Financial Statements of

MOUNT ST. MARY HOSPITAL

(Owned and Operated by the Marie Esther Society)

Year Ended March 31, 2015

DICKSON
DUSANJ
& WIRK

CHARTERED
ACCOUNTANTS

DICKSON
DUSANJ
& WIRK
CHARTERED
ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To: The Members of the Marie Esther Society

Report on Financial Statements
We have audited the statement of financial position of Mount St. Mary Hospital (the "Hospital") as at March 31, 2015 and the statements of operations, changes in net financial debt, remeasurement gains and losses and cash flows for the year then ended.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal controls as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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, these financial statements present fairly, in all material respects, the financial position of the Mount St. Mary Hospital as at March 31, 2015 and the results of its operations, changes in net financial debt, remeasurement gains and losses and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Dickson Dusanj & Wirk

Victoria, B.C.
June 25, 2015

Chartered Accountants

MOUNT ST. MARY HOSPITAL

(Owned and Operated by the Marie Esther Society)

Statement of Financial Position
(Amounts expressed in thousands of dollars)

March 31, 2015, with comparative figures for March 31, 2014

	March 31, 2015 $	March 31, 2014 $
Financial assets		
Cash and cash equivalents (note 3)	2,192	1,210
Investments (note 4)	868	1,290
Accounts receivable	73	124
Loans receivable (note 5)	190	174
	3,323	2,798
Financial Liabilities		
Accounts payable and accrued liabilities	787	442
Vacation Payable	509	532
Employee future benefits (note 6)	1,388	1,341
Deferred operating contributions (note 7)	244	122
Deferred capital contributions (note 8)	22,623	23,602
	25,551	26,039
Net financial debt	(22,228)	(23,241)
Non-financial assets		
Tangible capital assets (note 9)	25,675	26,644
Inventories held for use	9	51
Prepaid expenses	63	86
	25,747	26,781
Accumulated surplus	3,519	3,540
Accumulated surplus is comprised of:		
Accumulated operating surplus	3,473	3,481
Accumulated remeasurement gains	46	59
	3,519	3,540

Contingent liability (note 12)

Approved by the Board of Directors:

_______________ Chair

_______________ Board Member

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

MOUNT ST. MARY HOSPITAL
(Owned and Operated by the Marie Esther Society)

Statement of Operations and Accumulated Operating Surplus
(Amounts expressed in thousands of dollars)

Year ended March 31, 2015, with comparative figures for 2014

	Budget **$** (note 2(g))	**2015** **$**	**2014** **$**
Revenues:			
Health Authority contributions	11,269	11,321	11,230
Patients, clients and residents	4,059	3,985	3,949
Amortization of deferred capital contributions (note 8)	1,125	1,126	1,276
Other revenue (note 10)	318	389	409
Other contributions	202	180	256
Investment income	70	197	36
	17,043	17,198	17,156
Expenses:			
Residential care (note 10)	17,187	17,206	17,207
Annual operating deficit	(144)	(8)	(51)
Accumulated operating surplus at beginning of year	3,481	3,481	3,532
Accumulated operating surplus at end of year	3,337	3,473	3,481

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

MOUNT ST. MARY HOSPITAL

(Owned and Operated by the Marie Esther Society)

Statement of Changes in Net Financial Debt
(Amounts expressed in thousands of dollars)

Year ended March 31, 2015, with comparative figures for 2014

	Budget $ (note 2(g))	2015 $	2014 $
Annual operating deficit	(144)	(8)	(51)
Acquisition of tangible capital assets	(200)	(157)	(511)
Amortization of tangible capital assets	1,125	1,126	1,276
	925	969	765
Acquisition of inventories held for use	(300)	(262)	(296)
Acquisition of prepaid expenses	(80)	(49)	(64)
Consumption of inventories held for use	300	304	299
Use of prepaid expenses	80	72	65
	-	65	4
Effect of measurement gains and losses	25	(13)	43
Increase in net financial debt	806	1,013	761
Net financial debt, beginning of year	(23,241)	(23,241)	(24,002)
Net financial debt, end of year	(22,435)	(22,228)	(23,241)

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

MOUNT ST. MARY HOSPITAL

(Owned and Operated by the Marie Esther Society)

Statement of Remeasurement Gains and Losses
(Amounts expressed in thousands of dollars)

Year ended March 31, 2015, with comparative figures for 2014

	2015 $	2014 $
Accumulated remeasurement gains, beginning of year	59	16
Unrealized gains attributable to:		
Portfolio investments	(162)	43
Amounts reclassified to the statement of operations:		
Portfolio investments	149	-
Net remeasurement gains for the year	(13)	43
Accumulated remeasurement gains, end of year	46	59

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

MOUNT ST. MARY HOSPITAL
(Owned and Operated by the Marie Esther Society)

Statement of Cash Flows
(Amounts expressed in thousands of dollars)

Year ended March 31, 2015, with comparative figures for 2014

	2015 $	2014 $
Cash flows from (used in) operating activities:		
Annual operating deficit	(8)	(51)
Items not involving cash:		
Amortization of deferred capital contributions	(1,126)	(1,276)
Amortization of tangible capital assets	1,126	1,276
Retirement allowance expense	122	136
	114	85
Net change in non-cash operating items	560	(310)
Net change in cash from operating activities	674	(225)
Capital activities:		
Acquisition of tangible capital assets	(157)	(511)
Net change in cash from capital activities	(157)	(511)
Investing activities:		
(Purchase) proceeds from disposals and redemptions of investments	409	(362)
Proceeds from (repayments of) loans and advances	(16)	14
Net change in cash from investing activities	393	(348)
Financing activities:		
Retirement allowance benefits paid	(75)	(5)
Capital contributions	147	217
Net change in cash from financing activities	72	212
Decrease in cash and cash equivalents	982	(872)
Cash and cash equivalents, beginning of year	1,210	2,082
Cash and cash equivalents, end of year	2,192	1,210

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

1. Purpose

Mount St. Mary Hospital (the "Hospital") is a residential care facility providing complex care. Founded by the Sisters of St. Ann, the Hospital is owned and operated by the Marie Esther Society, and is directed by a Board of Directors appointed by the Marie Esther Society. The Hospital was incorporated under the Society Act of British Columbia October 19, 1990 as a not-for-profit organization and is a registered charity exempt from tax under the Income Tax Act.

2. Significant Accounting Policies

(a) Basis of accounting:

The financial statements are 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, except in regard to the accounting for restricted contributions which is based on the Restricted Contributions Regulation 198/2011 and as advised by the Office of the Comptroller General of British Columbia ("OCG").

(b) 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 benefits plans as employees render services to earn the benefits.

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

The discount rate used to measure obligation is based on the cost of borrowing. The cost of a plan amendment or the crediting of past service is accounted for entirely in the year that the plan change is implemented.

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

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

(iii) Accumulating, non-vesting benefit plans:

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

2. Significant Accounting Policies (continued)

(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 Hospital to pay benefits occurs.

(c) 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. Costs include overhead directly attributable to construction and development.

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:

Buildings	20 - 35 years
Furniture and equipment	5 – 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.

(d) Revenue recognition:

Under the *Hospital Insurance Act* and *Regulation* thereto, the Hospital is funded by the Island Health Authority in accordance with the service provider agreement established and approved by the Health Authority.

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.

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

2. Significant Accounting Policies (continued)

Under the framework described in note 2(a), externally restricted contributions are recognized 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 in the form of a depreciable tangible capital asset, in each case for use in providing services, are considered to be deferred capital contributions and are amortized to revenue at the same rate as the amortization of the associated tangible capital asset. The amortization of the deferred capital contributions is recognized over the period in which the tangible capital asset is providing 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 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 contribution have been met by the Hospital.

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.

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 contribution of land, are recorded as revenue in the period of acquisition or transfer of title.

(e) Measurement uncertainty:

The preparation of 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, contingent liabilities, fair value of designated financial instruments, and the future costs to settle employee benefit obligations.

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

2. Significant Accounting Policies (continued)

(f) Financial instruments:

Upon inception and subsequent to initial recognition equity instruments quoted in an active market and any designated financial instruments are measured at fair value. All other financial assets and financial liabilities are measured at cost or amortized cost upon their inception and subsequent to initial recognition. 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 instruments measured at fair value are classified as level 1, 2 or 3 for the purposes of describing the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category, as described below:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
Level 3	Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of re-measurement gains and losses and recognized in the statement of operations.

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 consolidated statement of operations. A write-down 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. A financial liability or its part is derecognized when it is extinguished.

(Tabular amounts are expressed in thousands of dollars)

2. Significant Accounting Policies (continued)

(f) Financial instruments (continued):

i. 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.

ii. Portfolio investments

Portfolio investments include banker's acceptances, treasury bills, equities and bonds and are recorded at fair value. Transaction costs are recorded using the effective interest rate method.

iii. Other financial liabilities

The estimated fair market value of accrued vacation pay approximates its carrying value. The estimated fair value of accrued sick and severance pay approximates its carrying value as determined by actuarial valuation.

(g) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Hospital's Fiscal 2014/2015 Budget approved by the Board of Directors on October 4, 2014 and published in the Hospital's Service Plan. The budget is reflected in the statement of operations and accumulated operating surplus and the statement of changes in net financial assets (net debt).

3. Cash and Cash Equivalents

Cash and cash equivalents is comprised of the following:

	2015 $	2014 $
Cash	1,373	879
Short-term investments	819	331
	2,192	1,210

(Tabular amounts are expressed in thousands of dollars)

4. Investments

Investments are comprised of the following:

	2015 $	2014 $
Bonds	-	402
Equities	868	888
	868	1,290

5. Loans Receivable

In 2005, the Hospital Board of Directors approved a loan of up to $200,000, to the Mount St. Mary Foundation. The loan is non-interest bearing and without specific repayment terms. It is anticipated that the loan will be repaid within the following fiscal period.

6. Employee Future Benefits

(a) Accrued sick and severance pay

Under the terms of the employer's union contracts, employees with ten years of service and having reached a certain age are entitled to receive special payments upon retirement (or other circumstances specified in the collective agreement). These payments are based upon accumulated sick leave credits and entitlements for each year of service. The liability for amounts which may become payable to retiring employees has been estimated by independent actuarial valuation as at March 31, 2015, using an early measurement date of December 31, 2014.

The accumulated benefit obligation for sick leave and severance benefits as at March 31, 2015 are as follows:

	2015 $	2014 $
Accrued benefit obligation:		
Sick leave benefits	506	510
Severance benefits	589	602
Total unfunded obligation	1,095	1,112

(Tabular amounts are expressed in thousands of dollars)

6. Employee Future Benefits (continued)

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

	2015 $	2014 $
Balance, beginning of year	1,341	1,209
Current service cost	97	93
Amortization	(24)	(7)
Interest expense	49	50
Net benefit expense	122	136
Benefits paid	(75)	(4)
Balance, end of year	1,388	1,341

The significant actuarial assumptions adopted in measuring the Hospital's accrued sick and severance liabilities are as follows:

	2015	2014
Accrued benefit obligation as at March 31:		
Discount rate	3.98%	4.26%
Rate of compensation increase	2.50%	2.50%
Benefit costs for the years ended March 31		
Discount rate	3.98%	4.26%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increase	2.00%	3.00%

(b) Employee pension benefits

The Hospital and its employees contribute to the Municipal Pension Plan, a multi-employer defined benefit pension plan governed by the BC Public Sector Pension Plans Act. Employer contributions to the Municipal Pension Plan of $817,402 (2014 - $738,219) were expensed during the year.

(c) Employee healthcare benefits

The Hospital contributes to the Healthcare Benefit Trust and BC Health Services multi-employer plans for group life insurance, accidental death and dismemberment, extended health and dental, and long-term disability benefits for employees. Employer contributions to the Healthcare Benefit Trust of $961,614 (2014 - $1,045,381) and to BC Health Services of $53,974 (2014 - $59,754) were expensed during the year.

(Tabular amounts are expressed in thousands of dollars)

7. Deferred Contributions

Deferred contributions represent unspent resources externally restricted for special programs. These programs include InterRAI MDS v2.0, additional staff training to enhance resident care, music therapy, pet therapy, gardens, pastoral care and resident activities. Changes in deferred contributions balance are as follows:

	2015 $	2014 $
Balance, beginning of year	122	223
Donations received	302	155
Amounts recognized as revenue in the year	(180)	(256)
Balance, end of year	244	122

8. Deferred Capital Contributions

Deferred capital contributions related to property and equipment represent the unamortized amount and unspent amount of grants and donations received for the purchase of property and equipment. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2015 $	2014 $
Balance, beginning of year	23,602	24,661
Capital funding	147	217
Amounts recognized as revenue in the year	(1,126)	(1,276)
Balance, end of year	22,623	23,602

The balance of unamortized capital contributions related to property and equipment consists of the following:

	2015 $	2014 $
Unamortized capital contribution used to purchase property and equipment	21,935	22,904
Unspent contributions	688	698
Balance, end of year	22,623	23,602

(Tabular amounts are expressed in thousands of dollars)

9. Tangible Capital Assets

Cost

	March 31, 2014 $	Additions $	Disposals $	March 31, 2015 $
Land	3,740	-	-	3,740
Building	32,764	17	-	32,781
Equipment	4,766	140	-	4,906
	41,270	157	-	41,427

Accumulated Amortization

	March 31, 2014 $	Amortization $	Adjustment $	March 31, 2015 $
Building	10,386	955	-	11,341
Equipment	4,240	171	-	4,411
	14,626	1,126	-	15,752

Net Book Value

	2015 $	2014 $
Land	3,740	3,740
Building	21,440	22,378
Equipment	495	526
	25,675	26,644

10. Statement of Operations

Other revenue is comprised of the following:

	2015 $	2014 $
Cafeteria	65	64
Resident services	60	59
Parking fees	52	52
Community bathing	3	4
Wage Recovery	173	182
Other	36	48
	389	409

(Tabular amounts are expressed in thousands of dollars)

10. Statement of Operations (continued)

Residential care is comprised of the following:

	2015 $	**2014** $
Salaries, wages and benefits	13,519	13,423
Amortization of property and equipment	1,126	1,276
Supplies	1,133	1,053
Laundry and other purchased services	581	565
Pharmacy costs	356	348
Utilities	231	249
Special programs	150	198
Premises	53	46
Sundry	57	49
	17,206	17,207

11. Risk Management

The Hospital has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include credit risk, currency risk, interest rate risk, liquidity risk and other price risk. There have been no significant changes in the Hospital's risk exposure from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Hospital to credit risk consist primarily of accounts receivable. Accounts receivable are not concentrated with any single party, and therefore the Hospital is not subject to any significant concentration of credit risk.

Currency risk

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 is not exposed to significant currency risks arising from its financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Hospital is not exposed to significant interest rate risks arising from its financial instruments.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Hospital's cash requirements. The Hospital is not exposed to significant liquidity risks arising from its financial instruments.

(Tabular amounts are expressed in thousands of dollars)

---

11. Risk Management (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Hospital is not exposed to significant other price risk.

12. Contingent Liability

The nature of the Hospital's activities is such that there may be litigation pending or in progress at any time. Any outstanding claims at March 31, 2015 are not expected to have a material effect on the Hospital's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for in the financial statements based on management's best estimate of the ultimate settlement. No contingencies have been recorded in the year (2014: $0).

13. Impact of Accounting for Restricted Contributions in Accordance with Section 23.1 of the Budget Transparency and Accountability Act:

As disclosed in the significant accounting policies note 2, Restricted Contributions Regulation 198/2011 requires the Hospital to recognize revenue from restricted contributions for the purpose of acquiring or developing a depreciable tangible capital asset on the same basis as the related amortization expense of the tangible capital asset. As these transfers do not contain stipulations or restrictions creating a liability over the term of the expected useful life of a related capital tangible assets, PSAS would require these contributions to be recognized in revenue as a tangible capital asset is acquired or developed and construction of a tangible capital asset is complete.

The impact of the departure from PSAS on the financial statements of the Hospital is as follows:

For the year ended March 31, 2014	
Decrease in operating surplus	$766
As at March 31, 2014	
Increase in accumulated operating surplus	$22,904
Decrease in deferred capital contribution	$22,904
For the year ended March 31, 2015	
Decrease in operating surplus	$969
As at March 31, 2015	
Increase in accumulated operating surplus	$21,935
Decrease in deferred capital contribution	$21,935

14. Residents' Trust Funds

	2015 $	2014 $
Residents' funds held in trust	37	26

The residents' funds held in trust are not included in the accompanying financial statements.

15. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statements presentation.