

Consolidated Financial Statements of

**VANCOUVER ISLAND HEALTH AUTHORITY**

Year ended March 31, 2018



## Statement of Management Responsibility

The consolidated financial statements of the Vancouver Island Health Authority (the "Authority") for the year ended March 31, 2018 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

A handwritten signature in blue ink, appearing to read "Kathryn E. MacNeil", written over a horizontal line.

Kathryn E. MacNeil  
President and Chief Executive Officer

A handwritten signature in blue ink, appearing to read "Kim Kerrone", written over a horizontal line.

Kim Kerrone  
Vice President and Chief Financial Officer



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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, 2018, 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, 2018, 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

Victoria, Canada  
May 23, 2018

# VANCOUVER ISLAND HEALTH AUTHORITY

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

As at March 31, 2018, with comparative information for 2017

|  | 2018               | 2017               |
|--|--------------------|--------------------|
| <b>Financial assets</b>  |                    |                    |
| Cash and cash equivalents (note 2)                                   | \$ 213,928         | \$ 251,798         |
| Accounts receivable (note 3)   | 70,722             | 54,900             |
| Inventories held for sale  | 981                | 883                |
| Long-term disability and health and welfare asset (note 8(b)(i))     | 24,540             | -                  |
|  | <u>310,171</u>     | <u>307,581</u>     |
| <b>Liabilities</b>   |                    |                    |
| Accounts payable and accrued liabilities (note 4)                    | 217,833            | 188,625            |
| Deferred operating contributions (note 5)                            | 4,345              | 6,514              |
| Deferred research and designated contributions (note 6)              | 2,730              | 1,612              |
| Debt (note 7)  | 408,000            | 413,627            |
| Retirement allowance (note 8(a))                                     | 118,811            | 112,593            |
| Long-term disability and health and welfare liability (note 8(b)(i)) | -                  | 878                |
| Replacement reserves (note 9)  | 19                 | 226                |
| Deferred capital contributions (note 10)                             | 1,182,153          | 1,161,132          |
|  | <u>1,933,891</u>   | <u>1,885,207</u>   |
| <b>Net debt</b>  | <u>(1,623,720)</u> | <u>(1,577,626)</u> |
| <b>Non-financial assets</b>  |                    |                    |
| Tangible capital assets (note 11)                                    | 1,533,243          | 1,484,470          |
| Inventories held for use   | 17,523             | 14,532             |
| Prepaid expenses   | 22,781             | 28,294             |
| Restricted assets  | 231                | 231                |
|  | <u>1,573,778</u>   | <u>1,527,527</u>   |
| <b>Accumulated deficit</b>   | <u>\$ (49,942)</u> | <u>\$ (50,099)</u> |

Commitments and contingencies (note 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Leah Hollins

Board Chair

M.J. Whitemarsh

Director

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018, with comparative information for 2017

|  | 2018 Budget<br>(note 1(p)) | 2018               | 2017               |
|--|----------------------------|--------------------|--------------------|
| <b>Revenues:</b>   |                            |                    |                    |
| Ministry of Health contributions   | \$ 1,949,518               | \$ 1,950,053       | \$ 1,835,747       |
| Medical Services Plan  | 154,667                    | 164,589            | 160,132            |
| Recoveries from other health authorities and BC<br>government reporting entities | 112,708                    | 115,167            | 113,350            |
| Patients, clients and residents (note 13(a))                                     | 59,084                     | 64,199             | 59,757             |
| Amortization of deferred capital contributions (note 10)                         | 70,810                     | 81,615             | 67,186             |
| Other (note 13(b))   | 30,705                     | 44,563             | 41,717             |
| Other contributions (note 13(c))   | 5,872                      | 4,517              | 5,179              |
| Investment income  | 1,299                      | 1,194              | 1,441              |
|  | <u>2,384,663</u>           | <u>2,425,897</u>   | <u>2,284,509</u>   |
| <b>Expenses (note 13(d)):</b>  |                            |                    |                    |
| Acute care   | 1,291,615                  | 1,338,798          | 1,261,717          |
| Residential care   | 394,437                    | 394,819            | 366,099            |
| Community care   | 271,940                    | 267,143            | 256,709            |
| Mental health and substance use  | 181,269                    | 176,372            | 167,291            |
| Corporate  | 180,211                    | 180,621            | 169,834            |
| Population health and wellness   | 65,191                     | 61,973             | 60,575             |
|  | <u>2,384,663</u>           | <u>2,419,726</u>   | <u>2,282,225</u>   |
| Surplus from operations before the undernoted one-time restructuring loss        | -                          | 6,171              | 2,284              |
| One-time loss related to St. Joseph General Hospital (SJGH) (note 17)            | -                          | (6,014)            | -                  |
| Annual surplus   | -                          | 157                | 2,284              |
| Accumulated deficit, beginning of year   | (50,099)                   | (50,099)           | (52,383)           |
| Accumulated deficit, end of year   | <u>\$ (50,099)</u>         | <u>\$ (49,942)</u> | <u>\$ (50,099)</u> |

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, 2018, with comparative information for 2017

|  | 2018 Budget<br>(note 1(p)) | 2018           | 2017           |
|--|----------------------------|----------------|----------------|
| Annual surplus   | \$ -                       | \$ 157         | \$ 2,284       |
| Acquisition of tangible capital assets                       | (186,938)                  | (145,092)      | (221,650)      |
| Transfer of tangible capital assets related to restructuring | -                          | (3,697)        | -              |
| Proceeds from disposal of tangible capital assets            |                            |                | -              |
| Amortization of tangible capital assets                      | 89,521                     | 101,269        | 79,403         |
| Loss on disposal of tangible capital assets                  |                            | 8              |                |
| Capitalized interest   | -                          | (1,261)        | (14,299)       |
|  | (97,417)                   | (48,616)       | (154,262)      |
| Acquisition of inventories held for use                      | -                          | (136,611)      | (119,692)      |
| Acquisition of prepaid expenses                              | -                          | (51,684)       | (57,329)       |
| Consumption of inventories held for use                      | -                          | 133,620        | 119,086        |
| Use of prepaid expenses                                      | -                          | 57,197         | 70,039         |
| Use of restricted assets                                     | -                          | -              | 13             |
|  | -                          | 2,522          | 12,117         |
| Increase in net debt   | (97,417)                   | (46,094)       | (142,145)      |
| Net debt, beginning of year                                  | 1,577,626                  | (1,577,626)    | (1,435,481)    |
| Net debt, end of year  | 1,480,209                  | \$ (1,623,720) | \$ (1,577,626) |

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, 2018, with comparative information for 2017

|   | 2018              | 2017              |
|---|-------------------|-------------------|
| Cash flows from (used in):                          |                   |                   |
| Operating activities:                               |                   |                   |
| Annual surplus from operations                      | \$ 157            | \$ 2,284          |
| Items not involving cash:                           |                   |                   |
| Amortization of deferred capital contributions      | (81,615)          | (67,186)          |
| Amortization of tangible capital assets             | 101,269           | 79,403            |
| One-time loss on restructuring (note 17)            | 6,014             | -                 |
| Retirement allowance expense                        | 9,351             | 9,129             |
| Long-term disability benefits expense               | 24,425            | 72,200            |
| Loss on disposal of tangible capital assets         | 8                 | -                 |
| Interest income                                     | (1,194)           | (1,441)           |
| Interest expense                                    | 25,967            | 11,655            |
|   | 84,382            | 106,044           |
| Net change in non-cash operating items (note 14(a)) | 16,785            | (16,474)          |
| Cash paid to SJGH on restructuring                  | (2,986)           | -                 |
| Interest received                                   | 1,194             | 1,441             |
| Interest paid                                       | (25,967)          | (11,655)          |
| <b>Net change in cash from operating activities</b> | <b>73,408</b>     | <b>79,356</b>     |
| Capital activities:                                 |                   |                   |
| Acquisition of tangible capital assets (note 14(b)) | (148,552)         | (167,171)         |
| <b>Net change in cash from capital activities</b>   | <b>(148,552)</b>  | <b>(167,171)</b>  |
| Financing activities:                               |                   |                   |
| Retirement allowance benefits paid                  | (8,394)           | (9,390)           |
| Long-term disability benefits contributions         | (49,843)          | (75,109)          |
| Repayment of debt                                   | (7,125)           | (8,501)           |
| Capital contributions                               | 102,636           | 123,359           |
| <b>Net change in cash from financing activities</b> | <b>37,274</b>     | <b>30,359</b>     |
| Decreases in cash and cash equivalents              | (37,870)          | (57,456)          |
| Cash and cash equivalents, beginning of year        | 251,798           | 309,254           |
| <b>Cash and cash equivalents, end of year</b>       | <b>\$ 213,928</b> | <b>\$ 251,798</b> |

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, 2018

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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, 2018

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## 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 (CRHLS). CRHLS operated independently until March 22, 2018 and was controlled by the Authority. Inter-entity transactions, balances and activities related to that time period have been eliminated on consolidation. On March 23, 2018, the assets and liabilities of CRHLS were assumed by the Authority. As at March 31, 2018, CRHLS continued to exist as an inactive society and will be dissolved in the near future.

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 (note 15(c)).

### (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 boards 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, 2018

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## 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 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, 2018

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## 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 (2017 – 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, 2018

## 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<br>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.

(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.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

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## 1. Significant accounting policies (continued):

### (j) Revenue recognition (continued):

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 of 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.

### (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.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

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## 1. Significant accounting policies (continued):

### (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.

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 liabilities.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

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## 1. Significant accounting policies (continued):

### (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 2017/2018 Budget approved by the Board of Directors on February 7, 2018 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) Restructuring:

(i) In June 2015, PSAB issued PS 3430, *Restructuring Transactions* to apply to restructuring transactions occurring on or after April 1, 2018. The Authority and St. Joseph's General Hospital ("SJGH") early adopted PS 3430 in the fiscal year beginning April 1, 2016 to account for the transfer of assets and liabilities related to the acute care programs at SJGH that were transferred on October 1, 2017 from SJGH to the Authority's new hospital in the Comox Valley. As both the Authority and SJGH are government reporting entities, PS 3430 has resulted in a one-time loss to the Authority in the 2017/2018 fiscal year that is equally offset by a one-time gain to SJGH so that there is no net impact to the consolidated provincial financial statements (note 17).

(ii) 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 being 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;



# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

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## 1. Significant accounting policies (continued):

### (q) Restructuring (continued):

- 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.

### (r) New accounting standards:

- (i) PS 2200 *Related Party Disclosures* defines a related party and established 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 and is part of note 15.
- (ii) PS 3420 *Inter-entity Transactions* established standards of how to account for and report transactions between public sector entities that comprise of a government reporting entity from both a provider and a recipient perspective. The main features of the standards are as follows:
  - a. Under a policy of cost allocation, revenues and expenses are recognized on a gross basis;
  - b. Transactions are measured at the carrying amount, except in specific circumstances;
  - c. 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
  - d. 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 and is part of note 15.

- (iii) PS 3210 *Assets* 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 has determined that there is no impact of adoption of PS 3210 on the consolidated financial statements of the Authority.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

## 1. Significant accounting policies (continued):

(r) New accounting standards (continued):

- (iv) PS 3320 *Contingent Assets* 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 has determined that there is no impact of adoption of PS 3210 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 has determined that there is no impact of adoption of PS 3210 on the consolidated financial statements of the Authority.

## 2. Cash and cash equivalents:

|  | 2018       | 2017       |
|--|------------|------------|
| Cash and cash equivalents              | \$ 213,928 | \$ 251,798 |
| Less amounts restricted for:           |            |            |
| Capital purposes                       | (107,569)  | (138,794)  |
| P3 projects                            | (16,604)   | (13,044)   |
| Future operating purposes              | (4,345)    | (6,514)    |
| Research and designated purposes       | (2,730)    | (1,612)    |
| Replacement reserves                   | (19)       | (226)      |
| Patient comfort funds                  | (284)      | (280)      |
| Amounts internally restricted          | (1,296)    | (1,271)    |
| Unrestricted cash and cash equivalents | \$ 81,081  | \$ 90,057  |

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

### 3. Accounts receivable:

|   | 2018      | 2017      |
|---|-----------|-----------|
| Medical Services Plan   | \$ 16,710 | \$ 12,778 |
| Other health authorities and BC government reporting entities | 18,282    | 11,692    |
| Ministry of Health  | 6,836     | 4,638     |
| Patients, clients and residents                               | 14,153    | 11,401    |
| Regional Hospital Districts                                   | 2,362     | 3,418     |
| Foundations and auxiliaries                                   | 3,261     | 3,082     |
| Federal government  | 2,775     | 3,201     |
| WorkSafe BC   | 1,858     | 1,317     |
| Other   | 7,239     | 5,539     |
|   | 73,476    | 57,066    |
| Allowance for doubtful accounts                               | (2,754)   | (2,166)   |
|   | \$ 70,722 | \$ 54,900 |

### 4. Accounts payable and accrued liabilities:

|  | 2018       | 2017       |
|--|------------|------------|
| Salaries and benefits payable                  | \$ 75,479  | \$ 65,733  |
| Trade accounts payable and accrued liabilities | 80,216     | 65,371     |
| Accrued vacation pay                           | 62,138     | 57,521     |
|  | \$ 217,833 | \$ 188,625 |

### 5. Deferred operating contributions:

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

|   | 2018     | 2017     |
|---|----------|----------|
| Deferred operating contributions, beginning of year | \$ 6,514 | \$ 7,641 |
| Contributions received during the year              | 4,143    | 2,952    |
| Amounts recognized as revenue in the year           | (6,312)  | (4,079)  |
| Deferred operating contributions, end of year       | \$ 4,345 | \$ 6,514 |

### 6. 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.

|   | 2018     | 2017     |
|---|----------|----------|
| Deferred research and designated contributions, beginning of year | \$ 1,612 | \$ 3,100 |
| Contributions received during the year                            | 2,067    | 730      |
| Amounts recognized as revenue in the year                         | (949)    | (2,218)  |
| Deferred research and designated contributions, end of year       | \$ 2,730 | \$ 1,612 |

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

## 7. Debt:

|   | 2018              | 2017              |
|---|-------------------|-------------------|
| 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  | \$ 177,931        | \$ 181,339        |
| 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 that commenced May 2017 with total debt at completion of \$232,000. | 228,703           | 230,709           |
|   | <u>406,634</u>    | <u>412,048</u>    |
| Bank loans:   |                   |                   |
| Royal Bank of Canada, payable in monthly payments of \$15, including annual interest of 2.66%, renewable November 10, 2019  | 1,124             | 1,276             |
| Mortgages:  |                   |                   |
| Canada Mortgage and Housing Corporation (CMHC), secured by first charges on properties,<br>Trillium Lodge, payable in monthly payments of \$13, including annual interest of 1.77%, matured June 1, 2017  | -                 | 38                |
| Dogwood Place, payable in monthly payments of \$2, including annual interest of 1.67%, renewable June 1, 2018   | 242               | 265               |
|   | <u>242</u>        | <u>303</u>        |
|   | <u>\$ 408,000</u> | <u>\$ 413,627</u> |
| Required principal repayments and maturities on bank loans and mortgages over the years ending March 31 are as follows:   |                   |                   |
| 2019  | \$                | 398               |
| 2020  |                   | 160               |
| 2021  |                   | 165               |
| 2022  |                   | 170               |
| 2023  |                   | 173               |
| Thereafter  |                   | 300               |
|   | <u>\$</u>         | <u>1,366</u>      |

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

## 7. Debt (continued):

Required principal repayments on P3 debt over the years ending March 31 are disclosed with public-private partnership commitments in note 12(e).

## 8. 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, 2018 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2018, are derived. The next required valuation will be as of December 31, 2018.

Information about retirement allowance benefits is as follows:

|                             | 2018              | 2017              |
|-----------------------------|-------------------|-------------------|
| Accrued benefit obligation: |                   |                   |
| Severance benefits          | \$ 60,988         | \$ 57,699         |
| Sick leave benefits         | 42,340            | 39,748            |
|                             | <u>103,328</u>    | <u>97,447</u>     |
| Unamortized actuarial gain  | 15,483            | 15,146            |
| Accrued benefit liability   | <u>\$ 118,811</u> | <u>\$ 112,593</u> |

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

|  | 2018              | 2017              |
|--|-------------------|-------------------|
| Accrued benefit liability, beginning of year | \$ 112,593        | \$ 112,854        |
| Net benefit expense:                         |                   |                   |
| Current service cost                         | 7,103             | 7,016             |
| Interest expense                             | 3,888             | 3,840             |
| Amortization of actuarial gain               | (1,640)           | (1,727)           |
| Net benefit expense:                         | <u>9,351</u>      | <u>9,129</u>      |
| Benefits paid                                | (8,394)           | (9,390)           |
| SJGH Restructuring                           | 5,261             | -                 |
| Accrued benefit liability, end of year       | <u>\$ 118,811</u> | <u>\$ 112,593</u> |

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

## 8. Employee benefits (continued):

### (a) Retirement allowance (continued):

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

|   | 2018  | 2017  |
|---|-------|-------|
| Accrued benefit obligation, as at March 31: |       |       |
| Discount rate                               | 4.01% | 3.86% |
| Rate of compensation increase               | 2.50% | 2.50% |
| Benefit costs for years ended March 31:     |       |       |
| Discount rate                               | 3.86% | 3.93% |
| 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.

### (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 asset as of March 31, 2018 is based on the actuarial valuation at December 31, 2017, extrapolated to March 31, 2018. The net liability as of March 31, 2017 is based on the actuarial valuation at December 31, 2016 and extrapolated to March 31, 2017. The next expected valuation will be as of December 31, 2018.

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

|                            | 2018        | 2017       |
|----------------------------|-------------|------------|
| Fair value of plan assets  | \$ 186,503  | \$ 182,495 |
| Accrued benefit obligation | 161,963     | 183,373    |
| Net liability (asset)      | \$ (24,540) | \$ 878     |

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

## i. Employee benefits (continued):

### (b) Healthcare Benefit Trust benefits (continued):

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

|  | 2018        | 2017        |
|--|-------------|-------------|
| Long-term disability and health and welfare benefits liability, beginning of year  | \$ 878      | \$ 3,787    |
| Net benefit expense:   |             |             |
| Long term disability expense   | 20,461      | 31,629      |
| Health and welfare benefit expense   | 21,440      | 35,572      |
| Interest expense   | 9,359       | 9,213       |
| Actuarial loss (gain)  | (16,237)    | 7,322       |
| Employee payments  | (1,169)     | (1,929)     |
| Expected return on assets  | (9,429)     | (9,607)     |
| Net benefit expense  | 24,425      | 72,200      |
| Contributions to the plan  | (49,572)    | (76,918)    |
| Transfer of health and welfare benefits net surplus(deficit)                       | (271)       | 1,809       |
| Long-term disability and health and welfare benefits liability(asset), end of year | \$ (24,540) | \$ 878      |
| Benefits paid to claimants   | \$ (60,600) | \$ (68,035) |

#### Plan assets consist of:

|                             | 2018 | 2017 |
|-----------------------------|------|------|
| Debt securities             | 42%  | 41%  |
| Foreign equities            | 35%  | 34%  |
| Equity securities and other | 23%  | 25%  |
| 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:

|  | 2018  | 2017  |
|--|-------|-------|
| Accrued benefit liability as at March 31:        |       |       |
| Discount rate                                    | 5.80% | 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 | 5.80% | 5.30% |

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

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## 8. Employee benefits (continued):

### (b) Healthcare Benefit Trust benefits (continued):

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

Actual long-term rate of return on plan assets was 7.58% for the year ended December 31, 2017 (December 31, 2016 – 3.98%).

#### (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 transitioned to the joint benefit trusts. Employer contributions to the joint benefit trusts are based on a specified percentage of payroll costs. As these are multi-employer defined contribution plans, contributions are expensed when due and payable.

During the year ended March 31, 2018, the Authority made the following contributions to each joint benefit trust:

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|                                    |    |        |
|------------------------------------|----|--------|
| Joint Health Science Benefit Trust | \$ | 10,387 |
| Joint Community Benefits Trust     |    | 6,547  |
| Joint Facilities Benefits Trust    |    | 18,196 |
|                                    | \$ | 35,130 |

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### (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 plans are multi-employer defined benefit pension plans. Basic pension benefits are based on a formula. As at March 31, 2017, the Public Service Pension Plan has about 59,000 active members and approximately 46,000 retired members. As at December 31, 2016, the Municipal Pension Plan has about 193,000 active members and approximately 90,000 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 may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The latest actuarial valuation of the Public Service Pension Plan as at March 31, 2017, indicated a funding surplus of \$1,896M for basic pension benefits on a going concern basis.



# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2018

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## 8. Employee benefits (continued):

### (c) Employee pension benefits (continued):

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224M funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927M was transferred to the rate stabilization account and \$297M of the surplus ensured the required contribution rates remained unchanged.

The Authority paid \$84.1M for employer contributions to the plans in fiscal 2018 (2017 \$79.7M).

The next valuation for the Public Service Pension Plan will be as at March 31, 2020, with results available in early 2021. 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.

## 9. 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 the facility are as follows:

|                  | 2018  | 2017   |
|------------------|-------|--------|
| Cumberland Lodge | \$ -  | \$ 117 |
| Trillium Lodge   | -     | 86     |
| Dogwood Manor    | 19    | 23     |
|                  | \$ 19 | \$ 226 |

# VANCOUVER ISLAND HEALTH AUTHORITY

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Year ended March 31, 2018

## 10. Deferred capital contributions:

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

|   | 2018         | 2017         |
|---|--------------|--------------|
| Deferred capital contributions, beginning of year | \$ 1,161,132 | \$ 1,104,959 |
| Capital contributions received:                   |              |              |
| Ministry of Health                                | 62,866       | 44,834       |
| Regional hospital districts                       | 19,001       | 62,651       |
| Foundations and auxiliaries                       | 12,817       | 11,148       |
| Other   | 7,952        | 4,726        |
|   | 102,636      | 123,359      |
| Amortization for the year                         | (81,615)     | (67,186)     |
| Deferred capital contributions, end of year       | \$ 1,182,153 | \$ 1,161,132 |

Deferred capital contributions are comprised of the following:

|  | 2018         | 2017         |
|--|--------------|--------------|
| Contributions used to purchase tangible capital assets | \$ 1,074,584 | \$ 1,022,338 |
| Unspent contributions                                  | 107,569      | 138,794      |
|  | \$ 1,182,153 | \$ 1,161,132 |

## 11. Tangible capital assets:

| Cost  | 2017         | Additions  | Disposals    | Transfers | 2018         |
|---|--------------|------------|--------------|-----------|--------------|
| Land  | \$ 19,649    | \$ 534     | \$ -         | \$ -      | \$ 20,183    |
| Land improvements                             | 19,231       | 138        | (355)        | -         | 19,014       |
| Buildings                                     | 1,269,747    | 16,457     | (4,715)      | 467,193   | 1,748,682    |
| Equipment                                     | 528,805      | 58,315     | (138,324)    | 13,430    | 462,226      |
| Information systems                           | 207,761      | 3,841      | (52,820)     | 14,771    | 173,553      |
| Leasehold improvements                        | 25,093       | 109        | -            | 217       | 25,419       |
| Construction in progress                      | 528,011      | 43,562     | -            | (467,576) | 103,997      |
| Equipment and information systems in progress | 95,509       | 49,636     | -            | (28,035)  | 117,110      |
| Total   | \$ 2,693,806 | \$ 172,592 | \$ (196,214) | \$ -      | \$ 2,670,184 |

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

## 11. Tangible capital assets (continued):

| Accumulated amortization | 2017                | Amortization      | Disposals/<br>Transfers | 2018                |
|--------------------------|---------------------|-------------------|-------------------------|---------------------|
| Land improvements        | \$ 13,932           | \$ 755            | \$ (355)                | \$ 14,332           |
| Buildings                | 584,759             | 59,079            | (4,715)                 | 639,123             |
| Equipment                | 436,999             | 28,639            | (116,149)               | 349,489             |
| Information systems      | 159,584             | 11,966            | (52,453)                | 119,097             |
| Leasehold improvements   | 14,062              | 830               | 8                       | 14,900              |
| <b>Total</b>             | <b>\$ 1,209,336</b> | <b>\$ 101,269</b> | <b>\$ (173,664)</b>     | <b>\$ 1,136,941</b> |

| 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              |
| <b>Total</b>                                  | <b>\$ 2,493,334</b> | <b>\$ 235,949</b> | <b>\$ (35,477)</b> | <b>\$ -</b> | <b>\$ 2,693,806</b> |

| Accumulated amortization | 2016                | Amortization     | Disposals/<br>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              |
| <b>Total</b>             | <b>\$ 1,165,410</b> | <b>\$ 79,403</b> | <b>\$ (35,477)</b>      | <b>\$ 1,209,336</b> |

| Net book value                                | 2018                | 2017                |
|---|---------------------|---------------------|
| Land  | \$ 20,183           | \$ 19,649           |
| Land improvements                             | 4,682               | 5,299               |
| Buildings                                     | 1,109,559           | 684,988             |
| Equipment                                     | 112,737             | 91,806              |
| Information systems                           | 54,456              | 48,177              |
| Leasehold improvements                        | 10,519              | 11,031              |
| Construction projects in progress             | 103,997             | 528,011             |
| Equipment and information systems in progress | 117,110             | 95,509              |
| <b>Total</b>                                  | <b>\$ 1,533,243</b> | <b>\$ 1,484,470</b> |

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

## 11. Tangible capital assets (continued):

As a result of the restructuring, the tangible capital asset schedule for 2018 includes an adjustment to new addition costs of \$26.2M and an adjustment to accumulated amortization of \$22.5M. Subsequent to the restructuring, the Authority determined that \$17M of the assets transferred from SJGH would not be utilized in new acute care operations and were disposed of with no proceeds or loss. The 2018 loss on disposal of tangible capital assets relates to CRHLS.

During the year \$1.3M (2017 - \$14.3M) of interest was capitalized to construction projects in progress.

Tangible capital assets are funded as follows:

|                                | 2018                | 2017                |
|--------------------------------|---------------------|---------------------|
| Deferred capital contributions | \$ 1,074,584        | \$ 1,022,338        |
| Debt                           | 390,999             | 400,381             |
| Internally funded              | 67,661              | 61,751              |
| <b>Tangible capital assets</b> | <b>\$ 1,533,244</b> | <b>\$ 1,484,470</b> |

## 12. Commitments and contingencies:

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

As at March 31, 2018, the Authority had outstanding commitments for construction, equipment and information systems projects in progress of \$11.7M (2017 - \$57.4M).

(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    |           | 2019       | 2020      | 2021      | 2022      | 2023     | Thereafter |
|-------------------|-----------|------------|-----------|-----------|-----------|----------|------------|
| Service contracts | 2019-2024 | \$ 119,484 | \$ 80,182 | \$ 61,061 | \$ 40,018 | \$ 1,977 | \$ 1,666   |

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

## 12. Commitments and contingencies (continued):

### (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:

|            |    |           |
|------------|----|-----------|
| 2019       | \$ | 213,508   |
| 2020       |    | 107,524   |
| 2021       |    | 107,440   |
| 2022       |    | 107,439   |
| 2023       |    | 107,439   |
| Thereafter |    | 1,089,785 |
|            | \$ | 1,733,135 |

### (d) Operating leases:

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

|            |    |         |
|------------|----|---------|
| 2019       | \$ | 19,240  |
| 2020       |    | 13,618  |
| 2021       |    | 9,328   |
| 2022       |    | 6,122   |
| 2023       |    | 4,715   |
| Thereafter |    | 57,775  |
|            | \$ | 110,798 |

### (e) Public-private partnerships and 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. The asset values are recorded as capital assets and the corresponding liabilities are recorded as debt and disclosed in note 7. 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<br>financing | FM and<br>lifecycle | Total<br>Payments |
|------------|--------------------------|---------------------|-------------------|
| 2019       | \$ 33,030                | \$ 19,395           | \$ 52,425         |
| 2020       | 33,028                   | 19,995              | 53,023            |
| 2021       | 33,026                   | 20,442              | 53,468            |
| 2022       | 33,023                   | 20,939              | 53,962            |
| 2023       | 33,020                   | 21,374              | 54,394            |
| Thereafter | 700,816                  | 588,974             | 1,289,790         |
|            | \$ 865,943               | \$ 691,119          | \$ 1,557,062      |

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

## 12. Commitments and contingencies (continued):

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

|            |    |         |
|------------|----|---------|
| 2019       | \$ | 6,157   |
| 2020       |    | 6,574   |
| 2021       |    | 7,020   |
| 2022       |    | 7,495   |
| 2023       |    | 8,002   |
| Thereafter |    | 371,386 |
|            | \$ | 406,634 |

(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, 2018, 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 based on management's best estimate of the ultimate settlement.

(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 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.

(h) SJGH transition costs:

The Authority has agreed to reimburse SJGH for transition costs as defined in the Asset Transfer Agreement incurred following the transfer date that have not otherwise been paid for or reimbursed by the Authority through other funding sources including through the cash reconciliation process. Non-recurring transition costs as well as ongoing maintenance of the vacant facilities and specified negotiated severance and benefits payments will be included in these subsequent costs as outlined in the Asset Transfer Agreement.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

## 13. Consolidated statement of operations:

### (a) Patients, clients and residents revenues:

|                             | 2018             | 2017             |
|-----------------------------|------------------|------------------|
| Long-term and extended care | \$ 34,622        | \$ 33,795        |
| WorkSafe BC                 | 6,913            | 6,971            |
| Non-residents of Canada     | 11,298           | 8,251            |
| Residents of BC self pay    | 4,742            | 4,467            |
| Federal government          | 3,539            | 3,589            |
| Preferred accommodation     | 1,197            | 1,267            |
| Other                       | 1,888            | 1,417            |
|                             | <u>\$ 64,199</u> | <u>\$ 59,757</u> |

### (b) Other revenues:

|   | 2018             | 2017             |
|---|------------------|------------------|
| Recoveries from sales of goods and services | \$ 28,207        | \$ 25,606        |
| Parking                                     | 7,889            | 7,953            |
| Other                                       | 8,467            | 8,158            |
|   | <u>\$ 44,563</u> | <u>\$ 41,717</u> |

### (c) Other contributions:

|                    | 2018            | 2017            |
|--------------------|-----------------|-----------------|
| Federal government | \$ 167          | \$ 136          |
| Other              | 4,350           | 5,043           |
|                    | <u>\$ 4,517</u> | <u>\$ 5,179</u> |

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

## 13. Consolidated statement of operations (continued):

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

|   | 2018           | 2017          |
|---|----------------|---------------|
| <b>Compensation:</b>  |                |               |
| Compensation  | \$ 1,187,932   | \$ 1,121,501  |
| Employee benefits   | 259,180        | 238,787       |
| Loss (gain) on event driven employee benefits                 | (16,237)       | 7,322         |
|   | 1,430,875      | 1,367,610     |
| <b>Referred-out and contracted services:</b>                  |                |               |
| Other health authorities and BC government reporting entities | 64,069         | 93,939        |
| Health and support services providers                         | 419,757        | 387,946       |
|   | 483,826        | 481,885       |
| <b>Supplies:</b>  |                |               |
| Medical and surgical  | 87,527         | 78,917        |
| Drugs and medical gases                                       | 53,869         | 49,768        |
| Diagnostic  | 23,263         | 20,948        |
| Food and dietary  | 9,338          | 8,886         |
| Laundry and linen   | 8,502          | 8,038         |
| Printing, stationary and office                               | 4,266          | 3,964         |
| Housekeeping  | 3,120          | 2,896         |
| Other   | 17,144         | 14,698        |
|   | 207,029        | 188,115       |
| <b>Amortization of tangible capital assets</b>                | <b>101,269</b> | <b>79,403</b> |
| <b>Equipment and building services:</b>                       |                |               |
| Equipment   | 76,982         | 62,446        |
| Plant operations (utilities)                                  | 17,976         | 16,083        |
| Rent  | 17,267         | 17,049        |
| Building and ground service contracts                         | 6,743          | 7,135         |
| Other   | 5,014          | 6,543         |
|   | 123,982        | 109,256       |
| <b>Sundry:</b>  |                |               |
| Travel  | 11,296         | 12,089        |
| Communication and data processing                             | 6,028          | 6,331         |
| Professional fees   | 5,852          | 5,229         |
| Patient transport   | 5,105          | 4,688         |
| Other   | 18,489         | 15,964        |
|   | 46,770         | 44,301        |
| <b>Interest on debt and capital leases</b>                    | <b>25,967</b>  | <b>11,655</b> |
| <b>Loss on disposal of tangible capital assets</b>            | <b>8</b>       | <b>-</b>      |
|   | \$ 2,419,726   | \$ 2,282,225  |



# VANCOUVER ISLAND HEALTH AUTHORITY

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## 14. Supplementary cash flow information:

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

|  | 2018        | 2017        |
|--|-------------|-------------|
| Accounts receivable                            | \$ (13,219) | \$ 6,652    |
| Inventories held for sale                      | (98)        | 173         |
| Accounts payable and accrued liabilities       | 26,882      | (32,812)    |
| Deferred operating contributions               | (2,169)     | (1,127)     |
| Deferred research and designated contributions | 1,118       | (1,488)     |
| Replacement reserves                           | (207)       | 11          |
| Inventories held for use                       | (1,035)     | (606)       |
| Prepaid expenses                               | 5,513       | 12,710      |
| Restricted non-financial assets                | -           | 13          |
|  | \$ 16,785   | \$ (16,474) |

- (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.

|  | 2018       | 2017       |
|--|------------|------------|
| Acquisition of tangible capital assets | \$ 148,552 | \$ 167,171 |
| Construction financed with debt        | 1,498      | 68,778     |
|  | \$ 150,050 | \$ 235,949 |

## 15. Related parties and other agencies:

The following are types of related parties. Disclosure of values for related party transactions is required if the values are different from that which would have been arrived at if the parties were unrelated. Identified differences will be shown as a table within this note. The absence of a table indicates that no significant differences have been identified.

- (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.

- (b) Key management personnel:

The Authority has deemed the Board of Directors and Senior Executive Team, their close family members or entities controlled by them to be key management personnel based on the PS2200 definition.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018

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## 15. Related parties and other agencies (continued):

### (c) 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 \$11.5M (2017 - \$10.2M) to various facilities within the Authority.

## 16. 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.

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, 2018, the amount of allowance for doubtful accounts was \$2.8M (2017 - \$2.2M).

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. As at March 31, 2018, the following accounts receivable were due but not impaired:

|               | 2018             | 2017             |
|---------------|------------------|------------------|
| Current       | \$ 40,006        | \$ 24,987        |
| 30 days       | 1,009            | 2,081            |
| 60 days       | 242              | 337              |
| 90 days       | 184              | 22               |
| Over 120 days | 387              | 1,681            |
|               | <u>\$ 41,828</u> | <u>\$ 29,108</u> |

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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## 16. Risk management (continued):

### (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.

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.

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

| 2018<br>Financial assets      |           | Up<br>to 1 year |           | 1 to<br>5 years |           | Over<br>5 years |           | Total          |
|-------------------------------|-----------|-----------------|-----------|-----------------|-----------|-----------------|-----------|----------------|
| Cash and cash equivalents     | \$        | 213,928         | \$        | -               | \$        | -               | \$        | 213,928        |
| Accounts receivable           |           | 64,335          |           | 6,157           |           | 230             |           | 70,722         |
| <b>Total financial assets</b> | <b>\$</b> | <b>278,263</b>  | <b>\$</b> | <b>6,157</b>    | <b>\$</b> | <b>230</b>      | <b>\$</b> | <b>284,650</b> |

| 2018<br>Financial liabilities            |           | Up<br>to 1 year |           | 1 to<br>5 years |           | Over<br>5 years |           | Total          |
|--|-----------|-----------------|-----------|-----------------|-----------|-----------------|-----------|----------------|
| Accounts payable and accrued liabilities | \$        | 216,583         | \$        | 1,247           | \$        | 3               | \$        | 217,833        |
| Debt                                     |           | 6,555           |           | 30,060          |           | 371,385         |           | 408,000        |
| <b>Total financial liabilities</b>       | <b>\$</b> | <b>223,138</b>  | <b>\$</b> | <b>31,307</b>   | <b>\$</b> | <b>371,388</b>  | <b>\$</b> | <b>625,833</b> |

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

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

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

# VANCOUVER ISLAND HEALTH AUTHORITY

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## 16. Risk management (continued):

### (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:

|                               | 2018     | 2017     |
|-------------------------------|----------|----------|
| US dollar per Canadian dollar | \$ 0.776 | \$ 0.752 |

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.

## 17. Restructuring of acute care at SJGH:

On October 1, 2017 (the "transfer date"), the Authority commenced the provision of acute care services at the New Comox Valley Hospital. As of the transfer date, SJGH ceased the provision of acute care services. The remaining healthcare services provided by SJGH are hospice care services and long-term residential care services.

The Asset Transfer Agreement set out which financial assets, non-financial assets, financial liabilities and accumulated deficits were transferred to the Authority from SJGH as a result of the restructuring transaction, and the basis of accounting for the transferred amounts.

Key provisions from the Asset Transfer Agreement related to the segregation of SJGH's assets, liabilities and accumulated deficits were as follows:

### (a) Cash and cash equivalents:

The cash transferred to (from) the Authority was calculated based on a cash reconciliation formula. The details are included in the following table.

### (b) Accounts receivable:

Accounts receivable in connection with acute care services were assumed by the Authority on the transfer date.

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## 17. Restructuring of acute care at SJGH (continued):

(c) Accounts payable:

Accounts payable as at September 30, 2017 was to be paid out by SJGH and was not assumed by the Authority.

(d) Accrued wages and benefits:

Accrued wages and benefits as at September 30, 2017 were to be paid out by SJGH and were not assumed by the Authority.

Accrued vacation and overtime:

Accrued vacation and overtime payable for transferring and displaced employees was assumed by the Authority at the transfer date.

(e) Retirement allowance:

Retirement allowance consisting of accrued retirement sick and severance payable, based on an actuarial valuation for transferring and displaced employees was assumed by the Authority at the transfer date.

(f) Deferred capital contributions:

Deferred capital contributions for the assumed tangible capital assets related to acute care services were assumed by the Authority at the transfer date.

(g) Tangible capital assets:

The Authority assumed all equipment (including certain information technology hardware and software) used in connection with SJGH acute care services on the transfer date. Equipment included all moveable equipment and furnishings used in connection with the provision of acute care services and not used in connection with long-term residential care services and hospice care services. The assumed information technology hardware did not include any assets that are needed to provide IT infrastructure to support the provision of long-term residential care services or hospice care services.

(h) Inventories held for use:

Inventories held for use in connection with acute care services were assumed by the Authority at the transfer date.

(i) Accumulated deficit:

The Authority assumed the SJGH's accumulated operating deficit to September 30, 2017 and the unfunded deficit from operations, including unfunded liabilities from accrued vacation and retirement allowances based on an actuarial valuation for the portion attributable to the acute care services. The portion of the unfunded deficit attributed to acute care services of SJGH was calculated at 88% of the total deficit.

# VANCOUVER ISLAND HEALTH AUTHORITY

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## 17. Restructuring of acute care at SJGH (continued):

The cash reconciliation resulted in a cash payment from the Authority to SJGH due at the Transfer date, calculated as follows:

|  | Cash Due (To) | From the Authority |
|--|---------------|--------------------|
| Assigned accounts receivable                     | \$            | 2,603              |
| Inventory  |               | 1,956              |
| Accrued vacation & overtime payable              |               | (2,326)            |
| Retirement allowance                             |               | (5,261)            |
| Accumulated operating deficit                    |               | 2,864              |
| Allowable unfunded deficit                       |               | 3,150              |
| <b>Total cash due from the Authority to SJGH</b> | <b>\$</b>     | <b>2,986</b>       |

The following is a reconciliation of the assets and liabilities transferred to the Authority on October 1, 2017 that result in the restructuring loss of \$6.014M on the statement of operations:

|                                     | Amounts transferred to | the Authority |
|-------------------------------------|------------------------|---------------|
| Cash                                | \$                     | (2,986)       |
| Assigned accounts receivable        |                        | 2,603         |
| Inventory                           |                        | 1,956         |
| Tangible capital assets             |                        | 3,697         |
| Accrued vacation & overtime payable |                        | (2,326)       |
| Retirement allowance                |                        | (5,261)       |
| Deferred capital contributions      |                        | (3,697)       |
| <b>Restructuring loss</b>           | <b>\$</b>              | <b>6,014</b>  |

Costs incurred in the restructuring totaled \$19.6M and are reported in the Statement of Operations as part of the following sector allocations:

| Year Ended March 31 | Acute            | Corporate       | Total Costs      |
|---------------------|------------------|-----------------|------------------|
| 2016                | \$ 1,336         | \$ -            | \$ 1,336         |
| 2017                | 4,000            | -               | 4,000            |
| 2018                | 11,110           | 3,198           | 14,308           |
|                     | <b>\$ 16,446</b> | <b>\$ 3,198</b> | <b>\$ 19,644</b> |

These \$19.6M restructuring costs were incurred in the planning, training, stocking, service commencement, and move execution from the existing facilities in the Comox Valley and Campbell River into the new facilities. Major categories of expenses included wages and benefits, including enhanced severance; purchase of supplies; travel and patient transport; and a commitment of demolition costs to SJGH.

# VANCOUVER ISLAND HEALTH AUTHORITY

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## **18. Comparative information:**

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