

Consolidated Financial Statements of

VANCOUVER ISLAND HEALTH AUTHORITY

Year ended March 31, 2017



Statement of Management Responsibility

The consolidated financial statements of the Vancouver Island Health Authority (the "Authority") for the year ended March 31, 2017 have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") issued by the Public Sector Accounting Board ("PSAB"), as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and in regard to the accounting for restricted contributions which is based on the Restricted Contributions Regulation 198/2011. The integrity and objectivity of these statements are management's responsibility.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Finance and Audit Committee of the Board. The Finance and Audit Committee meets with management and the internal auditor no fewer than four times a year and the external auditors a minimum of two times a year.


The Authority's internal auditor independently evaluates the effectiveness of internal controls on an ongoing basis and reports its findings to management and the Finance and Audit Committee.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the consolidated financial statements. Their examination considers internal control relevant to management's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control. The external auditors have full and free access to the Finance and Audit Committee of the Board and meet with it on a regular basis.

On behalf of the Vancouver Island Health Authority



Dr. Brendan Carr
President and Chief Executive Officer



Kim Kerrone
Vice President and Chief Financial Officer

May 24, 2017



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Vancouver Island Health Authority and the Minister of Health

We have audited the accompanying consolidated financial statements of Vancouver Island Health Authority, which comprise the consolidated statement of financial position as at March 31, 2017, the consolidated statements of operations and accumulated deficit, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidated 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 consolidated financial statements.



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

Opinion

In our opinion, the consolidated financial statements of Vancouver Island Health Authority as at March 31, 2017, and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 1(a) to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

May 24, 2017
Victoria, Canada

VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Financial Position
(Tabular amounts expressed in thousands of dollars)

As at March 31, 2017, with comparative information for 2016

	2017	2016
Financial assets		
Cash and cash equivalents (note 2)	\$ 251,798	\$ 309,254
Accounts receivable (note 3)	54,900	61,552
Inventories held for sale (note 4)	883	1,056
	<u>307,581</u>	<u>371,862</u>

Liabilities

Accounts payable and accrued liabilities (note 5)	188,625	221,437
Deferred operating contributions (note 6)	6,514	7,641
Deferred research and designated contributions (note 7)	1,612	3,100
Debt (note 8)	413,627	353,350
Retirement allowance (note 9(a))	112,593	112,854
Long-term disability and health and welfare liability (note 9(b)(i))	878	3,787
Replacement reserves (note 10)	226	215
Deferred capital contributions (note 11)	1,161,132	1,104,959
	<u>1,885,207</u>	<u>1,807,343</u>

Net debt	(1,577,626)	(1,435,481)
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Non-financial assets


Tangible capital assets (note 12)	1,484,470	1,327,924
Inventories held for use (note 13)	14,532	13,926
Prepaid expenses	28,294	41,004
Restricted assets (note 14)	231	244
	<u>1,527,527</u>	<u>1,383,098</u>

Accumulated deficit	\$ (50,099)	\$ (52,383)
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Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board :



Don Hubbard Director



Matthew Watson Director

VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Operations and Accumulated Deficit
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017, with comparative information for 2016

	2017 Budget (note 1(p))	2017	2016
Revenues:			
Ministry of Health contributions	\$ 1,820,671	\$ 1,835,747	\$ 1,756,682
Medical Services Plan	146,291	160,132	146,155
Recoveries from other health authorities and BC government reporting entities	103,098	113,350	108,229
Patients, clients and residents (note 16(a))	57,297	59,757	58,578
Amortization of deferred capital contributions (note 11)	73,073	67,186	64,782
Other (note 16(b))	29,579	41,717	37,992
Other contributions (note 16(c))	6,034	5,179	5,382
Investment income	1,299	1,441	1,424
	<u>2,237,342</u>	<u>2,284,509</u>	<u>2,179,224</u>
Expenses (note 16(d)):			
Acute care	1,214,717	1,257,851	1,176,251
Residential care	362,862	365,923	360,141
Community care	255,895	256,306	247,096
Mental health and substance use	167,770	166,924	161,433
Corporate	176,842	174,771	171,988
Population health and wellness	59,256	60,450	58,660
	<u>2,237,342</u>	<u>2,282,225</u>	<u>2,175,569</u>
Annual surplus	-	2,284	3,655
Accumulated deficit, beginning of year	(52,383)	(52,383)	(56,038)
Accumulated deficit, end of year	\$ (52,383)	\$ (50,099)	\$ (52,383)

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Changes in Net Debt
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017, with comparative information for 2016

	2017 Budget (note 1(p))	2017	2016
Annual surplus	\$ -	\$ 2,284	\$ 3,655
Acquisition of tangible capital assets	(287,795)	(221,650)	(277,300)
Proceeds from disposal of tangible capital assets	-	-	47
Amortization of tangible capital assets	84,992	79,403	77,685
Loss on disposal of tangible capital assets	-	-	5,493
Capitalized interest	-	(14,299)	(7,444)
	(202,803)	(154,262)	(197,864)
Acquisition of inventories held for use	-	(119,692)	(110,949)
Acquisition of prepaid expenses	-	(57,329)	(54,609)
Consumption of inventories held for use	-	119,086	110,547
Use of prepaid expenses	-	70,039	29,857
Use of restricted assets	-	13	-
	-	12,117	(25,154)
Increase in net debt	(202,803)	(142,145)	(223,018)
Net debt, beginning of year	(1,435,481)	(1,435,481)	(1,212,463)
Net debt, end of year	(1,638,284) \$	(1,577,626) \$	(1,435,481)

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Cash Flows
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash flows from (used in):		
Operating activities:		
Annual surplus	\$ 2,284	\$ 3,655
Items not involving cash:		
Amortization of deferred capital contributions	(67,186)	(64,782)
Amortization of tangible capital assets	79,403	77,685
Loss on disposal of tangible capital assets	-	5,493
Retirement allowance expense	9,129	9,629
Long-term disability benefits expense	72,200	46,439
Interest income	(1,441)	(1,424)
Interest expense	11,655	11,913
	106,044	88,608
Net change in non-cash operating items (note 17(a))	(16,474)	14,103
Interest received	1,441	1,424
Interest paid	(11,655)	(11,913)
Net change in cash from operating activities	79,356	92,222
Capital activities:		
Proceeds from disposal of tangible capital assets	-	47
Acquisition of tangible capital assets (note 17(b))	(167,171)	(180,975)
Net change in cash from capital activities	(167,171)	(180,928)
Financing activities:		
Retirement allowance benefits paid	(9,390)	(8,608)
Long-term disability benefits contributions	(75,109)	(37,973)
Repayment of debt	(8,501)	(3,798)
Capital contributions	123,359	203,060
Net change in cash from financing activities	30,359	152,681
Increase (decrease) in cash and cash equivalents	(57,456)	63,975
Cash and cash equivalents, beginning of year	309,254	245,279
Cash and cash equivalents, end of year	\$ 251,798	\$ 309,254

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

Vancouver Island Health Authority (the "Authority") was created under the *Health Authorities Act of British Columbia* on December 12, 2001 with a Board of Directors appointed by the Ministry of Health (the "Ministry") and is one of six health authorities in British Columbia ("BC"). The Authority is dependent on the Ministry to provide sufficient funds to continue operations, replace essential equipment, and complete its capital projects. The Authority is a registered charity under the *Income Tax Act*, and is exempt from income and capital taxes.

The role of the Authority is to promote and provide for the physical, mental and social well-being of people who live in the Vancouver Island region and those referred from outside the region.

1. Significant accounting policies:

(a) Basis of accounting:

The consolidated financial statements are prepared in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of BC supplemented by Regulations 257/2010 and 198/2011 issued by the Province of BC Treasury Board, referred to as the financial reporting framework ("the framework").

The *Budget Transparency and Accountability Act* requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards ("PSAS") issued by the Canadian Public Sector Accounting Board ("PSAB") without any PS 4200 series.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.
- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions or deferred research and designated contributions, and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met by the Authority.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

For BC tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of PSAS which require that:

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS 3410, Government Transfers;
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with PS 3100, Restricted Assets and Revenues; and
- deferred contributions meet the liability criteria in accordance with PS 3200, Liabilities.

As a result, revenue recognized in the statement of operations and certain related deferred capital contributions would be recorded differently under PSAS.

(b) Basis of consolidation:

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of Cumberland Regional Hospital Laundry Society. This entity is controlled by the Authority. Inter-entity transactions, balances and activities have been eliminated on consolidation.

The Authority has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Authority and/or provide services under contracts. As the Authority does not control these organizations, the consolidated financial statements do not include the assets, liabilities and results of operations of these entities (see note 18(b)).

(c) Affiliated organizations:

Within the Authority area, there are two denominational health care organizations, St. Joseph's General Hospital and Mount St. Mary Hospital (collectively the "Affiliates"), which have the responsibility to manage the administration of certain health care facilities under affiliation agreements with the Authority. These Affiliates are separate legal entities with separate board of directors and, accordingly, these consolidated financial statements do not include their assets, liabilities or results of operations. However, the funds received from the Ministry on behalf of these Affiliates are recorded as Ministry of Health contributions, and funds transferred to the Affiliates are recorded as expenses in the consolidated statement of operations.

(d) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These investments generally have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(e) Accounts receivable:

Accounts receivable are recorded at amortized cost less an amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and the net recoverable value when risk of loss exists. Changes in valuation allowance are recognized in the consolidated statement of operations. Interest is accrued on loans receivable to the extent it is deemed collectable.

(f) Inventories held for sale:

Inventories held for sale are recorded at the lower of weighted average cost or net realizable value. Cost includes the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition. Net realizable value is the estimated selling price less any costs to sell.

Inventories held for sale include pharmaceutical and other medical supplies.

(g) Asset retirement obligations:

The Authority recognizes an asset retirement obligation in the period in which it incurs a legal or constructive obligation associated with the retirement of a tangible capital asset, including leasehold improvements resulting from the acquisition, construction, development, and/or normal use of the asset.

The obligation is measured at the best estimate of the future cash flows required to settle the liability, discounted at estimated credit-adjusted risk-free discount rates. The estimated amount of the asset retirement cost is capitalized as part of the carrying value of the related tangible capital asset and is amortized over the life of the asset.

The liability is accreted to reflect the passage of time. At each reporting date, the Authority reviews its asset retirement obligations to reflect current best estimates. Asset retirement obligations are adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or discount rates, with the offsetting amount recorded to the carrying amount of the related asset.

(h) Employee benefits:

(i) Defined benefit obligations, including multiple employer benefit plans:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple employer defined long-term disability and health and welfare benefits plans as employees render services to earn the benefits.

The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(h) Employee benefits (continued):

(i) Defined benefit obligations, including multiple employer benefit plans (continued):

The cumulative unrecognized actuarial gains and losses for retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefits is 11 years (2016 - 11 years). Actuarial gains and losses from event-driven benefits such as long-term disability and health and welfare benefits that do not vest or accumulate are recognized immediately.

The discount rate used to measure an obligation is based on the Province of BC's cost of borrowing if there are no plan assets. The expected rate of return on plan assets is the discount rate used if there are plan assets. The cost of a plan amendment or the crediting of past service is accounted for entirely in the year that the plan change is implemented.

(ii) Defined contribution plans and multi-employer benefit plans:

Defined contribution plan accounting is applied to multi-employer defined benefit plans and, accordingly, contributions are expensed when due and payable.

(iii) Accumulating, non-vesting benefit plans:

Benefits that accrue to employees which do not vest, such as sick leave banks for certain employee groups, are accrued as the employees render services to earn the benefits, based on estimates of the expected future settlements.

(iv) Non-accumulating, non-vesting benefit plans:

For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the Authority to pay benefits occurs.

(i) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset and overhead directly attributable to construction and development. Interest is capitalized over the development period whenever external debt is issued to finance the construction and development of tangible capital assets.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(i) Tangible capital assets (continued):

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight line basis over their estimated useful lives as follows:

Asset	Basis
Land improvements	5 – 25 years
Buildings	5 – 50 years
Equipment	3 – 20 years
Information systems	3 – 10 years
Assets under capital lease and leasehold improvements	Lease term

Assets under construction or development are not amortized until the asset is available for productive use.

Tangible capital assets are written-down when conditions indicate that they no longer contribute to the Authority's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. The write-downs of tangible capital assets are recorded in the consolidated statement of operations. Write-downs are not subsequently reversed.

Contributed tangible capital assets are recorded at their fair market value on the date of contribution. Such fair value becomes the cost of the contributed asset. When fair value of a contributed asset cannot be reliably determined, the asset is recorded at nominal value.

(ii) Inventories held for use:

Inventories held for use are recorded at the lower of weighted average cost and replacement cost. Certain inventory items are purchased on consignment and are not included in inventory.

(iii) Prepaid expenses:

Prepaid expenses are recorded at cost and amortized over the period the service benefits are received.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(j) Revenue recognition:

Under the *Hospital Insurance Act* and *Regulation* thereto, the Authority is funded primarily by the Province of BC in accordance with budget management plans and performance agreements established and approved by the Ministry.

Revenues are recognized on an accrual basis in the period in which the transactions or events occurred that gave rise to the revenues, the amounts are considered to be collectible and can be reasonably estimated.

Revenues related to fees or services received in advance of the fee being earned or the services being performed are deferred and recognized when the fee is earned or services performed.

Unrestricted contributions are recognized as revenue when receivable if the amounts can be estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue depending on the nature of the restrictions on the use of the funds by the contributors as described in note 1(a).

Volunteers contribute a significant amount of their time each year to assist the Authority in carrying out its programs and services. Because of the difficulty of determining their fair value, contributed services are not recognized in these consolidated financial statements.

Contributions of assets, supplies and services that would otherwise have been purchased are recorded at fair value at the date of contribution, provided a fair value can be reasonably determined.

Contributions for the acquisition of land, or the contributions of land, are recorded as revenue in the period of acquisition or transfer of title.

(k) Measurement uncertainty:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of estimates include the estimated useful lives of tangible capital assets, amounts to settle asset retirement obligations, contingent liabilities, and the future costs to settle employee benefit obligations.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from the estimates.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(l) Restricted assets:

Restricted assets are comprised of endowment contributions which are externally restricted in their use. Endowment contributions are recorded as revenue in the period of acquisition. Use of these funds is limited to the terms of reference.

(m) Foreign currency translation:

The Authority's functional currency is the Canadian dollar. Foreign currency transactions are translated at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the consolidated financial statement date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or consolidated statement of financial position date is recognized in the consolidated statement of operations.

(n) Financial instruments:

Financial instrument classification is determined upon inception and financial instruments are not reclassified into another measurement category for the duration of the period they are held.

Financial assets and financial liabilities, other than derivatives, equity instruments quoted in an active market and financial instruments designated at fair value, are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are measured at cost. Accounts receivable are recorded at cost less any amount for valuation allowance. Portfolio investments, other than equity investments quoted in an active market, are reported at cost less any write-downs associated with a loss in value that is other than a temporary decline. All debt and other financial liabilities are recorded using cost or amortized cost.

Interest and dividends attributable to financial instruments are reported in the consolidated statement of operations.

All financial assets recorded at amortized cost are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Transaction costs for financial instruments measured using cost or amortized cost are added to the carrying value of the financial instrument. Transaction costs for financial instruments measured at fair value are expensed when incurred.

A financial liability or its part is derecognized when it is extinguished.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(n) Financial instruments (continued):

Management evaluates contractual obligations for the existence of embedded derivatives and elects to either designate the entire contract for fair value measurement or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the Authority's normal purchase, sale or usage requirements are not recognized as financial assets or financial liabilities.

(o) Capitalization of public-private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance and maintain the assets. The cost of the assets under construction are estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred directly by the Authority.

The asset cost includes development and financing fees estimated at fair value, which require the extraction of cost information from the financial model embedded in the project agreement. Interest during construction is also included in the asset cost and is calculated on the P3 asset value, less contributions received and amounts repaid, during the construction term. The interest rate used is the project internal rate of return. When available for operations, the project assets are amortized over their estimated useful lives.

Correspondingly, an obligation net of contributions received, is recorded as a liability and included in debt.

Upon substantial completion, the private sector partner receives monthly payments over the term of the project agreement to cover the partners' operating costs, financing costs and a return of their capital.

(p) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2016/2017 Budget approved by the Board of Directors on April 6, 2016 and published in the Authority's Service Plan. The budget is reflected in the consolidated statement of operations and accumulated deficit and the consolidated statement of changes in net debt.

(q) Future accounting standards:

(i) In March 2015, PSAB issued PS 2200, *Related Party Disclosures*. PS 2200 defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when the transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated, and the transactions have, or could have, a material financial effect on the consolidated financial statements. PS 2200 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 2200 on the consolidated financial statements of the Authority.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(q) Future accounting standards (continued):

(ii) In March 2015, PSAB issued PS 3420, *Inter-entity Transactions*. PS 3420 establishes standards of how to account for and report transactions between public sector entities that comprise a government reporting entity from both a provider and a recipient perspective. The main features of the standard are as follows:

- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis;
- Transactions are measured at the carrying amount, except in specific circumstances;
- A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice; and
- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.

Requirements of this standard are considered in conjunction with requirements of PS 2200. PS 3420 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3420 on the consolidated financial statements of the Authority.

(iii) In June 2015, PSAB issued PS 3210, *Assets*. PS 3210 provides guidance for applying the definition of assets set out in PS 1000, *Financial Statement Concepts*, and establishes general disclosure standards for assets. Disclosure of information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate of the amount involved cannot be made, a disclosure should be provided. PS 3210 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3210 on the consolidated financial statements of the Authority.

(iv) In June 2015, PSAB issued PS 3320, *Contingent Assets*. PS 3320 defines and establishes disclosure standards for contingent assets. Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely. PS 3320 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3320 on the consolidated financial statements of the Authority.

(v) In June 2015, PSAB issued PS 3380, *Contractual Rights*. PS 3380 defines and establishes disclosure standards for contractual rights. Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right. Disclosure of information about contractual rights is required including a description of their nature and extent, and the timing. PS 3380 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3380 on the consolidated financial statements of the Authority.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(r) Adoption of accounting standards:

In June 2015, PSAB issued PS 3430, *Restructuring Transactions* to apply to restructuring transactions occurring the fiscal years beginning on or after April 1, 2018. The Authority and St. Joseph's General Hospital ("SJGH") early adopted PS 3430 in the fiscal year beginning on April 1, 2016 to account for the transfer of assets and liabilities related to the acute care programs at SJGH that will be transferred during fiscal year 2017/2018 from SJGH to the Authority's new hospital in the Comox Valley.

PS 3430 defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. The main features of PS 3430 are as follows:

- A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and individual liabilities transferred;
- The net effect of a restructuring transaction should be presented as a separate revenue or an expense item in the consolidated statement of operations;
- A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at a restructuring date;
- A transferor and a recipient should not restate their financial position or results of operations; and
- A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

Management has assessed the impact of adoption of PS 3430 on the consolidated financial statements of the Authority. As both the Authority and SJGH are government reporting entities, PS 3430 will facilitate a one-time loss to the Authority in the 2017/2018 fiscal year that will be equally offset by a one-time gain to SJGH so that there will be no net impact to the consolidated provincial financial statements.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

2. Cash and cash equivalents:

	2017	2016
Cash and cash equivalents	\$ 251,798	\$ 309,254
Less amounts restricted for:		
Capital purposes	(138,794)	(175,292)
P3 projects	(13,044)	(11,257)
Future operating purposes	(6,514)	(7,641)
Research and designated purposes	(1,612)	(3,100)
Replacement reserves	(226)	(215)
Patient comfort funds	(280)	(220)
Amounts internally restricted	(1,271)	(1,311)
Unrestricted cash and cash equivalents	\$ 90,057	\$ 110,218

3. Accounts receivable:

	2017	2016
Medical Services Plan	\$ 12,778	\$ 13,991
Other health authorities and BC government reporting entities	11,692	9,168
Ministry of Health	4,638	15,153
Patients, clients and residents	11,401	9,320
Regional Hospital Districts	3,418	2,643
Foundations and auxiliaries	3,082	6,193
Federal government	3,201	3,342
WorkSafe BC	1,317	1,041
Other	5,539	3,211
	57,066	64,062
Allowance for doubtful accounts	(2,166)	(2,510)
	\$ 54,900	\$ 61,552

4. Inventories held for sale:

	2017	2016
Medical supplies	\$ 387	\$ 479
Pharmaceuticals	496	577
	\$ 883	\$ 1,056

During the year, \$3.7 million (2016 - \$2.9 million) of inventories were sold by the Authority.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

5. Accounts payable and accrued liabilities:

	2017	2016
Salaries and benefits payable	\$ 65,733	\$ 99,111
Trade accounts payable and accrued liabilities	65,371	67,676
Accrued vacation pay	57,521	54,650
	<u>\$ 188,625</u>	<u>\$ 221,437</u>

6. Deferred operating contributions:

Deferred operating contributions represent externally restricted operating funding received for specific purposes.

	2017	2016
Deferred operating contributions, beginning of year	\$ 7,641	\$ 8,551
Contributions received during the year	2,952	3,815
Amounts recognized as revenue in the year	(4,079)	(4,725)
Deferred operating contributions, end of year	<u>\$ 6,514</u>	<u>\$ 7,641</u>

7. Deferred research and designated contributions:

Deferred research and designated contributions represent unspent contributions received to fund research and other activities. Contributions are received from external sources for specific clinical research projects and specific educational purposes.

	2017	2016
Deferred research and designated contributions, beginning of year	\$ 3,100	\$ 3,008
Contributions received during the year	730	394
Amounts recognized as revenue in the year	(2,218)	(302)
Deferred research and designated contributions, end of year	<u>\$ 1,612</u>	<u>\$ 3,100</u>

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

8. Debt:

	2017	2016
Public-private partnerships (P3):		
RJH Patient Care Centre, 30 year contract to December 1, 2040 with ISL Health, payable in monthly payments of \$1,229 including annual interest of 6.87%, payable in accordance with the project agreement terms	\$ 181,339	\$ 184,538
Campbell River and Comox Valley Hospitals, 30 year contract to April 1, 2047 with Tandem Health Partners, payable in monthly payments of \$1,526 including annual interest of 6.79%, payable in accordance with the project agreement terms commencing May 2017 with total debt at completion of \$232,000	230,709	161,931
	<u>412,048</u>	<u>346,469</u>
Bank loans:		
Royal Bank of Canada, payable in monthly payments of \$44, including annual interest of 2.58%, renewable November 19, 2016	-	4,916
Royal Bank of Canada, payable in monthly payments of \$15, including annual interest of 2.66%, renewable November 10, 2019	1,276	1,425
	<u>1,276</u>	<u>6,341</u>
Mortgages:		
Canada Mortgage and Housing Corporation (CMHC), secured by first charges on properties,		
Trillium Lodge, payable in monthly payments of \$13, including annual interest of 1.77%, maturing June 1, 2017	38	190
Dogwood Place, payable in monthly payments of \$2, including annual interest of 1.67%, renewable June 1, 2018	265	287
Cumberland Lodge, payable in monthly payments of \$7, including annual interest rate of 1.70%, maturing December 1, 2016	-	63
	<u>303</u>	<u>540</u>
	<u>\$ 413,627</u>	<u>\$ 353,350</u>

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

8. Debt (continued):

Required principal repayments and maturities on bank loans and mortgages over the years ending March 31 are as follows:

2018	\$	213
2019		398
2020		160
2021		165
2022		170
Thereafter		473
	\$	1,579

Required principal repayments on P3 debt over the years ending March 31 are disclosed with public-private partnership commitments in note 15.

9. Employee benefits:

(a) Retirement allowance:

Certain employees with ten or twenty years of service and having reached a certain age are entitled to receive special payments upon retirement or as specified by collective or employee agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service.

The Authority's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2016, and extrapolated to March 31, 2017, from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2017, are derived. The next required valuation will be as of December 31, 2018.

Information about retirement allowance benefits is as follows:

	2017	2016
Accrued benefit obligation:		
Severance benefits	\$ 57,699	\$ 57,216
Sick leave benefits	39,748	41,267
	97,447	98,483
Unamortized actuarial gain	15,146	14,371
Accrued benefit liability	\$ 112,593	\$ 112,854

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

9. Employee benefits (continued):

(a) Retirement allowance (continued):

The accrued benefit liability for retirement allowance benefits reported on the consolidated statement of financial position is as follows:

	2017	2016
Accrued benefit liability, beginning of year	\$ 112,854	\$ 111,833
Net benefit expense:		
Current service cost	7,016	6,847
Interest expense	3,840	4,076
Amortization of actuarial gain	(1,727)	(1,294)
Net benefit expense	9,129	9,629
Benefits paid	(9,390)	(8,608)
Accrued benefit liability, end of year	\$ 112,593	\$ 112,854

The significant actuarial assumptions adopted in measuring the Authority's accrued retirement benefit obligation are as follows:

	2017	2016
Accrued benefit obligation, as at March 31:		
Discount rate	3.86%	3.93%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	3.93%	3.98%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

(b) Healthcare Benefit Trust benefits:

The Healthcare Benefit Trust (the "Trust") administers long-term disability benefits and group life insurance, accidental death and dismemberment, extended health and dental claims ("health and welfare benefits") for certain employee groups of the Authority and other provincially-funded organizations.

The Authority and all other participating employers are jointly responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

9. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

(i) Long-term disability and health and welfare benefits:

The Trust is a multiple employer plan, with the Authorities assets and liabilities being segregated with regards to long-term disability benefits after September 30, 1997 and health and welfare benefits after December 31, 2014. Accordingly, the Authority's net trust liabilities (assets) are reflected in these consolidated financial statements.

The Authority's net liability as of March 31, 2017 is based on the actuarial valuation at December 31, 2016, extrapolated to March 31, 2017. The net liability as of March 31, 2016 is based on the actuarial valuation at December 31, 2015 and extrapolated to March 31, 2016. The next expected valuation will be as of December 31, 2017.

The long-term disability and health and welfare benefits liability (asset) reported on the consolidated statement of financial position is as follows:

	2017	2016
Fair value of plan assets	\$ 182,495	\$ 171,458
Accrued benefit obligation	183,373	175,245
Net liability	\$ 878	\$ 3,787
	2017	2016
Long-term disability and health and welfare benefits liability (asset), beginning of year	\$ 3,787	\$ (4,679)
Net benefit expense:		
Long term disability expense	31,629	25,787
Health and welfare benefit expense	35,572	30,137
Interest expense	9,213	9,421
Actuarial loss (gain)	7,322	(8,518)
Employee payments	(1,929)	(466)
Expected return on assets	(9,607)	(9,922)
Net benefit expense	72,200	46,439
Contributions to the plan	(76,918)	(38,432)
Transfer of health and welfare benefits net surplus	1,809	459
Long-term disability and health and welfare benefits liability, end of year	\$ 878	\$ 3,787
Benefits paid to claimants	\$ (68,035)	\$ (62,506)

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

9. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

(i) Long-term disability and health and welfare benefits (continued):

Plan assets consist of:

	2017	2016
Debt securities	41%	42%
Foreign equities	34%	36%
Equity securities and other	25%	22%
Total	100%	100%

The significant actuarial assumptions adopted in measuring the Authority's accrued long-term disability and health and welfare benefits liabilities are as follows:

	2017	2016
Accrued benefit liability as at March 31:		
Discount rate	5.30%	5.30%
Rate of benefit increase	1.50%	1.50%
Benefit costs for years ended March 31:		
Discount rate	5.30%	5.30%
Rate of compensation increase	1.50%	1.50%
Expected future inflationary increases	2.00%	2.00%
Expected long-term rate of return on plan assets	5.30%	5.30%

Actual long-term rate of return on plan assets was 3.98% for the year ended December 31, 2016 (December 31, 2015 – 7.71%).

(ii) Other Trust benefits:

The 2014-2019 Health Science Professionals Bargaining Association, Community Bargaining Association, and Facilities Bargaining Association collective agreements include provisions to establish joint benefit trusts to provide long-term disability and health and welfare benefits to the employees covered by these agreements. Effective April 1, 2017, management of the long-term disability and health and welfare benefits being provided to these employee groups through the Healthcare Benefit Trust will transition to the joint benefit trusts.

(c) Employee pension benefits:

The Authority and its employees contribute to the Public Service Pension Plan and Municipal Pension Plan (jointly trustee pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plan is a multi-employer

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

9. Employee benefits (continued):

(c) Employee pension benefits (continued):

defined benefit pension plan. Basic pension benefits are based on a formula. As at March 31, 2016, the Public Service Pension Plan has about 58,000 active members and approximately 45,000 retired members. As at December 31, 2015, the Municipal Pension Plan has about 189,000 active members and approximately 85,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate is then adjusted to the extent there is amortization of any funding deficit.

The latest actuarial valuation of the Public Service Pension Plan as at March 31, 2014, indicated a funding surplus of \$194 million for basic pension benefits on a going concern basis.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis.

The Authority paid \$79.7M (2016 \$75.2M) for employer contributions to the plans during the year.

The next valuation for the Public Service Plan will be as at March 31, 2017, with results available in early 2018. The next valuation for the Municipal Pension Plan will be as at December 31, 2018 with results available in 2019.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for the plans in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

10. Replacement reserves:

Under the terms of mortgage agreements with CMHC and B.C. Housing Management Commission ("B.C. Housing"), the Authority is required to set aside certain amounts each year as a replacement reserve. Use of the reserve funds requires approval of CMHC or B.C. Housing, respectively. The Authority complies with these provisions.

The replacement reserves by facility are as follows:

	2017	2016
Cumberland Lodge	\$ 117	\$ 111
Trillium Lodge	86	76
Dogwood Manor	23	28
	<u>\$ 226</u>	<u>\$ 215</u>

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

11. Deferred capital contributions:

Deferred capital contributions represent externally restricted contributions and other funding received for the purchase of tangible capital assets.

	2017	2016
Deferred capital contributions, beginning of year	\$ 1,104,959	\$ 966,681
Capital contributions received:		
Ministry of Health	44,834	67,319
Regional hospital districts	62,651	121,876
Foundations and auxiliaries	11,148	9,035
Other	4,726	4,830
	123,359	203,060
Amortization for the year	(67,186)	(64,782)
Deferred capital contributions, end of year	\$ 1,161,132	\$ 1,104,959

Deferred capital contributions are comprised of the following:

	2017	2016
Contributions used to purchase tangible capital assets	\$ 1,022,338	\$ 930,666
Unspent contributions	138,794	174,293
	\$ 1,161,132	\$ 1,104,959

12. Tangible capital assets:

Cost	2016	Additions	Disposals	Transfers	2017
Land	\$ 19,649	\$ -	\$ -	\$ -	\$ 19,649
Land improvements	18,482	598	-	151	19,231
Buildings	1,248,856	11,486	(5,766)	15,171	1,269,747
Equipment	534,649	13,919	(28,725)	8,962	528,805
Information systems	169,669	1,856	(35)	36,271	207,761
Leasehold improvements	24,484	71	(951)	1,489	25,093
Construction in progress	388,539	156,586	-	(17,114)	528,011
Equipment and information systems in progress	89,006	51,433	-	(44,930)	95,509
Total	\$ 2,493,334	\$ 235,949	\$ (35,477)	\$ -	\$ 2,693,806

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

12. Tangible capital assets (continued):

Accumulated amortization	2016	Amortization	Disposals/ Transfers	2017
Land improvements	\$ 13,054	\$ 878	\$ -	\$ 13,932
Buildings	547,737	42,788	(5,766)	584,759
Equipment	440,856	24,838	(28,695)	436,999
Information systems	149,660	9,989	(65)	159,584
Leasehold improvements	14,103	910	(951)	14,062
Total	\$ 1,165,410	\$ 79,403	\$ (35,477)	\$ 1,209,336

Cost	2015	Additions	Disposals	Transfers	2016
Land	\$ 25,133	\$ 2	\$ (5,486)	\$ -	\$ 19,649
Land improvements	18,276	134	-	72	18,482
Buildings	1,224,676	8,039	-	16,141	1,248,856
Equipment	513,710	13,405	(2,459)	9,993	534,649
Information systems	172,119	439	(6,045)	3,156	169,669
Leasehold improvements	24,390	94	-	-	24,484
Equipment under capital lease	328	-	(328)	-	-
Construction in progress	174,948	230,862	-	(17,271)	388,539
Equipment and information systems in progress	69,328	31,769	-	(12,091)	89,006
Total	\$ 2,222,908	\$ 284,744	\$ (14,318)	\$ -	\$ 2,493,334

Accumulated amortization	2015	Amortization	Disposals/ Transfers	2016
Land improvements	\$ 11,842	\$ 1,212	\$ -	\$ 13,054
Buildings	506,733	40,676	328	547,737
Equipment	418,120	25,469	(2,733)	440,856
Information systems	146,241	9,464	(6,045)	149,660
Leasehold improvements	13,239	864	-	14,103
Equipment under capital lease	328	-	(328)	-
Total	\$ 1,096,503	\$ 77,685	\$ (8,778)	\$ 1,165,410

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

12. Tangible capital assets (continued):

Net book value	2017	2016
Land	\$ 19,649	\$ 19,649
Land improvements	5,299	5,428
Buildings	684,988	701,119
Equipment	91,806	93,793
Information systems	48,177	20,009
Leasehold improvements	11,031	10,381
Construction projects in progress	528,011	388,539
Equipment and information systems in progress	95,509	89,006
Total	\$ 1,484,470	\$ 1,327,924

During the year \$14.3 million (2016 - \$7.4 million) of interest was capitalized to construction projects in progress.

Tangible capital assets are funded as follows:

	2017	2016
Deferred capital contributions	\$ 1,022,338	\$ 930,666
Debt	400,381	335,302
Internally funded	61,751	61,956
Tangible capital assets	\$ 1,484,470	\$ 1,327,924

13. Inventories held for use:

	2017	2016
Medical supplies	\$ 11,075	\$ 9,899
Pharmaceuticals	3,457	4,027
	\$ 14,532	\$ 13,926

14. Restricted assets:

	2017	2016
Restricted assets, beginning of year	\$ 244	\$ 244
Re-classification of assets	(13)	-
Restricted assets, end of year	\$ 231	\$ 244

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

15. Commitments and contingencies:

- (a) Construction, equipment and information projects in progress:

As at March 31, 2017, the Authority had outstanding commitments for construction, equipment and information systems projects in progress of \$57.4 million (2016 - \$185.0 million).

- (b) Contractual obligations:

The Authority has entered into various contracts for services within the normal course of operations. The estimated contractual obligations under these contracts are as follows:

	Contract terms	2018	2019	2020	2021	2022	Thereafter
Service contracts	2018-2024	\$ 145,939	\$ 111,601	\$ 70,323	\$ 56,401	\$ 36,823	\$ 2,994

- (c) Long-term residential care contracts:

The Authority has entered into contracts with 38 service providers to provide residential care services. The aggregate annual commitments for these contracts are as follows:

2018	\$ 198,874
2019	84,502
2020	81,800
2021	81,368
2022	81,367
Thereafter	728,796
	\$ 1,256,707

- (d) Operating leases:

The aggregate minimum future annual rentals under operating leases are as follows:

2018	\$ 19,476
2019	14,406
2020	9,424
2021	6,093
2022	4,345
Thereafter	59,775
	\$ 113,519

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

15. Commitments and contingencies (continued):

(e) Public-private partnerships commitments:

The Authority has entered into multiple-year contracts to design, build, finance, and maintain the Royal Jubilee Hospital Patient Care Centre, the Campbell River Hospital and the Comox Valley Hospital. The information presented below shows the anticipated cash outflow for future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. As construction progresses the asset values are recorded as capital assets and the corresponding liabilities are recorded as debt and disclosed in note 8. Facilities management and lifecycle payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

	Capital and financing	FM and lifecycle	Total Payments
2018	\$ 32,856	\$ 19,086	\$ 51,942
2019	33,048	19,525	52,573
2020	33,048	19,974	53,022
2021	33,047	20,433	53,480
2022	34,274	20,903	55,177
Thereafter	731,090	621,552	1,352,642
	<u>\$ 897,363</u>	<u>\$ 721,473</u>	<u>\$ 1,618,836</u>

Required principal repayments on this debt over the years ending March 31 are as follows:

2018	\$ 5,613
2019	6,199
2020	6,617
2021	7,064
2022	7,540
Thereafter	379,015
	<u>\$ 412,048</u>

(f) Litigation and claims:

Risk management and insurance services for all health authorities in BC are provided by the Risk Management and Government Security Branch of the Ministry of Finance.

The nature of the Authority's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2017, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

15. Commitments and contingencies (continued):

(g) Asset retirement obligations:

The Authority has identified certain asset retirement obligations relating to asbestos removal in several of its facilities. At this time, the Authority has not recognized these asset retirement obligations as there is an indeterminate settlement date of the future demolition or renovation of the facilities and therefore the fair value cannot be reasonably estimated. The asset retirement obligations will be recognized as a liability in the period when the fair value can be reasonably estimated.

16. Consolidated statement of operations:

(a) Patients, clients and residents revenues:

	2017	2016
Long-term and extended care	\$ 33,795	\$ 33,255
WorkSafe BC	6,971	7,206
Non-residents of Canada	8,251	7,261
Residents of BC self pay	4,467	4,383
Federal government	3,589	3,603
Preferred accommodation	1,267	1,422
Other	1,417	1,448
	<u>\$ 59,757</u>	<u>\$ 58,578</u>

(b) Other revenues:

	2017	2016
Recoveries from sales of goods and services	\$ 25,606	\$ 24,140
Parking	7,953	7,502
Other	8,158	6,350
	<u>\$ 41,717</u>	<u>\$ 37,992</u>

(c) Other contributions:

	2017	2016
Federal government	136	171
Other	5,043	5,211
	<u>\$ 5,179</u>	<u>\$ 5,382</u>

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

16. Consolidated statement of operations (continued):

(d) The following is a summary of expenses by object:

	2017	2016
Compensation:		
Compensation	\$ 1,121,501	\$ 1,059,171
Employee benefits	238,787	228,538
Loss (gain) on event driven employee benefits	7,322	(8,518)
	1,367,610	1,279,191
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	93,939	88,571
Health and support services providers	387,946	381,932
	481,885	470,503
Supplies:		
Medical and surgical	78,917	73,944
Drugs and medical gases	49,768	46,445
Diagnostic	20,948	20,053
Food and dietary	8,886	8,827
Laundry and linen	8,038	7,228
Printing, stationery and office	3,964	4,128
Housekeeping	2,896	2,675
Other	14,698	15,706
	188,115	179,006
Amortization of tangible capital assets	79,403	77,685
Equipment and building services:		
Equipment	62,446	63,755
Plant operations (utilities)	16,083	15,323
Rent	17,049	16,778
Building and ground service contracts	7,135	6,542
Other	6,543	4,353
	109,256	106,751
Sundry:		
Travel	12,089	11,389
Communication and data processing	6,331	7,056
Professional fees	5,229	5,012
Patient transport	4,688	4,605
Other	15,964	16,965
	44,301	45,027
Interest on debt and capital leases	11,655	11,913
Loss on disposal of tangible capital assets	-	5,493
	\$ 2,282,225	\$ 2,175,569

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

17. Supplementary cash flow information:

- (a) Net change in non-cash operating items:

	2017	2016
Accounts receivable	\$ 6,652	\$ 10,222
Inventories held for sale	173	(352)
Accounts payable and accrued liabilities	(32,812)	30,318
Deferred operating contributions	(1,127)	(910)
Deferred research and designated contributions	(1,488)	92
Replacement reserves	11	(110)
Inventories held for use	(606)	(402)
Prepaid expenses	12,710	(24,755)
Restricted non-financial assets	13	-
	<u>\$ (16,474)</u>	<u>\$ 14,103</u>

- (b) Acquisition of tangible capital assets:

Assets purchased or acquired through debt or other non-cash transactions are excluded from acquisition of tangible capital assets on the consolidated statement of cash flows.

	2017	2016
Acquisition of tangible capital assets	\$ 167,171	\$ 180,975
Construction financed with debt	68,778	103,767
Acquisition of land	-	2
	<u>\$ 235,949</u>	<u>\$ 284,744</u>

18. Related parties and other agencies:

- (a) BC government reporting entities:

The Authority is related through common control to all Province of BC ministries, agencies, Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are considered to be in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

18. Related parties and other agencies (continued):

(a) BC government reporting entities (continued):

The consolidated financial statements include transactions and balances with these parties in the following amounts:

	2017	2016
Revenue		
Ministry of Health contributions	\$ 1,835,747	\$ 1,756,682
Medical Services Plan	160,132	146,155
Recoveries from other health authorities and BC government reporting entities	113,350	108,229
Amortization of deferred capital contributions	47,017	44,235
Other	2,979	2,681
	\$ 2,159,225	\$ 2,057,982
Expenses		
Referred out and contracted services	\$ 93,939	\$ 88,571
Equipment and building services	8,099	8,831
Sundry	12,463	15,583
Supplies	377	1,197
	\$ 114,878	\$ 114,182
Accounts receivable		
Medical Services Plan	\$ 12,778	\$ 13,991
Other health authorities and BC government reporting entities	11,692	9,168
Ministry of Health	4,638	15,153
	\$ 29,108	\$ 38,312
Deferred capital contributions	\$ 567,082	\$ 569,260
Accounts payable and accrued liabilities	10,742	6,821
Deferred operating contributions	5,632	6,929

(b) Foundations and auxiliaries:

Within the Authority area, there are 33 separate health care foundations and auxiliaries, which were established to raise funds for their respective hospitals and/or community health services organizations. The foundations and auxiliaries are separate legal entities incorporated under the *Societies Act of British Columbia* with separate governance structures. The foundations and some of the auxiliaries are registered charities under the provisions of the *Income Tax Act* of Canada. The financial and non-financial assets and liabilities and results from operations of the foundations and auxiliaries are not included in the consolidated financial statements of the Authority. During the year, the foundations granted \$10.2 million (2016 - \$8.1 million) to various facilities within the Authority.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

19. Risk management:

The Authority is exposed to credit risk, liquidity risk, and foreign exchange risk from its financial instruments. Qualitative and quantitative analysis of the significant risks from the Authority's financial instruments is provided below by type of risk.

(a) Credit risk:

Credit risk primarily arises from the Authority's cash and cash equivalents, accounts receivable and portfolio investments. The risk exposure is limited to their varying amounts at the date of the consolidated statement of financial position.

The Authority manages credit risk by holding balances of cash and cash equivalents with reputable top rated financial institutions. The portfolio investments are in low risk instruments with varying maturities held with top rated financial institutions. The Authority periodically reviews its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its portfolio investments.

Accounts receivable primarily consist of amounts receivable from the Ministry, other health authorities and BC government reporting entities, patients, clients and agencies, hospital foundations and auxiliaries, grantors etc. To reduce the risk, the Authority periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2017, the amount of allowance for doubtful accounts was \$2.2 million (2016: \$2.5 million).

The Authority is not exposed to significant credit risk with respect to the amounts receivable from the Ministry, other health authorities and BC government reporting entities. At March 31, 2017, the following accounts receivable were due but not impaired:

	2017	2016
Current	\$ 24,987	\$ 34,396
30 days	2,081	341
60 days	337	166
90 days	22	304
Over 120 days	1,681	3,105
	<u>\$ 29,108</u>	<u>\$ 38,312</u>

(b) Liquidity risk:

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. It is the Authority's intention to meet its financial obligations through the collection of current accounts receivable, cash on hand and future funding from the Ministry. If the current funding and cash on hand were insufficient to satisfy its current obligations, the Authority has the option to sell its portfolio investments, which can be liquidated without additional cost.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

19. Risk management (continued):

The Authority's principal source of funding is from the Ministry. The Authority is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined in the funding letter or grant documentation. The Authority has complied with the external restrictions on the funding provided.

(b) Liquidity risk (continued):

The tables below show when various financial assets and liabilities mature:

2017 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 251,798	\$ -	\$ -	\$ 251,798
Accounts receivable	49,936	4,879	85	54,900
Total financial assets	\$ 301,734	\$ 4,879	\$ 85	\$ 306,698

2017 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 177,157	\$ 10,773	\$ 695	\$ 188,625
Debt	5,826	36,715	371,086	413,627
Total financial liabilities	\$ 182,983	\$ 47,488	\$ 371,781	\$ 602,252

2016 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 309,254	\$ -	\$ -	\$ 309,254
Accounts receivable	56,254	5,298	-	61,552
Total financial assets	\$ 365,508	\$ 5,298	\$ -	\$ 370,806

2016 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 216,004	\$ 4,339	\$ 1,094	\$ 221,437
Debt	8,501	34,613	310,236	353,350
Total financial liabilities	\$ 224,505	\$ 38,952	\$ 311,330	\$ 574,787

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

19. Risk management (continued):

(b) Liquidity risk (continued):

Debt pertaining to P3 projects is funded through the ongoing annual operating grants received from the Ministry.

(c) Foreign exchange risk:

The Authority's operating results and financial position are reported in Canadian dollars. As the Authority operates in an international environment, some of the Authority's financial instruments and transactions are denominated in currencies other than Canadian dollars. The results of the Authority's operations are subject to currency transaction and translation risks.

The Authority makes payments denominated in US dollars, and other currencies. Currencies most contributing to the foreign exchange risk are US dollars.

Comparative foreign exchange rates as at March 31 are as follows:

		2017		2016
US dollar per Canadian dollar	\$	0.752	\$	0.770

The Authority has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks, as management has assessed that the foreign exchange risk derived from currency conversions is not significant. The foreign currency financial instruments are short-term in nature and do not give rise to significant foreign currency risk.

20. Comparative information:

Certain of the comparative information have been reclassified to conform with the current year's financial statement presentation.