Financial Statements of

ST. JOSEPH'S GENERAL HOSPITAL

Year ended March 31, 2014

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with the financial reporting framework specified in Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia and Treasury Board Regulation 198/2011. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed primarily of Directors who are neither management nor employees of the Hospital. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for appointment of the Hospital's external auditors.

KPMG LLP is appointed by the Directors to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

(Chief Executive Officer, or other senior officer)

June 5, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of St. Joseph's General Hospital and the Minister of Health

We have audited the accompanying financial statements of St. Joseph's General Hospital, which comprise the statement of financial position as at March 31, 2014, the 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 Financial Statements

Management is responsible for the preparation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 financial statements of St. Joseph's General Hospital as at March 31, 2014, 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 financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Comparative Information

The financial statements of St. Joseph's General Hospital as at and for the year ended March 31, 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 7, 2013.

KPMG LLP

Chartered Accountants

June 5, 2014
Victoria, Canada

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014	2013
Financial assets		
Cash and cash equivalents	$ 3,438,590	$ 2,187,843
Accounts receivable (note 2)	1,728,771	3,015,372
	5,167,361	5,203,215
Financial liabilities		
Accounts payable and accrued liabilities (note 3)	6,828,534	7,581,153
Deferred operating contributions (note 4)	13,173	29,050
Obligations under capital lease (note 5)	18,736	64,409
Retirement allowance (note 6)	5,922,157	5,619,148
Deferred capital contributions (note 8)	24,349,114	24,574,427
	37,131,714	37,868,187
Net debt	(31,964,353)	(32,664,972)
Non-financial assets		
Tangible capital assets (note 9)	24,218,957	24,750,194
Inventories held for use (note 10)	1,852,447	1,981,367
Prepaid expenses	358,476	324,787
	26,429,880	27,056,348
Accumulated deficit (note 11)	$(5,534,473)	$(5,608,624)

Contingencies and commitments (notes 7(a) and 12)

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:

_______________ Director

_______________ Director

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Operations and Accumulated Deficit

Year ended March 31, 2014, with comparative information for 2013

	Budget	2014	2013
	(note 16)		
Revenue:			
Vancouver Island Health Authority:			
Contributions and grants	$60,982,649	$61,093,962	$60,707,268
Sales and recoveries	2,758,660	2,958,181	2,689,518
Provincial Health Services Authority:			
Contributions and grants	505,000	551,692	509,609
Sales and recoveries	3,420,000	3,423,489	3,376,629
Medical Services Plan:			
Fee for service	7,610,254	7,581,463	7,299,391
Rural health	302,227	280,779	368,930
Sales and recoveries	2,969,904	3,446,785	4,074,508
Amortization of deferred capital contributions (note 8)	3,302,379	3,152,528	3,497,157
Patients, clients and residents	2,956,654	3,123,994	3,006,829
Pharmacare	-	138,398	130,848
Investment income	2,503	27,837	18,900
	84,810,230	85,779,108	85,679,587
Expenses (note 14):			
Acute	67,594,235	67,591,699	67,363,045
Corporate	3,583,858	3,863,252	4,049,253
Mental health and substance use	4,120,690	4,229,273	4,087,941
Residential care	9,511,447	10,020,733	10,258,097
	84,810,230	85,704,957	85,758,336
Annual surplus (deficit)	-	74,151	(78,749)
Accumulated deficit at beginning of year	(5,608,624)	(5,608,624)	(5,529,875)
Accumulated deficit at end of year	$(5,608,624)	$ (5,534,473)	$(5,608,624)

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Changes in Net Debt

Year ended March 31, 2014, with comparative information for 2013

	Budget 2014 (note 16)	2014	2013
Annual surplus (deficit)	$ -	$ 74,151	$ (78,749)
Purchase of tangible capital assets	(3,367,421)	(2,695,008)	(3,468,402)
Donations of tangible capital assets	-	(17,000)	(270,346)
Amortization of tangible capital assets	3,302,379	3,213,127	3,370,692
Disposal of tangible capital assets	-	30,118	38,067
Net change in prepaids	-	(33,689)	(59,088)
Net change in inventory	-	128,920	(17,135)
Decrease (increase) in net debt	(65,042)	700,619	(484,961)
Net debt, beginning of year	(32,664,972)	(32,664,972)	(32,180,011)
Net debt, end of year	$(32,730,014)	$(31,964,353)	$(32,664,972)

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	$ 74,151	$ (78,749)
Items not involving cash:		
Amortization of tangible capital assets	3,213,127	3,370,692
Amortization of deferred capital contributions	(3,152,528)	(3,497,157)
Retirement allowance expense	607,000	658,009
Changes in non-cash operating working capital:		
Accounts receivable	1,286,601	992,411
Inventories held for use	128,920	(17,135)
Prepaid expenses	(33,689)	(59,088)
Accounts payable and accrued liabilities	(752,619)	(88,416)
Deferred operating contributions	(15,877)	(137,662)
	1,355,086	1,142,905
Investing activities:		
Purchase of tangible capital assets	(2,695,008)	(3,468,402)
Financing activities:		
Retirement allowance benefits paid	(303,991)	(466,768)
Repayment of capital lease obligation	(45,673)	(42,726)
Deferred capital contributions received	2,940,333	3,434,508
	2,590,669	2,925,014
Increase in cash and cash equivalents	1,250,747	599,517
Cash and cash equivalents, beginning of year	2,187,843	1,588,326
Cash and cash equivalents, end of year	$ 3,438,590	$ 2,187,843

The accompanying notes are an integral part of these financial statements.

St. Joseph's General Hospital (the "Hospital") is a denominational hospital wholly owned by the Bishop of Victoria, a Corporation Sole, which provides healthcare and various other medical services to both long and short term patients. The Hospital is a strategic partner with Vancouver Island Health Authority ("VIHA"). The formal relationship is delineated within an affiliation agreement signed by the respective partners on January 14, 2004. The affiliation agreement establishes accountability provisions, operating principles, funding guidelines, dispute mechanism, and termination rights between the Hospital and VIHA.

The Hospital is registered as a charitable organization under the Income Tax Act (the "Act") and as such is exempt from income taxes. In order to maintain its status as a registered charitable organization under the Act, the Hospital must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

1. Significant accounting policies:

(a) Basis of accounting:

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

The Budget Transparency and Accountability Act requires that the 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 follow Canadian public sector accounting standards ("PSAS") issued by the Canadian Public Sector Accounting Board ("PSAB") without any PSAS ("PS") 4200 series standards.

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 (referred to as deferred capital contributions) are recorded 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.

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

(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 and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

For British Columbia 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 Canadian public sector accounting standards 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; and
- 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.

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

(b) Revenue recognition:

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.

Operating government grants (including amounts received from Vancouver Island Health Authority, Provincial Health Services Authority and other government sources) with or without eligibility criteria stipulations are recognized when received or receivable. Government grants, containing stipulations as to their use, are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation and meets the definition of a liability.

Patients, clients and residents revenues and sales and recoveries revenues are recognized when the service is provided or the product has been delivered 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).

Unrestricted donations and grants are recorded as other contributions when receivable if the amounts can be estimated and collection is reasonably assured.

Investment income includes interest recorded on an accrual basis.

1. **Significant accounting policies (continued):**

(b) Revenue recognition (continued):

Donations-in-kind and contributed materials are only recorded if the Hospital would otherwise have paid for them. Donations-in-kind are recorded at fair market value on the date of the donation.

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

(c) Retirement allowance:

The Hospital and its employees make contributions to a multi-employer joint trusteed plan. This plan is a defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and earnings averaged over five years. Inflation adjustments are contingent upon available funding. As the assets and liabilities of the plan are not segregated by institution, the plan is accounted for as a defined contribution plan whereby contributions of the Hospital to the plan are expensed as incurred.

Sick leave benefits and retirement severance benefits are also available to the Hospital's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligation under these benefit plans are accrued based on projected benefits as the employees render services necessary to earn the future benefits. Actuarial gains and losses are amortized over the expected average remaining service life of the employees.

(d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

i) Tangible capital assets:

Tangible capital asset acquisitions are initially recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Costs include overhead directly attributable to construction and development. Amortization of tangible capital assets is recorded on a straight line basis over the estimated useful life of the asset, commencing in the period that the Hospital takes ownership of the asset. No amortization is provided on construction in progress until the project is completed and the asset is available for productive use.

1. Significant accounting policies (continued):

(d) Non-financial assets (continued):

i) Tangible capital assets (continued):

Tangible capital assets are amortized over the following estimated useful lives:

Building	20 - 40 years
Equipment	1 - 10 years
Land improvements	10 years

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

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

ii) Leased tangible capital assets:

Tangible capital assets acquired under a lease which transfers substantially all of the benefits and risks incidental to ownership of property are recorded as leased tangible capital assets with an offsetting obligation under capital lease. All other leases are accounted for as operating leases and the related payments are charged to expense as incurred.

Obligations under capital leases are recorded at the present value of the minimum lease payments excluding executor costs. The discount rate used to determine the present value of the lease payments is the lower of the Hospital's rate for incremental borrowing or the interest rate implicit in the lease. Note 5 provides a schedule of repayments and amount of interest on the leases.

iii) Inventories held for use:

Inventories of materials and supplies are recorded at the lower of weighted average cost and replacement cost. Certain specific inventory items are acquired on consignment and are not included in inventory.

1. **Significant accounting policies (continued):**

(e) Foreign currency translation:

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities in a foreign currency are translated using the exchange rates at the statement of financial position date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or balance sheet date is recognized in the statement of remeasurement gains and losses. In the period of settlement, the related cumulative remeasurement gain or loss is reversed in the statement of remeasurement gains and losses and the exchange gain or loss in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of useful lives for amortization of tangible capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, and the actuarial assumptions for retirement allowances. Actual results could differ from management's best estimates as additional information becomes available in future years. As adjustments to estimates become necessary they are reported in earnings in the period in which they become known.

(g) 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 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 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.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

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 Hospital's normal purchase, sale or usage requirements are not recognized as financial assets or financial liabilities.

(h) Statement of remeasurement gains and losses:

A statement of remeasurement gains and losses has not been prepared as it would not present any significant transactions.

(i) Basis of consolidation:

The Hospital has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Hospital and/or provide services under contracts. As the Hospital does not control these organizations, the financial statements do not include the assets, liabilities and results of operations of these entities (see note 13).

(j) 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 short-term 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.

(k) Asset retirement obligations:

The Hospital 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.

1. Significant accounting policies (continued):

(k) Asset retirement obligations (continued):

The liability is accreted to reflect the passage of time. At each reporting date, the Hospital 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.

(l) Future accounting standards:

In June 2010, PSAB issued PS 3260, Liability for Contaminated Sites. PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments. The main features of the standard are as follows:

- A liability should be recognized when contamination exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for the damage.
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

Management is assessing the impact of PS 3260, which will be adopted for the fiscal year ending March 31, 2015.

2. Accounts receivable:

	2014	2013
Vancouver Island Health Authority	$ 405,080	$ 1,212,384
Medical Services Plan of BC	411,118	538,726
Other	912,573	1,264,262
	$ 1,728,771	$ 3,015,372

3. Accounts payable and accrued liabilities:

	2014	2013
Trade payables	$ 1,029,501	$ 1,074,268
Capital payables	52,324	174,829
Accrued wages and benefits	3,330,212	3,763,968
Accrued vacation	2,267,691	2,330,735
Other	148,806	237,353
	$ 6,828,534	$ 7,581,153

4. Deferred operating contributions:

Deferred operating contributions represent unspent grant and contract services contributions externally restricted for non-capital purposes from government reporting entities, such as VIHA or the Ministry of Health, for specific programs or courses that have not been delivered or completed. Changes in the deferred capital contributions balance are as follows:

	2014	2013
Balance, beginning of year	$ 29,050	$ 166,712
Contributions received during the year	15,824	54,004
Revenue recognized	(31,701)	(191,666)
	$ 13,173	$ 29,050

5. Obligations under capital lease:

	2014	2013
St. Joseph's General Hospital Foundation (3.52%, to April 2014, $2,365/month)	$ 2,354	$ 29,667
Robbins Parking Service Ltd. (7.5%, to January 2015, $1,695/month)	16,382	34,742
	$ 18,736	$ 64,409

Net book values of assets leased are $73,761 (2013 - $113,436).

Future minimum capital lease payments are as follows:

2015	$ 20,503
Less imputed interest	1,767
Total capital lease obligation	$ 18,736

6. Retirement allowance:

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

The Hospital's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2013 and extrapolated to March 31, 2014 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2014 are derived.

6. Retirement allowance (continued):

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

	2014	2013
Accrued benefit obligation, beginning of year	$ 5,619,148	$ 5,427,907
Current service cost	384,000	374,000
Amortization of actuarial (gain) loss	(18,000)	9
Plan change impact	-	41,000
Interest expense	241,000	243,000
Net benefit expense	607,000	658,009
Benefits paid	(303,991)	(466,768)
Accrued benefit obligation, end of year	$ 5,922,157	$ 5,619,148

Plan change impact in 2013 – Changes were made to the Nurses collective agreement which impacts the benefits included in the actuarial valuation. The standard work day was increased from 7.2 hours to 7.5 hours as of April 1, 2013. The impact of this change has been included as a past service cost and immediately recognized through expense in the year the change was negotiated as per PS 3255. Where health authorities had net outstanding gains at the time the past service cost arose, these were recognized immediately as required under PS 3255 as an offset to the cost of the plan change.

Additionally, future new hires will not be eligible for payout of unused sick leave balances on termination of employment. This latter change does not impact the current valuation results as no members eligible for this arrangement are currently present in the valuation data. In future periods this benefit will effectively be converted to a non-vested bank for new hires in this group and will be reflected as such.

The significant actuarial assumptions adopted in measuring the Hospital's accrued retirement allowance liabilities are as follows:

	2014	2013
Discount rate	4.26%	4.41%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.50%	2.50%

A portion of the sick and severance liability has not been funded by the Ministry as further described in note 11.

7. Employee benefits:

(a) Employee healthcare benefits:

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

Effective March 31, 2004 the Trust was restructured from a multi-employer plan to a multiple-employer plan only with respect to long-term disability benefits initiated after September 30, 1997 for some entities. The Hospital stayed in the multi-employer plan, therefore the Hospital's assets and liabilities for these long-term disability benefits have not been segregated. The Hospital's net liabilities are not reflected in these financial statements. The group life insurance, accidental death and dismemberment, pre October 1, 1997 long-term disability, extended health and dental claims administered by the Trust continue to be structured as a multi-employer plan.

Until December 31, 2013, the multi-employer plans for long-term disability benefits and other benefits were maintained in separate pools within the Trust. As at December 31, 2013 a proportionate share of the surplus in the other benefits plan pool was transferred to the long-term disability plan pool belonging to the same group of employees and going forward claims will be administered for all benefits from the same pool within the Trust. The actuarial valuation for the combined multi-employer plan as at December 31, 2013 indicated an unfunded liability of $12.6 million. The plan covers approximately 8,500 active employees, of which approximately 711 are employees of the Hospital.

Contributions to the Trust of $1,928,126 (2013 - $1,880,408) were expensed during the year.

Due to an amendment to the Healthcare Benefit Trust Agreement, effective January 22, 2010, the formula for calculating the liability for each party if they leave the Trust has changed. The Hospital would incur a liability if they choose to leave the plan. At this time, the Hospital intends to stay in the plan and the potential liability cannot be reasonably calculated.

While the Trust has been restructured, the Hospital and all other participating employers continue to be responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to the Trust.

(b) Employee pension benefits:

The Hospital and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed pension plan. A board of trustees, representing Plan members and employees, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The pension plan is a multi-employer plan contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 179,000 active members and approximately 71,000 retired members. Approximately 706 of the active members are employees of the Hospital.

7. Employee benefits (continued):

(b) Employee pension benefits (continued):

The most recent actuarial valuation as at December 31, 2012 indicated a $1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

Employer contributions to the Plan of $3,400,246 (2013 - $3,250,464) were expensed during the year.

8. Deferred capital contributions:

Deferred capital contributions represent externally restricted contributions and other funding received for the purchase of tangible capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2014	2013
Deferred capital contributions, beginning of year	$24,574,427	$24,404,794
Capital contributions received:		
Vancouver Island Health Authority	1,612,802	1,870,899
Comox Strathcona Regional Hospital District	1,041,689	990,192
St. Joseph's General Hospital Foundation	169,388	467,529
St. Joseph's General Hospital Auxiliary	116,454	105,888
General donations	17,000	17,600
Other	-	252,748
	2,957,333	3,704,856
Amounts realized due to disposal	(30,118)	(38,066)
Amortization for the year	(3,152,528)	(3,497,157)
Deferred capital contributions, end of year	$24,349,114	$24,574,427

Deferred capital contributions are comprised of the following:

	2014	2013
Contributions used to purchase tangible capital assets	$23,995,822	$24,574,427
Unspent contributions	353,292	-
	$24,349,114	$24,574,427

9. Tangible capital assets:

Cost	Balance March 31, 2013	Additions	Disposals	Transfers	Balance March 31, 2014
Land	$ 14,045	$ -	$ -	$ -	$ 14,045
Land improvements	718,840	-	-	294,619	1,013,459
Buildings	34,830,802	-	-	76,523	34,907,325
Equipment	32,160,658	1,936,157	(2,325,663)	1,134,569	32,905,721
Construction projects in progress	1,076,941	775,851	-	(1,505,711)	347,081
	$68,801,286	$ 2,712,008	$ (2,325,663)	$ -	$69,187,631

Accumulated amortization	2013	Additions	Disposals	Transfers	2014
Land	$ -	$	$ -	$ -	$ -
Land improvements	484,025	77,978	-	-	562,003
Buildings	21,190,718	687,749	-	-	21,878,467
Equipment	22,376,349	2,447,400	(2,295,545)	-	22,528,204
Construction projects in progress	-		-	-	-
	$44,051,092	$ 3,213,127	$ (2,295,545)	$ -	$44,968,674

Net book value	2013		2014
Land	$ 14,045		$ 14,045
Land improvements	234,815		451,456
Buildings	13,640,084		13,028,858
Equipment	9,784,309		10,377,517
Construction projects in progress	1,076,941		347,081
Total	$ 24,750,194	$	$ 24,218,957

Donations of capital assets received during the year totaled $17,000 (2013 - $270,346).

Tangible capital assets are funded as follows:

	2014	2013
Deferred capital contributions	$23,995,822	$24,574,427
Capital lease obligations	73,761	113,436
Internally funded	149,374	62,331
	$24,218,957	$24,750,194

10. Inventories held for use:

	2014	2013
General supplies	$ 954,441	$ 1,055,481
Drugs	624,043	669,120
Lab supplies	214,259	213,760
Food supplies	25,795	24,509
Other	33,909	18,497
	$ 1,852,447	$ 1,981,367

Details of amounts of inventory expensed are provided in note 14 in the supplies category.

The Hospital holds inventory on consignment for joint surgeries, prosthesis and other specific surgical procedures. Consignment inventory is not recorded in the Hospital's books. The amount of the inventory on hand and the related liability at March 31, 2014 is $1,114,627 (2013 - $1,541,866).

11. Accumulated deficit:

Accumulated deficit is comprised of the following accounts:

	2014	2013
Operating deficit	$(2,159,330)	$(2,140,440)
Invested in capital assets	204,399	111,358
Allowable unfunded deficit from operations	(3,579,542)	(3,579,542)
	$ (5,534,473)	$(5,608,624)

Investment in capital assets is calculated as follows:

	2014	2013
Tangible capital assets	$24,218,957	$24,750,194
Deferred capital contributions	(23,995,822)	(24,574,427)
Capital leases	(18,736)	(64,409)
	$ 204,399	$ 111,358

11. Accumulated deficit (continued):

Allowable unfunded deficit from operations:

Balance of $3,579,542 is comprised as follows:

Unfunded increase in liabilities resulting from 1989 change	
Directed by the Ministry of Health:	
Accrued vacation pay	$ 521,477
Accrued retirement allowance	667,238
Unfunded increase in liabilities relating to retirement allowance	
April 1, 1999 retroactive adjustment in retirement allowance	1,502,925
Accumulated unfunded portion of retirement allowance expense:	
Fiscal year ended March 31, 2000	166,495
Fiscal year ended March 31, 2001	167,878
Fiscal year ended March 31, 2011	518,771
Fiscal year ended March 31, 2012	34,758
	$ 3,579,542

The Hospital has recorded these expenses/liabilities in accordance with specific instructions/approval of the Ministry of Health. Government funding of these prior year items, however, was provided on a cash basis, instead of an accrual basis – so these items remain unfunded.

Schedule III to the affiliation agreement between the Hospital and VIHA states that "in the event of windup of the (Hospital), VIHA will provide sufficient funding to satisfy outstanding sick leave, severance and vacation costs for employees of the (Hospital)".

12. Contingencies and commitments:

(a) Guarantee – Cumberland Regional Hospital Laundry Society:

The Hospital and two other hospitals formed the Cumberland Regional Hospital Laundry Society (the "Society") in 1995 to purchase laundry facilities to service the three hospitals. Each of the three hospitals has guaranteed its share of the long-term debt incurred by the Society in connection with its purchase of the laundry facilities. The Hospital's management expects the Society to fully service its debt from its operations revenue as derived from laundry service agreements with each of the hospitals.

As at March 31, 2014, the Hospital's share of the guaranteed debt is $646,934 (2013 - $758,981) representing 34.3% of the total debt.

The Hospital has entered into a laundry service agreement obligating the Hospital to use the Society for principally all of its laundry and related services. All transactions between the Hospital and the Society are recorded at their exchange amount at the time of the transaction.

12. Contingencies and commitments (continued):

(a) Guarantee – Cumberland Regional Hospital Laundry Society (continued):

During the fiscal year, the Hospital paid $1,066,144 (2013 - $1,157,547) to the Society for laundry and related services. The Hospital charged the Society for administration and payroll services, which totaled $26,639 (2013 - $28,286) and also passed on service charges incurred for computer and telephone expenses. At March 31, 2014, accounts receivable included $2,326 (2013 - $62) and accounts payable included $93,226 (2013 - $98,634) owing to the Society.

(b) Other commitments:

In November 2012, the Hospital entered into a 3-year purchase agreement with AMS Canada Inc. for the supply of GreenLight laser fibres at a cost of $850 each. The Hospital is committed to purchasing 100 fibres per contract year. As at March 31, 2014 the Hospital had purchased 135 fibres in the second contract year and has 19 months remaining on the contract. The remaining commitment is disclosed below.

In 2009, the Hospital entered into an agreement with Bausch & Lomb to purchase supplies. The contract term is 60 months ending June 30, 2014. The contract specified that the Hospital would purchase 463 units per quarter (1,852 per year) at a cost of $40 each. As at March 31, 2014 the Hospital has 3 months remaining on the contract and 463 units left to purchase. The remaining commitment is disclosed below.

	AMS Canada	Bausch & Lomb	Total
2015	$ 85,000	$ 18,520	$ 103,520
2016	41,650	-	41,650
	$ 126,650	$ 18,520	$ 145,170

(c) Operating leases:

In September 2013, the Hospital entered into two operating leases with Olympus Canada Inc. for equipment. The contract terms are 60 months ending September 19, 2018. The commitment is disclosed below.

	Olympus Lease #1	Olympus Lease #2	Total
2015	$ 96,360	$ 114,204	$ 210,564
2016	96,360	114,204	210,564
2017	96,360	114,204	210,564
2018	96,360	114,204	210,564
2019	40,150	47,585	87,735
	$ 425,590	$ 504,401	$ 929,991

12. Contingencies and commitments (continued):

(d) Litigation and claims:

The nature of the Hospital's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2014, management is of the opinion that the Hospital 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 Hospital's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement. Accruals are made when a liability is likely and can be reliably measured.

13. Related party transactions:

The Hospital is related to the entities described below. Transactions with these entities, unless disclosed otherwise, are considered to be in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(a) St. Joseph's General Hospital Foundation:

The Hospital is related to the St. Joseph's General Hospital Foundation (the "Foundation") by way of common board members. As the Hospital does not control the Foundation, it has not been consolidated into the Hospital's financial statements. The Foundation is a not-for-profit organization and a registered charity under the Income Tax Act. The Foundation was created to raise funds in the community for the purpose of furthering the interests and objectives of the Hospital and healthcare in the Comox Valley area.

At March 31, 2014 accounts receivable included $36,496 (2013 - $90,702) due from the Foundation and accounts payable included $5,489 (2013 - $2,422) due to the Foundation. Deferred capital contributions includes $169,388 (2013 - $467,529) of current year contributions from the Foundation. During fiscal 2010, the Hospital entered into a lease with the Foundation to purchase capital equipment at a cost of $128,000. At March 31, 2014, a capital lease liability totaling $2,354 (2013 - $29,667) is owed to the Foundation. The Hospital provides accounting services to the Foundation at no charge. The value of these services is not recorded as it is not reasonably estimable.

(b) Cumberland Regional Hospital Laundry Society:

See note 12(a) for description of transactions with Cumberland Regional Hospital Laundry Society.

(c) St. Joseph's General Hospital Auxiliary Society:

The St. Joseph's General Hospital Auxiliary Society (the "Auxiliary") is a related party to the Hospital as its sole purpose is to raise funding for the Hospital and the Hospital provides space to the Society to operate a gift shop and thrift store. The Auxiliary is a not-for-profit organization and a registered charity under the Income Tax Act.

13. Related party transactions (continued):

(c) St. Joseph's General Hospital Auxiliary Society (continued):

At March 31, 2014 accounts receivable included $4,945 (2013 – $9,875) due from the Auxiliary. During the year, donations totaling $ 97,076 (2013 - $93,178) were paid to the Hospital by the Auxiliary. Deferred capital contributions includes $116,454 (2013 - $105,888) of current year contributions from the Auxiliary. Transfers of assets are recorded at their carrying amount at the time of donation.

14. Statement of operations:

The following is a summary of expenses by object:

	2014	2013
Compensation and benefits:		
Employee wages	$43,447,487	$43,009,066
Employee benefits (includes sick and severance)	12,097,435	11,760,965
Purchased services – personnel	429,167	495,933
Purchased services – physicians	6,550,239	7,035,127
Supplies:		
Drugs and medical gases	5,175,644	5,168,082
Medical and surgical	5,538,777	5,629,344
Diagnostic	1,624,950	1,520,634
Printing, stationery and office	292,500	312,613
Food and dietary	927,504	935,460
Laundry and linen	348,753	390,275
Housekeeping	157,656	172,917
Other	338,241	334,575
Equipment and building services:		
Equipment	1,570,602	1,597,314
Building and ground	46,651	31,122
Plant operation (utilities)	852,273	802,739
Rent	54,897	53,146
Maintenance	207,068	197,808
Sundry:		
Professional fees	136,696	178,406
Travel	130,297	142,948
Communication and data processing	126,453	128,004
Other	482,979	515,291
Interest on debt	5,179	7,555
Amortization of tangible capital assets	3,213,127	3,370,692
Contracted services	1,950,382	1,968,320
	$85,704,957	$85,758,336

15. Economic dependence:

A substantial portion of the Hospital's revenue is received from the Vancouver Island Health Authority on behalf of services provided for the Provincial Government's Ministry of Health Services in accordance with the Hospital Act. Accordingly, the Hospital is economically dependent on VIHA to provide the funding needed to maintain its operations and to fund capital expenditures made by the Hospital. A loss in this source of revenue would greatly impair the Hospital's ability to continue as a going concern.

In May 2012, the Premier of BC announced the construction of a new hospital in the Comox Valley to be completed by 2017. The Hospital and VIHA are working on a new role for the Hospital and a transition agreement that will address the transfer of assets and liabilities specific to the new hospital, including a portion of the allowable unfunded deficit currently held by the Hospital (see note 11).

16. Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the 2013-2014 Provisional budget approved by the Board of Directors of the Hospital on July 3, 2013. The budget is reflected in the Statement of Operations and Accumulated Deficit and the Statement of Changes in Net Debt.

A reconciliation of the Board approved budget to the amount presented on the Statement of Operations is presented below:

Revenues and expenses per July 3, 2013 draft Board approved budget	$ 81,507,851
Amortization of tangible capital assets/deferred capital contributions	3,302,379
Budget figures presented in Statement of Operations	$ 84,810,230
Revenues and expenses per July 3, 2013 draft Board approved budget	$ 81,507,851
Final budget submitted to Ministry of Health on October 11, 2013	$ 81,507,851

17. Financial instruments:

Risk Management Policy

The Hospital has potential exposure to credit risk, liquidity risk, foreign exchange risk and interest rate risk from the entity's financial instruments through the normal course of operation. Qualitative and quantitative analysis of the significant risks from the Hospital's financial instruments is provided below.

All significant financial assets and financial liabilities of the Hospital are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

These risks are managed through the Hospital's collection procedures and other internal policies and procedures.

17. Financial instruments (continued):

(a) Foreign currency risk

The Hospital's operating results and financial position are reported in Canadian dollars. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Hospital does not hold significant funds in U.S. dollars in order to reduce the risk of adverse movements in foreign exchange rates.

The Hospital maintains a U.S. currency bank account and enters into a limited number of transactions with vendors for supplies denominated in U.S. currency for which the related expenses and accounts payable balances are subject to exchange rate fluctuations.

As at March 31, 2014, the following items are denominated in U.S. currency:

	2014	2013
Cash converted to Canadian dollars	$ 14,562	$ 14,993

(b) Credit risk

Financial instruments that potentially subject the Hospital to concentrations of credit include accounts receivable. Accounts receivable primarily consist of amounts receivable from the Ministry of Health, Vancouver Island Health Authority and BC government reporting entities, patients, clients and agencies, hospital foundation and auxiliary, grantors etc. To reduce the risk, the Hospital 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, 2014, the amount of allowance for doubtful receivables was $136,598 (2013 - $411,701), as these accounts receivable are deemed by management not to be collectible. The Hospital historically has not had difficulty collecting receivables, nor have counterparties defaulted on any payments. The maximum credit risk exposure is $1,728,771 (2013 - $3,015,372).

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Hospital is not exposed to significant interest rate risk.

17. Financial instruments (continued):

(d) Liquidity risk

Liquidity risk is the risk that the Hospital will encounter difficulty in meeting obligations associated with financial liabilities. The Hospital enters into transactions to purchase goods and services and lease equipment, for which payments are required at various dates. Liquidity risk is measured by reviewing the Hospital's future net cash flows for the possibility of a negative net cash flow. Differences do exist in the timing between the receipts of funding and the payment of various expenditures. This can cause situations during the year where the Hospital's working capital is negative and liabilities are not discharged on a timely basis while it awaits funding payments or increases.

18. Comparative information:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.