

Financial statements of

Ottawa Hospital Research Institute

March 31, 2014

Ottawa Hospital Research Institute

March 31, 2014

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Independent Auditor's Report

To the Members of the Ottawa Hospital Research Institute

We have audited the accompanying financial statements of the Ottawa Hospital Research Institute, which comprise the statement of financial position as at March 31, 2014, 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 accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ottawa Hospital Research Institute as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

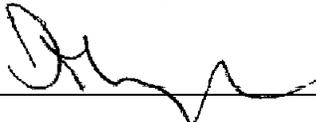
June 26, 2014

Ottawa Hospital Research Institute

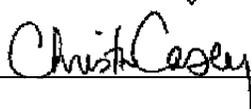
Statement of financial position as at March 31, 2014

	Externally restricted	Unrestricted	2014	2013
	\$	\$	\$	\$
Assets				
Current assets				
Cash	6,849,313	4,315,531	11,164,844	15,176,580
Due from The Ottawa Hospital (Note 3)	-	3,741,066	3,741,066	-
Due from The Ottawa Hospital Foundation (Note 3)	1,375,203	4,515,655	5,890,858	4,836,322
Accounts receivable	8,468,896	273,860	8,742,756	10,061,664
	16,693,412	12,846,112	29,539,524	30,074,566
Investments (Note 4)	54,018,717	-	54,018,717	49,625,650
Capital assets (Note 5)	23,126,204	-	23,126,204	25,836,815
	93,838,333	12,846,112	106,684,445	105,537,031
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	1,478,334	1,120,995	2,599,329	2,103,094
Due to The Ottawa Hospital (Note 3)	-	-	-	3,838,252
Unearned income	420,000	4,514,000	4,934,000	500,000
Unexpended research project funding (Note 6)	68,813,795	-	68,813,795	67,874,441
	70,712,129	5,634,995	76,347,124	74,315,787
Deferred capital				
Contributions (Note 7)	22,425,398	-	22,425,398	25,031,146
	93,137,527	5,634,995	98,772,522	99,346,933
Commitments (Note 8)				
Net assets				
Internally restricted (Note 9)	-	4,585,262	4,585,262	2,863,437
Invested in capital assets	700,806	-	700,806	805,669
Unrestricted	-	2,625,855	2,625,855	2,520,992
	700,806	7,211,117	7,911,923	6,190,098
	93,838,333	12,846,112	106,684,445	105,537,031

On behalf of the Board



Director



Director

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Statement of operations year ended March 31, 2014

	Externally restricted	Unrestricted	2014	2013
	\$	\$	\$	\$
Revenue				
The Ottawa Hospital Foundation (Note 3):				
Research and salary	-	3,003,729	3,003,729	2,128,021
Endowment fund income	-	2,841,316	2,841,316	2,705,451
Indirect cost recovery	-	6,277,941	6,277,941	6,890,462
The Ottawa Hospital (Note 3)	-	4,665,932	4,665,932	4,602,196
University of Ottawa (Note 3)				
Salary support	-	1,270,809	1,270,809	1,222,792
Endowment fund income	-	127,623	127,623	152,914
Medical practice plans	-	5,165,772	5,165,772	4,930,110
Research projects	70,184,484	-	70,184,484	76,063,180
Miscellaneous	-	629,569	629,569	536,290
Investment income (Note 4)	-	4,547,060	4,547,060	3,170,325
Amortization of deferred capital contributions (Note 7)	3,498,871	-	3,498,871	3,688,938
	73,683,355	28,529,751	102,213,106	106,090,679
Expenses				
Scientific programs	-	17,562,630	17,562,630	17,022,607
General research administration	-	3,059,000	3,059,000	3,168,703
Technology transfer program	-	348,649	348,649	346,848
Hospital services	-	3,825,485	3,825,485	3,708,972
Other research	-	1,027,246	1,027,246	900,392
Research ethics board	-	940,609	940,609	851,342
Research project costs (Note 6)	70,184,484	-	70,184,484	76,063,180
Amortization of capital assets	3,543,178	-	3,543,178	3,733,245
	73,727,662	26,763,619	100,491,281	105,795,289
Excess (deficiency) of revenue over expenses	(44,307)	1,766,132	1,721,825	295,390

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Statement of changes in net assets year ended March 31, 2014

	Externally restricted	Internally restricted (Note 9)	Invested in capital assets	Unrestricted	2014	2013
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	-	2,863,437	805,669	2,520,992	6,190,098	5,894,708
Excess (deficiency) of revenue over expenses	(44,307)	-	-	1,766,132	1,721,825	295,390
Transfer to internally restricted (Note 9)	-	1,721,825	-	(1,721,825)	-	-
Amortization of capital assets	3,543,178	-	(3,543,178)	-	-	-
Purchase of capital assets	(832,567)	-	832,567	-	-	-
Deferred capital contributions received (Note 7)	832,567	-	(893,123)	60,556	-	-
Amortization of deferred capital contributions	(3,498,871)	-	3,498,871	-	-	-
Balance, end of year	-	4,585,262	700,806	2,625,855	7,911,923	6,190,098

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Statement of cash flows

year ended March 31, 2014

(in thousands of dollars)

	2014	2013
	\$	\$
Operating activities		
Excess of revenue over expenses	1,721,825	295,390
Items not affecting cash		
Amortization of capital assets	3,543,178	3,733,245
Amortization of deferred capital contributions	(3,498,871)	(3,688,938)
Unrealized gains on investments (Note 4)	(2,565,535)	(1,425,350)
	(799,403)	(1,085,653)
Changes in non-cash operating working capital items:		
Increase in due from The Ottawa Hospital	(3,741,066)	-
Increase in due from The Ottawa Hospital Foundation	(1,054,536)	(977,280)
Decrease in prepaid expenses	-	35,888
Decrease in accounts receivable	1,318,908	4,611,221
Increase (decrease) in accounts payable and accrued liabilities	496,235	(11,662,779)
Decrease (increase) in due To The Ottawa Hospital	(3,838,252)	1,987,141
Increase in unearned income	4,434,000	400,000
Increase in unexpended research project funding	939,354	4,828,943
	(2,244,760)	(1,862,519)
Investing activities		
Net increase in investments	(1,827,532)	(1,480,006)
Purchase of capital assets	(832,567)	(3,361,299)
	(2,660,099)	(4,841,305)
Financing activities		
Repayment of loan payable	-	(200,000)
Deferred capital contribution received	893,123	3,424,084
	893,123	3,224,084
Net cash outflow	(4,011,736)	(3,479,740)
Cash, beginning of year	15,176,580	18,656,320
Cash, end of year	11,164,844	15,176,580

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2014

1. Description of the institute

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 Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

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

Cash is recorded at fair value.

Investments

Investments are recorded at fair value, unrealized gains and losses on the fair value of investments are recognized as investment income in the statement of operations.

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.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2014

2. Significant accounting policies (continued)

Other financial instruments

The due from The Ottawa Hospital Foundation, accounts receivable, accounts payable and accrued liabilities, due to The Ottawa Hospital and sick leave liability 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
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.

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 amount 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 acts as paymaster for the Institute. The Institute has an amount due from The Ottawa Hospital (TOH) of \$3,741,066 (2013 - due to TOH of \$3,838,252). This balance represents the difference between funds deposited at the Hospital and disbursements made on behalf of the Institute at year-end.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2014

3. Related entities (continued)

The Ottawa Hospital (continued)

The Ottawa Hospital provided the Institute with grants as follows:

	2014	2013
	\$	\$
General operating	4,435,932	4,352,196
Specific purpose operating	230,000	250,000
	4,665,932	4,602,196

The Ottawa Hospital contributed \$4,500,000 (2013 - \$500,000) during the year to the Institute to use in addressing financial challenges over future fiscal years.

The Ottawa Hospital Foundation

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

	2014	2013
	\$	\$
Unrestricted endowment fund interest	2,841,316	2,705,471
Restricted endowment fund interest for research projects	334,389	38,020
Unrestricted research and salary funding	3,003,729	2,128,021
Restricted research project funding	2,785,864	3,823,663
Deferred contributions relating to capital assets	847,786	248,878
	9,813,084	8,944,053

At year-end, \$5,890,858 (2013 - \$4,836,322) of these amounts were receivable from the Foundation.

At March 31, 2014, the Foundation manages funds in the amount of \$39,823,495 (2013 - \$41,217,045), 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, \$977,919 (2013 - \$956,568) is restricted for the Clinical Epidemiology Unit Director's Research Chair, and \$2,321,980 (2013 - \$5,627,254) is restricted for the Sprott Endowment for Stem Cell Research.

The University of Ottawa

The University of Ottawa contributed \$1,270,809 (2013 - \$1,222,792) during the year to the Institute for salary support.

At March 31, 2014, endowment funds in the amount of \$1,357,856 (2013 - \$1,217,562) for the Clinical Epidemiology Unit Director's Research Chair, \$1,768,750 (2013 - \$1,586,003) for the Dr. J. David Grimes Research Chair and \$2,199,304 (2013 - \$1,972,072) for the Neuroscience Research Institute Chair are held by the University of Ottawa. During the year, the Institute received \$174,913 (2013 - \$174,954) 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

March 31, 2014

4. Investments

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

	2014		2013	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Money market funds	12,601	12,601	109,700	109,700
Bonds / fixed income funds	32,632,563	33,486,509	32,711,242	32,654,156
Mutual funds / pooled funds	21,373,552	16,044,148	16,804,707	14,951,869
Shares in private company	1	1	1	1
	54,018,717	49,543,259	49,625,650	47,715,726

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% (2013 - 1.5% to 12.2%) and maturity dates ranging from July 2014 to April 2063 (2013 - May 2013 to November 2052).

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

	2014	2013
	\$	\$
Realized gains, dividends and interest on investments	1,832,659	1,479,767
Unrealized gains on investments	2,565,534	1,425,350
Bank interest	148,867	265,208
	4,547,060	3,170,325

5. Capital assets

	2014		2013	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Computer equipment	5,460,018	5,460,018	-	669
Furniture and fixtures	2,300,132	2,072,707	227,425	242,960
Laboratory equipment	39,958,095	32,542,332	7,415,763	8,926,402
Stem Cell and vision			-	
Research floors	24,855,382	9,372,367	15,483,015	16,666,783
Patents	1	-	1	1
	72,573,628	49,447,424	23,126,204	25,836,815

Cost and accumulated amortization of capital assets at March 31, 2013 amounted to \$69,025,460 and \$43,188,645, respectively.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2014

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:

	2014	2013
	\$	\$
Balance, beginning of year	67,874,441	63,045,498
Amounts received in the current period	72,016,961	84,316,207
	139,891,402	147,361,705
Less		
Research project cost	(70,184,484)	(76,063,180)
Amount transferred to deferred capital contributions	(893,123)	(3,424,084)
Balance, end of year	68,813,795	67,874,441

7. Deferred capital contributions

	2014	2013
	\$	\$
Balance, beginning of year	25,031,146	25,296,000
Additions	893,123	3,424,084
Amortization	(3,498,871)	(3,688,938)
Balance, end of year	22,425,398	25,031,146

8. 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:

	Original commitment	Outstanding amount
	\$	\$
Cancer Centre ("TIMEx")	5.22 million	-
Regenerative Medicine Floors ("TIMEx")	1.84 million	-
The Centre for Practice Changing Research ("KT Canada")	1.16 million	124,922

The Institute has secured external funding for this commitment and the timing of the distribution of this commitment had not yet been determined.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2014

9. 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, \$1,721,825 (2013 - \$295,390) was transferred to the Equalization Fund.

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.

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.

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 actuarial valuation of the Plan as at December 31, 2012 indicates the Plan is fully funded. Contributions to the Plan made during the year by the Institute on behalf of its employees amounted to \$2,495,181 (2013 - \$2,182,203) and are included in the statement of operations.

11. Financial instruments

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

The carrying values of due from The Ottawa Hospital, due from The Ottawa Hospital Foundation, accounts receivable, 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 \$11,381,745 (2013 - \$8,236,138). The Institute does not hedge its foreign currency risk exposure.

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.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2014

12. 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 definition and strategy with respect to capital remains unchanged from the year ended March 31, 2013.

13. Comparative figures

Certain figures for the prior year have been reclassified to conform to the presentation adopted in the current year. The main reclassification relate to sick leave.