Financial Statements of

ST. JOSEPH'S GENERAL HOSPITAL

Year ended March 31, 2016

Management's Responsibility for the Financial Statements

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

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

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

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

Jane Murphy
President and Chief Executive Officer

Eric Macdonald
Vice President, Finance, Capital and Support Services

June 17, 2016

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of St. Joseph's General Hospital, which comprise the statement of financial position as at March 31, 2016, the statements of operations and accumulated deficit, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements of St. Joseph's General Hospital as at March 31, 2016, and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

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

KPMG LLP

Chartered Professional Accountants

June 17, 2016
Victoria, Canada

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
Financial assets		
Cash and cash equivalents	$ 3,726,475	$ 4,376,113
Accounts receivable (note 2)	3,291,570	1,914,748
	7,018,045	6,290,861
Financial liabilities		
Accounts payable (note 3)	2,339,580	1,890,856
Accrued wages and benefits	4,157,881	3,535,844
Accrued vacation	2,301,992	2,414,309
Deferred operating revenue	8,946	22,504
Retirement allowance (note 4)	6,366,577	6,276,337
Deferred capital contributions (note 6)	23,542,460	24,171,112
	38,717,436	38,310,962
Net debt	(31,699,391)	(32,020,101)
Non-financial assets		
Tangible capital assets (note 7)	23,553,896	24,137,853
Inventories held for use (note 8)	2,357,552	2,111,848
Prepaid expenses	287,581	259,030
	26,199,029	26,508,731
Accumulated deficit (note 9)	**$(5,500,362)**	**$(5,511,370)**

Contingencies and commitments (note 10)

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

Approved on behalf of the Board:

_______________ Director

_______________ Director

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Operations and Accumulated Deficit

Year ended March 31, 2016, with comparative information for 2015

	Budget (note 14)	2016	2015
Revenue:			
Vancouver Island Health Authority:			
Contributions and grants	$63,615,612	$63,980,841	$62,259,254
Sales and recoveries	3,046,465	3,423,931	3,036,780
Provincial Health Services Authority	4,331,255	5,033,367	4,351,000
Medical Services Plan	8,416,385	8,599,594	8,126,789
Sales and recoveries	3,302,665	3,602,060	3,833,221
Deferred capital contributions (note 6)			
Amortization	2,930,724	2,827,246	2,962,096
Recognized on disposal of tangible capital assets	-	22,118	130,128
Patients, clients and residents	3,122,617	3,375,560	3,246,614
Pharmacare	144,113	146,184	144,238
Investment income	33,018	24,380	32,225
	88,942,854	91,035,281	88,122,345
Expenses (note 12):			
Acute	70,632,996	72,555,334	69,923,634
Corporate (note 1(l))	3,258,930	3,250,273	3,305,778
Mental health and substance use	4,458,702	4,544,862	4,577,934
Residential care	10,592,226	10,673,804	10,291,896
	88,942,854	91,024,273	88,099,242
Annual surplus	-	11,008	23,103
Accumulated deficit at beginning of year	(5,511,370)	(5,511,370)	(5,534,473)
Accumulated deficit at end of year	$ (5,511,370)	$ (5,500,362)	$(5,511,370)

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

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Changes in Net Debt

Year ended March 31, 2016, with comparative information for 2015

	Budget 2016 (note 14)	2016	2015
Annual surplus	$ -	$ 11,008	$ 23,103
Acquisition of tangible capital assets	(2,029,145)	(2,303,840)	(3,067,968)
Amortization of tangible capital assets	2,930,723	2,865,679	3,018,944
Loss on disposal of tangible capital assets	-	12,868	130,128
Proceeds on sale of tangible capital assets	-	9,250	-
Net change in prepaids	-	(28,551)	99,446
Net change in inventory	-	(245,704)	(259,401)
Decrease (increase) in net debt	901,578	320,710	(55,748)
Net debt, beginning of year	(32,020,101)	(32,020,101)	(31,964,353)
Net debt, end of year	$(31,118,523)	$(31,699,391)	$(32,020,101)

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

ST. JOSEPH’S GENERAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 11,008	$ 23,103
Items not involving cash:		
Amortization of tangible capital assets	2,865,679	3,018,944
Amortization of deferred capital contributions	(2,827,246)	(2,962,096)
Loss on disposal of tangible capital assets	12,868	130,128
Capital contributions recognized on disposal	(22,118)	(130,128)
Retirement allowance expense	482,000	586,000
Changes in non-cash operating working capital:		
Accounts receivable	(1,376,822)	(185,977)
Inventories held for use	(245,704)	(259,401)
Prepaid expenses	(28,551)	99,446
Accounts payable and accrued liabilities	958,444	1,012,475
Deferred operating contributions	(13,558)	9,331
	(184,000)	1,341,825
Capital activities:		
Purchase of tangible capital assets	(2,303,840)	(3,067,968)
Proceeds on disposal of tangible capital assets	9,250	-
	(2,294,590)	(3,067,968)
Financing activities:		
Retirement allowance benefits paid	(391,760)	(231,820)
Repayment of capital lease obligation	-	(18,736)
Deferred capital contributions received	2,220,712	2,914,222
	1,828,952	2,663,666
(Decrease) increase in cash and cash equivalents	(649,638)	937,523
Cash and cash equivalents, beginning of year	4,376,113	3,438,590
Cash and cash equivalents, end of year	$ 3,726,475	$ 4,376,113

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

St. Joseph's General Hospital (the "Hospital") is a denominational hospital wholly owned by the Bishop of Victoria, a Corporation Sole, which provides healthcare and various other medical services to both long and short term patients. The Hospital is a strategic partner with Vancouver Island Health Authority ("VIHA" or "Island Health"). The formal relationship is delineated within an affiliation agreement signed by the respective partners on January 14, 2004. The affiliation agreement establishes accountability provisions, operating principles, funding guidelines, dispute mechanism, and termination rights between the Hospital and Island Health. In 2017, acute care services are to be transferred to Island Health on completion of a new facility being constructed by Island Health. See note 13.

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

1. Significant accounting policies:

(a) Basis of accounting:

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

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

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to follow Canadian public sector accounting standards ("PSAS") issued by the Canadian Public Sector Accounting Board ("PSAB") without any PSAS ("PS") 4200 series elections available for government not-for-profit organizations.

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

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset (referred to as deferred capital contributions) are recorded and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

(ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

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

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which require that:

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

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

(b) Revenue recognition:

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

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

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

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

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

Investment income includes interest recorded on an accrual basis.

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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

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

(c) Retirement allowance:

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

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

(d) Non-financial assets:

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

i) Tangible capital assets:

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

1. Significant accounting policies (continued):

(d) Non-financial assets (continued):

i) Tangible capital assets (continued):

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

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

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

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

ii) Leased tangible capital assets:

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

Obligations under capital leases are recorded at the present value of the minimum lease payments excluding executor costs. The discount rate used to determine the present value of the lease payments is the lower of the Hospital’s rate for incremental borrowing or the interest rate implicit in the lease.

iii) Inventories held for use:

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

1. Significant accounting policies (continued):

(e) Foreign currency translation:

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

(f) Use of estimates:

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

(g) Financial instruments:

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

Financial assets and financial liabilities, other than derivatives, equity instruments quoted in an active market and financial instruments designated at fair value, are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are measured at cost. Accounts receivable are recorded at cost less any amount for valuation allowance. All debt and other financial liabilities are recorded using cost or amortized cost.

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

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

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

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

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

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

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

(h) Statement of remeasurement gains and losses:

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

(i) Basis of consolidation:

The Hospital has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Hospital and/or provide services under contracts. As the Hospital does not control these organizations, the financial statements do not include the assets, liabilities and results of operations of these entities (see note 11).

(j) Cash and cash equivalents:

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

1. Significant accounting policies (continued):

(k) Asset retirement obligations:

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

The obligation is measured at the best estimate of the future cash flows required to settle the liability, discounted at estimated credit-adjusted risk-free discount rates. The estimated amount of the asset retirement cost is capitalized as part of the carrying value of the related tangible capital asset and is amortized over the life of the asset. The liability is accreted to reflect the passage of time. At each reporting date, the Hospital reviews its asset retirement obligations to reflect current best estimates. Asset retirement obligations are adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or discount rates, with the offsetting amount recorded to the carrying amount of the related asset. As at March 31, 2016, the Hospital did not have any significant asset retirement obligations.

(l) Allocation of expenses:

Operating expenses are reported by function and object. Corporate expenses are allocated to the residential care function based on the function's proportionate share of administration, human resources, finance, information technology and telecommunication costs. Corporate expenses have not been allocated to either of the acute or mental health and substance use functions.

(m) Future accounting standards:

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

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

- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis;
- Transactions are measured at the carrying amount, except in specific circumstances;

1. Significant accounting policies (continued):

(m) Future accounting standards (continued):

- A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice; and
- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.

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

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

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

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

1. Significant accounting policies (continued):

(m) Future accounting standards (continued):

(vi) In June 2015, PSAB issued PS 3430, Restructuring Transactions. PS 3430 defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. The main features of PS 3430 are as follows:

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

PS 3430 applies to restructuring transactions occurring the fiscal years beginning on or after April 1, 2018. Management is in the process of assessing the impact of adoption of PS 3430 on the financial statements of the Hospital.

2. Accounts receivable:

	2016	2015
Vancouver Island Health Authority	$ 1,381,697	$ 439,546
Medical Services Plan	10,274	431,574
Other	1,899,599	1,043,628
	$ 3,291,570	$ 1,914,748

3. Accounts payable and accrued liabilities:

	2016	2015
Trade payables	$ 2,081,401	$ 1,699,564
Capital payables	23,810	68,696
Other	234,369	122,596
	$ 2,339,580	$ 1,890,856

4. Retirement allowance:

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

The Hospital's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2015 and extrapolated to March 31, 2016 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2016 are derived. The next required valuation will be as of December 31, 2018.

Information about retirement allowance benefits is as follows:

	2016	2015
Accrued benefit obligation:		
Severance benefits	$ 3,354,000	$ 2,922,000
Sick leave benefits	2,539,000	2,269,000
	5,893,000	5,191,000
Unamortized actuarial gain	473,577	1,085,337
Accrued benefit liability	$ 6,366,577	$ 6,276,337

4. Retirement allowance (continued):

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

	2016	2015
Accrued benefit liability, beginning of year	$ 6,276,337	$ 5,922,157
Current service cost	385,000	403,000
Amortization of actuarial gain	(115,000)	(52,000)
Interest expense	212,000	235,000
Net benefit expense	482,000	586,000
Benefits paid	(391,760)	(231,820)
Accrued benefit liability, end of year	$ 6,366,577	$ 6,276,337

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

	2016	2015
Discount rate	3.93%	3.98%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

A portion of the sick and severance liability has not been funded by the Ministry as further described in note 9.

5. Employee benefits:

(a) Employee healthcare benefits:

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

Prior to December 31, 2014 the Trust was structured into separate pools for certain benefits as follows:

- Multiple employer plan pools for each of the Health Authorities' long-term disability benefits;
- Multi-employer plan pool for other health and welfare benefits for all Health Authorities combined; and

5. **Employee benefits (continued):**

(a) Employee healthcare benefits (continued):

- Multi-employer plan pool for long-term disability and other health and welfare benefits for healthcare affiliates other than Health Authorities (the Hospital participated in this pool).

On December 31, 2014, the Trust was restructured. The two multi-employer plan pools were transferred on a pro-rata basis to the long-term disability pools of each Health Authority. The net trust asset or liability of the combined pools is recorded by the Health Authorities as at March 31, 2016. The Hospital's share of the net trust position is not reflected in these financial statements.

Contributions to the Trust of $2,425,552 (2015 - $2,212,960) were expensed during the year.

(b) Employee pension benefits:

The Hospital and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed pension plan. A board of trustees, representing Plan members and employees, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 185,000 active members and approximately 80,000 retired members. Approximately 629 of the active members are employees of the Hospital.

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

Employer contributions to the Plan of $3,885,487 (2015 - $3,750,026) were expensed during the year.

6. Deferred capital contributions:

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

	2016	2015
Deferred capital contributions, beginning of year	$24,171,112	$24,349,114
Capital contributions received:		
Vancouver Island Health Authority	830,599	1,227,655
Comox Strathcona Regional Hospital District	428,354	915,209
St. Joseph's General Hospital Foundation	674,755	330,663
St. Joseph's General Hospital Auxiliary	130,197	60,695
Comox Valley Hospice Society	151,438	335,000
General donations and other	5,369	45,000
	2,220,712	2,914,222
Amounts realized due to disposal	(22,118)	(130,128)
Amortization for the year	(2,827,246)	(2,962,096)
Deferred capital contributions, end of year	$23,542,460	$24,171,112

Deferred capital contributions are comprised of the following:

	2016	2015
Contributions used to purchase tangible capital assets	$23,523,490	$24,078,630
Unspent contributions	18,970	92,482
	$23,542,460	$24,171,112

7. Tangible capital assets:

Cost	Balance March 31, 2015	Additions	Disposals	Transfers	Balance March 31, 2016
Land	$ 14,045	$ -	$ -	$ -	$ 14,045
Land improvements	1,056,344	-	-	-	1,056,344
Buildings	35,334,756	-	-	2,156,920	37,491,676
Equipment	34,006,941	951,751	(126,503)	56,740	34,888,929
Construction projects in progress	941,223	1,352,089	-	(2,213,660)	79,652
	$71,353,309	$ 2,303,840	$ (126,503)	$ -	$73,530,646

Accumulated amortization	2015	Additions	Disposals	Transfers	2016
Land	$ -	$ -	$ -	$ -	$ -
Land improvements	637,346	57,983	-	-	695,329
Buildings	22,592,571	753,706	-	-	23,346,277
Equipment	23,985,539	2,053,990	(104,385)	-	25,935,144
	$47,215,456	$ 2,865,679	$ (104,385)	$ -	$49,976,750

Net book value	2015		2016
Land	$ 14,045		$ 14,045
Land improvements	418,998		361,015
Buildings	12,742,185		14,145,399
Equipment	10,021,402		8,953,785
Construction projects in progress	941,223		79,652
Total	$24,137,853	$	$ 23,553,896

Donations of tangible capital assets received during the year totaled $5,369 (2015 - $ nil).

Tangible capital assets are funded as follows:

	2016	2015
Deferred capital contributions	$23,523,490	$24,078,630
Internally funded	30,406	59,223
	$23,553,896	$24,137,853

8. Inventories held for use:

	2016	2015
General supplies	$ 1,048,966	$ 1,042,469
Drugs	928,409	811,759
Lab supplies	332,168	203,594
Food supplies	28,331	29,567
Other	19,678	24,459
	$ 2,357,552	$ 2,111,848

Details of amounts of inventory expensed are provided in note 12 in the supplies category.

The Hospital holds inventory on consignment for joint surgeries, prosthesis and other specific surgical procedures. Consignment inventory is not recorded in the Hospital's books. The value of the inventory on hand and the related liability at March 31, 2016 is $1,405,001 (2015 - $1,218,201).

9. Accumulated deficit:

Accumulated deficit is comprised of the following accounts:

	2016	2015
Operating deficit	$(1,951,226)	$(1,991,051)
Invested in capital assets	30,406	59,223
Unfunded deficit from operations	(3,579,542)	(3,579,542)
	$(5,500,362)	$ (5,511,370)

Investment in capital assets is calculated as follows:

	2016	2015
Tangible capital assets	$23,553,896	$24,137,853
Deferred capital contributions	(23,523,490)	(24,078,630)
	$ 30,406	$ 59,223

9. Accumulated deficit (continued):

Unfunded deficit from operations:

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

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

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

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

10. Contingencies and commitments:

(a) Guarantee – Cumberland Regional Hospital Laundry Society:

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

As at March 31, 2016, the Hospital's share of the guaranteed debt is $488,438 (2015 - $537,860) representing 34.3% of the total debt.

10. Contingencies and commitments (continued):

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

The Hospital has entered into a laundry service agreement obligating the Hospital to use the Society for principally all of its laundry and related services. All transactions between the Hospital and the Society are recorded at their exchange amount at the time of the transaction. During the fiscal year, the Hospital paid $952,103 (2015 - $1,082,742) to the Society for laundry and related services. The Hospital charged the Society for administration and payroll services, which totaled $24,179 (2015 - $26,483) and also passed on service charges incurred for computer and telephone expenses. At March 31, 2016, accounts receivable included $1,434 (2015 - $104) and accounts payable included $62,306 (2015 - $97,062) owing to the Society.

(b) Other commitments:

In November 2014, the Hospital entered into an agreement with Bio-Rad Laboratories to purchase 13 test packs per year for the Variant II System at a cost of $2,250 per test pack ($29,250 total minimum cost per year). The contract term is 36 months ending November 30, 2017 with a no penalty clause if the transition occurs before November 2017.

(c) Operating leases:

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

	Olympus Lease #1	Olympus Lease #2	Total
2017	$ 96,360	$ 114,204	$ 210,564
2018	96,360	114,204	210,564
2019	40,150	47,585	87,735
	$ 232,870	$ 275,993	$ 508,863

10. Contingencies and commitments (continued):

(d) Litigation and claims:

The nature of the Hospital's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2016, management is of the opinion that the Hospital has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have material effect on the Hospital's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement. Accruals are made when a liability is likely and can be reliably measured.

11. Related party transactions:

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

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

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

At March 31, 2016 accounts receivable included $67,217 (2015 - $29,936) due from the Foundation and accounts payable included $3,362 (2015 - $2,522) due to the Foundation. Deferred capital contributions includes $674,755 (2015 - $330,663) of current year contributions from the Foundation. The Hospital provides accounting services to the Foundation at no charge. The value of these services is not recorded as it is not reasonably estimable.

(b) Cumberland Regional Hospital Laundry Society:

See note 10(a) for description of transactions with Cumberland Regional Hospital Laundry Society.

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

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

11. Related party transactions (continued):

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

At March 31, 2016 accounts receivable included $43,589 (2015 – $20,803) due from the Auxiliary. During the year, donations totaling $268,033 (2015 - $141,066) were paid to the Hospital by the Auxiliary. Deferred capital contributions includes $130,197 (2015 - $60,695) of current year contributions from the Auxiliary. Transfers of assets are recorded at their carrying amount at the time of donation.

12. Statement of operations:

The following is a summary of expenses by object:

	2016	2015
Compensation and benefits:		
Employee wages	$45,501,315	$44,407,201
Employee benefits (includes sick and severance)	13,021,488	12,759,893
Purchased services – personnel	514,973	439,529
Purchased services – physicians	7,549,980	6,837,073
Supplies:		
Drugs and medical gases	6,378,314	5,611,629
Medical and surgical	6,121,844	5,932,610
Diagnostic	1,465,525	1,575,456
Printing, stationery and office	287,711	297,479
Food and dietary	1,011,904	994,519
Laundry and linen	357,060	359,104
Housekeeping	155,025	150,941
Other	278,144	255,659
Equipment and building services:		
Equipment	1,796,709	1,620,530
Building and ground	34,434	35,078
Plant operation (utilities)	766,618	775,356
Rent	54,479	53,171
Maintenance	271,704	159,093
Sundry:		
Professional fees	206,523	106,692
Travel	122,260	118,326
Communication and data processing	96,478	110,299
Other	389,024	505,805
Interest on capital lease obligations	-	639
Amortization of tangible capital assets	2,865,679	3,018,944
Loss on disposal of tangible capital assets	12,868	130,128
Contracted services	1,764,214	1,844,088
	$91,024,273	$88,099,242

13. Economic dependence:

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

A new hospital in the Comox Valley is under construction, to be completed in 2017 at which time VIHA will assume operation of all acute care services currently provided by the Hospital and the Hospital will continue to operate in a new role providing health care and related services. The Hospital and VIHA are working on a transfer agreement that addresses both the formation of a new role for the Hospital and the assumption of acute care operations by VIHA. The transfer agreement is also expected to address costs and contingent liabilities associated with labor adjustment and the transfer and disposition of assets and liabilities including demolition of the vacated acute facilities estimated to be between $7 million to $9 million and elements of the unfunded deficit currently held by the Hospital (see note 9).

14. Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the 2015-2016 budget approved by the Board of Directors of the Hospital on November 5, 2015. The budget is reflected in the Statement of Operations and Accumulated Deficit and the Statement of Changes in Net Debt.

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

Revenues and expenses per November 5, 2015 Board approved budget	$ 86,012,131
Amortization of tangible capital assets/deferred capital contributions	2,930,723
Budget figures presented in Statement of Operations	$ 88,942,854

15. Financial instruments:

Risk Management Policy

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

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

15. Financial instruments (continued):

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

(a) Foreign currency risk

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

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

As at March 31, 2016, the following items are denominated in U.S. currency:

	2016	2015
Cash converted to Canadian dollars	$ 9,173	$ 38,243

(b) Credit risk

Financial instruments that potentially subject the Hospital to concentrations of credit include accounts receivable. Accounts receivable primarily consist of amounts receivable from the Ministry of Health, Vancouver Island Health Authority and BC government reporting entities, patients, clients and agencies, hospital foundation and auxiliary, grantors etc. To reduce the risk, the Hospital periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2016, the amount of allowance for doubtful receivables was $69,905 (2015 - $109,077), as these accounts receivable are deemed by management not to be collectible. The Hospital historically has not had difficulty collecting receivables, nor have counterparties defaulted on any payments. The maximum credit risk exposure is $2,895,867 (2015 - $1,914,748).

(c) Interest rate risk

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

15. Financial instruments (continued):

(d) Liquidity risk

Liquidity risk is the risk that the Hospital will encounter difficulty in meeting obligations associated with financial liabilities. The Hospital enters into transactions to purchase goods and services and lease equipment, for which payments are required at various dates. Liquidity risk is measured by reviewing the Hospital's future net cash flows for the possibility of a negative net cash flow. Differences do exist in the timing between the receipts of funding and the payment of various expenditures.