Financial Statements of

QUEENSWAY CARLETON HOSPITAL

March 31, 2012

Deloitte & Touche LLP
800 - 100 Queen Street
Ottawa ON K1P 5T8
Canada

Tel: (613) 236–2442
Fax: (613) 236–2195
www.deloitte.ca

Independent Auditor's Report

To the Board of Directors of
Queensway Carleton Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of Queensway Carleton Hospital (the "Hospital"), which comprise the statement of financial position as at March 31, 2012 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 generally accepted accounting principles, 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.

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Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

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

Auditor's Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Ontario Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the previous year.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

May 30, 2012

QUEENSWAY CARLETON HOSPITAL
Financial Statements
March 31, 2012

QUEENSWAY CARLETON HOSPITAL
Statement of Financial Position
as at March 31, 2012
(tabular amounts in thousands of dollars)

	2012	2011
CURRENT ASSETS		
Cash	**$ 10,199**	$ 11,895
Receivable from Governments (Note 4)	**11,517**	8,834
Accounts receivable	**9,067**	6,670
Due from Queensway Carleton Hospital Foundation	**3,668**	667
Inventories	**978**	1,183
Prepaid expenses	**1,079**	852
	36,508	30,101
CASH HELD FOR CAPITAL PURPOSES	**2,864**	4,846
CAPITAL ASSETS (Note 5)	**208,156**	171,399
	$ 247,528	$ 206,346
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 30,007**	$ 26,850
Accrued vacation and overtime pay	**4,164**	4,162
Deferred revenue	**10,461**	4,249
Current portion of long-term debt (Note 6)	**542**	785
	45,174	36,046
LONG-TERM DEBT (Note 6)	**4,476**	4,918
EMPLOYEE FUTURE BENEFITS (Note 7)	**2,494**	2,161
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 8)	**189,675**	156,471
	241,819	199,596
COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (Notes 10 and 11)		
SUBSEQUENT EVENT (Note 12)		
NET ASSETS		
Invested in capital assets (Note 9)	**16,327**	14,071
Unrestricted (deficiency)	**(10,618)**	(7,321)
	5,709	6,750
	$ 247,528	$ 206,346

ON BEHALF OF THE BOARD

_________________________ Director

_________________________ Director

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL
Statement of Operations
year ended March 31, 2012
(tabular amounts in thousands of dollars)

	2012	2011
Revenue		
Funding from Governments	**$ 130,139**	$ 124,993
Inpatient	**1,531**	1,557
Ontario Health Insurance Plan and outpatient	**16,702**	16,546
Preferred accommodation	**4,010**	4,277
Laboratory	**2,185**	2,093
Recoveries and other	**8,442**	6,346
Amortization of contributions related to major equipment	**2,528**	3,186
Investment income	**169**	121
	165,706	159,119
Expenses		
Salaries and benefits	**125,742**	118,939
Medical and surgical supplies	**11,415**	10,954
Drugs	**3,193**	3,467
Supplies and other	**20,152**	19,811
Amortization of major equipment	**5,081**	5,940
	165,583	159,111
Excess of revenue over expenses before undernoted items	**123**	8
Amortization of contributions related to buildings	**4,683**	4,818
Amortization of buildings and other	**(5,747)**	(5,686)
	(1,064)	(868)
DEFICIENCY OF REVENUE OVER EXPENSES	**$ (941)**	$ (860)

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL
Statement of Changes in Net Assets
year ended March 31, 2012
(tabular amounts in thousands of dollars)

	Invested in Capital Assets	Unrestricted	Total 2012	Total 2011
BALANCE, BEGINNING OF YEAR	**$ 14,071**	**$ (7,321)**	**$ 6,750**	$ 7,526
Deficiency of revenue over expenses	**-**	**(941)**	**(941)**	(860)
Decrease (increase) of unrealized losses on interest rate swaps designated as hedges (Note 6)	**(100)**	**-**	**(100)**	84
Net change in net assets invested in capital assets (Note 9)	**2,356**	**(2,356)**	**-**	-
BALANCE, END OF YEAR	**$ 16,327**	**$ (10,618)**	**$ 5,709**	$ 6,750
Included in BALANCE, END OF YEAR are accumulated unrealized losses on interest rate swaps:	**$ (618)**	**$ -**	**$ (618)**	$ (518)

See accompanying notes to the financial statements.

QUEENSWAY CARLETON HOSPITAL
Statement of Cash Flows
year ended March 31, 2012
(tabular amounts in thousands of dollars)

	2012	2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Deficiency of revenue over expenses	**$ (941)**	$ (860)
Items not affecting cash		
Amortization of capital assets	**10,828**	11,626
Amortization of contributions related to capital assets	**(7,211)**	(8,004)
Provision for employee future benefits	**333**	115
Loss on disposal of capital assets	**20**	-
	3,029	2,877
Changes in non-cash operating working capital capital items (Note 14)	**5,996**	2,222
	9,025	5,099
INVESTING		
Decrease in cash held for capital purposes	**1,982**	1,369
Purchase of capital assets	**(41,212)**	(16,855)
	(39,230)	(15,486)
FINANCING		
Principal payments under long-term debt	**(785)**	(743)
Contributions received for capital assets	**29,294**	13,067
	28,509	12,324
NET CASH INFLOW (OUTFLOW)	**(1,696)**	1,937
CASH, BEGINNING OF YEAR	**11,895**	9,958
CASH, END OF YEAR	**$ 10,199**	$ 11,895

See accompanying notes to the financial statements.

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:

Future changes in accounting policies

In December 2010, the Public Sector Accounting Board changed the accounting framework required to be followed by Government not-for-profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, Government not-for-profit Organizations will be required to select from either (a) the CICA Public Sector Accounting Handbook, including Sections PS 4200 to PS 4270 or, alternatively, (b) the CICA Public Sector Accounting Handbook without Sections PS 4200 to PS 4270. Early adoption of these new standards is permitted. The Hospital plans to adopt the new accounting standards for Government not-for-profit Organizations, including Sections PS 4200 to 4270, for its fiscal year beginning on April 1, 2012. The Hospital is currently assessing the impact of these changes on its financial statements.

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. The final amount of operating revenue recorded cannot be confirmed until the MOHLTC has reviewed the Hospital’s financial and statistical returns for the year. Any adjustments arising from the MOHLTC review are recorded in the period in which the adjustment is made.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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.

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:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (Continued)

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

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 actuarially determined using the projected benefit method pro-rated on service, and 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, 2010, and the next required valuation will be as at April 1, 2013.

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 thirteen years.

The Hospital is an employer member of the Hospitals of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 6 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 the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

(tabular amounts in thousands of dollars)

4. RECEIVABLE FROM GOVERNMENTS

	2012	2011
Ministry of Health and Long-Term Care		
Capital	**$ 11,121**	$ 7,751
Operating	**-**	75
Champlain Local Health Integrated Network	**271**	855
Cancer Care Ontario	**125**	5
Other	**-**	148
	$ 11,517	$ 8,834

5. CAPITAL ASSETS

	2012			2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land improvements	**$ 3,272**	**$ 2,268**	**$ 1,004**	$ 1,178
Buildings	**106,556**	**20,932**	**85,624**	87,401
Building service equipment	**55,622**	**19,457**	**36,165**	38,504
Major equipment	**81,624**	**66,726**	**14,898**	16,325
Construction in progress	**70,465**	**-**	**70,465**	27,991
	$ 317,539	**$ 109,383**	**$ 208,156**	$ 171,399

Cost and accumulated amortization as at March 31, 2011 amounted to $269,964,000 and $98,565,000, respectively.

(tabular amounts in thousands of dollars)

6. LONG-TERM DEBT

	2012	2011
Co-generation project loan, reaching maturity on December 31, 2019, interest rate of 5.88%, annual payments of $487, principal and interest	**$ 4,307**	$ 4,729
MRI loan, reaching maturity on June 1, 2012, interest rate of 4.79%, annual payments of $377, principal and interest	**93**	456
Unrealized losses on interest rate swaps designated as hedges	**618**	518
Total loans	**5,018**	5,703
Less current portion	**542**	785
	$ 4,476	$ 4,918

Principal payments required in each of the next five years are as follows:

2013	**$ 542**
2014	**477**
2015	**506**
2016	**538**
2017	**572**
Thereafter	**1,765**
	$ 4,400

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.

6. LONG-TERM DEBT (Continued)

Interest rate derivative agreements (Continued)

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 $4,400,000 (2011 - $5,185,000).

Fair value

As at March 31, 2012, the interest rate swaps have unrealized losses, which are recorded on the Statement of Financial Position, of $618,000 (2011 - $518,000). The fair value of the loans as at March 31, 2012 was $5,018,000 (2011 - $5,703,000).

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.

(tabular amounts in thousands of dollars)

7. EMPLOYEE FUTURE BENEFITS (Continued)

During the year ended March 31, 2012, the Hospital amended the plans to provide for additional benefits to certain employees covered under the plans. Under the previous plans, retirees were responsible for 100% of the cost of retirement benefits. Under the amended plan, the Hospital pays for 50% of the cost of retirement benefits. The effect of this amendment was an additional cost of $1,020,000, of which $79,000 was amortized to benefit expense during the year.

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

	2012	2011
Accrued benefit obligation	**$ 3,830**	$ 2,208
Funded status - plan deficit	**3,830**	2,208
Unamortized prior period service cost	**(941)**	-
Balance of unamortized experience losses	**(395)**	(47)
Accrued benefit liability	**$ 2,494**	$ 2,161

The following table provides details of the changes in accrued benefit liability during the year ended March 31:

	2012	2011
Benefit expense, included in Statement of Operations	**$ 388**	$ 266
Payments made by the Hospital during the year	**(55)**	(151)
Change in accrued benefit liability	**$ 333**	$ 115

(tabular amounts in thousands of dollars)

7. EMPLOYEE FUTURE BENEFITS (Continued)

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

	2012	2011
Discount rate for calculation of net benefit costs	**5.00%**	5.00%
Discount rate for calculation of accrued benefit obligation	**4.00%**	5.00%
Dental costs rate increase	**4.00%**	4.00%
Extended health care costs rate increase	**8.00%**	8.00%

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:

	2012	2011
Balance, beginning of year	**$ 156,471**	$ 143,657
Contributions during the year		
Ministry of Health and Long-Term Care	**30,739**	18,876
Queensway Carleton Hospital Foundation	**8,621**	824
Other	**864**	1,112
Interest earned on cash held for capital purposes	**191**	6
Amortization to revenue during the year	**(7,211)**	(8,004)
Balance, end of year	**$ 189,675**	$ 156,471

(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:

	2012	2011
Unspent contributions	**$ 2,864**	$ 4,846
Unamortized capital contributions	**186,811**	151,625
	$ 189,675	$ 156,471

9. NET ASSETS INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets are calculated as follows:

	2012	2011
Capital assets (Note 5)	**$ 208,156**	$ 171,399
Less amounts financed by		
Deferred contributions (Note 8)	**(186,811)**	(151,625)
Long-term debt (Note 6)	**(4,400)**	(5,185)
Unrealized losses on interest rate swaps designated as hedges (Note 6)	**(618)**	(518)
Net assets invested in capital assets	**$ 16,327**	$ 14,071

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

	2012	2011
Purchase of capital assets, net of disposals	**$ 47,585**	$ 23,962
Amounts funded by deferred contributions	**(40,415)**	(20,818)
Changes in unspent contributions	**(1,982)**	(1,369)
Repayment of long-term debt	**785**	743
Amortization of contributions related to capital assets	**7,211**	8,004
Amortization of capital assets	**(10,828)**	(11,626)
	$ 2,356	$ (1,104)

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 it 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 October 15, 2010 to award the construction contract for the final phase of the restructuring redevelopment referred to as Phase IIIA. The base value of the construction contract with the general contractor $80,650,000 for which the value of the work completed to March 31, 2012 is approximately 71%. The total project is estimated to cost $117,604,000 including architect and related fees and equipment. The MOHLTC will be providing capital grants to a maximum of $90,727,000 towards this cost. The balance of the Phase IIIA project will be funded by the Queensway Carleton Hospital Foundation and the Queensway Carleton Hospital. The Phase IIIA Redevelopment project is expected to be completed during the 2013-2014 fiscal year of the Hospital.

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. At March 31, 2012, the Foundation has an outstanding balance of $9,882,893 (2011 - $10,127,325).

Line of credit

At March 31, 2012, Hospital Food Services - Ontario, Inc. ("HFS") has an outstanding balance of $7,568,262 (2011 - $8,715,024) 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, 2012 is 11.3% (2011 - 11.3%). This rate was fixed in 2008 - 2009 based on the percentage of the Hospital's purchases in that year.

10. COMMITMENTS AND GUARANTEES (Continued)

At March 31, 2012, the Hospital's share of the potential debt repayment should HFS default on the line of credit is $855,214 (2011 - $984,798). As at the date of approval of the financial statements, 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, 2012, 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.

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, 2012.

The Hospital is contingently liable under a letter of credit in the amount of $799,954 as required by the Hospital's site plan agreement with the City of Ottawa related to the construction of the Phase III 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.

12. RELATED PARTY TRANSACTIONS (Continued)

Queensway Carleton Hospital Foundation (Continued)

During the year ended March 31, 2012, the Foundation contributed $8,620,779 (2011 - $823,804) to the Hospital for capital purposes. In addition, the Foundation contributed $69,612 (2011 - $34,699) in other contributions. As at March 31, 2012, the Foundation has a fund balance of $11,645,608 (2011 - $10,310,965).

In 2009, the Hospital signed a twenty-year License Agreement with the Foundation whereby the Foundation has the exclusive right to operate the parking facilities in exchange for a one-time upfront 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. In connection with the License Agreement, in 2009, the Hospital and the Foundation signed two separate agreements whereby the Foundation purchases services from the Hospital for maintenance/repair and management of the parking facilities. For the year ended March 31, 2012, the Foundation paid the Hospital $519,971 (2011 - $576,061) for maintenance and repairs and $206,438 (2011 - $199,460) for management of the parking facilities.

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, 2012, the Hospital had an economic interest of $379,736 (2011 - $365,046) of total net assets of $5,774,294 (2011 - $5,638,959) of HFS. The corresponding interest in ORHLS is $1,375,795 (2011 - $1,262,797) of total net assets of $12,427,957 (2011 - $11,411,587).

For the year ended March 31, 2012, the Hospital provided a total of $1,184,000 (2011 - $1,063,000) to HFS, $330,000 (2011 - $209,000) for food purchases and $854,000 (2011 - $854,000) for food commissary finance charges. The Hospital also provided $1,865,000 (2011 - $1,762,000) 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.

12. RELATED PARTY TRANSACTIONS (Continued)

Eastern Ontario Regional Laboratory Association

The Hospital is a founding member of Eastern Ontario Regional Laboratory Association ("EORLA"). EORLA was established to provide laboratory services to member hospitals on a cost of service basis. EORLA is incorporated without share capital under the Ontario Business Corporations Act. EORLA is a not-for-profit organization under the Income Tax Act, and as such, is exempt from income taxes.

Included in accounts receivable at March 31 is a receivable from EORLA of $74,334 (2011 - $nil) for costs incurred by the Hospital on behalf of EORLA.

Subsequent to March 31, 2012, the Hospital entered into a formal arrangement with EORLA to transfer all laboratory operations to EORLA. Effective April 1, 2012, 82 Hospital non-medical laboratory employees became employees of EORLA. As a result of this transfer, salaries and benefits expense will decrease by approximately $3,900,000 and supplies and other will increase by the same amount. All existing laboratory equipment remains property of the Hospital and will be leased to EORLA at no charge. New equipment will be acquired directly by EORLA as the need arises.

Champlain Health Supply Services

The Hospital is a founding member of Champlain Health Supply Services ("CHSS"). CHSS was established to provide sourcing, procurement and logistics services to member hospitals within the Champlain LHIN. CHSS is incorporated without share capital under the Ontario Business Corporations Act. CHSS is a not-for-profit organization under the Income Tax Act, and as such, is exempt from income taxes.

As part of the Transfer Payment Agreement between the Ministry of Finance and CHSS, each of the member hospitals was required to fund a portion of the development and start-up activities of CHSS through December 31, 2011 through cash payments and contributions in-kind.

During the year, the Hospital paid $125,000 (2011 - $NIL) to CHSS for the Hospital's portion of CHSS' operating expenses.

Included in accounts receivable at March 31 is an amount receivable from CHSS of $1,200,000 (2011 - $NIL) for payments made by the Hospital on behalf of CHSS.

(tabular amounts in thousands of dollars)

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.

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, 2010 indicated the Plan is fully funded. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $6,898,043 (2011 - $6,672,556) and are included in the Statement of Operations.

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2012	2011
Receivable from governments	**$ 8,438**	$ 4,732
Accounts receivable	**(2,397)**	(69)
Due from related parties	**(3,001)**	1,593
Inventories	**205**	520
Prepaid expenses	**(227)**	166
Accounts payable and accrued liabilities	**(3,236)**	(5,385)
Accrued vacation and overtime pay	**2**	28
Deferred revenue	**6,212**	637
	$ 5,996	$ 2,222

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS (Continued)

In 2012, capital assets additions totalling $6,393,000 (2011 - $7,107,000) were excluded from the Statement of Cash Flows as they were unpaid at March 31. In addition, deferred contributions received for capital assets totalling $11,121,000 (2011 - $7,751,000) were excluded from the Statement of Cash Flows as they were receivable at March 31 (Note 4).

15. FINANCIAL INSTRUMENTS

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.