St. Joseph's General Hospital

Financial Statements

March 31, 2011

Contents

For the year ended March 31, 2011

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.

May 12, 2011

Michael Pontus, President and Chief Executive Officer

Eric MacDonald, VP Finance, Capital and Support Services

Independent Auditors' Report

MEYERS NORRIS PENNY LLP

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

We have audited the accompanying financial statements of St. Joseph's General Hospital, which comprise the statement of financial position as at March 31, 2011 and the statements of operations, changes in net deficiency, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. Joseph's General Hospital as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21 to these financial statements, which describes that St. Joseph's General Hospital has incurred significant losses in prior years and has an accumulated deficit. This, along with the other matters described in Note 21, indicate the existence of a material uncertainty which may cast doubt about the ability of St. Joseph's General Hospital to continue as a going concern.

Courtenay, British Columbia

May 12, 2011

Meyers Norris Penny LLP

Chartered Accountants

St. Joseph's General Hospital
Statement of Financial Position
As at March 31, 2011

	2011	2010
Assets		
Current		
Cash	**1,083,433**	1,611,456
Accounts receivable *(Note 4)*	**4,745,309**	2,568,460
Inventory *(Note 17)*	**1,780,259**	1,578,432
Prepaid expenses	**254,358**	398,068
	7,863,359	6,156,416
Capital assets *(Note 5)*	**25,982,992**	25,952,663
	33,846,351	32,109,079
Liabilities		
Current		
Accounts payable and accruals *(Note 6)*	**2,501,884**	2,118,333
Accrued wages and benefits	**3,126,853**	2,002,735
Accrued vacation pay	**2,119,344**	2,138,694
Deferred contributions for designated purposes *(Note 7)*	**203,942**	186,651
Current portion of accrued sick and severance *(Note 8)*	**548,762**	571,554
Current portion of capital lease obligations *(Note 19)*	**72,041**	39,724
	8,572,826	7,057,691
Capital lease obligations *(Note 19)*	**106,568**	148,327
Accrued sick and severance *(Note 8)*	**4,248,467**	4,118,275
Deferred capital contributions *(Note 9)*	**25,921,083**	25,808,340
	38,848,944	37,132,633
Contingencies and commitments *(Note 10)*		
Net deficiency		
Unrestricted deficit from operations	**(1,913,990)**	(1,997,337)
Net assets invested in capital assets *(Note 13)*	**(62,590)**	(204)
Allowable unfunded deficit from operations *(Note 14)*	**(3,026,013)**	(3,026,013)
	(5,002,593)	**(5,023,554)**
	33,846,351	**32,109,079**

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

St. Joseph's General Hospital
Statement of Operations
For the year ended March 31, 2011

	2011	2010
Revenue		
Vancouver Island Health Authority		
Operating funding	56,170,737	54,125,040
Emergency physician program	2,283,128	2,487,492
Non-critical patient transportation	292,269	-
Laboratory MSP clawback	310,349	-
Nurse training programs	180,560	152,537
Patient focused funding (P4P)	220,300	-
Cerner funding	47,806	-
	59,505,149	56,765,069
Medical Services Plan		
Fee for service	8,834,422	9,060,795
Rural retention premiums	329,261	345,925
	9,163,683	9,406,720
BC Cancer Agency	2,759,119	2,453,520
Inpatient services	2,970,033	2,473,547
Other	1,097,266	598,509
Cafeteria services	422,269	426,877
	7,248,687	5,952,453
	75,917,519	72,124,242
Expenses		
Administration and support	1,520,348	1,513,457
Bad debts	135,783	9,597
Cerner implementation	47,806	-
Crisis contract	69,731	172,059
Drugs	3,511,115	3,229,483
Emergency physician program	2,347,127	2,368,810
Employee benefits	10,524,174	10,352,740
Food services	831,236	805,483
Linen and laundry	1,369,025	1,328,293
Medical and surgical supplies	4,769,197	4,283,920
Nursing training programs	195,560	312,467
Patient care, diagnostic and therapeutic	2,827,444	2,686,361
Patient Transportation	623,328	117,413
Plant maintenance and biomedical engineering	974,045	905,406
Plant operating and housekeeping	1,238,666	1,249,961
Professional services	3,473,590	3,269,776
Physicians rural retention premium expense	330,135	345,925
Salaries and wages	40,434,339	39,178,316
Sick and severance	560,234	420,013
Specialty programs	51,289	19,049
	75,834,172	72,568,529
Excess (deficiency) of revenue over expenses before other items	83,347	(444,287)
Amortization of capital assets and deferred capital contributions		
Deferred capital contributions realized on disposal of assets	206,443	17,004
Amortization of assets at disposal	(206,443)	(17,004)
Amortization of deferred capital contributions	3,397,640	3,270,247
Amortization of capital assets	(3,460,026)	(3,284,496)
	(62,386)	(14,249)
Excess (deficiency) of revenue over expenses	20,961	(458,536)

The accompanying notes are an integral part of these financial statements

MNP

Statement of Changes in Net Deficiency

For the year ended March 31, 2011

	Investment in capital assets	Allowable unfunded deficit from operations	Unrestricted surplus (deficit) from operations	**2011 Total**	2010 Total
Balance, beginning of year	(204)	(3,026,013)	(1,997,337)	**(5,023,554)**	(4,565,018)
Excess (deficiency) of revenues over expenses	(62,386)	-	83,347	**20,961**	(458,536)
Balance, end of year	(62,590)	(3,026,013)	(1,913,990)	**(5,002,593)**	(5,023,554)

The accompanying notes are an integral part of these financial statements

St. Joseph's General Hospital
Statement of Cash Flows
For the year ended March 31, 2011

	2010	2009
Cash provided by (used for) the following activities		
Operating activities		
Excess (deficiency) of revenue over expenses	**20,961**	(458,536)
Items not involving cash		
Deferred capital contributions realized on disposal of assets	**206,443**	17,004
Amortization of assets at disposal	**(206,443)**	(17,004)
Amortization of capital assets	**3,460,026**	3,284,496
Amortization of deferred capital contributions	**(3,397,640)**	(3,270,247)
	83,347	(444,287)
Changes in working capital accounts		
Accounts receivable	**(2,176,849)**	398,094
Inventory	**(201,827)**	(123,512)
Prepaid expenses	**143,710**	(222,465)
Accounts payable and accruals	**383,551**	636,165
Accrued vacation pay	**(19,350)**	37,173
Accrued wages and benefits	**1,124,118**	(11,508)
Accrued sick and severance	**107,400**	676
Deferred contributions for designated purposes	**17,291**	117,934
	(538,609)	388,270
Investing activities		
Purchase of capital assets	**(3,656,504)**	(2,660,449)
Financing activities		
Repayment of capital lease obligation	**(49,736)**	(25,581)
Deferred capital contributions received	**3,716,826**	2,389,784
	3,667,090	**2,364,203**
Increase (decrease) in cash resources	**(528,023)**	92,024
Cash resources, beginning of year	**1,611,456**	1,519,432
Cash resources, end of year	**1,083,433**	1,611,456
Supplementary cash flow information		
Interest paid	**8,994**	4,406

The accompanying notes are an integral part of these financial statements

MNP

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 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.

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 based on the number of months the assets is owned during the year. 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 VIHA and are recognized fully in the year they are received. 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.

Recent accounting pronouncements

Canadian accounting standards for Government not-for-profit organizations

In October 2010, the Public Sector Accounting Board (PSAB) approved the incorporation of the "4400 series" of standards, which discusses the accounting for the unique circumstances of not-for-profit organizations (NFPO), from the CICA Handbook-Accounting into the CICA Public Sector Accounting Handbook ("PSA Handbook"). This set of standards will be appropriately modified to fit with public sector accounting standards. Effective for fiscal years beginning on or after January 1, 2012, all GNFPOs will have the option to apply either the PSA Handbook with or without the NFPO standards. Earlier adoption is permitted. The Hospital expects to adopt the PSA Handbook without the NFPO standards per direction from the Ministry of Health Services. The Hospital has not yet determined the impact of the adoption of the new standards on its financial statements.

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

	2011	2010
Vancouver Island Health Authority	**2,197,117**	441,482
Medical Services Plan of BC	**621,953**	669,451
Other	**1,926,239**	1,457,527
	4,745,309	2,568,460

5. Capital assets

	Cost	**Accumulated amortization**	**2011 Net book value**	2010 Net book value
Land	**14,045**	**-**	**14,045**	14,045
Buildings	**33,887,865**	**19,497,615**	**14,390,250**	14,530,943
Equipment	**31,674,940**	**20,647,477**	**11,027,463**	9,789,895
Land improvements	**554,728**	**372,985**	**181,743**	111,396
Construction in progress	**369,491**	**-**	**369,491**	1,506,384
	66,501,069	**40,518,077**	**25,982,992**	25,952,663

Donations of capital assets received during the year totalled $473,256 (2010 - $448,787).

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

	Cost	**Accumulated amortization**	**2011 Net book value**	2010 Net book value
Assets under capital leases	**253,926**	**80,805**	**173,121**	199,385

6. Accounts payable and accruals

	2011	2010
Trade payables	**2,178,545**	1,551,687
Other	**323,339**	566,646
	2,501,884	2,118,333

7. Deferred contributions for designated purposes

	2011	2010
Balance, beginning of year	**186,651**	68,717
Additions	**440,261**	184,088
Allocated to revenue	**(422,970)**	(66,154)
Balance, end of year	**203,942**	186,651

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, 2011, using an early measurement date of December 31, 2010.

	2011	2010
Accrued sick and severance liabilities - current	**548,762**	571,554
Accrued sick and severance liabilities - long-term	**4,248,467**	4,118,275
Total accrued sick and severance liabilities	**4,797,229**	4,689,829
Sick and severance plan expense	**560,234**	420,013
Benefits paid	**452,835**	419,337

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

	2011	2010
Accrued benefit obligation as at March 31:		
Discount rate	**5.25%**	6.25%
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 $2,302,139 (2010 - $2,274,687) 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 163,000 active members and approximately 63,000 retired members.

Employer contributions to the Plan of $5,528,516 (2010 - $5,321,657) 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, 2009 indicated an unfunded liability of $1,024 million. The actuary does not attribute portions of the unfunded liability to individual employers. The Plan covers approximately 163,000 active employees of which approximately 695 are employees of the Hospital.

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.

		2011	2010
Balance, beginning of year		**25,808,340**	26,688,803
Capital funding receipts:			
	Vancouver Island Health Authority	**2,404,943**	1,327,571
	Comox Strathcona Regional Hospital District	**704,350**	541,231
	St. Joseph's General Hospital Foundation	**456,956**	355,496
	General donations	**151,271**	31,277
	Other	**313**	144,082
		29,526,173	29,088,461
Less:	Transfers to other funds	**1,007**	9,874
	Amounts realized on disposal of assets	**206,443**	-
	Amounts amortized to revenue	**3,397,640**	3,270,247
Balance, end of year		**25,921,083**	**25,808,340**

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, 2011, the Hospital's share of the guaranteed debt is $899,057 (2010 - $984,960) 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 $973,843 (2010 - $963,212) to the Society for laundry and related services, excluding HST. The Hospital charged the Society for administration and payroll services, which totalled $23,764 (2010 - $24,952) and also passes on service charges incurred for computer and telephone expenses. At March 31, 2011, accounts receivable included $65 (2010 - $1,982) and accounts payable included $84,286 (2010 - $72,437) 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:

2012	17,280
2013	18,600
2014	18,720
2015	-
2016	-
	54,600

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, 2011, 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 $134,971 (2010 - $103,096) 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. Net assets invested in capital assets

Investment in capital assets is calculated as follows:

	2011	2010
Capital assets	**25,982,992**	25,952,663
Amounts financed by unamortized capital contributions	**(25,866,973)**	(25,764,816)
Amounts financed by capital leases	**(178,609)**	(188,051)
	(62,590)	**(204)**

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:

	2011	2010
Vancouver Island Health Authority	-	62,014
St. Joseph's General Hospital Foundation	**456,956**	355,496
General capital donations	**16,300**	31,277
	473,256	448,787

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:

	2011	2010
Accrued sick and severance	**4,797,229**	4,689,829
Net assets invested in capital assets	**(62,590)**	(204)
Unrestricted deficit from operations	**(1,913,990)**	(1,997,337)
Allowable unfunded deficit from operations	**(3,026,013)**	(3,026,013)

17. Inventory

	2011	2010
General supplies	**1,007,549**	907,038
Drugs	**523,760**	454,707
Lab supplies	**211,328**	182,835
Food supplies	**18,328**	18,075
Other	**19,294**	15,777
	1,780,259	1,578,432

Inventory expensed

	2011	2010
Drugs	**3,511,115**	3,229,483
Medical and surgical supplies	**4,769,197**	4,283,920
	8,280,312	7,513,403

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, 2011 is:

	2011	2010
Consignment inventory on hand	**791,661**	923,663
Liability for consignment inventory	**(791,661)**	(923,663)
	-	-

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, 2011 is unaudited. The information is as follows:

	2011	2010
Assets	**1,431,617**	1,435,519
Liabilities	**768,408**	854,605
Net assets	**663,209**	580,914
Revenues	**635,183**	487,290
Expenses including $422,229 (2010 - $396,779) paid to the Hospital	**595,106**	559,290
Unrealized gain (loss) on investments	**42,218**	118,818
Cash outflows from operating activities	**1,554**	(44,484)
Cash outflows from investing activities	**201,728**	(144,912)
Cash outflows from financing activities	**(25,054)**	105,795

At March 31, 2011 accounts receivable included $30,437 (2010 - $90,679) due from the Foundation and accounts payable included $3,543 due to the Foundation (2010 - $559). Deferred capital contributions includes $456,956 (2010 - $355,496) 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. At March 31, 2011, a capital lease liability totalling $80,741 (2010 - $105,795) is owed to the Foundation. 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

	2011	2010
St. Joseph's General Hospital Foundation (3.52%, due April 25, 2014, $2,365/month)	80,741	105,795
Robbins Parking Service Ltd. (7.5%, due January 1, 2015, $1,695/month payments)	67,586	82,256
Thermo Fisher Financial Services, Inc. (5.0%, due July 1, 2011, $1,200/month)	30,282	-
	178,609	188,051
Less: portion due within one year	(72,041)	(39,724)
	106,568	148,327

Net book values of assets leased are $173,121 (2010 - $199,385).

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

2012	79,000
2013	48,718
2014	48,718
2015	17,025
2016	-
	193,461
less: imputed interest	(14,852)
Total capital lease obligation	178,609

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, 2011, the following items are denominated in U.S. currency:

	2011	2010
Cash	**$42,223 CDN**	$11,131 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 $4,745,309 (2010 - $2,568,460).

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 $276,484 (2010 - $229,613) 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.

In prior years, the Hospital incurred operating losses. In the current year, the Hospital received a $1.5 million additional funding payment from the Vancouver Island Health Authority (VIHA). To remain a going concern, the Hospital must receive funding to maintain its service levels. The Hospital and VIHA are continuing to work on a funding methodology to recognize appropriate funding for the services provided. 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.