

Consolidated Financial Statements of

**VANCOUVER ISLAND HEALTH AUTHORITY**

Year ended March 31, 2014



## Statement of Management Responsibility

The consolidated financial statements of the Vancouver Island Health Authority (the "Authority") for the year ended March 31, 2014 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 all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

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 and fair presentation 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.

  
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Dr. Brendan Carr  
President and Chief  
Executive Officer

  
\_\_\_\_\_  
Kim Kerrone  
Vice President and Chief Financial Officer

May 29, 2014



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**Chartered Accountants**  
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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, 2014, the consolidated statements of operations, 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.



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*Opinion*

In our opinion, the consolidated financial statements of Vancouver Island Health Authority 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 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 long, horizontal, slightly curved line that tapers at both ends, serving as a decorative underline.

Chartered Accountants

May 29, 2014

Victoria, Canada

# VANCOUVER ISLAND HEALTH AUTHORITY

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

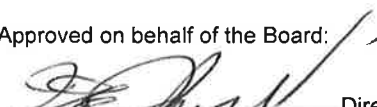
As at March 31, 2014, with comparative information for 2013

	2014	2013
<b>Financial assets</b>		
Cash and cash equivalents (note 2)	\$ 220,591	\$ 193,851
Portfolio investments (note 2)	-	32,291
Accounts receivable (note 3)	54,992	65,474
Inventories held for sale (note 4)	649	759
Long-term disability benefits (note 9(b) (i))	29,723	-
	<u>305,955</u>	<u>292,375</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 5)	190,003	197,891
Deferred operating contributions (note 6)	8,659	7,516
Deferred research and designated contributions (note 7)	3,456	3,853
Debt (note 8)	198,912	202,461
Retirement allowance (note 9(a))	109,163	105,088
Long-term disability benefits (note 9(b) (i))	-	6,059
Replacement reserves (note 10)	404	389
Deferred capital contributions (note 11)	884,336	872,657
	<u>1,394,933</u>	<u>1,395,914</u>
<b>Net debt</b>	<u>(1,088,978)</u>	<u>(1,103,539)</u>
<b>Non-financial assets</b>		
Tangible capital assets (note 12)	1,001,433	996,852
Inventories held for use (note 13)	13,222	12,975
Prepaid expenses	13,118	9,649
Restricted assets (note 14)	244	244
	<u>1,028,017</u>	<u>1,019,720</u>
<b>Accumulated deficit</b>	<u>\$ (60,961)</u>	<u>\$ (83,819)</u>

Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

  
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Don Hubbard Director

  
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David Kruyt Director

# VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Operations and Accumulated Deficit

(Tabular amounts expressed in thousands of dollars)

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

	2014 Budget (note 1(q))	2014	2013
<b>Revenues:</b>			
Ministry of Health contributions	\$ 1,682,592	\$ 1,670,605	\$ 1,592,249
Medical Services Plan	133,545	135,980	132,938
Recoveries from other health authorities and BC government reporting entities	91,829	103,810	114,029
Patients, clients and residents (note 16(a))	57,779	60,430	55,640
Amortization of deferred capital contributions (note 11)	64,379	60,340	65,524
Other (note 16(b))	29,685	37,347	34,502
Other contributions (note 16(c))	5,234	5,453	6,756
Investment income	857	1,477	958
	<u>2,065,900</u>	<u>2,075,442</u>	<u>2,002,596</u>
<b>Expenses (note 16(d)):</b>			
Acute care	1,118,047	1,099,795	1,083,680
Residential care	344,200	352,369	343,376
Community care	235,200	233,707	227,109
Mental health and substance use	158,300	155,485	143,247
Corporate	150,653	154,637	141,599
Population health and wellness	59,500	56,591	55,518
	<u>2,065,900</u>	<u>2,052,584</u>	<u>1,994,529</u>
Annual surplus	-	22,858	8,067
Accumulated deficit, beginning of year	(83,819)	(83,819)	(91,886)
Accumulated deficit, end of year	<u>\$ (83,819)</u>	<u>\$ (60,961)</u>	<u>\$ (83,819)</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, 2014, with comparative information for 2013

	2014 Budget (note 1(q))	2014	2013
Annual surplus	\$ -	\$ 22,858	8,067
Acquisition of tangible capital assets	(104,700)	(83,332)	(100,647)
Proceeds from disposal of tangible capital assets	-	1,442	-
Amortization of tangible capital assets	79,491	78,470	78,425
(Gain) loss on disposal of tangible capital assets	-	(1,161)	61
	(25,209)	18,277	(14,094)
Acquisition of inventories held for use	-	(94,193)	(185,167)
Acquisition of prepaid expenses	-	(25,280)	(21,196)
Restricted endowment contributions	-	-	(77)
Consumption of inventories held for use	-	93,946	184,937
Use of prepaid expenses	-	21,811	21,839
	-	(3,716)	336
(Increase) decrease in net debt	(25,209)	14,561	(13,758)
Net debt, beginning of year	(1,103,539)	(1,103,539)	(1,089,781)
Net debt, end of year	(1,128,748) \$	(1,088,978) \$	(1,103,539)

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, 2014, with comparative information for 2013

	2014	2013
Cash flows from (used in) operating activities:		
Annual surplus	\$ 22,858	\$ 8,067
Items not involving cash:		
Amortization of deferred capital contributions	(60,340)	(65,524)
Amortization of tangible capital assets	78,470	78,425
Loss (gain) on disposal of tangible capital assets	(1,161)	61
Retirement allowance expense	11,492	10,277
Long-term disability benefits expense	5,946	18,448
Interest income	(1,477)	(958)
Interest expense	12,339	12,544
	<u>68,127</u>	<u>61,340</u>
Net change in non-cash operating items (note 17(a))	(251)	15,900
Interest received	1,477	958
Interest paid	(12,339)	(12,544)
Net change in cash from operating activities	<u>57,014</u>	<u>65,654</u>
Capital activities:		
Proceeds from disposal of tangible capital assets	1,442	-
Acquisition of tangible capital assets (note 17(b))	(83,332)	(100,647)
Net change in cash from capital activities	<u>(81,890)</u>	<u>(100,647)</u>
Investing activities:		
Proceeds from disposals and redemption of portfolio investments	32,291	-
Net change in cash from investing activities	<u>32,291</u>	<u>-</u>
Financing activities:		
Retirement allowance benefits paid	(7,417)	(5,521)
Long-term disability benefits contributions	(41,728)	(34,474)
Repayment of debt	(3,549)	(3,355)
Capital contributions	72,019	103,052
Net change in cash from financing activities	<u>19,325</u>	<u>59,702</u>
Increase in cash and cash equivalents	26,740	24,709
Cash and cash equivalents, beginning of year	193,851	169,142
Cash and cash equivalents, end of year	<u>\$ 220,591</u>	<u>\$ 193,851</u>

Supplementary cash flow information (note 17 )

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, 2014

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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, 2014

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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 and the Oak Bay Lodge Continuing Care Society. These entities are controlled by the Authority. Inter-entity transactions, balances and activities have been eliminated on consolidation.

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

### (c) Affiliated organizations:

Within the Authority area, there are two denominational health care organizations, St. Joseph's General Hospital and Mount St. Mary Hospital (collectively the "Affiliates"), which have the responsibility to manage the administration of certain health care facilities under affiliation agreements with the Authority. These Affiliates are separate legal entities with separate board of directors and, accordingly, these 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 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, 2014

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## 1. Significant accounting policies (continued):

### (e) Portfolio investments:

Portfolio investments include banker's acceptances, treasury bills and bonds and are recorded at cost adjusted for any write-downs.

Write-downs of investments are recognized when the loss in value is determined to be other-than-temporary. Write-downs are not reversed in the future if circumstances change.

### (f) 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.

### (g) 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.

### (h) 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.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (i) 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 benefit plans as employees render services to earn the benefits.

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

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 10 years (2013 - 10 years). Actuarial gains and losses from event-driven benefits such as long-term disability 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 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.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

(j) 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.

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

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

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

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

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

(ii) Inventories held for use:

Inventories held for use are recorded at the lower of weighted average cost and replacement cost. Certain specific 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 where the service benefits are received.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (k) Revenue recognition:

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

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

Revenues related to fees or services received in advance of the fee being earned or the services being performed is 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.

### (l) Measurement uncertainty:

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

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

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

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (m) 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.

### (n) 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 financial statement date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the statement of operations.

### (o) Financial instruments:

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

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

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

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

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

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

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

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (o) Financial instruments (continued):

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

### (p) 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.

### (q) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2013/2014 Budget approved by the Board of Directors on May 29, 2013 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. Note 20 reconciles the approved budget to the budget information reported in these financial statements.

### (r) 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 of a site or part of a site not in productive use 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



# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 1. Significant accounting policies (continued):

(r) Future accounting standards (continued):

- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

PS 3260 is effective for the Authority's fiscal year ending March 31, 2015. Management is continuously assessing the potential impact of adoption of PS 3260 on the consolidated financial statements of the Authority. The magnitude of the impact of PS 3260 on the consolidated financial statements will depend on the existence of contaminated sites as at March 31, 2015, if any.

## 2. Cash and cash equivalents and portfolio investments:

	2014	2013
Cash and cash equivalents	\$ 220,591	\$ 193,851
Portfolio investments	-	32,291
	220,591	226,142
Amounts restricted for capital purposes	(159,874)	(142,825)
Amounts restricted for future operating purposes	(8,659)	(7,516)
Amounts restricted for P3 projects	(7,111)	(4,774)
Amounts restricted for research and designated purposes	(3,456)	(3,853)
Amounts internally restricted	(1,154)	(1,548)
Amounts restricted for replacement reserves	(404)	(389)
Amounts restricted for patient comfort funds	(188)	(124)
Unrestricted cash and cash equivalents and portfolio investments	\$ 39,745	\$ 65,113

## 3. Accounts receivable:

	2014	2013
Medical Services Plan	\$ 18,779	\$ 20,465
Other health authorities and BC government reporting entities	7,840	6,387
Ministry of Health	5,387	9,805
Patients, clients and residents	7,799	7,185
Regional Hospital Districts	4,419	7,138
Foundations and auxiliaries	3,810	833
Federal government	2,777	3,995
WorkSafe BC	1,357	928
Other	6,054	12,856
	58,222	69,592
Allowance for doubtful accounts	(3,230)	(4,118)
	\$ 54,992	\$ 65,474

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 4. Inventories held for sale:

	2014	2013
Pharmaceuticals	\$ 370	\$ 344
Medical supplies	279	415
	\$ 649	\$ 759

During the year, \$3.1 million (2013 - \$2.5 million) of inventories were sold by the Authority.

## 5. Accounts payable and accrued liabilities:

	2014	2013
Salaries and benefits payable	\$ 70,732	\$ 73,309
Trade accounts payable and accrued liabilities	65,648	72,234
Accrued vacation pay	53,623	52,348
	\$ 190,003	\$ 197,891

## 6. Deferred operating contributions:

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

	2014	2013
Deferred operating contributions, beginning of year	\$ 7,516	\$ 8,170
Contributions received during the year	2,315	1,076
Amounts recognized as revenue in the year	(1,172)	(1,730)
Deferred operating contributions, end of year	\$ 8,659	\$ 7,516

## 7. Deferred research and designated contributions:

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

	2014	2013
Deferred research and designated contributions, beginning of year	\$ 3,853	\$ 4,185
Contributions received during the year	525	388
Amounts recognized as revenue in the year	(922)	(720)
Deferred research and designated contributions, end of year	\$ 3,456	\$ 3,853

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2014

## 8. Debt:

	2014	2013
Public-private partnership (P3):		
RJH Patient Care Centre, 30 year contract to December 1, 2040 with ISL Health, payable in monthly payments of \$1,229,109 including annual interest of 6.87%, payable in accordance with the project agreement terms	\$ 190,363	\$ 193,012
Bank loans:		
Royal Bank, payable in monthly payments of \$43,983, including annual interest of 2.58%, renewable November 19, 2016	5,697	6,072
Royal Bank, payable in monthly payments of \$29,815, including annual interest of 3.89%, renewable November 16, 2014	1,809	2,091
	<u>7,506</u>	<u>8,163</u>
Mortgages:		
Canada Mortgage and Housing Corporation (CMHC), secured by first charges on properties,		
Trillium Lodge, payable in monthly payments of \$12,820, including annual interest of 1.77%, maturing June 1, 2017.	485	628
Dogwood Place payable in monthly payments of \$2,278, including annual interest of 1.67%, renewable June 1, 2018	332	353
Cumberland Lodge, payable in monthly payments of \$7,006, including annual interest of 1.70%, maturing June 1, 2016	226	305
	<u>1,043</u>	<u>1,286</u>
	<u>\$ 198,912</u>	<u>\$ 202,461</u>

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

2015	\$ 2,444
2016	648
2017	5,154
2018	61
2019	242
Thereafter	-
	<u>\$ 8,549</u>

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

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 9. Employee benefits:

### (a) Retirement allowance:

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

The Authority's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 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. The next required valuation will be as of December 31, 2015.

Information about retirement allowance benefits is as follows:

	2014	2013
Accrued benefit obligation:		
Severance benefits	\$ 58,729	\$ 55,646
Sick leave benefits	42,805	39,975
	101,534	95,621
Unamortized actuarial gain	7,629	9,467
Accrued benefit obligation	\$ 109,163	\$ 105,088

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

	2014	2013
Accrued benefit obligation, beginning of year	\$ 105,088	\$ 100,332
Net benefit expense:		
Current service cost	6,435	6,272
Interest expense	4,215	4,312
Plan amendment	1,812	703
Amortization of actuarial gain	(970)	(1,010)
Net benefit expense	11,492	10,277
Benefits Paid	(7,417)	(5,521)
Accrued benefit obligation, end of year	\$ 109,163	\$ 105,088

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 9. Employee benefits (continued):

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

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

	2014	2013
Accrued benefit obligation as at March 31		
Discount rate	4.26%	4.41%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31		
Discount rate	4.41%	4.44%
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, group life insurance, accidental death and dismemberment, extended health and dental claims 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 benefits:

The Trust is a multiple employer plan with respect to long-term disability benefits initiated after September 30, 1997. The Authority's assets and liabilities for these long-term disability benefits have been segregated. Accordingly, the Authority's net trust (assets) liabilities are reflected in these consolidated financial statements.

The Authority's (assets) liabilities are based on the actuarial valuation at December 31, 2013, with the next expected valuation as of December 31, 2014.

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

	2014	2013
Fair value of plan assets	\$ 186,216	\$ 152,892
Accrued benefit obligation	156,493	158,951
Net funded (asset) obligation	\$ (29,723)	\$ 6,059

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 9. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

(i) Long-term disability benefits (continued):

	2014	2013
Long-term disability benefits obligation, beginning of year	\$ 6,059	\$ 22,085
Net benefit expense:		
Long term disability expense	28,013	29,597
Interest expense	8,786	8,819
Employee payments	(1,544)	(1,770)
Expected return on assets	(8,717)	(7,774)
Actuarial gain	(20,592)	(10,424)
Net benefit expense	5,946	18,448
Contributions to the plan	(36,128)	(34,474)
Transfer of pool surplus	(5,600)	-
Long-term disability benefits (asset) obligation, end of year	\$ (29,723)	\$ 6,059
Benefits paid to claimants	\$ (29,484)	\$ (28,354)

During 2014, the Trust Board approved a transfer from the non-segregated health and welfare benefits plan to the segregated long-term disability plans. The Authority's share of this transfer was \$5.6 million.

Plan assets consist of:

	2014	2013
Debt securities	44%	52%
Foreign equities	40%	26%
Equity securities and other	16%	22%
Total	100%	100%

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 9. Employee benefits (continued):

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

#### (i) Long-term disability benefits (continued):

The significant actuarial assumptions adopted in measuring the Authority's accrued long-term disability benefit (asset) liabilities are as follows:

	2014	2013
Accrued benefit (asset) obligation as at December 31:		
Discount rate	5.80%	5.60%
Rate of benefit increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount Rate	5.60%	5.50%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%
Expected long-term rate of return on plan assets	5.60%	5.50%

Actual long-term rate of return on plan assets was 14.3% for the year ended December 31, 2013 (December 31, 2012 – 6.0%).

#### (ii) Other Trust benefits:

The group life insurance, accidental death and dismemberment, extended health, dental and pre-October 1, 1997, long-term disability claims administered by the Trust are structured as a multi-employer plan. Contributions to the Trust of \$32.2 million (2013 - \$38.8 million) were expensed during the year. The most recent actuarial valuation at December 31, 2013, indicated a surplus of \$62.5 million (2012 - \$62.5 million). The plan covers approximately 90,000 active members, of which approximately 13,000 (2013 – 13,000) are employees of the Authority. The next expected actuarial valuation will be as of December 31, 2014.

### (c) Employee pension benefits:

The Authority and its employees contribute to the Municipal Pension Plan and the Public Service Pension Plan, multi-employer defined benefit pension plans governed by the *BC Public Sector Pension Plans Act*.

Employer contributions to the Municipal Pension Plan of \$65.6 million (2013 - \$60.7 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at December 31, 2012, indicated an unfunded liability of approximately \$1,370.0 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 179,000 active members, of which approximately 14,000 are employees of the Authority (2013 – 14,000). The next expected actuarial valuation will be as of December 31, 2015.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 9. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of \$1.3 million (2013 - \$1.2 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2011 indicated an unfunded liability of approximately \$226.0 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 56,000 active members, of which approximately 200 (2013 - 200) are employees of the Authority. The next expected actuarial valuation will be as of March 31, 2014.

## 10. Replacement reserves:

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

The replacement reserves by facility are as follows:

	2014	2013
Cumberland Lodge	\$ 208	\$ 199
Trillium Lodge	147	145
Dogwood Manor	49	45
	\$ 404	\$ 389

## 11. Deferred capital contributions:

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

	2014	2013
Deferred capital contributions, beginning of year	\$ 872,657	\$ 835,129
Capital contributions received:		
Ministry of Health	37,910	63,534
Regional hospital districts	19,149	20,408
Foundations & auxiliaries	10,276	16,992
Other	4,684	2,118
	72,019	103,052
Amortization for the year	(60,340)	(65,524)
Deferred capital contributions, end of year	\$ 884,336	\$ 872,657



# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 11. Deferred capital contributions (continued):

Deferred capital contributions are comprised of the following:

	2014	2013
Contributions used to purchase tangible capital assets	\$ 724,462	\$ 729,832
Unspent contributions	159,874	142,825
	\$ 884,336	\$ 872,657

## 12. Tangible capital assets:

Cost	2013	Additions	Disposals	Transfers	2014
Land	\$ 25,307	\$ -	\$ (224)	\$ -	\$ 25,083
Land improvements	16,429	563	-	778	17,770
Buildings	1,105,218	12,666	(100)	39,058	1,156,842
Equipment	487,197	26,035	(9,015)	(4,207)	500,010
Information systems	153,196	856	-	8,921	162,973
Leasehold improvements	23,865	96	-	-	23,961
Equipment under capital lease	328	-	-	-	328
Construction in progress	99,174	20,221	-	(35,604)	83,791
Equipment and information systems in progress	34,210	22,895	-	(8,946)	48,159
<b>Total</b>	<b>\$ 1,944,924</b>	<b>\$ 83,332</b>	<b>\$ (9,339)</b>	<b>\$ -</b>	<b>\$ 2,018,917</b>

Accumulated amortization	2013	Amortization	Disposals	2014
Land improvements	\$ 10,051	\$ 820	\$ -	\$ 10,871
Buildings	425,863	39,111	(100)	464,874
Equipment	380,414	24,876	(8,958)	396,332
Information systems	119,865	12,830	-	132,695
Leasehold improvements	11,551	833	-	12,384
Equipment under capital lease	328	-	-	328
<b>Total</b>	<b>\$ 948,072</b>	<b>\$ 78,470</b>	<b>\$ (9,058)</b>	<b>\$ 1,017,484</b>

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

## 12. Tangible capital assets (continued):

Cost	2012	Additions	Disposals	Transfers	2013
Land	\$ 20,077	\$ 5,230	\$ -	\$ -	\$ 25,307
Land improvements	16,261	168	-	-	16,429
Buildings	1,090,251	4,309	(1,040)	11,698	1,105,218
Equipment	466,640	22,388	(1,831)	-	487,197
Information systems	143,088	1,301	-	8,807	153,196
Leasehold improvements	23,649	135	-	81	23,865
Equipment under capital lease	328	-	-	-	328
Construction in progress	68,244	46,260	-	(15,330)	99,174
Equipment and information systems in progress	18,610	20,856	-	(5,256)	34,210
<b>Total</b>	<b>\$ 1,847,148</b>	<b>\$ 100,647</b>	<b>\$ (2,871)</b>	<b>\$ -</b>	<b>\$ 1,944,924</b>

Accumulated amortization	2012	Amortization	Disposals	2013
Land improvements	\$ 9,261	\$ 790	\$ -	\$ 10,051
Buildings	388,756	38,147	(1,040)	425,863
Equipment	357,184	25,000	(1,770)	380,414
Information systems	106,205	13,660	-	119,865
Leasehold improvements	10,723	828	-	11,551
Equipment under capital lease	328	-	-	328
<b>Total</b>	<b>\$ 872,457</b>	<b>\$ 78,425</b>	<b>\$ (2,810)</b>	<b>\$ 948,072</b>

Net book value	2014	2013
Land	\$ 25,083	\$ 25,307
Land improvements	6,899	6,378
Buildings	691,968	679,355
Equipment	103,678	106,783
Information systems	30,278	33,331
Leasehold improvements	11,577	12,314
Equipment under capital lease	-	-
Construction projects in progress	83,791	99,174
Equipment and information systems in progress	48,159	34,210
<b>Total</b>	<b>\$ 1,001,433</b>	<b>\$ 996,852</b>

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 12. Tangible capital assets (continued):

Tangible capital assets are funded as follows:

	2014	2013
Deferred capital contributions	\$ 724,462	\$ 729,832
Debt	183,253	189,692
Internally funded	93,718	77,328
Tangible capital assets	\$ 1,001,433	\$ 996,852

## 13. Inventories held for use:

	2014	2013
Medical supplies	\$ 9,897	\$ 9,423
Pharmaceuticals	3,325	3,552
	\$ 13,222	\$ 12,975

## 14. Restricted assets:

	2014	2013
Restricted assets, beginning of year	\$ 244	\$ 167
Contributions received during the year	-	77
Restricted assets, end of year	\$ 244	\$ 244

## 15. Commitments and contingencies:

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

As at March 31, 2014, the Authority had outstanding commitments for construction, equipment and information systems projects in progress of \$75.2 million (2013 - \$3.3 million).

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2014

## 15. Commitments and contingencies (continued):

### (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	2015	2016	2017	2018	2019	Thereafter
Service contracts	2004-2024	\$ 172,263	\$ 109,233	\$ 83,543	\$ 8,052	\$ 3,462	\$ 7,488

### (c) Long-term residential care contracts:

The Authority has entered into contracts with 42 service providers to provide residential care services. The aggregate annual commitments for these contracts are as follows:

2015	\$ 208,594
2016	75,933
2017	77,974
2018	76,471
2019	72,249
Thereafter	705,394
	<u>\$ 1,216,615</u>

### (d) Operating leases:

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

2015	\$ 11,907
2016	10,975
2017	10,037
2018	7,515
2019	5,710
Thereafter	74,487
	<u>\$ 120,631</u>

### (e) Public-private partnerships commitments:

The Authority has entered into a multiple-year P3 contract to design, build, finance, and maintain the Royal Jubilee Hospital Patient Care Centre. The information presented below shows the anticipated cash outflow for future obligations under this contract 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 8. Facilities management and lifecycle payments to the private partner

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2014

## 15. Commitments and contingencies (continued):

### (e) Public-private partnerships commitments (continued):

are contingent on specified performance criteria and include an estimation of inflation where applicable.

	Capital and financing	FM and lifecycle	Total payments
2015	\$ 14,749	\$ 8,319	\$ 23,068
2016	14,749	8,485	23,234
2017	14,749	8,655	23,404
2018	14,749	8,828	23,577
2019	14,749	9,005	23,754
Thereafter	320,798	247,257	568,055
	\$ 394,543	\$ 290,549	\$ 685,092

Required principal repayments on P3 debt over the years ending March 31 are as follows:

2015	\$ 2,821
2016	3,004
2017	3,199
2018	3,407
2019	3,629
Thereafter	174,303
	\$ 190,363

### (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, 2014, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

### (g) Asset retirement obligations:

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

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 15. Commitments and contingencies (continued):

(g) Asset retirement obligations (continued):

retirement obligations will be recognized as a liability in the period when the fair value can be reasonably estimated.

## 16. Consolidated statement of operations:

(a) Patients, clients and residents revenue:

	2014	2013
Long-term and extended care	\$ 32,227	\$ 31,542
WorkSafe BC	10,310	5,622
Non-residents of Canada	7,291	7,146
Federal government	3,668	4,411
Residents of BC self pay	3,435	3,519
Preferred accomodataion	1,522	1,349
Other	1,977	2,051
	<hr/>	<hr/>
	\$ 60,430	\$ 55,640

(b) Other revenues:

	2014	2013
Recoveries from sales of goods and services	\$ 27,060	\$ 24,684
Parking	6,971	6,380
Other	3,316	3,438
	<hr/>	<hr/>
	\$ 37,347	\$ 34,502

(c) Other contributions:

	2014	2013
Federal government	214	250
Other	5,239	6,506
	<hr/>	<hr/>
	\$ 5,453	\$ 6,756

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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

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

	2014	2013
Compensation:		
Compensation	\$ 991,379	\$ 951,766
Employee benefits	223,035	213,495
Gain on event driven employee benefits	(20,592)	(10,424)
	1,193,822	1,154,837
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	85,680	82,674
Health and support services providers	366,085	364,104
	451,765	446,778
Supplies:		
Medical and surgical	72,003	69,654
Drugs and medical gases	42,142	40,901
Diagnostic	18,653	17,704
Food and dietary	7,776	7,280
Laundry and linen	7,312	7,274
Printing, stationery and office	3,909	4,199
Housekeeping	2,734	2,248
Other	14,803	12,688
	169,332	161,948
Amortization of tangible capital assets	78,470	78,425
Equipment and building services:		
Equipment	61,187	47,274
Plant operations (utilities)	17,147	16,834
Rent	15,788	15,366
Building and ground service contracts	5,603	5,077
Other	3,946	7,951
	103,671	92,502
Sundry:		
Travel	10,424	11,852
Communication and data processing	7,585	7,086
Professional fees	4,872	5,962
Patient transport	4,200	4,213
Other	17,265	18,321
	44,346	47,434
Interest on debt and capital leases	12,339	12,544
(Gain) loss on disposal of capital assets	(1,161)	61
	\$ 2,052,584	\$ 1,994,529

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2014

## 17. Supplementary cash flow information:

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

	2014	2013
Accounts receivable	\$ 10,482	\$ (317)
Deferred operating contributions	1,143	(654)
Inventories held for sale	110	(150)
Replacement reserves	15	(65)
Inventories held for use	(247)	(230)
Deferred research and designated contributions	(397)	(332)
Prepaid expenses	(3,469)	643
Accounts payable and accrued liabilities	(7,888)	17,005
	\$ (251)	\$ 15,900

### (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.

	2014	2013
Acquisition of tangible capital assets (note 12)	\$ 83,332	\$ 95,417
Acquisition of land	-	5,230
	\$ 83,332	\$ 100,647

## 18. Related parties and other agencies:

### (a) BC government reporting entities:

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



# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2014

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

### (a) BC government reporting entities (continued):

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

	2014	2013
<b>Revenue</b>		
Ministry of Health contributions	\$ 1,670,605	\$ 1,592,249
Medical Services Plan	135,980	132,938
Recoveries from other health authorities and BC government reporting entities	103,810	114,029
Amortization of deferred capital contributions	41,849	45,021
Other	60	465
	<b>\$ 1,952,304</b>	<b>\$ 1,884,702</b>
<b>Expenses</b>		
Referred out and contracted services	\$ 85,680	\$ 82,674
Equipment and building services	20,029	17,218
Sundry	10,024	16,346
Supplies	420	334
	<b>\$ 116,153</b>	<b>\$ 116,572</b>
<b>Accounts receivable</b>		
Medical Services Plan	\$ 18,779	\$ 20,465
Other health authorities and BC government reporting entities	7,840	6,387
Ministry of Health	5,387	9,805
	<b>\$ 32,006</b>	<b>\$ 36,657</b>
Deferred capital contributions	\$ 547,180	\$ 550,480
Accounts payable and accrued liabilities	13,631	13,740
Deferred operating contributions	6,576	5,746

### (b) Foundations and auxiliaries:

Within the Authority area, there are 33 separate health care foundations and auxiliaries, which were established to raise funds for their respective hospitals and/or community health services organizations. The foundations and auxiliaries are separate legal entities incorporated under the *Society 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 \$9.5 million (2013 - \$16.6 million) to various facilities within the Authority.

# VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2014

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## 19. Risk management:

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

### (a) Credit risk:

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

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

Accounts receivable primarily consist of amounts receivable from the Ministry, other health authorities and BC government reporting entities, patients, clients and agencies, hospital foundations and auxiliaries, grantors etc. To reduce the risk, the Authority periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2014, the amount of allowance for doubtful accounts was \$3.2 million (2013: \$4.1 million).

The Authority is not exposed to significant credit risk with respect to the amounts receivable from the Ministry, other health authorities and BC government reporting entities. At March 31, 2014, the following accounts receivable were past due but not impaired:

	2014	2013
30 days	\$ 5,785	\$ 5,276
60 days	809	1,217
90 days	147	2,346
Over 120 days	6,425	5,757

### (b) Liquidity risk:

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

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.

# VANCOUVER ISLAND HEALTH AUTHORITY

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Year ended March 31, 2014

## 19. Risk management (continued):

### (b) Liquidity risk (continued):

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

2014 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 220,591	\$ -	\$ -	\$ 220,591
Portfolio investments	-	-	-	-
Accounts receivable	45,832	9,160	-	54,992
<b>Total financial assets</b>	<b>\$ 266,423</b>	<b>\$ 9,160</b>	<b>\$ -</b>	<b>\$ 275,583</b>

2014 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 185,776	\$ 4,224	\$ 3	\$ 190,003
Debt	5,265	23,208	170,439	198,912
<b>Total financial liabilities</b>	<b>\$ 191,041</b>	<b>\$ 27,432</b>	<b>\$ 170,442</b>	<b>\$ 388,915</b>

2013 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 193,851	\$ -	\$ -	\$ 193,851
Portfolio investments	32,291	-	-	32,291
Accounts receivable	58,730	6,744	-	65,474
<b>Total financial assets</b>	<b>\$ 284,872</b>	<b>\$ 6,744</b>	<b>\$ -</b>	<b>\$ 291,616</b>

2013 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 195,346	\$ 2,448	\$ 97	\$ 197,891
Debt	4,592	23,566	174,303	202,461
<b>Total financial liabilities</b>	<b>\$ 199,938</b>	<b>\$ 26,014</b>	<b>\$ 174,400</b>	<b>\$ 400,352</b>

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2014

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## 19. Risk management (continued):

### (b) Liquidity risk (continued):

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

### (c) Foreign exchange risk:

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

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

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

	2014	2013
US dollar per Canadian dollar	\$ 0.905	\$ 0.984

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

## 20. Budget:

The original budget as approved by the Board on May 29, 2013, has been adjusted to reflect a change made to sector allocations for retirement allowance benefit expenses. In establishing the 2013/14 budget, the planned allocation between the acute and corporate sectors was misaligned relative to the financial statement presentation. The changes are as follows:

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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Year ended March 31, 2014

## 20. Budget (continued):

	Board Approved Plan	Reallocations	Restated Budget
<b>Revenues:</b>			
Ministry of Health contributions	\$ 1,682,592	\$ -	\$ 1,682,592
Medical Services Plan	133,545	-	133,545
Recoveries from other health authorities and BC government reporting entities	91,829	-	91,829
Patients, clients and residents	57,779	-	57,779
Amortization of deferred capital contributions	64,379	-	64,379
Other	29,685	-	29,685
Other contributions	5,234	-	5,234
Investment income	857	-	857
	<b>2,065,900</b>	<b>-</b>	<b>2,065,900</b>
<b>Expenses:</b>			
Acute care	1,128,300	(10,253)	1,118,047
Residential care	344,200	-	344,200
Community care	235,200	-	235,200
Mental health and substance use	158,300	-	158,300
Corporate	140,400	10,253	150,653
Population health and wellness	59,500	-	59,500
	<b>2,065,900</b>	<b>-</b>	<b>2,065,900</b>
Annual surplus	\$ -	\$ -	\$ -

## 21. Comparative information:

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