provide stability and funding for unforeseen events. 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, 2011.