

Financial Statements of

**OTTAWA HOSPITAL
RESEARCH INSTITUTE**

Year ended March 31, 2018

OTTAWA HOSPITAL RESEARCH INSTITUTE

Table of Contents

Year ended March 31, 2018

| | |
|------------------------------------|-------------|
| Independent Auditors' Report | |
| Financial Statements | Page |
| Statement of Financial Position | 1 |
| Statement of Operations | 2 |
| Statement of Changes in Net Assets | 3 |
| Statement of Cash Flows | 4 |
| Notes to Financial Statements | 5 - 13 |



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' 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, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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, these financial statements present fairly, in all material respects, the financial position of the Ottawa Hospital Research Institute as at March 31, 2018 and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 28, 2018

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Financial Position

March 31, 2018, with comparative information for 2017

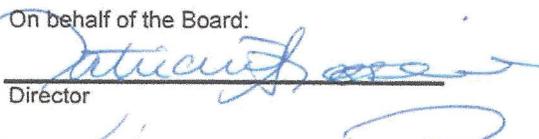
| | Externally restricted | Unrestricted | 2018 | 2017 |
|---|--------------------------|----------------------|-----------------------|-----------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash | \$ 7,088,652 | \$ 10,417,868 | \$ 17,506,520 | \$ 23,341,570 |
| Due from The Ottawa Hospital Foundation (note 2) | 2,624,526 | 4,753,184 | 7,377,710 | 5,565,671 |
| Accounts receivable | 8,101,217 | 1,037,738 | 9,138,955 | 12,117,455 |
| | <u>17,814,395</u> | <u>16,208,790</u> | <u>34,023,185</u> | <u>41,024,696</u> |
| Prepaid expenses | - | 12,590 | 12,590 | 38,590 |
| Investments (note 3) | 80,125,697 | - | 80,125,697 | 63,108,949 |
| Capital assets (note 4) | 20,461,081 | - | 20,461,081 | 21,022,789 |
| | <u>\$ 118,401,173</u> | <u>\$ 16,221,380</u> | <u>\$ 134,622,553</u> | <u>\$ 125,195,024</u> |

Liabilities and Net Assets

| | | | | |
|---|-----------------------|----------------------|-----------------------|-----------------------|
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 750,189 | \$ 872,969 | \$ 1,623,158 | \$ 2,284,876 |
| Due to The Ottawa Hospital (note 2) | - | 1,634,304 | 1,634,304 | 1,701,815 |
| Unearned income | 100,000 | 2,159,368 | 2,259,368 | 2,451,868 |
| Unexpended research project funding (note 5) | 97,089,903 | - | 97,089,903 | 86,743,059 |
| | <u>97,940,092</u> | <u>4,666,641</u> | <u>102,606,733</u> | <u>93,181,618</u> |
| Deferred capital contributions (note 6) | 20,062,320 | - | 20,062,320 | 20,575,115 |
| Net assets (note 10): | | | | |
| Internally restricted (note 7) | - | 7,723,121 | 7,723,121 | 7,723,121 |
| Invested in capital assets | 398,761 | - | 398,761 | 447,674 |
| Unrestricted | - | 3,831,618 | 3,831,618 | 3,267,496 |
| | <u>398,761</u> | <u>11,554,739</u> | <u>11,953,500</u> | <u>11,438,291</u> |
| | <u>\$ 118,401,173</u> | <u>\$ 16,221,380</u> | <u>\$ 134,622,553</u> | <u>\$ 125,195,024</u> |

See accompanying notes to financial statements.

On behalf of the Board:


Director


Director

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

| | Externally restricted | Unrestricted | 2018 | 2017 |
|--|--------------------------|-------------------|--------------------|--------------------|
| Revenue: | | | | |
| The Ottawa Hospital Foundation (note 2): | | | | |
| Research and salary | \$ - | \$ 4,105,594 | \$ 4,105,594 | \$ 3,469,042 |
| Endowment fund income | - | 1,435,424 | 1,435,424 | 1,747,182 |
| Indirect cost recovery | - | 7,593,619 | 7,593,619 | 7,390,355 |
| The Ottawa Hospital (note 2) | - | 7,565,936 | 7,565,936 | 6,499,672 |
| University of Ottawa (note 2): | | | | |
| Salary support | - | 1,954,800 | 1,954,800 | 2,047,077 |
| Endowment fund income | - | 56,375 | 56,375 | 56,375 |
| Medical practice plans | - | 4,898,752 | 4,898,752 | 4,777,147 |
| Research projects | 84,265,159 | - | 84,265,159 | 78,036,254 |
| Miscellaneous | - | 1,147,721 | 1,147,721 | 699,048 |
| Investment income (note 3) | - | 2,203,126 | 2,203,126 | 5,213,155 |
| Amortization of deferred capital contributions (note 6) | 3,034,268 | - | 3,034,268 | 2,709,128 |
| | 87,299,427 | 30,961,347 | 118,260,774 | 112,644,435 |
| Expenses: | | | | |
| Scientific programs | - | 19,340,113 | 19,340,113 | 18,273,959 |
| General research administration | - | 4,046,368 | 4,046,368 | 3,814,735 |
| Technology transfer program | - | 570,682 | 570,682 | 427,977 |
| Hospital services | - | 4,128,978 | 4,128,978 | 4,071,273 |
| Other research | - | 1,155,706 | 1,155,706 | 1,115,817 |
| Research ethics board | - | 1,159,986 | 1,159,986 | 999,323 |
| Research project costs (note 5) | 84,265,159 | - | 84,265,159 | 78,036,254 |
| Amortization of capital assets | 3,078,573 | - | 3,078,573 | 2,753,433 |
| | 87,343,732 | 30,401,833 | 117,745,565 | 109,492,771 |
| Excess (deficiency) of revenue over expenses | \$ (44,305) | \$ 559,514 | \$ 515,209 | \$ 3,151,664 |

See accompanying notes to financial statements.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

| | Externally restricted | Invested in capital assets | Internally restricted (note 7) | Unrestricted | Total 2018 | Total 2017 |
|---|--------------------------|-------------------------------|--------------------------------------|---------------------|----------------------|----------------------|
| Balance, beginning of year | \$ - | \$ 447,674 | \$ 7,723,121 | \$ 3,267,496 | \$ 11,438,291 | \$ 8,286,627 |
| Excess (deficiency) of revenue over expenses | (44,305) | - | - | 559,514 | 515,209 | 3,151,664 |
| Amortization of capital assets | 3,078,573 | (3,078,573) | - | - | - | - |
| Purchase of capital assets | (2,516,865) | 2,516,865 | - | - | - | - |
| Deferred capital contributions received (note 6) | 2,516,865 | (2,521,473) | - | 4,608 | - | - |
| Amortization of deferred capital contributions | (3,034,268) | 3,034,268 | - | - | - | - |
| Balance, end of year | \$ - | \$ 398,761 | \$ 7,723,121 | \$ 3,831,618 | \$ 11,953,500 | \$ 11,438,291 |

See accompanying notes to financial statements.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of revenue over expenses | \$ 515,209 | \$ 3,151,664 |
| Items not involving cash: | | |
| Amortization of capital assets | 3,078,573 | 2,753,433 |
| Amortization of deferred capital contributions | (3,034,268) | (2,709,128) |
| Change in fair value of investments (note 3) | (823,328) | 2,180,064 |
| Change in non-cash operating working capital: | | |
| Increase (decrease) in due to The Ottawa Hospital | (67,511) | 3,175,202 |
| Decrease (increase) in due from The Ottawa Hospital Foundation | (1,812,039) | 174,591 |
| Decrease (increase) in accounts receivable | 2,978,500 | (2,421,438) |
| Decrease (increase) in prepaid expenses | 26,000 | (19,840) |
| Increase (decrease) in accounts payable and accrued liabilities | (661,718) | 813,927 |
| Decrease in unearned income | (192,500) | (267,364) |
| Increase in unexpended research project funding | 10,346,844 | 10,215,753 |
| | <u>10,353,762</u> | <u>17,046,864</u> |
| Financing activities: | | |
| Deferred contributions received | 2,521,473 | 4,448,516 |
| Investing activities: | | |
| Net increase in investments | (16,193,420) | (7,273,029) |
| Purchase of capital assets | (2,516,865) | (4,428,319) |
| | <u>(18,710,285)</u> | <u>(11,701,348)</u> |
| Net increase (decrease) in cash | (5,835,050) | 9,794,032 |
| Cash, beginning of year | 23,341,570 | 13,547,538 |
| Cash, end of year | <u>\$ 17,506,520</u> | <u>\$ 23,341,570</u> |

See accompanying notes to financial statements.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements

Year ended March 31, 2018

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 (Canada) 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.

1. 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:

(a) 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.

(b) Revenue recognition:

The Institute follows the deferral method of accounting for not-for-profit organizations.

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.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(c) 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.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Management has elected to carry its investments at fair value, with the exception of shares in private companies acquired by the Institute in exchange for patent or license rights, which are recorded at nominal value when the fair value of the transaction is not determinable.

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 effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Institute determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Institute expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(e) 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:

| Asset | Useful life |
|--------------------------------------|---------------|
| Furniture and fixtures | 5 years |
| Laboratory equipment | 5 to 10 years |
| Stem Cell and Vision Research floors | 21 years |

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(e) Capital assets (continued):

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 expensed.

(f) 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.

(g) 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. These estimates are reviewed annually and, as adjustments become necessary, they are reported in the periods in which they become known.

2. 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 to The Ottawa Hospital of \$1,634,304 (2017 - \$1,701,815). 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 Financial Statements (continued)

Year ended March 31, 2018

2. Related entities (continued):

The Ottawa Hospital (continued):

The Ottawa Hospital provided the Institute with grants as follows:

| | 2018 | 2017 |
|----------------------------|--------------|--------------|
| General operating | \$ 7,335,936 | \$ 6,419,672 |
| Specific purpose operating | 230,000 | 80,000 |
| | \$ 7,565,936 | \$ 6,499,672 |

In 2014, The Ottawa Hospital contributed \$4,500,000 to the Institute with the restriction that the amount was to be used to address financial challenges over future fiscal years. As such, the full amount was recorded as unearned income. No similar amounts were received in 2018, 2017 or 2016. The unearned income balance remaining at March 31, 2018, is \$2,140,000.

The Ottawa Hospital Foundation:

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

| | 2018 | 2017 |
|--|---------------|---------------|
| Unrestricted endowment fund interest | \$ 1,435,424 | \$ 1,747,182 |
| Restricted endowment fund interest for research projects | 474,091 | 629,900 |
| Unrestricted research and salary funding | 3,993,046 | 3,469,042 |
| Restricted research project funding | 6,056,305 | 5,254,824 |
| Deferred capital contributions | 325,513 | 692,957 |
| | \$ 12,284,379 | \$ 11,793,905 |

Of the \$6,056,305 (2017 - \$5,254,824) in restricted research project funding, \$990,140 (2017 - \$1,512,579) relates to funding received from the Heart and Stroke Foundation that was received from the Foundation as a flow-through.

At year-end, \$7,377,710 (2017 - \$5,565,671) of the total funding from the Foundation was receivable from the Foundation.

At March 31, 2018, the Foundation manages funds in the amount of \$52,520,417 (2017 - \$51,527,282), which are designated as 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, \$950,321 (2017 - \$1,004,938) is restricted for the Clinical Epidemiology Unit Director's Research Chair.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2018

2. Related entities (continued):

The University of Ottawa:

The University of Ottawa contributed \$1,954,800 (2017 - \$2,047,077) during the year to the Institute for salary support.

At March 31, 2018, endowment funds in the amount of \$1,520,517 (2017 - \$1,429,753) for the Clinical Epidemiology Unit Director's Research Chair and \$2,462,764 (2017 - \$2,315,754) for the Neuroscience Research Institute Chair are held by the University of Ottawa. During the year, the Institute received \$139,050 (2017 - \$134,785) of endowment fund income on these endowments.

Certain granting agencies (Canadian Foundation for Innovation and Natural Sciences and Engineering Research Council of Canada) require that their funding flow via an Academic University setting. These funds are then transferred subsequently to the Institute. During the year, The University of Ottawa received \$1,164,740 (2017 - \$1,781,441) on behalf of the Institute's scientists.

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.

3. Investments:

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

| | 2018 | | 2017 | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | Fair value | Cost | Fair value | Cost |
| Bonds/fixed income funds | \$ 50,725,656 | \$ 52,584,356 | \$ 39,328,343 | \$ 40,518,662 |
| Mutual funds/pooled funds | 29,400,040 | 22,327,142 | 23,780,605 | 16,552,761 |
| Shares in private companies | 1 | 1 | 1 | 1 |
| | \$ 80,125,697 | \$ 74,911,499 | \$ 63,108,949 | \$ 57,071,424 |

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/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 ranging from 1.0% to 9.90% (2017 - 0.50% to 9.90%) and maturity dates ranging from June 2018 to May 2077 (2017 - August 2017 to November 2053).

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2018

3. Investments (continued):

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

| | 2018 | | 2017 | |
|---|------|-------------|------|-----------|
| Realized gains, dividends and interest on investments | \$ | 3,088,358 | \$ | 3,140,663 |
| Unrealized gains (loss) on investments | | (1,071,611) | | 1,952,314 |
| Bank interest | | 186,379 | | 120,178 |
| | \$ | 2,203,126 | \$ | 5,213,155 |

4. Capital assets:

| | 2018 | | 2017 | |
|---|---------------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Furniture and fixtures | \$ 1,422,803 | \$ 1,289,039 | \$ 133,764 | \$ 139,119 |
| Laboratory equipment | 46,299,628 | 36,720,254 | 9,579,374 | 8,951,959 |
| Stem Cell and Vision Research floors | 24,855,382 | 14,107,440 | 10,747,942 | 11,931,710 |
| Patents | 1 | - | 1 | 1 |
| | \$ 72,577,814 | \$ 52,116,733 | \$ 20,461,081 | \$ 21,022,789 |

Cost and accumulated amortization of capital assets at March 31, 2017 amounted to \$74,447,546 and \$53,424,757 respectively. During the year, the Institute disposed of fully-amortized assets totalling \$4,386,597 (2017 - \$5,460,015).

5. 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:

| | 2018 | | 2017 | |
|--|------|--------------|------|--------------|
| Balance, beginning of year | \$ | 86,743,059 | \$ | 76,527,306 |
| Amounts received in the current period | | 97,133,476 | | 92,700,523 |
| | | 183,876,535 | | 169,227,829 |
| Less: | | | | |
| Research project costs | | (84,265,159) | | (78,036,254) |
| Amount transferred to deferred capital contributions | | (2,521,473) | | (4,448,516) |
| Balance, end of year | \$ | 97,089,903 | \$ | 86,743,059 |

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2018

6. Deferred capital contributions:

| | 2018 | 2017 |
|----------------------------|---------------|---------------|
| Balance, beginning of year | \$ 20,575,115 | \$ 18,835,727 |
| Additions | 2,521,473 | 4,448,516 |
| Amortization | (3,034,268) | (2,709,128) |
| Balance, end of year | \$ 20,062,320 | \$ 20,575,115 |

7. 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-term 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 up to the maximum of the balance of the Equalization Fund or the Institute's net loss is transferred to the unrestricted net assets from the Equalization Fund. During the year, \$Nil (2017 - \$2,763,155) was transferred from the Equalization Fund.

8. Pension plan:

Substantially all of the full-time employees of the Institute are members of the Healthcare of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement, termination or death that provide the highest earnings.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investment policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, which is currently calculated as 1.26 times the employees' pension contribution, 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, 2017 indicates the Plan is fully funded. Contributions to the Plan made during the year by the Institute on behalf of its employees amounted to \$3,325,466 (2017 - \$3,005,078) and are included in the statement of operations.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2018

9. Financial instruments:

Financial risk factors:

The Institute's activities expose it to a variety of financial risks: market risk (including interest rate, currency (foreign exchange), and other price risks), credit risk and liquidity risk. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return consistent with the investment policies approved by the Board of Directors. The Institute does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Credit risk:

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

The Institute's receivables are with governments, government funding agencies, corporate entities. Management does not believe it is exposed to any significant credit risk as receivables are primarily from related parties and government organizations; investments are diversified as disclosed in note 3.

(b) Liquidity risk:

Liquidity risk is the risk that the Institute will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Institute manages its liquidity risk by monitoring its operating requirements. The Institute prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

(c) 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. Market factors include three types of risk: currency risk, interest rate risk and other price risk.

The Institute believes it is not subject to significant interest rate, foreign currency or other price risks arising from its financial instruments.

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

OTTAWA HOSPITAL RESEARCH INSTITUTE

Notes to Financial Statements (continued)

Year ended March 31, 2018

10. Net assets:

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, 2017.