

Financial statements of

Ottawa Hospital Research Institute

March 31, 2016

Ottawa Hospital Research Institute

March 31, 2016

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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, 2016, 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, 2016, 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
Licensed Public Accountants

June 21, 2016

Ottawa Hospital Research Institute

Statement of financial position as at March 31, 2016

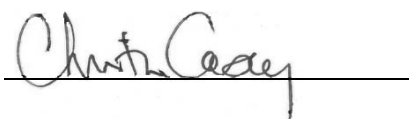
	Externally restricted	Unrestricted	2016	2015
	\$	\$	\$	\$
Assets				
Current assets				
Cash	9,482,883	4,064,655	13,547,538	10,753,802
Due from The Ottawa Hospital (Note 3)	-	1,473,387	1,473,387	3,233,988
Due from The Ottawa Hospital Foundation (Note 3)	1,700,580	4,039,682	5,740,262	5,890,690
Accounts receivable	8,383,572	1,312,445	9,696,017	10,120,648
	19,567,035	10,890,169	30,457,204	29,999,128
Prepaid expenses	-	18,750	18,750	149,292
Investments (Note 4)	58,015,984	-	58,015,984	58,802,897
Capital assets (Note 5)	19,347,903	-	19,347,903	21,345,294
	96,930,922	10,908,919	107,839,841	110,296,611
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	795,713	675,236	1,470,949	3,373,107
Unearned income	260,000	2,459,232	2,719,232	5,252,500
Unexpended research project funding (Note 6)	76,527,306	-	76,527,306	71,635,533
	77,583,019	3,134,468	80,717,487	80,261,140
Deferred capital contributions (Note 7)	18,835,727	-	18,835,727	20,752,285
	96,418,746	3,134,468	99,553,214	101,013,425
Net assets				
Internally restricted (Note 8)	-	4,959,966	4,959,966	5,956,525
Invested in capital assets	512,176	-	512,176	593,009
Unrestricted	-	2,814,485	2,814,485	2,733,652
	512,176	7,774,451	8,286,627	9,283,186
	96,930,922	10,908,919	107,839,841	110,296,611

On behalf of the Board



Director

Ian Mumford



Director

Christa Casey

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Statement of operations year ended March 31, 2016

	Externally restricted	Unrestricted	2016	2015
	\$	\$	\$	\$
Revenue				
The Ottawa Hospital Foundation (Note 3)				
Research and salary	-	4,129,480	4,129,480	4,614,840
Endowment Fund income	-	1,908,201	1,908,201	1,894,709
Indirect cost recovery	-	6,527,692	6,527,692	6,578,835
The Ottawa Hospital (Note 3)	-	8,842,200	8,842,200	4,565,932
University of Ottawa (Note 3)				
Salary support	-	1,157,262	1,157,262	1,273,979
Endowment Fund income	-	56,375	56,375	117,418
Medical practice plans	-	5,428,675	5,428,675	5,605,958
Research projects	72,720,320	-	72,720,320	75,152,049
Miscellaneous	-	661,752	661,752	654,472
Investment income (Note 4)	-	(646,631)	(646,631)	4,956,387
Amortization of deferred capital contributions (Note 7)	3,220,819	-	3,220,819	3,374,487
	75,941,139	28,065,006	104,006,145	108,789,066
Expenses				
Scientific programs	-	18,336,822	18,336,822	19,196,492
General research administration	-	3,700,083	3,700,083	3,263,331
Technology transfer program	-	689,682	689,682	397,401
Hospital services	-	4,002,347	4,002,347	3,945,372
Other research	-	1,371,033	1,371,033	1,142,350
Research ethics board	-	917,290	917,290	902,013
Research project costs (Note 6)	72,720,320	-	72,720,320	75,152,049
Amortization of capital assets	3,265,127	-	3,265,127	3,418,795
	75,985,447	29,017,257	105,002,704	107,417,803
Excess (deficiency) of revenue over expenses	(44,308)	(952,251)	(996,559)	1,371,263

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Statement of changes in net assets year ended March 31, 2016

	Externally restricted	Invested in capital assets	Internally restricted (Note 8)	Unrestricted	2016	2015
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	-	593,009	5,956,525	2,733,652	9,283,186	7,911,923
Excess (deficiency) of revenue over expenses	(44,308)	-	-	(952,251)	(996,559)	1,371,263
Transfer from internally restricted (Note 8)	-	-	(996,559)	996,559	-	-
Amortization of capital assets	3,265,127	(3,265,127)	-	-	-	-
Purchase of capital assets	(1,267,736)	1,267,736	-	-	-	-
Deferred capital contributions received (Note 7)	1,267,736	(1,304,261)	-	36,525	-	-
Amortization of deferred capital contributions	(3,220,819)	3,220,819	-	-	-	-
Balance, end of year	-	512,176	4,959,966	2,814,485	8,286,627	9,283,186

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Statement of cash flows year ended March 31, 2016

	2016	2015
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses	(996,559)	1,371,263
Items not affecting cash		
Amortization of capital assets	3,265,127	3,418,795
Amortization of deferred capital contributions	(3,220,819)	(3,374,487)
Change in fair value of investments (Note 4)	3,010,552	(2,392,567)
	2,058,301	(976,996)
Changes in non-cash operating working capital items:		
Decrease in due from The Ottawa Hospital	1,760,601	507,078
Decrease in due from The Ottawa Hospital Foundation	150,428	168
Decrease (increase) in accounts receivable	424,631	(1,377,892)
Decrease (increase) in prepaid expenses	130,542	(149,292)
Increase (decrease) in accounts payable and accrued liabilities	(1,902,158)	773,778
Increase (decrease) in unearned income	(2,533,268)	318,500
Increase in unexpended research project funding	4,891,773	2,821,738
	4,980,850	1,917,082
Investing activities		
Net increase in investments	(2,223,639)	(2,391,613)
Purchase of capital assets	(1,267,736)	(1,637,885)
	(3,491,375)	(4,029,498)
Financing activities		
Deferred capital contributions received	1,304,261	1,701,374
Net cash inflow (outflow)	2,793,736	(411,042)
Cash, beginning of year	10,753,802	11,164,844
Cash, end of year	13,547,538	10,753,802

See accompanying notes to the financial statements.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2016

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, 2016

2. Significant accounting policies (continued)

Other financial instruments

The due from The Ottawa Hospital, due from The Ottawa Hospital Foundation, accounts receivable, and accounts payable and accrued 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
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 certain 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.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2016

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 of \$1,473,387 (2015 - \$3,233,988). 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:

	2016	2015
	\$	\$
General operating	8,612,200	4,335,932
Specific purpose operating	230,000	230,000
	8,842,200	4,565,932

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 deferred income. No similar amounts were received in 2016 or 2015. For the year ended March 31, 2016, \$2,360,000 (2015 - \$nil) was recognized as revenue to partially offset the operating deficit. The remaining deferred income balance as at March 31, 2016, 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:

	2016	2015
	\$	\$
Unrestricted endowment fund interest	1,908,201	1,894,709
Restricted endowment fund interest for research projects	174,718	79,592
Unrestricted research and salary funding	4,129,479	4,614,840
Restricted research project funding	3,604,975	4,813,928
Deferred contributions relating to capital assets	1,080,534	1,591,632
	10,897,907	12,994,701

In the restricted research project funding of \$3,604,975 (2015 - \$4,813,928) there is \$1,256,383 (2015 - \$1,627,019) from the Heart and Stroke Foundation that flows through the Foundation. At year-end, \$5,740,262 (2015 - \$5,890,690) of these amounts were receivable from the Foundation. At March 31, 2016, the Foundation manages funds in the amount of \$38,110,874 (2015 - \$39,267,577), 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, \$927,909 (2015 - \$985,040) is restricted for the Clinical Epidemiology Unit Director's Research Chair, and \$Nil (2014 - \$716,774) is restricted for the Sprott Endowment for Stem Cell Research.

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2016

3. Related entities (continued)

The University of Ottawa

The University of Ottawa contributed \$1,157,262 (2015 - \$1,273,979) during the year to the Institute for salary support.

At March 31, 2016, endowment funds in the amount of \$1,366,778 (2015 - \$1,437,129) for the Clinical Epidemiology Unit Director's Research Chair, \$Nil (2015 - \$1,872,011) for the Dr. J. David Grimes Research Chair with the disendowment in February 2016 and \$2,213,754 (2015 - \$2,327,951) for the Neuroscience Research Institute Chair are held by the University of Ottawa. During the year, the Institute received \$136,246 (2015 - \$179,506) of interest 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 \$2,146,537 (2015 - \$447,986) 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.

4. Investments

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

	2016		2015	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Money market funds / cash	4,819	4,819	25,615	25,615
Bonds / fixed income funds	37,043,403	37,688,911	36,380,882	35,841,801
Mutual funds / pooled funds	20,967,761	16,464,780	22,396,399	16,067,455
Shares in private companies	1	1	1	1
	58,015,984	54,158,511	58,802,897	51,934,872

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 ranging from 0.75% to 9.90% (2015 - 1.70% to 12.20%) and maturity dates ranging from March 2017 to November 2053 (2015 - December 2015 to April 2063).

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

	2016	2015
	\$	\$
Realized gains, dividends and interest on investments	2,223,650	2,391,614
Change in fair value of investments	(3,010,552)	2,392,567
Bank interest	140,271	172,206
	(646,631)	4,956,387

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2016

5. Capital assets

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Computer equipment	5,460,018	5,460,018	-	-
Furniture and fixtures	2,462,628	2,308,386	154,242	214,233
Laboratory equipment	42,701,213	36,623,032	6,078,181	6,831,813
Stem Cell and Vision Research floors	24,855,382	11,739,903	13,115,479	14,299,247
Patents	1	-	1	1
	75,479,242	56,131,339	19,347,903	21,345,294

Cost and accumulated amortization of capital assets as at March 31, 2015 amounted to \$74,211,508 and \$52,866,214, respectively.

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:

	2016	2015
	\$	\$
Balance, beginning of year	71,635,533	68,813,795
Amounts received in the current period	78,916,354	79,675,161
	150,551,887	148,488,956
Less		
Research project cost	(72,720,320)	(75,152,049)
Amount transferred to deferred capital contributions	(1,304,261)	(1,701,374)
Balance, end of year	76,527,306	71,635,533

7. Deferred capital contributions

	2016	2015
	\$	\$
Balance, beginning of year	20,752,285	22,425,398
Additions	1,304,261	1,701,374
Amortization	(3,220,819)	(3,374,487)
Balance, end of year	18,835,727	20,752,285

Ottawa Hospital Research Institute

Notes to the financial statements

March 31, 2016

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 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, \$996,559 was transferred out of the Equalization Fund (2015 - \$1,371,263 was transferred into the Equalization Fund).

9. 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, 2014 indicates the Plan is fully funded. Contributions to the Plan made during the year by the Institute on behalf of its employees amounted to \$2,829,264 (2014 - \$2,706,188) and are included in the statement of operations.

10. 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.

The carrying values of due from The Ottawa Hospital, due from The Ottawa Hospital Foundation, accounts receivable and accounts payable and accrued liabilities 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 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 \$11,191,085 (2015 - \$12,442,491). 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 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, 2016

11. 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, 2015.