Financial Statements of

OTTAWA HOSPITAL RESEARCH INSTITUTE

Year ended March 31, 2021

OTTAWA HOSPITAL RESEARCH INSTITUTE

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Year ended March 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Members of the Ottawa Hospital Research Institute

Opinion

We have audited the financial statements of the Ottawa Hospital Research Institute (the “Entity”), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2021, and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

June 30, 2021

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Financial Position

March 31, 2021, with comparative information for 2020

	Externally restricted	Unrestricted	2021	2020
Assets				
Current assets:				
Cash	$ 10,668,916	$ 32,140,179	$ 42,809,095	$ 15,121,143
Due from The Ottawa Hospital (note 2)	–	–	–	477,963
Due from The Ottawa Hospital Foundation (note 2)	2,645,876	4,146,713	6,792,589	6,488,856
Accounts receivable	8,195,663	2,914,281	11,109,944	7,023,588
	21,510,455	39,201,173	60,711,628	29,111,550
Prepaid expenses	–	21,034	21,034	17,725
Investments (note 3)	107,559,753	–	107,559,753	92,260,276
Capital assets (note 4)	20,752,623	–	20,752,623	20,099,801
	$ 149,822,831	$ 39,222,207	$ 189,045,038	$ 141,489,352
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	$ 2,067,456	$ 2,304,264	$ 4,371,720	$ 2,298,310
Due to The Ottawa Hospital (note 2)	–	4,463,004	4,463,004	–
Unearned income	–	1,015,000	1,015,000	1,013,000
Unexpended research project funding (note 5)	127,002,752	–	127,002,752	101,303,455
	129,070,208	7,782,268	136,852,476	104,614,765
Deferred capital contributions (note 6)	20,486,783	–	20,486,783	19,789,654
	149,556,991	7,782,268	157,339,259	124,404,419
Net assets (note 10):				
Internally restricted (note 7)	–	22,507,890	22,507,890	8,996,742
Invested in capital assets	265,840	–	265,840	310,147
Unrestricted	–	8,932,049	8,932,049	7,778,044
	265,840	31,439,939	31,705,779	17,084,933
	$ 149,822,831	$ 39,222,207	$ 189,045,038	$ 141,489,352

See accompanying notes to financial statements.

On behalf of the Board:

K. Lafferty Director

S. D'Aloisio Director

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Operations

March 31, 2021, with comparative information for 2020

	Externally restricted	Unrestricted	2021	2020
Revenue:				
Research projects	$ 79,049,091	$ –	$ 79,049,091	$ 85,446,324
The Ottawa Hospital Foundation (note 2):				
Research and salary	–	5,031,357	5,031,357	4,727,587
Endowment fund income	–	1,289,208	1,289,208	1,381,685
Indirect cost recovery	–	8,407,340	8,407,340	8,548,092
The Ottawa Hospital (note 2)	–	7,485,936	7,485,936	9,645,936
University of Ottawa (note 2):				
Salary support	–	1,884,999	1,884,999	1,737,980
Endowment fund income	–	56,375	56,375	56,375
Medical practice plans		5,440,505	5,440,505	4,866,166
Miscellaneous	–	3,830,965	3,830,965	785,202
Investment income (loss) (note 3)	–	15,511,148	15,511,148	(1,654,439)
Amortization of deferred capital contributions (note 6)	3,641,943	–	3,641,943	3,330,697
	82,691,034	48,937,833	131,628,867	118,871,605
Expenses:				
Scientific programs	–	21,702,724	21,702,724	19,494,705
General research administration	–	4,901,097	4,901,097	4,466,505
Technology transfer program	–	2,106,750	2,106,750	513,302
Hospital services	–	3,438,012	3,438,012	3,535,534
Other research	–	919,766	919,766	895,094
Research ethics board	–	1,204,331	1,204,331	1,173,892
Research project costs (note 5)	79,049,091	–	79,049,091	85,446,324
Amortization of capital assets	3,686,250	–	3,686,250	3,375,004
	82,735,341	34,272,680	117,008,021	118,900,360
Excess (deficiency) of revenue over expenses	$ (44,307)	$ 14,665,153	$ 14,620,846	$ (28,755)

See accompanying notes to financial statements.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Changes in Net Assets

March 31, 2021, with comparative information for 2020

	Externally restricted	Invested in capital assets	Internally restricted	Unrestricted	2021	2020
Balance, beginning of year	$ –	$ 310,147	$ 8,996,742	$ 7,778,044	$ 17,084,933	$ 17,113,688
Excess (deficiency) of revenue over expenses	(44,307)	–	–	14,665,153	14,620,846	(28,755)
Transfer to internally restricted	–	–	13,511,148	(13,511,148)	–	–
Amortization of capital assets	3,686,250	(3,686,250)	–	–	–	–
Purchase of capital assets	(4,339,072)	4,339,072	–	–	–	–
Deferred capital contributions received (note 6)	4,339,072	(4,339,072)	–	–	–	–
Amortization of deferred capital contributions	(3,641,943)	3,641,943	–	–	–	–
Balance, end of year	$ –	$ 265,840	$ 22,507,890	$ 8,932,049	$ 31,705,779	$ 17,084,933

See accompanying notes to financial statements.

OTTAWA HOSPITAL RESEARCH INSTITUTE

Statement of Cash Flows

March 31, 2021, with comparative information for 2020

		2021		2020
Cash provided by (used in):				
Operating activities:				
Excess (deficiency) of revenue over expenses	$	14,620,846	$	(28,755)
Items not involving cash:				
Amortization of capital assets		3,686,250		3,375,004
Amortization of deferred capital contributions		(3,641,943)		(3,330,697)
Unrealized losses (gains) on investments (note 3)		(7,415,207)		6,732,704
Change in non-cash operating working capital:				
Decrease in due from The Ottawa Hospital		477,963		384,242
Decrease (increase) in due from The Ottawa Hospital Foundation		(303,733)		1,105,503
Decrease (increase) in accounts receivable		(4,086,356)		1,142,174
Decrease (increase) in prepaid expenses		(3,309)		6,011
Increase (decrease) in accounts payable and accrued liabilities		2,073,410		(565,922)
Increase in due to The Ottawa Hospital		4,463,004		–
Increase (decrease) in unearned income		2,000		(2,153,250)
Increase (decrease) in unexpended research project funding		25,699,297		(2,031,206)
		35,572,222		4,635,808
Financing activities:				
Deferred contributions received		4,339,072		3,665,129
Investing activities:				
Net acquisitions of investments		(7,884,270)		(14,665,003)
Purchase of capital assets		(4,339,072)		(3,240,411)
		(12,223,342)		(17,905,414)
Net increase (decrease) in cash		27,687,952		(9,604,477)
Cash, beginning of year		15,121,143		24,725,620
Cash, end of year	$	42,809,095	$	15,121,143

See accompanying notes to financial statements.

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.

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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.

(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. Construction in progress comprises construction and development costs capitalized during the construction period. 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. Construction in progress assets are not amortized until the project is complete and the assets come into use.

1. Significant accounting policies (continued):

(e) Capital assets (continued):

The estimated useful lives of the assets are as follows:

Asset	Useful life
Furniture and fixtures	5 years
Information system equipment	5 years
Laboratory equipment	5 to 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 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 owing to The Ottawa Hospital of $4,463,004 (2020 - $477,963 due from The Ottawa Hospital). This balance represents the difference between funds deposited at the Hospital and disbursements made on behalf of the Institute at year-end.

2. Related entities (continued):

The Ottawa Hospital (continued):

The Ottawa Hospital provided the Institute with grants as follows:

	2021	2020
General operating	$ 7,335,936	$ 9,475,936
Specific purpose operating	150,000	170,000
	$ 7,485,936	$ 9,645,936

The Ottawa Hospital contributed $4,500,000 in 2014 and $1,000,000 in 2019 with the restriction that the amount be used to address financial challenges over future fiscal years. No similar amounts were received in 2015 to 2018 or 2020 to 2021. In March 2021, the Institute recognized as revenue the residual amount of $Nil (2020 - $2,140,000) from the one-time allocation of $4,500,000. The unearned income balance remaining at March 31, 2021 is $1,000,000 (2020 - $1,000,000).

The Ottawa Hospital Foundation:

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

	2021	2020
Unrestricted research and salary funding	$ 5,031,357	$ 4,729,576
Unrestricted endowment fund interest	1,289,208	1,381,685
Restricted endowment fund interest for research projects	389,356	376,679
Restricted research project funding	5,212,715	3,634,443
Deferred capital contributions	1,191,147	399,224
	$ 13,113,783	$ 10,521,607

Of the $5,212,715 (2020 - $3,634,443) in restricted research project funding, $1,470,349 (2020 - $1,119,864) relates to funding received from the Heart and Stroke Foundation that was received from the Foundation as a flow-through.

At year-end, $6,792,589 (2020 - $6,488,856) of the total funding from the Foundation was receivable from the Foundation.

At March 31, 2021, the Foundation manages funds in the amount of $55,856,938 (2020 - $46,273,805), 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, $967,223 (2020 - $808,890) is restricted for the Clinical Epidemiology Unit Director's Research Chair.

2. Related entities (continued):

The University of Ottawa:

The University of Ottawa contributed $1,884,999 (2020 - $1,737,980) during the year to the Institute for salary support.

At March 31, 2021, endowment funds in the amount of $1,750,437 (2020 - $1,506,897) for the Clinical Epidemiology Unit Director's Research Chair and $2,835,162 (2020 - $2,440,704) for the Neuroscience Research Institute Chair are held by the University of Ottawa. During the year, the Institute received $149,427 (2020 - $146,295) of endowment fund income on these endowments.

Certain granting agencies (Canada Foundation for Innovation, Natural Sciences and Engineering Research Council of Canada and Ontario Research Fund) 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 $12,191,932 (2020 - $1,480,822) on behalf of the Institute's scientists, including the Canada Research Continuity Emergency Fund (“CRCEF”) in the amount of $8,005,828

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:

	2021 Fair value	2021 Cost	2020 Fair value	2020 Cost
Bonds/fixed income funds	$ 66,966,923	$ 69,664,293	$ 57,769,908	$ 58,357,654
Mutual funds/pooled funds	40,592,829	30,895,541	34,490,367	34,317,909
Shares in private companies	1	1	1	1
	$ 107,559,753	$ 100,559,835	$ 92,260,276	$ 92,675,564

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 0.14% to 4.22% (2020 - 0.45% to 8.52%) and maturity dates ranging from September 2021 to June 2081 (2020 - December 2020 to November 2050).

3. Investments (continued):

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

	2021	2020
Realized gains, dividends and interest on investments	$ 7,884,271	$ 4,665,003
Unrealized gains (losses) on investments	7,415,207	(6,732,704)
Bank interest	211,670	413,262
	$ 15,511,148	$ (1,654,439)

4. Capital assets:

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Furniture and fixtures	$ 1,431,498	$ 1,414,499	$ 16,999	$ 43,788
Information system equipment	27,465	16,479	10,986	16,479
Laboratory equipment	56,229,895	43,240,485	12,989,410	11,092,190
Stem Cell and Vision Research floors	25,450,666	17,715,439	7,735,227	8,947,343
Patents	1	–	1	1
	$ 83,139,525	$ 62,386,901	$ 20,752,623	$ 20,099,801

Cost and accumulated amortization of capital assets at March 31, 2020 amounted to $78,800,453 and $58,700,652, respectively.

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:

	2021	2020
Balance, beginning of year	$ 101,303,455	$ 103,334,661
Amounts received in the current period	109,087,460	87,080,247
	210,390,915	190,414,908
Less:		
Research project costs	(79,049,091)	(85,446,324)
Amount transferred to deferred capital contributions	(4,339,072)	(3,665,129)
Balance, end of year	$ 127,002,752	$ 101,303,455

6. Deferred capital contributions:

	2021	2020
Balance, beginning of year	$ 19,789,654	$ 19,455,222
Additions	4,339,072	3,665,129
Amortization	(3,641,943)	(3,330,697)
Balance, end of year	$ 20,486,783	$ 19,789,654

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, $13,511,148 was transferred to the Equalization Fund (2020 - $28,755 transferred out of 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 2019 indicates the Plan is fully funded. Contributions to the Plan made during the year by the Institute on behalf of its employees amounted to $4,004,516 (2020 - $3,750,291) and are included in the statement of operations.

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.

9. Financial instruments (continued):

(a) Credit risk (continued):

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.

(i) Currency risk:

Foreign currency risk refers to the extent to which instruments denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to other currencies. This exposure arises from the Institute’s holdings of foreign cash balances, equities and bonds. From time to time the Institute has investments in various U.S. securities and cash, which are subject to foreign currency risk. The Institute’s exposure to investments denominated in U.S. currencies is $10,108,292 (2020 - $7,978,515). The Institute does not hedge its foreign currency risk.

(ii) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Institute’s cash flows, financial position and investment revenue. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Investment practices are designed to avoid undue risk of loss or impairment to assets and provide a reasonable expectation of fair return given the nature of the investment. The Institute has investments in bonds with fixed rates which are subject to this risk, as the value of fixed rate instruments will generally rise if interest rates fall and fall if interest rates rise.

9. Financial instruments (continued):

(c) Market risk (continued):

(iii) Other price risk:

The Institute believes it is not subject to significant other price risk arising from its financial instruments.

These financial risks are not considered significiant to operations by management.

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, 2020.

11. Impact of Coronavirus COVID-19 pandemic:

In March of 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and societal impacts.

Management has been forthright in undertaking certain strategies and actions to respond to the COVID-19 outbreak. The health and safety of all staff has been reinforced as the priority for the Institute. Management invoked work-from-home requirements for employees, suspended travel and events, shifted face-to-face meetings to digital methods and had closures of its facilities in line with provincial guidelines when required. Additionally, a temporary moratorium on research activity that required access to the Institute's facilities, research participants or personal protective equipment was implemented.

Financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors' report which provide additional evidence relating to conditions that existed at year-end. Management has assessed the financial impacts and there are no additional adjustments required to the financial statements at this time.

The ultimate duration and magnitude of the pandemic's impact on the Institute's operations and financial position are not known at this time. These impacts could include a change in future cash flows, changes to the value of assets and the liabilities and changes the use of accumulated net assets to sustain operations. An estimate of the future financial effect of this pandemic is not predictable at this time.