

Financial Statements of

**QUEENSWAY CARLETON
HOSPITAL**

March 31, 2010



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Auditors' Report

To the Board of Directors of
Queensway Carleton Hospital

We have audited the statement of financial position of Queensway Carleton Hospital (the "Hospital") as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Ontario Business Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

May 14, 2010

QUEENSWAY CARLETON HOSPITAL
Financial Statements
March 31, 2010

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QUEENSWAY CARLETON HOSPITAL

Statement of Financial Position

as at March 31, 2010

(tabular amounts in thousands of dollars)

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash	\$ 9,958	\$ 22,847
Investments	-	1,402
Receivable from Governments (Note 4)	5,815	458
Accounts receivable	6,601	4,816
Due from Queensway Carleton Hospital Foundation	2,260	2,634
Inventories	1,703	1,676
Prepaid expenses	1,018	874
	27,355	34,707
CASH HELD FOR CAPITAL PURPOSES	6,215	4,716
CAPITAL ASSETS (Note 5)	159,063	99,032
	\$ 192,633	\$ 138,455
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 25,128	\$ 31,579
Accrued vacation and overtime pay	4,134	3,480
Deferred revenue	3,612	5,138
Current portion of long-term debt (Note 6)	6,530	7,617
	39,404	47,814
EMPLOYEE FUTURE BENEFITS (Note 7)	2,046	1,966
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 8)	143,657	80,710
	185,107	130,490
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)		
NET ASSETS		
Invested in capital assets (Note 9)	15,091	15,421
Unrestricted (deficiency)	(7,565)	(7,456)
	7,526	7,965
	\$ 192,633	\$ 138,455

ON BEHALF OF THE BOARD

 Director

 Director

QUEENSWAY CARLETON HOSPITAL

Statement of Operations

year ended March 31, 2010

(tabular amounts in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Revenue		
Funding from Governments	\$ 122,445	\$ 119,676
Inpatient	1,420	1,798
Ontario Health Insurance Plan and outpatient	15,637	13,930
Preferred accommodation	4,511	4,792
Laboratory	2,174	1,986
Parking	2,462	2,552
Recoveries and other	4,353	3,240
Amortization of contributions related to capital assets	4,641	4,319
Investment income	43	230
	<u>157,686</u>	<u>152,523</u>
Expenses		
Salaries and benefits	115,456	112,134
Medical and surgical supplies	10,716	10,367
Drugs	3,221	3,136
Supplies and other	19,601	18,034
Amortization of capital assets - major equipment	6,471	6,715
Amortization of capital assets - building and other	3,150	3,172
	<u>158,615</u>	<u>153,558</u>
DEFICIENCY OF REVENUE OVER EXPENSES	\$ (929)	\$ (1,035)

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL

Statement of Changes in Net Assets

year ended March 31, 2010

(tabular amounts in thousands of dollars)

	Invested in Capital Assets	Unrestricted	Total	
			2010	2009
BALANCE, BEGINNING OF YEAR	\$ 15,421	\$ (7,456)	\$ 7,965	\$ 9,587
Deficiency of revenue over expenses	-	(929)	(929)	(1,035)
Increase (decrease) of unrealized gains on available-for-sale financial assets	-	(39)	(39)	39
Decrease (increase) of unrealized losses on interest rate swaps designated as hedges (Note 6)	529	-	529	(626)
Net change in net assets invested in capital assets (Note 9)	(859)	859	-	-
BALANCE, END OF YEAR	\$ 15,091	\$ (7,565)	\$ 7,526	\$ 7,965
Included in BALANCE, END OF YEAR are accumulated unrealized gains (losses) on financial instruments:				
Unrealized gains on investments	\$ -	\$ -	\$ -	\$ 39
Unrealized losses on interest rate swaps	(602)	-	(602)	(1,131)
	\$ (602)	\$ -	\$ (602)	\$ (1,092)

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL

Statement of Cash Flows

year ended March 31, 2010

(tabular amounts in thousands of dollars)

	<u>2010</u>	<u>2009</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Deficiency of revenue over expenses	\$ (929)	\$ (1,035)
Items not affecting cash		
Amortization of capital assets	9,621	9,887
Amortization of contributions related to capital assets	(4,641)	(4,319)
Provision for employee future benefits	80	75
	<u>4,131</u>	4,608
Changes in non-cash operating working capital capital items (Note 14)	<u>(18,064)</u>	7,928
	<u>(13,933)</u>	12,536
INVESTING		
Increase in investments held for capital purposes	(1,499)	(2,503)
Purchase of capital assets	(77,777)	(15,796)
Proceeds on disposal of capital assets (Note 12)	11,927	-
Purchase of short-term investments	-	(1,363)
Sales and maturities of short-term investments	1,363	3,287
	<u>(65,986)</u>	(16,375)
FINANCING		
Principal payments under long-term debt	(558)	(482)
Contributions received for capital assets	67,588	12,884
	<u>67,030</u>	12,402
NET CASH INFLOW (OUTFLOW)	<u>(12,889)</u>	8,563
CASH, BEGINNING OF YEAR	<u>22,847</u>	14,284
CASH, END OF YEAR	<u>\$ 9,958</u>	<u>\$ 22,847</u>

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

1. NATURE OF ENTITY

The Queensway Carleton Hospital (the "Hospital") is a provincially funded, charitable, not-for-profit organization providing health care within various clinical programs in an inpatient and outpatient setting. It is a secondary referral hospital that provides primary and secondary services to the residents of the City of Ottawa and specifically to the West Ottawa community and portions of the Ottawa Valley.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) for not-for-profit organizations and include the following significant accounting policies:

Change in accounting policy

In September 2008, the Canadian Institute of Chartered Accountants (CICA) issued amendments to several of the existing sections in the 4400 series - *Financial Statements by Not-For-Profit Organizations*. Changes apply to annual financial statements relating to fiscal years beginning on or after January 1, 2009. Accordingly, the Hospital adopted the amended standards for its fiscal year beginning April 1, 2009. The amendments include: a) additional guidance in the applicability of Section 1100, *Generally Accepted Accounting Principles*; b) removal of the requirement to report separately net assets invested in capital assets; c) requirement to disclose revenues and expenses in accordance with EIC 123, *Reporting Revenue Gross as a Principal Versus Net as an Agent*; d) requirement to include a statement of cash flows in accordance with Section 1540, *Cash Flow Statements*; e) requirement to apply Section 1751, *Interim Financial Statements*, when preparing interim financial statements in accordance with GAAP; f) requirement for not-for-profit organizations that recognize capital assets to depreciate and assess these capital assets for impairment in the same manner as other entities reporting on a GAAP basis; g) requirement to disclose related party transactions in accordance with Section 3840, *Related Party Transactions*; and h) new disclosure requirements regarding the allocation of fundraising and general support costs.

The CICA also issued amendments to Section 1000: *Financial Statement Concepts*, to clarify the criteria for recognizing an asset.

These amendments had no significant impact on the Hospital's financial statements.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Hospital follows the deferral method of accounting for contributions.

The Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-Term Care ("MOHLTC") and Champlain Local Health Integrated Network (LHIN). Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of the year are accrued. Where a portion of a grant is related to a future period, it is deferred and recognized in that subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions restricted for the purchase of capital assets, together with any interest earned thereon, are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Revenue from the Ontario Health Insurance Plan ("OHIP"), preferred accommodation, and marketed services are recognized when the service is provided.

Investment income is included in the Statement of Operations and includes dividend and interest income, realized gains and losses on disposal of investments and, if applicable, charges for other than temporary impairment of investments. Unrealized gains and losses on available-for-sale financial assets are included directly in net assets or deferred contributions, as appropriate, until disposal or impairment of the asset. At that time, the related gains and losses are reclassified and included in the Statement of Operations as investment income.

Cash

Cash is classified as held-for-trading and carried at fair value

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term investments

Short-term investments are classified as available-for-sale and recorded at fair value which includes accrued interest. Interest on interest-bearing investments is calculated using the effective interest rate method. If the market value of investments becomes lower than cost, and this decline in value is considered to be other than temporary, the investments are written down to market value.

The fair values of securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other third-party information.

Accounts receivable

Amounts receivable, including due from related parties, are classified as loans and receivables and carried at amortized cost, which approximates fair value.

Inventories

Inventories of supplies are valued at the lower of average cost and replacement cost, less a provision for any obsolete or unusable inventory on hand.

Capital assets

Capital assets are recorded at cost. Assets acquired under capital leases are initially recorded at the present value of future minimum lease payments. Minor equipment replacements are expensed in the year of replacement. Construction in progress and various projects in process are not amortized until the project is complete and the facilities come into use. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value. Amortization is provided on the straight-line basis over the following useful lives:

Land improvements	up to 25 years
Buildings	up to 40 years
Building service equipment	up to 35 years
Major equipment	up to 10 years

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee future benefits

The Hospital accrues its obligations for benefit plans as the employees render the services necessary to earn these benefits. The cost of post-retirement benefits earned by employees is determined using the projected benefit method pro-rated on service. The cost is actuarially computed using management's best estimate of retirement ages of employees and expected health and dental care costs. The most recent actuarial valuation of the benefit plans was as at April 1, 2007, and the next required valuation will be as at April 1, 2010.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Adjustments arising from plan amendments, experience gains and losses, changes in assumptions and initial adoption of the accounting policy are amortized over the expected average remaining service period of the employee groups. The average remaining service period of the active employees covered by the benefit plans is twelve years.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities, including accrued vacation and overtime pay are classified as other liabilities and carried at amortized cost and fair value approximates amortized cost.

Long-term debt

Long-term debt is classified as other liabilities and recorded at amortized cost using the effective interest rate method. The fair values of the loans are based on an assessment of interest rate risk and credit risk. Fair value is determined under a discounted cash flow methodology using a discount rate based on interest rates currently charged for new loans with similar terms and remaining maturities, adjusted for a credit risk factor, which is reviewed at least annually. For certain variable rate loans that reprice frequently and for loans without a stated maturity, fair values are assumed to be equal to carrying values.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

The Hospital uses derivative financial instruments to manage interest rate risk. The only derivative products used are interest rate swaps (see Note 8 for further details). Derivative instruments not designated as a hedge are recorded on the Statement of Financial Position as assets and liabilities and are measured at fair value. Derivatives with a positive fair value are reported as assets, and derivatives with a negative fair value are reported as liabilities.

Hedge accounting is applied when a derivative is designated a hedge of a specific exposure and there is reasonable assurance that it will continue to be effective throughout the term of the hedge relationship. The Hospital uses interest rate swaps designated as cash flow hedges to hedge variability in forecasted cash flows. Changes in the fair value of effective cash flow hedges are included directly in net assets or deferred as appropriate, until the resultant asset or liability affects the Statement of Operations or net assets directly, as appropriate. If the cash flow hedge is not effective, changes in the fair value of cash flow hedge is reported directly in the Statement of Operations.

The periodic exchanges of payments on interest rate swaps designated as hedges of debt are recorded as an adjustment to interest expenses of the hedged item in the same period.

The fair values of over-the-counter derivatives are based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis, or are determined by using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Counterparty credit risk and liquidity valuation adjustments are recorded, as appropriate.

Donated services

Volunteers donate significant time each year to assist the Hospital in carrying out its services. These donated services are not recognized in the financial statements because of the difficulty associated with measurement.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include judgments as to the valuation of the employee future benefits liability, estimated useful lives of capital assets, collectibility of accounts receivable and the amount of accrued liabilities. Actual results could differ from these estimates. These estimates are reviewed annually, and as adjustments become necessary, they are recorded in the financial statements in the period they become known.

3. CAPITAL MANAGEMENT

The Hospital defines its capital as long-term debt, deferred contributions related to capital assets and its net assets. The conditions and restrictions for the long-term debt are described in Note 6.

Through the management of its capital, the Hospital strives to maintain and expand capacity, where possible, to continue operations, including the renewal of capital assets, in order to remain a viable charitable, not-for-profit organization providing health care services. The Hospital relies on grants from the MOHLTC and other government agencies as well as community contributions through the Queensway Carleton Hospital Foundation (Note 12). The Hospital has complied with the conditions and requirements of capital grants, contributions and long-term debt throughout the year.

4. RECEIVABLE FROM GOVERNMENTS

	<u>2010</u>	<u>2009</u>
Ministry of Health and Long-Term Care	\$ 4,533	\$ 94
Champlain Local Health Integrated Network	571	-
Cancer Care Ontario	711	278
Other	-	86
	<u>\$ 5,815</u>	<u>\$ 458</u>

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

5. CAPITAL ASSETS

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land improvements	\$ 3,024	\$ 1,673	\$ 1,351	\$ 1,041
Buildings	53,568	15,325	38,243	36,087
Building service equipment	30,615	13,978	16,637	19,972
Major equipment	74,764	55,963	18,801	22,075
Construction in progress	84,031	-	84,031	19,857
	\$ 246,002	\$ 86,939	\$ 159,063	\$ 99,032

Cost and accumulated amortization at March 31, 2009 amounted to \$176,349,000 and \$77,317,000 respectively.

6. LONG-TERM DEBT

	2010	2009
Co-generation project demand loan, reaching maturity on December 31, 2019, interest rate of 5.88%, annual payments of \$487, principal and interest	\$ 5,126	\$ 5,354
MRI demand loan, reaching maturity on June 1, 2012, interest rate of 4.79%, annual payments of \$377, principal and interest	802	1,132
Total loans	5,928	6,486
Unrealized losses on interest rate swaps designated as hedges	602	1,131
	\$ 6,530	\$ 7,617

The debt has been classified as short-term because these loans are due on demand.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

6. LONG-TERM DEBT (Continued)

Principal payments required in each of the next five years, assuming demand loans are not called, are as follows:

2011	\$ 743
2012	784
2013	542
2014	477
2015 and thereafter	<u>3,382</u>
	<u>\$ 5,928</u>

Interest rate derivative agreements

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities.

Certain derivatives are specifically designated and qualify for hedge accounting. Hedge accounting is applied to minimize significant unplanned fluctuations in earnings caused by changes in interest rates or foreign exchange rates. Interest rate and currency fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause variability in forecasted cash flows. When a derivative functions effectively as a hedge, gains, losses, revenue and expenses on the derivative will offset the gains, losses, revenue and expenses on the hedged item.

The Hospital applied hedge accounting to the following transactions:

- The Hospital converted \$6,000,000 of floating rate debt of the Co-generation project bank loan to fixed rate debt of 5.88%. This derivative agreement is effective from September 15, 2003 to December 31, 2019.
- The Hospital converted \$2,500,000 of floating rate debt of the MRI project bank loan to fixed rate debt of 4.79%. This derivative agreement is effective from June 1, 2004 to June 1, 2012.

Derivatives - notional amounts

Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The notional amount of the Hospital's derivative transactions is \$5,928,000 (2009 - \$6,486,000).

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

6. LONG-TERM DEBT (Continued)

Fair value

As at March 31, 2010, the interest rate swaps have unrealized losses, which are recorded on the Statement of Financial Position, of \$602,000 (2009 - \$1,131,000). The fair value of the loans as at March 31, 2010 was \$6,530,000 (2009 - \$7,617,000).

7. EMPLOYEE FUTURE BENEFITS

The Hospital has defined post-retirement benefit plans covering certain employee groups. These plans provide health and dental benefits to eligible employees up to the age of 65.

The reconciliation of the funded status of the benefit plans to the amount recorded in the financial statements is as follows:

	<u>2010</u>	<u>2009</u>
Accrued benefit obligation	\$ 1,706	\$ 1,337
Funded status - plan deficit	1,706	1,337
Balance of unamortized experience gains	340	629
Accrued benefit liability	<u>\$ 2,046</u>	<u>\$ 1,966</u>

The Hospital's plans are unfunded. Therefore, there are no assets associated with the Hospital's plans.

The significant actuarial assumptions adopted in estimating the Hospital's accrued benefit obligations and net benefit costs are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	5.00%	7.00%
Expense rate	7.00%	5.75%
Dental costs rate increase	4.00%	4.00%
Extended health care costs rate increase	7.50% *	8.50%

* Decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum thereafter.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

7. EMPLOYEE FUTURE BENEFITS (Continued)

Included in the Statement of Operations is an additional non-cash expense of \$80,000 (2009 - \$75,000) regarding employee future benefits. This amount is comprised of:

	<u>2010</u>	<u>2009</u>
Total benefit expense	\$ 196	\$ 194
Payments made by the Hospital during the year	<u>(116)</u>	<u>(119)</u>
Additional non-cash expense	<u>\$ 80</u>	<u>\$ 75</u>

8. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets represent the unamortized balance of grants and donations received for the purchase of capital assets, plus any interest earned thereon. The amortization of deferred contributions related to capital assets is recorded as revenue in the Statement of Operations. The changes for the year are as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 80,710	\$ 72,145
Contributions during the year		
Ministry of Health and Long-Term Care	58,956	7,912
Queensway Carleton Hospital Foundation	7,994	4,725
Other	563	247
Interest earned on investments held for capital purposes	75	-
Amortization to revenue during the year	<u>(4,641)</u>	<u>(4,319)</u>
Balance, end of year	<u>\$ 143,657</u>	<u>\$ 80,710</u>

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

8. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Continued)

The balance of unamortized and unspent funds consists of the following:

	<u>2010</u>	<u>2009</u>
Unspent contributions	\$ 6,215	\$ 4,716
Unamortized capital contributions	137,442	75,994
	<u>\$ 143,657</u>	<u>\$ 80,710</u>

9. NET ASSETS INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets are calculated as follows:

	<u>2010</u>	<u>2009</u>
Capital assets (Note 5)	\$ 159,063	\$ 99,032
Less amounts financed by		
Deferred contributions (Note 8)	(137,442)	(75,994)
Long-term debt (Note 6)	(5,928)	(6,486)
Unrealized losses on interest rate swaps designated as hedges	(602)	(1,131)
Net assets invested in capital assets	<u>\$ 15,091</u>	<u>\$ 15,421</u>

Changes in net assets invested in capital assets during the year are calculated as follows:

	<u>2010</u>	<u>2009</u>
Net purchase of capital assets	\$ 69,652	\$ 15,796
Amounts funded by deferred contributions	(67,588)	(12,884)
Changes in unspent contributions	1,499	2,503
Repayment of long-term debt	558	482
Amortization of contributions related to capital assets	4,641	4,319
Amortization of capital assets	(9,621)	(9,887)
	<u>\$ (859)</u>	<u>\$ 329</u>

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

10. COMMITMENTS AND GUARANTEES

Operating leases

In July 1973, the Hospital entered into a lease with the National Capital Commission ("NCC") for approximately 50 acres on which the Hospital is located. The lease was amended in November 2006 to extend the lease to July 2048 at an annual lease cost of \$1.00.

Hospital redevelopment projects

The Hospital has committed to a major redevelopment plan which has been undertaken in three phases. Phase I was completed in 1999 and Phase II was completed in 2005.

The MOHLTC gave approval to the Hospital to proceed with the Operating Room portion of Phase III as an Early Works project which was completed in January 2008.

The Hospital received approval from the MOHLTC on April 16, 2010 to tender the final phase of restructuring redevelopment or Phase III. The costs of construction for this final phase of redevelopment are estimated as a range of \$95,000,000 to \$105,000,000. Once the tender price is known and the total project costs are approved, it is anticipated that the MOHLTC, as part of their on-going commitment to the Hospital's redevelopment plan, will provide a grant for a significant part of the total project costs of Phase III. The balance of Phase III will be funded by the Queensway Carleton Hospital Foundation and the Queensway Carleton Hospital.

The Hospital is also involved in the capital expansion project supporting regional cancer care in partnership with the Ottawa Hospital referred to as The Ottawa Hospital Regional Cancer Centre (TOHRCC) Redevelopment project. The MOHLTC approved the Chiller Relocation portion of the TOHRCC Redevelopment project as an Early Works project which was completed in May 2008.

In December 2007, the MOHTLC approved the balance of TOHRCC Redevelopment project to build the Irving Greenberg Family Cancer Centre (IGFCC) for estimated project costs of \$87,168,000 (excluding the Early Works Chiller Relocation), and a Parking Garage for \$11,927,000. The MOHLTC will be providing capital grants to a maximum of \$79,522,567 for the Irving Greenberg Family Cancer Centre. The balance of the TOHRCC Redevelopment project will be funded by the Queensway Carleton Hospital Foundation and the Queensway Carleton Hospital. Substantial completion was reached for the Parking Garage in July 2009 and for the IGFCC in January 2010. The IGFCC was opened and in operation for patients on April 6, 2010. The balance of the value of the work in contract with the builder to be performed and not recorded at March 31, 2010 is estimated to be \$1,100,000.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

10. COMMITMENTS (Continued)

Bank loan

The Hospital has guaranteed a bank loan obtained by the Queensway Carleton Hospital Foundation for the maximum amount of \$12,375,000, excluding interest and expenses. The Foundation used the proceeds of this loan to pay the License fee disclosed in Note 12. The Hospital is not aware of any facts which would cause a default of the loan by the Foundation.

Line of credit

At March 31, 2010, Hospital Food Services - Ontario, Inc. ("HFS") has an outstanding balance of \$10,018,972 (2009 - \$11,613,371) on an available line of credit for which the Hospital is one of the guarantors. In the event of any breach of covenants associated with this line of credit, the Hospital may be required to advance funds to HFS in accordance with its guarantee of the debt. The Hospital's share of the potential debt repayment is based on the agreement between HFS and the member hospitals, which at March 31, 2010 is 11.3% (2009 - 11.3%). This rate was fixed in 2008 - 2009 based on the percentage of the Hospital's purchases in that year. At March 31, 2010, the Hospital's share of the potential debt repayment should HFS default on the line of credit is \$1,132,215 (2009 - \$1,312,311). As at the date of the audit report, there has been no such request by the debtor.

11. CONTINGENT LIABILITIES

The nature of the Hospital's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2010, management believes the Hospital has valid defences and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have material effect on the Hospital's financial position.

The Hospital has indemnified its past, present and future directors, officers, employees and volunteers against expenses (including legal expenses), judgments, and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding in which the directors are sued as a result of their service if they acted honestly and in good faith with a view to the best interest of the Hospital. The Hospital has purchased directors' liability insurance with respect to this indemnification.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

11. CONTINGENT LIABILITIES (Continued)

A group of hospitals, including the Hospital, formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of the public liability insurance risks of its members. All members of the pool pay annual premiums which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they were members and these losses could be material. No reassessments have been made to March 31, 2010.

The Hospital is contingently liable under a letter of credit in the amount of \$1,814,391 (2009 - \$1,814,391) as required by the Hospital's site plan agreement with the City of Ottawa related to the construction of the Hospital's cancer centre referred to as TOHRCC Redevelopment project (Note 10).

12. RELATED PARTY TRANSACTIONS

Queensway Carleton Hospital Foundation

The Hospital has an economic interest in the Queensway Carleton Hospital Foundation (the "Foundation"). The Foundation was established to raise, receive, maintain and manage funds to be distributed towards various programs and capital projects of the Hospital.

During the year ended March 31, 2010, the Foundation contributed \$7,993,969 (2009 - \$4,725,374) to the Hospital for capital purposes. In addition, the Foundation contributed \$1,079,819 (2009 - \$11,041) in other contributions. As at March 31, 2010, the Foundation had a fund balance of \$4,203,675 (2009 - \$6,295,564).

On July 15, 2009, the Hospital re-negotiated the lease arrangement with the Foundation for the parking facilities of the Hospital. For the lease in effect for the period April 1, 2009 to July 15, 2009, the Foundation paid the Hospital lease costs of \$780,538 based on the appraisal market value (full year 2009 - \$2,551,682). On July 15, 2009, the Hospital entered into a twenty year License Agreement with the Foundation whereby the Foundation will have the exclusive right to operate the parking facilities in exchange for the payment of a license fee. The Foundation paid to the Hospital a one-time pre-paid license fee in the amount of \$11,927,000 plus applicable taxes, equal to the fair value of the parking facilities at the time of the agreement. The Foundation has no other license fee payments to make to the Hospital as a result of the license agreement. The Hospital has classified the license as a direct financing lease. As such, no gain or loss was recorded on the Hospital's financial statements.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

12. RELATED PARTY TRANSACTIONS (Continued)

Queensway Carleton Hospital Foundation (Continued)

The Hospital and the Foundation also entered into two separate agreements, effective July 15, 2009, whereby the Foundation purchases services from the Hospital for maintenance/repair and management of the parking facilities. For the maintenance/repair agreement, the Foundation paid the Hospital \$487,962 and for the management agreement, the Foundation paid the Hospital \$126,262.

Hospital Food Services - Ontario, Inc. and Ottawa Regional Hospital Linen Services Incorporated

The Hospital is a founding member of Hospital Food Services - Ontario, Inc. ("HFS") and of the Ottawa Regional Hospital Linen Services Incorporated ("ORHLS"). HFS and ORHLS were established to provide food and laundry services, respectively, to member hospitals on a cost of service basis. Both HFS and ORHLS are incorporated without share capital under the Ontario Business Corporations Act. Both corporations are not-for-profit organizations under the Income Tax Act, and as such, are exempt from income taxes.

At March 31, 2010, the Hospital had an economic interest of \$390,136 (2009 - \$244,495) of total net assets of \$3,383,226 (2009 - \$4,617,456) of HFS. The corresponding interest in ORHLS is \$1,128,108 (2009 - \$1,157,245) of total net assets of \$10,229,131 (2009 - \$10,432,691).

For the year ended March 31, 2010, the Hospital provided a total of \$1,118,000 (2009 - \$1,089,000) to HFS, \$264,000 (2009 - \$234,000) for food purchases and \$854,000 (2009 - \$854,000) for food commissary finance charges. The Hospital also provided \$1,799,979 (2009 - \$1,473,276) to ORHLS for linen services. These amounts, except for food commissary finance charges, have been included in supplies and other on the Statement of Operations. The finance charges are netted against MOHLTC funding specific to this payment.

13. PENSION PLAN

Substantially all of the employees of the Hospital 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.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

year ended March 31, 2010

(tabular amounts in thousands of dollars)

13. PENSION PLAN (Continued)

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

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with the salary contributed by employees, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The most recent actuarial valuation of the Plan as at December 31, 2006 indicated the Plan is fully funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to \$6,377,444 (2009 - \$5,938,088) and are included in the Statement of Operations.

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>2010</u>	<u>2009</u>
Receivable from MOHLTC	\$ (5,357)	\$ 732
Accounts receivable	(1,785)	955
Due from related parties	374	(1,527)
Inventories	(27)	(5)
Prepaid expenses	(144)	141
Accounts payable and accrued liabilities	(10,253)	8,251
Accrued vacation and overtime pay	654	255
Deferred revenue from MOHLTC	(1,526)	(874)
	<u>\$ (18,064)</u>	<u>\$ 7,928</u>

In 2010, capital assets additions totalling \$3,802,000 (2009 - \$NIL) is excluded from the Statement of Cash Flows as they remained unpaid at year end.

QUEENSWAY CARLETON HOSPITAL

Notes to the Financial Statements

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15. FINANCIAL INSTRUMENTS

Financial risk

The financial risk arises from the fluctuations in interest rates and foreign exchange rates, and the degree of volatility of these rates.

Interest rate risk

There is a risk to the Hospital's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. To effectively manage this risk, the Hospital entered into interest rate swap agreements on September 15, 2003 and June 1, 2004. The contracts have been designated as a hedge for reporting purposes. The Hospital has established strict guidelines that are monitored regularly and does not hold or issue derivative financial instruments for trading or speculative purposes.

Credit risk

Credit risk arises from the potential that a counterparty to an investment will fail to perform its obligations. Concentrations of credit risk exists when a significant proportion of investments are invested in securities with similar characteristics or subject to similar economic, political or other conditions.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current financial statement presentation.