MEYERS NORRIS PENNY LLP

St. Joseph's General Hospital
Financial Statements
March 31, 2010

Contents

For the year ended March 31, 2010

To the Board of Directors of St. Joseph's General Hospital:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. 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 and Audit Committee are composed of Directors who are neither management nor employees of the Hospital, with the exception of the President and Chief Executive Officer. 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 Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Hospital's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered 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 Committee and management to discuss their audit findings.

April 30, 2010

Michael Pontus, President and Chief Executive Officer

Eric MacDonald, VP Finance, Capital and Support Services

Auditors' Report

To the Board of Directors of St. Joseph's General Hospital:

We have audited the statement of financial position of St. Joseph's General Hospital as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Courtenay, British Columbia

April 30, 2010

Meyers Norris Penny LLP

Chartered Accountants

St. Joseph's General Hospital
Statement of Financial Position
As at March 31, 2010

	2010	*2009*
Assets		
Current		
Cash	**1,611,456**	1,519,432
Accounts receivable *(Note 4)*	**2,568,460**	2,966,554
Inventory *(Note 17)*	**1,578,432**	1,454,920
Prepaid expenses	**398,068**	175,603
	6,156,416	6,116,509
Capital assets *(Note 5)*	**25,952,663**	26,363,078
	32,109,079	32,479,587
Liabilities		
Current		
Accounts payable and accruals *(Note 6)*	**2,118,333**	1,482,168
Accrued wages and benefits	**2,002,735**	2,014,243
Accrued vacation pay	**2,138,694**	2,101,521
Deferred contributions for designated purposes *(Note 7)*	**186,651**	68,717
Current portion of accrued sick and severance *(Note 8)*	**571,554**	425,834
Current portion of capital lease obligations *(Note 19)*	**39,724**	-
	7,057,691	6,092,483
Capital lease obligations *(Note 19)*	**148,327**	-
Accrued sick and severance *(Note 8)*	**4,118,275**	4,263,319
Deferred capital contributions *(Note 9)*	**25,808,340**	26,688,803
	37,132,633	37,044,605
Contingencies and commitments *(Note 10)*		
Net deficiency		
Unrestricted deficit from operations	**(2,022,920)**	(1,553,050)
Net assets invested in capital assets *(Note 13)*	**25,379**	14,045
Allowable unfunded deficit from operations *(Note 14)*	**(3,026,013)**	(3,026,013)
	(5,023,554)	(4,565,018)
	32,109,079	32,479,587

Approved on behalf of the Board

Director

Director

St. Joseph's General Hospital
Statement of Operations
For the year ended March 31, 2010

	2010	2009
Revenue		
Vancouver Island Health Authority	54,125,040	52,038,052
Outpatient - Medical Service Plan	7,721,262	7,635,141
- BC Cancer Agency	2,453,520	2,130,855
- Other	1,339,533	1,009,847
Inpatient services	2,473,547	2,742,137
Cafeteria	426,877	465,359
Other	590,098	469,139
Nursing training programs	152,537	181,200
Emergency physician program	2,487,492	2,683,511
Cerner funding from VIHA	-	98,047
MSP - Physicians rural retention premium revenue	345,925	370,553
Care Delivery Model Redesign program	8,411	-
	72,124,242	69,823,841
Expenses		
Administration and support	1,513,457	1,432,578
Bad debts	9,597	127,859
Cerner implementation	-	98,047
Care Delivery Model Redesign program	19,049	-
Crisis contract	172,059	172,058
Drugs	3,229,483	3,059,613
Emergency physician program	2,368,810	2,300,762
Employee benefits	10,352,740	9,431,635
Food services	805,483	783,653
Linen and laundry	1,328,293	1,326,860
Medical and surgical supplies	4,283,920	4,365,746
Nursing training programs	312,467	468,318
Patient care, diagnostic and therapeutic	2,686,361	2,666,095
Patient Transportation	117,413	-
Plant maintenance and biomedical engineering	905,406	861,070
Plant operating and housekeeping	1,249,961	1,141,423
Professional services	3,269,776	3,266,778
MSP - Physicians rural retention premium expense	345,925	370,553
Salaries and wages	39,178,316	37,731,544
Sick and severance	420,013	495,667
	72,568,529	70,100,259
Deficiency of revenue over expenses before other items	(444,287)	(276,418)
Amortization of capital assets and deferred capital contributions		
Deferred capital contributions realized on disposal of assets	17,004	40,597
Amortization of assets at disposal	(17,004)	(40,597)
Amortization of deferred capital contributions	3,270,247	3,060,483
Amortization of capital assets	(3,284,496)	(3,060,483)
	(14,249)	-
Deficiency of revenue over expenses	(458,536)	(276,418)

The accompanying notes are an integral part of these financial statements

	Investment in capital assets	Allowable unfunded deficit from operations	Unrestricted surplus (deficit) from operations	**2010 Total**	2009 Total
Balance, beginning of year	14,045	(3,026,013)	(1,553,050)	**(4,565,018)**	(4,288,600)
Excess (deficiency) of revenues over expenses	11,334	-	(469,870)	**(458,536)**	(276,418)
Balance, end of year	25,379	(3,026,013)	(2,022,920)	**(5,023,554)**	(4,565,018)

The accompanying notes are an integral part of these financial statements

	2010	2009
Cash provided by (used for) the following activities		
Operating activities		
Deficiency of revenue over expenses	**(458,536)**	(276,418)
Items not involving cash		
Deferred capital contributions realized on disposal of assets	**17,004**	40,597
Amortization of assets at disposal	**(17,004)**	(40,597)
Amortization of capital assets	**3,284,496**	3,060,483
Amortization of deferred capital contributions	**(3,270,247)**	(3,060,483)
	(444,287)	(276,418)
Changes in working capital accounts		
Accounts receivable	**398,094**	(755,780)
Inventory	**(123,512)**	(33,964)
Prepaid expenses	**(222,465)**	(12,445)
Accounts payable and accruals	**636,165**	(126,677)
Accrued vacation pay	**37,173**	76,791
Accrued wages and benefits	**(11,508)**	239,067
Accrued sick and severance	**676**	218,103
Capital lease obligation	**188,051**	-
Deferred contributions for designated purposes	**117,934**	(49,047)
	576,321	(720,370)
Investing activities		
Purchase of capital assets	**(2,874,081)**	(2,414,834)
Financing activities		
Deferred capital contributions received	**2,389,784**	2,621,458
Increase (decrease) in cash resources	**92,024**	(513,746)
Cash resources, beginning of year	**1,519,432**	2,033,178
Cash resources, end of year	**1,611,456**	1,519,432
Supplementary cash flow information		
Interest paid	**4,406**	-

The accompanying notes are an integral part of these financial statements

1. Incorporation and operations

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

The Hospital is registered as a not-for profit 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 not-for-profit organization under the Act, the Hospital must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the following significant accounting policies:

Inventory

Inventories of materials and supplies are recorded at the lower of average cost and replacement cost.

Capital assets

Capital assets are initially recorded at cost. Amortization is provided using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives. The Hospital records amortization on 50% of the assets cost in the year of acquisition. No amortization is provided on construction in progress until the project is completed. The annual amortization rates used are as follows:

Buildings	2.5 - 5%
Equipment	10 - 100%
Land improvements	10%

Revenue recognition

The Hospital follows the deferral method of accounting for contributions which include government grants and donations. Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of British Columbia in accordance with budget arrangements established and approved by the Ministry of Health (the "Ministry") and VIHA. Approved operating grants are provided to the Hospital by the Ministry through VIHA and are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period.

Inpatient and outpatient services and cafeteria 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 in the year in which the related expenses are incurred.

Contributions externally restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Government assistance

Government assistance for acquiring capital assets is recorded as deferred capital contributions and is amortized on the same basis and according to the same rates as the related capital assets.

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 expenditures during the reporting period.

Significant areas requiring the use of management estimates include the determination of useful lives for amortization of capital assets, estimates of accounts receivable collectibility and allowance for doubtful accounts, and the estimation of future employee benefits (sick and severance liability). Actual results could differ from those estimates.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Employee future benefits (accrued sick and severance liability)

Under the terms of the Hospital's union contracts and non-contract agreements, employees with ten years of service and having reached a certain age are entitled to receive special payments upon retirement. 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 is estimated based on the actuarial valuations.

Actuarial gains and losses resulting from experience or changes in assumptions are recognized to the extent that such net gain (loss) exceeds ten percent of the accrued benefit obligation at the beginning of the year which is amortized over the average remaining service period of the active employees expected to receive benefits (ten years).

Contributed services

A substantial number of volunteers contribute a significant amount of their time each year. Due to the difficulty in determining fair value, contributed services are not recognized in the financial statements.

Contributed materials

Contributed materials are recognized in the financial statements when their fair value can be reasonably determined and they are used in the normal course of the Hospital's operations and would have otherwise been purchased.

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 reflect the exchange rates at the balance sheet date. Gains and losses on translation or settlement are included in the determination of net income for the current period.

Financial instruments

Held for Trading

Any financial instrument whose fair value can be reliably measured may be designated as held-for-trading on initial recognition or adoption of CICA 3855 *Financial Instruments - Recognition and Measurement,* even if that instrument would not otherwise satisfy the definition of held-for-trading. The Hospital has classified cash as held-for-trading. Cash is initially recognized at its face amount at the time of receipt. Transactions involving cash are recorded on the trade date and transaction costs are immediately recognized in excess of revenues over expenses.

Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value are recognized immediately in excess of revenues over expenses.

Loans and receivables

The Hospital has classified accounts receivable as loans and receivables. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in excess of revenues over expenses.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and less any reduction for impairment or uncollectibility. Net gains and losses arising from changes in fair value are recognized in excess of revenues over expenses upon derecognition or impairment.

Other financial liabilities

The Hospital has classified accounts payable and accruals, accrued wages and benefits and accrued vacation pay as other financial liabilities. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recognized in excess of revenues over expenses.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in excess of revenues over expenses upon derecognition or impairment.

Financial asset impairment

The Hospital assesses impairment on all its financial assets, except those classified as held for trading. Management considers whether the issuer is having significant financial difficulty or whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment which is not considered temporary, is included in excess of revenues over expenses.

3. Health and benefit plan - unfunded liability

The Hospital participates in a benefit plan with the Health Employers Association of British Columbia which administers and funds long-term disability claims of employees. Currently, the plan has no unfunded liability.

4. Accounts receivable

	2010	2009
Vancouver Island Health Authority	441,482	112,764
Medical Services Plan of BC	669,451	917,478
Other	1,457,527	1,936,312
	2,568,460	2,966,554

5. Capital assets

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	14,045	-	14,045	14,045
Buildings	33,195,661	18,664,718	14,530,943	14,552,094
Equipment	28,249,801	18,459,906	9,789,895	10,550,358
Land improvements	469,648	358,252	111,396	12,931
Construction in progress	1,507,380	996	1,506,384	1,233,650
	63,436,535	37,483,872	25,952,663	26,363,078

Donations of capital assets received during the year totalled $31,277 (2009 - $41,365).

The following table shows the amount of assets purchased under capital leases which, are included in capital asset totals above:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Assets under capital leases	213,632	14,247	199,385	-

6. Accounts payable and accruals

	2010	2009
Trade payables	1,551,687	1,240,149
Other	566,646	242,019
	2,118,333	1,482,168

7. Deferred contributions for designated purposes

	2010	2009
Balance, beginning of year	**68,717**	115,640
Additions	**184,088**	66,424
Allocated to revenue	**(66,154)**	(113,347)
Balance, end of year	**186,651**	68,717

These amounts represent funding received from government bodies, such as VIHA or the Ministry of Health, for specific programs or courses that have not been delivered or completed.

8. Employee benefits

Accrued sick and severance

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 have been estimated by actuarial valuation as at March 31, 2010, using an early measurement date of December 31, 2009.

	2010	2009
Accrued sick and severance liabilities - current	**571,554**	425,834
Accrued sick and severance liabilities - long-term	**4,118,275**	4,263,319
Total accrued sick and severance liabilities	**4,689,829**	4,689,153
Sick and severance plan expense	**420,013**	495,667
Benefits paid	**419,337**	277,564

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

	2010	2009
Accrued benefit obligation as at March 31:		
Discount rate	**6.25%**	7.25%
Rate of compensation increase	**2.50%**	2.50%

Prior to March 31, 2001, $2,504,536 of the sick and severance liability had not been funded by the Ministry and is included in Note 14 together with the unfunded vacation pay liability. The unfunded accrued sick and severance amounts are as follows:

Unfunded increase in liabilities resulting from 1989 change Directed by the Ministry of Health	667,238
April 1, 1999 retroactive adjustment in accrued sick and severance	1,502,925
Unfunded portion of sick and severance expense - year ended March 31, 2000	166,495
Unfunded portion of sick and severance expense - year ended March 31, 2001	167,878
	2,504,536

The balance of sick and severance noted above is included in Note 14.

8. Employee benefits (continued)

Employee healthcare benefits

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

Effective March 31, 2004 the Trust was restructured from a multi-employer to a multiple-employer plan only with respect to long-term disability benefits initiated after September 30, 1997. The Hospital's assets and liabilities for these long-term disability benefits have been segregated. Accordingly, the Hospital's net liabilities are reflected in these financial statements.

The group life insurance, accidental death and dismemberment, pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multi-employer plan. Contributions to the Trust of $2,274,687 (2009 - $1,899,696) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2008 indicated an unfunded liability of $82,411,000. The plan covers approximately 85,000 active employees, of which approximately 615 are employees of the Hospital.

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

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

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 employers, 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 defined. The Plan has about 157,394 active members and approximately 56,969 retired members.

Employer contributions to the Plan of $5,321,657 (2009 - $4,789,795) 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, 2006 indicated a surplus of $438 million. The Plan covers approximately 157,394 active employees of which approximately 689 are employees of the Hospital. The next valuation will be as of December 31, 2009 with results available in 2010.

9. Deferred capital contributions

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

		2010	2009
Balance, beginning of year		**26,688,803**	25,696,147
Capital funding receipts:			
	Vancouver Island Health Authority	**1,327,571**	2,678,872
	Comox Strathcona Regional Hospital District	**541,231**	931,648
	St. Joseph's General Hospital Foundation	**355,496**	297,139
	General donations	**31,277**	41,365
	Other	**144,082**	151,215
		29,088,461	29,796,386
Less:	Transfers to other funds	**9,874**	6,503
	Amounts realized on disposal of assets	**-**	40,597
	Amounts amortized to revenue	**3,270,247**	3,060,483
Balance, end of year		**25,808,340**	**26,688,803**

The balance of unamortized capital contributions consists of:

	2010	2009
Unamortized capital contributions used to purchase assets	**25,739,233**	26,349,033
Restricted unspent contributions	**69,107**	339,770
Balance, end of year	**25,808,340**	26,688,803

10. Contingencies and commitments

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, 2010, the Hospital's share of the guaranteed debt is $984,960 (2009 - $1,067,852) representing 34.3% of the total debt.

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

During the fiscal year, the Hospital paid $1,011,844 (2009 - $1,020,331) to the Society for laundry and related services, including GST. The Hospital charged the Society for administration and payroll services, which totalled $24,952 (2009 - $23,035) and also passes on service charges incurred for computer and telephone expenses. At March 31, 2010, accounts receivable included $1,982 (2009 - $989) and accounts payable included $72,437 (2009 - $72,907) owing to the Society.

10. Contingencies and commitments (continued)

Operating lease commitments

The Hospital leases premises for some of its laboratory operations through an operating lease. Current lease contracts for premises and equipment expire during fiscal 2014.

Minimum operating lease payments for each of the next five years are as follows:

2011	17,160
2012	17,280
2013	18,600
2014	18,720
2015	-
	71,760

Litigation

The nature of the Hospital's activities is such that there is usually litigation pending or in process at any time. As of March 31, 2010, there were no outstanding or unsettled liability claims reported to BC Health Care Risk Management Society relating to St Joseph's General Hospital. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital's financial position.

11. Related party transactions

St. Joseph's General Hospital Foundation

See Note 18 for description of transactions with St. Joseph's General Hospital Foundation.

Cumberland Regional Hospital Laundry Society

See Note 10 for description of transactions with Cumberland Regional Hospital Laundry Society.

St. Joseph's General Hospital Auxiliary Society

The St. Joseph's General Hospital Auxiliary Society (the "Society") 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 Society is a not-for-profit organization and a registered charity under the Income Tax Act.

During the year, donations totalling $103,096 (2009 - $112,055) were paid to the Hospital by the Society.

Transfers of assets are recorded at their carrying amount at the time of donation.

12. 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 dependant on VIHA to provide the funding needed to maintain its operations and to fund capital expenditures made by the Hospital. A loss in this source of revenue would greatly impair the Hospital's ability to continue as a going concern.

13. Investment in capital assets

Investment in capital assets is calculated as follows:

	2010	2009
Capital assets	25,952,663	26,363,078
Amounts financed by unamortized capital contributions	(25,739,233)	(26,349,033)
Amounts financed by capital leases	(188,051)	-
	25,379	14,045

14. Allowable unfunded deficit from operations

Balance of $3,026,013 is unchanged from the previous fiscal year end and is comprised as follows:

Unfunded increase in liabilities resulting from 1989 change	
Directed by the Ministry of Health	
Accrued vacation pay	521,477
Accrued sick and severance - Note 8	667,238
Unfunded increase in liabilities relating to accrued sick and severance - Note 8	
April 1, 1999 retroactive adjustment in accrued sick and severance	1,502,925
Accumulated unfunded portion of sick and severance expense	
Fiscal year ended March 31, 2000	166,495
Fiscal year ended March 31, 2001	167,878
	3,026,013

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

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

15. Non-monetary transactions

During the year, the Hospital received contributed capital assets as follows:

	2010	2009
Vancouver Island Health Authority	62,014	1,128,782
St. Joseph's General Hospital Foundation	355,496	297,139
General capital donations	31,277	41,365
	448,787	1,467,286

These capital assets have been recorded at their fair value on the date of contribution.

16. Capital management

The Hospital's objective when managing capital is to match generally the structure of its capital to the underlying nature and term of the assets being financed, and to hold sufficient unrestricted net assets to enable it to withstand negative unexpected financial events in order to maintain stability in the financial structure. The Hospital maintains sufficient liquidity to meet its short-term obligations as they come due. Funding of post-retirement benefits is made in accordance with related regulations and actuarial recommendations.

The Hospital manages the following as capital:

	2010	2009
Accrued retirement allowance	**4,689,829**	4,689,153
Net assets invested in capital assets	**25,379**	14,045
Unrestricted excess of revenues over expenses	**(2,022,920)**	(1,553,050)
Allowable unfunded deficit from operations	**(3,026,013)**	(3,026,013)

17. Inventory

	2010	2009
General supplies	907,038	845,189
Drugs	454,707	434,835
Lab supplies	182,835	143,517
Food supplies	18,075	18,520
Other	15,777	12,859
	1,578,432	1,454,920

Inventory expensed

	2010	2009
Drugs	3,229,483	3,059,613
Medical and surgical supplies	4,283,920	4,365,746
	7,513,403	7,425,359

In addition, inventories were expensed within the Food services, Patient care, diagnostic and therapeutic, Plant maintenance and biomedical engineering and Plant operating and housekeeping expense amounts, however, the exact amounts related to expensing of inventories in these accounts could not be reasonably determined.

The Hospital holds inventory on consignment for joint surgeries, prosthesis and other specific surgical procedures. The amount of this inventory on hand, and the related liability, at March 31, 2010 is:

	2010	2009
Consignment inventory on hand	923,663	477,666
Liability for consignment inventory	(923,663)	(477,666)
	-	-

18. Controlled entities

The Hospital has one controlled entity, the St. Joseph's General Hospital Foundation (the "Foundation"). The Foundation has not been consolidated into the Hospital's financial statements. The Hospital does not control the Board of the Foundation, however the Foundation is a controlled entity because of a significant economic interest as its constitution requires that all its funds be for the benefit of the Hospital. 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. Financial information for the year ended March 31, 2010 is unaudited and cash flow information is not available. The information is as follows:

	2010	2009
Assets	**1,435,519**	1,336,072
Liabilities	**854,605**	801,976
Net assets	**580,914**	534,096
Revenues	**487,290**	350,426
Expenses including $396,779 (2009 - $306,879) paid to the Hospital	**559,290**	462,866
Unrealized gain (loss) on investments	**118,818**	(167,650)
Cash outflows from operating activities	**(38,085)**	34,412
Cash outflows from investing activities	**(151,311)**	(56,781)
Cash outflows from financing activities	**105,795**	-

At March 31, 2010 accounts receivable included $90,679 (2009 - $161,482) due from the Foundation and accounts payable included $559 due to the Foundation (2009 - $0). Deferred capital contributions includes $355,496 (2009 - $297,139) of current year contributions from the Foundation.
During 2010, the Hospital entered into a lease with the Foundation to purchase capital equipment at a cost of $128,000. A capital lease liability totalling $105,795 is owed to the Foundation as at March 31, 2010.
The Hospital provides accounting services to the Foundation at no charge. The value of these services is not and is not reasonably estimable recorded.

The Foundation's accounting policies are not significantly different from those of the Hospital.

19. Capital lease obligations

	2010	2009
St. Joseph's General Hospital Foundation (3.52%, due April 25, 2014, $2,365/month)	105,795	-
Robbins Parking Service Ltd. (7.5%, due January 1, 2015, $1,695/month payments)	82,256	-
	188,051	-
Less: portion due within one year	(39,724)	-
	148,327	-

Net book values of assets leased are $199,385 (2009 - $0).

Minimum capital lease payments for each of the next five years are as follows:

2011	48,718
2012	48,718
2013	48,718
2014	48,718
2015	16,951
	211,823
less: imputed interest	(23,772)
Total capital lease obligation	188,051

20. Financial Instruments

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.

Foreign currency risk
The Hospital maintains a U.S. bank account and enters into 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, 2010, the following items are denominated in U.S. currency:

	2010	2009
Cash	**$11,131 CDN**	$18,933 CDN

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. In seeking to manage the risks from foreign exchange rate fluctuations, the Hospital does not hold significant funds in U.S. dollars in order to reduce their risk against adverse movements in the foreign exchange rates.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the 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.

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, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Hospital's future net cash flows and the possibility of negative net cash flows. Differences due exist in the timing between the receipts of funding and the payment of various expenditures. This can cause situations during the year where the Hospital's working capital is negative and liabilities are not discharged on a timely basis while it awaits funding payments or increases.

Credit rate risk
Credit rate risk is the risk that the Hospital will not be able to collect amounts owing to it from customers and funding agencies. The Hospital's maximum credit risk exposure is $2,536,173 (2009 - $2,966,554)

Financial Asset Impairment
At each year-end date, the Hospital is required to evaluate and record any other-than-temporary impairment of its financial assets, other than those classified as held for trading. Accordingly, the Hospital has compared the carrying value of each of these financial assets to their fair value as at March 31, 2010. No provision for impairment was recorded in the current year, as the fair value of all financial assets approximates or exceeds their carrying value, except that a provision of $229,613 (2009 - $248,336) was required for doubtful accounts receivable.

The carrying value of cash, accounts receivable, accounts payable and accruals, accrued wages and benefits and accrued vacation pay approximates the fair value of these items due to their short term nature.

21. Going concern

These financial statements have been prepared on a going concern basis which presumes that the Hospital will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

The Hospital has incurred recurring operating losses. To remain a going concern, the Hospital must increase revenues and/or reduce expenses to balance its budget. The Hospital and the Vancouver Island Health Authority are expecting to confirm a plan, developed by the Hospital, to repay current losses over the next 18-24 months derived from cost savings being implemented in the coming year. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Hospital were unable to continue its operations.

22. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.