

Financial Statements of

INTERIOR HEALTH AUTHORITY

Year ended March 31, 2018



Interior Health
Every person matters

Statement of Management Responsibility

The financial statements of Interior Health Authority (the "Authority") for the year ended March 31, 2018 have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") issued by the Public Sector Accounting Board ("PSAB"), as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and in regard to the accounting for restricted contributions which is based on the Restricted Contributions Regulation 198/2011. The integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit and Finance Committee of the Board. The Audit and Finance Committee meets with management and the internal auditor no fewer than four times a year and the external auditors a minimum of two times a year.

The Authority's internal auditor independently evaluates the effectiveness of internal controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee.

The external auditors, the Auditor General of British Columbia, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. Their examination considers internal control relevant to management's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control. The external auditors have full and free access to the Audit and Finance Committee of the Board and meet with it on a regular basis.

On behalf of Interior Health Authority

Chris Mazurkewich,
Chief Executive Officer

Donna Lommer,
VP Support Services & Chief Financial Officer

June 18, 2018



INDEPENDENT AUDITOR'S REPORT

*To the Board of Directors of the Interior Health Authority, and
To the Minister of Health, Province of British Columbia*

I have audited the accompanying financial statements of the Interior Health Authority (“the entity”), which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, changes in net debt, 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 Public Sector Accounting Standards, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

As described in Note 1 (a) to the financial statements, the entity's accounting treatment for contributions received from governments and for externally restricted contributions received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to

recognize revenue on the same basis as the related assets are amortized. The entity was required to adopt this accounting policy as prescribed by Province of British Columbia Treasury Board Regulation 198/2011.

Under Canadian Public Sector Accounting Standards, the entity's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In my opinion certain contributions of the entity do not meet the definition of a liability, and as such the entity's method of accounting for those contributions represents a departure from Canadian Public Sector Accounting Standards.

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. When the cumulative effects of this departure to date are adjusted through opening accumulated surplus, the entity's records indicate that the effects of this departure on the current year financial statements is an overstatement of the liability for deferred revenue of \$927 million, an understatement of opening accumulated surplus of \$908 million, and a current year understatement of revenue of \$19 million. Accordingly, the current year surplus is understated by \$19 million and net debt is overstated by \$927 million.

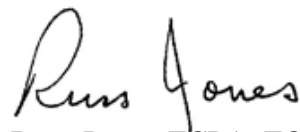
Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Interior Health Authority as at March 31, 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Other Matters

Without modifying my opinion, I advise the reader that I was not engaged to audit the comparative financial statements of Interior Health Authority as at March 31, 2017, for their fair presentation in accordance with Canadian Public Sector Accounting Standards. The financial statements of Interior Health Authority as at March 31, 2017 were audited by a professional accounting firm who previously reported on their compliance with Section 23.1 of the *Budget Transparency and Accountability Act*. However, because that audit reported against a different framework than that of the current year, I must advise you that the comparative information in the financial statements and related disclosures were not audited in accordance with the Canadian Public Sector Accounting Standards framework adopted in the current year, but rather in compliance with Section 23.1 of the *Budget Transparency and Accountability Act*.

Victoria, British Columbia
June 20, 2018


Russ Jones, FCPA, FCA
Deputy Auditor General

INTERIOR HEALTH AUTHORITY

Statement of Financial Position

(Tabular amounts expressed in thousands of dollars)

As at March 31, 2018

	2018	2017
Financial assets		
Cash and cash equivalents (note 2)	\$ 234,038	\$ 236,826
Accounts receivable (note 3)	68,690	62,171
	<u>302,728</u>	<u>298,997</u>
Liabilities		
Accounts payable and accrued liabilities (note 4)	208,305	192,284
Deferred operating contributions (note 5)	4,281	7,936
Debt (note 6)	309,668	253,963
Retirement allowance (note 7(a))	116,029	115,635
Long-term disability and health and welfare benefits (note 7(b)(i))	2,268	16,173
Replacement reserves (note 8)	-	987
Deferred capital contributions (note 9)	1,087,569	1,047,709
	<u>1,728,120</u>	<u>1,634,687</u>
Net debt	<u>(1,425,392)</u>	<u>(1,335,690)</u>
Non-financial assets		
Tangible capital assets (note 10)	1,453,858	1,354,589
Inventories held for use (note 11)	6,274	6,229
Prepaid expenses (note 12)	7,807	11,230
Restricted assets	235	235
	<u>1,468,174</u>	<u>1,372,283</u>
Accumulated surplus	<u>\$ 42,782</u>	<u>\$ 36,593</u>

Commitments and contingencies (note 13)

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

Dr. Doug Cochrane

 Director

Dennis Rounsville

INTERIOR HEALTH AUTHORITY

Statement of Operations and Accumulated Surplus
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

	2018 Budget (Notes 1(n), 18)	2018	2017
Revenues:			
Ministry of Health contributions	\$ 1,749,795	\$ 1,747,361	\$ 1,660,254
Medical Services Plan	148,049	160,489	155,082
Patients, clients and residents (note 14(a))	107,661	110,752	106,034
Amortization of deferred capital contributions	77,683	80,073	77,784
Recoveries from other health authorities and BC government reporting entities	46,849	43,073	45,323
Other contributions (note 14(b))	34,028	35,413	34,218
Other (note 14(c))	30,698	29,786	29,985
Investment	2,137	2,715	2,667
	<u>2,196,900</u>	<u>2,209,662</u>	<u>2,111,347</u>
Expenses (note 14(d)):			
Acute	1,218,670	1,231,909	1,184,607
Residential care	392,684	397,076	377,613
Community care	226,296	228,416	214,906
Corporate	149,988	145,294	142,712
Mental health and substance use	146,004	139,399	129,443
Population health and wellness	63,258	61,379	60,063
	<u>2,196,900</u>	<u>2,203,473</u>	<u>2,109,344</u>
Annual surplus (deficit)	-	6,189	2,003
Accumulated surplus, beginning of year	36,593	36,593	34,590
Accumulated surplus, end of year	\$ 36,593	\$ 42,782	\$ 36,593

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

Statement of Changes in Net Debt

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

	2018 Budget (Note 1(n))	2018	2017
Annual surplus (deficit)	\$ -	\$ 6,189	2,003
Acquisition of tangible capital assets	(225,800)	(192,985)	(170,425)
Proceeds from disposal of tangible capital assets	-	158	695
Amortization of tangible capital assets	90,531	91,952	88,742
Loss on disposal of tangible capital assets	-	1,606	1,464
	(135,269)	(93,080)	(77,521)
Acquisition of inventories held for use	-	(82,358)	(82,083)
Acquisition of prepaid expenses	-	(21,726)	(26,046)
Consumption of inventories held for use	-	82,313	81,450
Use of prepaid expenses	-	25,149	20,014
	-	3,378	(6,665)
Increase in net debt	(135,269)	(89,702)	(84,186)
Net debt, beginning of year	(1,335,690)	(1,335,690)	(1,251,504)
Net debt, end of year	\$ (1,470,959)	\$ (1,425,392)	\$ (1,335,690)

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

	2018	2017
Cash flows from (used in) operating activities:		
Annual surplus	\$ 6,189	\$ 2,003
Items not involving cash:		
Amortization of deferred capital contributions	(80,073)	(77,784)
Amortization of tangible capital assets	91,952	88,742
Loss on disposal of tangible capital assets	1,606	1,464
Retirement allowance expense	10,004	10,532
Long-term disability and health and welfare benefits expense	72,496	53,828
Interest income	(2,715)	(2,667)
Interest expense	15,083	15,515
	114,542	91,633
Net change in non-cash operating items (note 15(a))	8,303	(13,946)
Interest received	2,715	2,667
Interest paid	(15,104)	(15,520)
Net change in cash from operating activities	110,456	64,834
Capital activities:		
Proceeds from disposal of tangible capital assets	158	695
Acquisition of tangible capital assets (note 15(b))	(129,925)	(131,624)
Net change in cash from capital activities	(129,767)	(130,929)
Financing activities:		
Retirement allowance benefits paid	(9,609)	(7,020)
Long-term disability and health and welfare benefits contributions	(86,447)	(77,686)
Repayment of debt	(7,354)	(4,668)
Capital contributions	119,933	137,673
Net change in cash from financing activities	16,523	48,299
Increase (decrease) in cash and cash equivalents	(2,788)	(17,796)
Cash and cash equivalents, beginning of year	236,826	254,622
Cash and cash equivalents, end of year	\$ 234,038	\$ 236,826

Supplementary cash flow information (note 15)

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

Interior Health Authority (the "Authority") was created under the *Health Authorities Act of British Columbia* on December 12, 2001 with a Board of Directors appointed by the Ministry of Health (the "Ministry") and is one of six Health Authorities in British Columbia ("BC"). The Authority is dependent on the Ministry to provide sufficient funds to continue operations, replace essential equipment, and complete its capital projects. The Authority is a registered charity under the *Income Tax Act*, and as such, is exempt from income and capital taxes.

The role of the Authority is to promote and provide for the physical, mental and social well-being of people who live in the Interior region and those referred from outside the region.

1. Significant accounting policies:

(a) Basis of accounting:

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

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

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards ("PSAS") issued by the Canadian Public Sector Accounting Board ("PSAB") without any PS 4200 series.

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

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate of amortization used for the related tangible capital asset. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal periods during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.
- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions has been met by the Authority.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

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

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of PSAS which requires that:

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS 3410, *Government Transfers*; 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, *Restricted Assets and Revenues*; and
- deferred contributions meet liability criteria in accordance with PS 3200, *Liabilities*.

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

(b) Basis of presentation:

The Authority has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Authority and/or provide services under contracts. As the Authority does not control these organizations, the financial statements do not include the assets, liabilities and results of operations of these entities (see note 16(c)).

(c) Cash and cash equivalents:

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

(d) Accounts receivable:

Accounts receivable are recorded at amortized cost less an amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and the net recoverable value when risk of loss exists. Changes in valuation allowance are recognized in the statement of operations. Interest is accrued on loans receivable to the extent it is deemed collectable.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(e) Asset retirement obligations:

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

The obligation is measured at the best estimate of the future cash flows required to settle the liability, discounted at estimated credit-adjusted risk-free discount rates. The estimated amount of the asset retirement cost is capitalized as part of the carrying value of the related tangible capital asset and is amortized over the life of the asset.

The liability is accreted to reflect the passage of time. At each reporting date, the Authority reviews its asset retirement obligations to reflect current best estimates. Asset retirement obligations are adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or discount rates, with the offsetting amount recorded to the carrying amount of the related asset.

(f) Employee benefits:

(i) Defined benefit obligations, including multiple employer benefit plans:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple-employer defined long-term disability and health and welfare benefits plans as employees render services to earn the benefits.

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

The cumulative unrecognized actuarial gains and losses for retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefit is 10 years (2017 – 11 years). Actuarial gains and losses from event-driven benefits such as long-term disability and health and welfare benefits that do not vest or accumulate are recognized immediately.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(f) Employee benefits (continued):

(i) Defined benefit obligations, including multiple employer benefit plans (continued):

The discount rate used to measure obligation is based on the Province of BC's cost of borrowing if there are no plan assets. The expected rate of return on plan assets is the discount rate used if there are plan assets. The cost of a plan amendment or the crediting of past service is accounted for entirely in the year that the plan change is implemented.

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

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

(iii) Accumulating, non-vesting benefit plans:

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

(iv) Non-accumulating, non-vesting benefit plans:

For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the Authority to pay benefits occurs.

(g) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset and overhead directly attributable to construction and development. Interest is capitalized over the development period whenever external debt is issued to finance the construction and development of tangible capital assets.

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

Land improvements	5 - 25 years
Buildings	10 - 50 years
Equipment	3 - 20 years
Information systems	3 - 10 years
Leasehold improvements	2 - 15 years
Vehicles	4 years

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(g) Non-financial assets (continued):

(i) Tangible capital assets (continued):

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

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

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

(ii) Inventories held for use:

Inventories held for use are recorded at the lower of weighted average cost and replacement cost.

(iii) Prepaid expenses:

Prepaid expenses are recorded at cost and amortized over the period where the service benefits are received.

(h) Revenue recognition:

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

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

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

Unrestricted contributions are recognized as revenue when receivable if the amounts can be estimated and collection is reasonably assured.

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

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(h) Revenue recognition (continued):

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

Contributions of assets, supplies and services that would otherwise have been purchased are recorded at fair value at the date of contribution, provided a fair value can be reasonably determined.

Contributions for the acquisition of land, or the contributions of land, are recorded as revenue in the period of acquisition or transfer of title.

(i) Measurement uncertainty:

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

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

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

(j) Restricted assets:

Restricted assets are comprised of endowment contributions which are externally restricted in their use. Endowment contributions are recorded as revenue in the period of acquisition. Use of these funds is limited to the terms of reference.

(k) Foreign currency translation:

The Authority's functional currency is the Canadian dollar. Foreign currency transactions are translated at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the statement of operations.

(l) 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.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

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

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

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 Authority's normal purchase, sale or usage requirements are not recognized as financial assets or financial liabilities.

(m) Capitalization of public-private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets under construction are estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred directly by the Authority.

The asset cost includes development and financing fees estimated at fair value, which require the extraction of cost information from the financial model embedded in the project agreement. Interest during construction is also included in the asset cost and is calculated on the P3 asset value, less contributions received and amounts repaid, during the construction term. The interest rate used is the project internal rate of return.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(m) Capitalization of public-private partnership projects (continued):

When available for operations, the project assets are amortized over their estimated useful lives.

Correspondingly, an obligation for the cost of capital and financing received to date, net of the contributions received is recorded as a liability and included in debt.

Upon substantial completion, the private sector partner receives monthly payments to cover the partner's operating costs, financing costs and a return of their capital over the term of their project agreement.

(n) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2017/2018 Budget approved by the Board of Directors on December 5, 2017 and published in the Authority's Service Plan. The budget is reflected in the statement of operations and accumulated operating surplus and the statement of changes in net debt. Note 18 reconciles the approved budget to the budget information reported in these financial statements.

(o) Future accounting standards:

(i) 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 recognized as revenue or as an expense by entities involved;
- A transferor should derecognize individual assets and liabilities transferred in a restructuring transaction at their carrying amount at the restructuring date;
- A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the 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 in 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 Authority.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

2. Cash and cash equivalents:

	2018	2017
Cash and cash equivalents	\$ 234,038	\$ 236,826
Amounts restricted for capital purposes	(47,753)	(50,370)
Amounts restricted for future operating purposes	(4,281)	(7,936)
Amounts restricted for P3 projects	(4,159)	(2,558)
Amounts restricted for replacement reserves	-	(987)
Amounts restricted for patient comfort funds	(301)	(240)
Unrestricted cash and cash equivalents and portfolio investments	\$ 177,544	\$ 174,735

3. Accounts receivable:

	2018	2017
Patients, clients and residents	\$ 20,555	\$ 16,808
Other health authorities and BC government reporting entities	17,575	12,430
Medical Services Plan	18,631	18,285
Ministry of Health	2,608	4,958
Regional hospital districts	6,107	4,352
Foundations and auxiliaries	4,254	2,809
Federal government	2,834	3,804
WorkSafeBC	1,903	1,576
Other	10,053	8,625
	84,520	73,647
Allowance for doubtful accounts	(15,830)	(11,476)
	\$ 68,690	\$ 62,171

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

4. Accounts payable and accrued liabilities:

	2018	2017
Salaries and benefits payable	\$ 83,479	\$ 75,451
Accrued vacation pay	65,052	62,394
Trade accounts payable and accrued liabilities	59,774	54,439
	<u>\$ 208,305</u>	<u>\$ 192,284</u>

5. Deferred operating contributions:

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

	2018	2017
Deferred operating contributions, beginning of year	\$ 7,936	\$ 9,694
Contributions received during the year	3,586	4,124
Amount recognized as revenue in the year	(7,241)	(5,882)
	<u>\$ 4,281</u>	<u>\$ 7,936</u>

6. Debt:

	2018	2017
Public-private partnerships:		
Kelowna and Vernon Hospitals Project, 30 year contract to August 2042 with Infusion Health KVH General Partnership, payable in monthly payments including annual interest of 7.62%, in accordance with the project agreement terms	\$ 132,985	\$ 136,614
Interior Heart & Surgical Centre Project, 30 year contract to December 2044 with Plenary Health, payable in monthly payments including annual interest of 5.93%, in accordance with the project agreement terms	74,823	75,938
Penticton Hospital Tower Project, 30 year contract to December 2048 with EllisDon. Monthly payments include annual interest of 4.61% to commence upon substantial completion of the project in accordance with the terms of the project agreement.	101,860	38,801
	<u>309,668</u>	<u>251,353</u>

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018.

6. Debt (continued):

	2018	2017
Mortgages:		
Canada Mortgage and Housing Corporation (CMHC), secured by first charges on properties:		
Columbia View Lodge, payable in monthly payments of \$8,552, including annual interest of 10.5%, repaid in full during the year	-	858
Kimberley Special Care Home, payable in monthly payments of \$2,628, including annual interest of 8%, repaid in full during the year	-	210
Noric House, payable in monthly payments of \$14,457, including annual interest of 10%, repaid in full during the year	-	1,542
	-	2,610
	\$ 309,668	\$ 253,963

Principal repayments on debt for the years ending March 31 are required as follows:

2019	\$	4,820
2020		6,803
2021		6,938
2022		7,548
2023		8,118
Thereafter		275,441
	\$	309,668

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

7. Employee benefits:

(a) Retirement allowance:

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

The Authority's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2017 and extrapolated to March 31, 2018 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2018 are derived. The next required valuation will be as of December 31, 2018.

Information about retirement allowance benefits is as follows:

	2018	2017
Accrued benefit obligation:		
Severance benefits	\$ 58,982	\$ 59,507
Sick leave benefits	42,963	43,228
	<u>101,945</u>	<u>102,735</u>
Unamortized actuarial gain	14,084	12,900
Accrued benefit liability	<u>\$ 116,029</u>	<u>\$ 115,635</u>

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

	2018	2017
Accrued benefit liability, beginning of year	\$ 115,635	\$ 112,123
Net benefit expense:		
Current service cost	7,533	7,754
Interest expense	4,046	4,022
Amortization of actuarial (gain) loss	(1,576)	(1,244)
Net benefit expense	<u>10,003</u>	<u>10,532</u>
Benefits paid	(9,609)	(7,020)
Accrued benefit liability, end of year	<u>\$ 116,029</u>	<u>\$ 115,635</u>

INTERIOR HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

7. Employee benefits (continued):

(a) Retirement allowance (continued):

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

	2018	2017
Accrued benefit obligation as at March 31:		
Discount rate	4.01%	3.86%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	3.86%	3.93%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

(b) Healthcare Benefit Trust benefits:

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

The Authority and all other participating employers are jointly responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

(i) Long-term disability benefits:

The Trust is a multiple employer plan, with the Authority's assets and liabilities being segregated with respect to all benefits. Accordingly, the Authority's net trust liabilities are reflected in these financial statements.

The Authority's liabilities as of March 31, 2018 are based on the actuarial valuation at December 31, 2017, extrapolated to March 31, 2018. The next expected valuation is as of December 31, 2018.

INTERIOR HEALTH AUTHORITY

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

Year ended March 31, 2018

7. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

The long-term disability and health and welfare benefits obligation reported on the statement of financial position is as follows:

	2018	2017
Fair value of plan assets	\$ 171,982	\$ 173,790
Accrued benefit obligation	174,250	189,963
Net funded (asset) liability	\$ 2,268	\$ 16,173
	2018	2017
Long-term disability and health and welfare benefits (asset) liability, beginning of year:	\$ 16,173	\$ 40,031
Net benefit expense:		
Long-term disability expense	20,260	32,018
Health and welfare benefit expense	20,035	37,708
Interest expense	9,634	10,842
Actuarial loss (gain)	(5,705)	(15,413)
Employee payments	(1,022)	(1,972)
Expected return on assets	(8,912)	(9,355)
Net benefit expense	34,290	53,828
Contributions to the plan	(48,195)	(77,686)
Long-term disability and health and welfare benefits liability, end of year	\$ 2,268	\$ 16,173
Benefits paid to claimants (calendar year)	\$ 64,970	\$ 74,044
Plan assets consist of:		
Calendar year ending December 31:	2017	2016
Debt securities	42.2%	40.4%
Foreign equities	34.4%	34.4%
Equity securities and other	23.4%	25.2%
Total	100.0%	100.0%

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

7. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

The significant actuarial assumptions adopted in measuring the Authority's long-term disability benefits liabilities are as follows:

	2018	2017
Accrued benefit (asset) obligation as at March 31:		
Discount rate	5.80%	5.30%
Rate of benefit increase	1.50%	1.50%
Benefit costs for years ended March 31:		
Discount rate	5.80%	5.30%
Rate of compensation increase	1.50%	1.50%
Expected future inflationary increases	2.00%	2.00%
Expected long-term rate of return on plan assets	5.80%	5.30%

Actual long-term rate of return on plan assets was 7.6% for the year ended December 31, 2017 (December 31, 2016 – 4.0%).

(ii) Other Trust benefits:

The 2014-2019 Health Science Professionals Bargaining Association, Community Bargaining Association and Facilities Bargaining Association collective agreements include provisions to establish joint benefit trusts (JBTs) to provide long-term disability and health and welfare benefits to the employees covered by these agreements. Effective April 1, 2017, management of the long-term disability and health and welfare benefits being provided to these employee groups through Healthcare Benefit Trust transitioned to the JBTs.

During the year ended March 31, 2018, the Authority made the following contributions to each JBT:

	2018	2017
Joint Facilities Benefits Trust (JFBT)	22,390	-
Joint Health Science Benefits Trust (JHSBT)	10,411	-
Joint Community Benefits Trust (JCBT)	5,451	-
Total	38,252	-

INTERIOR HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018.

7. Employee benefits (continued):

(c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$83.4 million (2017 - \$81.3 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at December 31, 2015 indicated a surplus of approximately \$2,224.0 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 193,000 active members, of which approximately 17,766 are employees of the Authority (2017 - 17,256). The next expected actuarial valuation will be as of December 31, 2018 with results available in 2019.

Employer contributions to the Public Service Pension Plan of \$0.9 million (2017 - \$1.0 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2017 indicated a surplus of approximately \$1,896.0 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 59,000 active members, of which approximately 145 are employees of the Authority (2017 - 171). The next expected actuarial valuation will be as of March 31, 2020 with results available in early 2021.

8. Replacement reserves:

Under the terms of mortgage agreements with Canada Mortgage and Housing Corporation ("CMHC") and BC Housing Management Commission ("BC Housing"), the Authority was required to set aside certain amounts each year as a replacement reserve. During the year, these mortgages were repaid in full and there is no longer a requirement to maintain replacement reserves. During the year, the Authority consumed \$0.4 million of the reserves to fund capital improvements on the associated buildings and recognized the remaining balance of \$0.6 million as revenue. Future maintenance on these facilities will be funded through allocations from operating or capital budgets.

The replacement reserves by facility are as follows:

	2018	2017
Kimberley Special Care Home	\$ -	\$ 420
Noric House	-	396
Columbia View Lodge	-	171
	\$ -	\$ 987

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

9. Deferred capital contributions:

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

	2018	2017
Deferred capital contributions, beginning of year	\$ 1,047,709	\$ 987,820
Capital contributions received:		
Ministry of Health	36,023	69,646
Regional hospital districts	67,240	57,069
Foundations and auxiliaries	13,064	9,646
Health authorities and BC government reporting entities	-	8
Other	3,606	1,304
	119,933	137,673
Amortization for the year	(80,073)	(77,784)
Deferred capital contributions, end of year	\$ 1,087,569	\$ 1,047,709

Deferred capital contributions are comprised of the following:

	2018	2017
Contributions used to purchase tangible capital assets	\$ 1,039,816	\$ 997,339
Unspent contributions	47,753	50,370
	\$ 1,087,569	\$ 1,047,709

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

10. Tangible capital assets:

Cost	2017	Additions	Disposals	Transfers	2018
Land	\$ 43,150	\$ -	\$ (56)	\$ (24)	\$ 43,070
Land improvements	26,289	15	(86)	227	26,445
Buildings	1,695,375	697	(2,312)	52,716	1,746,476
Equipment	632,747	16,813	(19,365)	19,758	649,953
Information systems	85,246	102	(251)	12,959	98,056
Leasehold improvements	23,040	113	-	3,896	27,049
Vehicles	8,748	683	(1,021)	361	8,771
Construction in progress	103,790	141,528	-	(61,070)	184,248
Equipment and information systems in progress	32,259	33,034	-	(28,823)	36,470
Total	\$ 2,650,644	\$ 192,985	\$ (23,091)	\$ -	\$ 2,820,538

Accumulated amortization	2017	Amortization	Disposals	Transfers	2018
Land improvements	\$ 16,661	\$ 1,224	\$ (57)	\$ -	\$ 17,828
Buildings	701,003	48,929	(2,144)	1	747,789
Equipment	491,508	32,385	(17,875)	(1)	506,017
Information systems	67,862	7,223	(251)	-	74,834
Leasehold improvements	11,802	1,247	-	-	13,049
Vehicles	7,219	944	(1,000)	-	7,163
Total	\$ 1,296,055	\$ 91,952	\$ (21,327)	\$ -	\$ 1,366,680

Cost	2016	Additions	Disposals	Transfers	2017
Land	\$ 43,070	\$ -	\$ (228)	\$ 308	\$ 43,150
Land improvements	26,095	123	-	71	26,289
Buildings	1,625,214	367	(6,489)	76,283	1,695,375
Equipment	614,092	16,879	(13,121)	14,897	632,747
Information systems	74,764	159	(351)	10,674	85,246
Leasehold improvements	17,848	65	(1,653)	6,780	23,040
Vehicles	8,797	772	(821)	-	8,748
Construction in progress	73,519	127,141	-	(96,870)	103,790
Equipment and information systems in progress	19,702	24,919	-	(12,362)	32,259
Total	\$ 2,503,101	\$ 170,425	\$ (22,663)	\$ (219)	\$ 2,650,644

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Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

10. Tangible capital assets (continued):

Accumulated amortization	2016	Amortization	Disposals	Transfers	2017
Land improvements	\$ 15,468	\$ 1,193	\$	\$	\$ 16,661
Buildings	657,180	48,919	(5,096)		701,003
Equipment	472,303	32,290	(12,866)	(219)	491,508
Information systems	63,811	4,402	(351)		67,862
Leasehold improvements	12,188	996	(1,382)		11,802
Vehicles	7,086	942	(809)		7,219
Total	\$ 1,228,036	\$ 88,742	\$ (20,504)	\$ (219)	\$ 1,296,055

Net book value	2018	2017
Land	\$ 43,070	\$ 43,150
Land improvements	8,617	9,628
Buildings	998,687	994,372
Equipment	143,936	141,239
Information systems	23,222	17,384
Leasehold improvements	14,000	11,238
Vehicles	1,608	1,529
Construction in progress	184,248	103,790
Equipment and information systems in progress	36,470	32,259
Total	\$ 1,453,858	\$ 1,354,589

During the year, \$4.0 million interest (2017 - \$1.3 million, restated from prior year \$0.5 million) has been capitalized to construction in progress.

Tangible capital assets are funded as follows:

	2018	2017
Deferred capital contributions	\$ 1,039,816	\$ 997,339
Debt	309,668	253,963
Internally funded	104,374	103,287
Tangible capital assets	\$ 1,453,858	\$ 1,354,589

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

11. Inventories held for use:

	2018		2017	
Medical supplies	\$	4,090	\$	4,003
Pharmaceuticals		2,184		2,226
	\$	6,274	\$	6,229

12. Prepaid expenses:

	2018		2017	
Contracted services	\$	957	\$	599
Employee benefits		-		4,531
Maintenance contracts		6,070		4,868
Rent/leases		357		365
Other		423		867
	\$	7,807	\$	11,230

13. Commitments and contingencies:

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

As at March 31, 2018, the Authority had outstanding commitments for construction, equipment and information systems projects in progress of \$95.3 million (2017 – \$204.6 million, restated from \$34.5 million).

(b) Contractual obligations:

The Authority has entered into various contracts for services within the normal course of operations. The estimated contractual obligations under the contracts are as follows:

	2019	2020	2021	2022	2023	Thereafter
Service contracts	\$104,563	\$55,407	\$41,287	\$9,624	\$5,304	\$1,875

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Notes to Financial Statements

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Year ended March 31, 2018

13. Commitments and contingencies (continued):

(c) Long-term residential care contracts:

The Authority has entered into contracts with 46 service providers to provide residential care services. The aggregate annual commitments for these contracts for the years ending March 31 are as follows:

2019	\$	199,523
2020		42,307
2021		42,307
2022		42,307
2023		42,307
Thereafter		210,952
	\$	579,703

(d) Operating leases:

The aggregate minimum future annual rentals under operating leases for the years ending March 31 are as follows:

2019	\$	14,240
2020		13,749
2021		12,730
2022		11,726
2023		10,401
Thereafter		290,814
	\$	353,660

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Year ended March 31, 2018.

13. Commitments and contingencies (continued):

(e) Public-private partnerships commitments:

The Authority has entered into multiple-year P3 contracts to design, build, finance, and maintain the Kelowna and Vernon Hospitals' project, the Interior Heart and Surgical Centre project and the Penticton Regional Hospital project. The information presented below shows the anticipated cash outflow for future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. As construction progresses the asset values are recorded as tangible capital assets and the corresponding liabilities are recorded as debt and disclosed in note 6. Facilities maintenance and life cycle payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

	Capital and financing	FM and lifecycle	Total payments
2019	\$ 46,508	\$ 18,426	\$ 64,934
2020	27,573	20,523	48,096
2021	27,231	22,318	49,549
2022	27,405	22,358	49,763
2023	27,495	22,674	50,169
Thereafter	564,069	765,630	1,329,699
	<u>\$ 720,281</u>	<u>\$ 871,929</u>	<u>\$ 1,592,210</u>

(f) Litigation and claims:

Risk management and insurance services for all health authorities in BC are provided by the Risk Management and Government Security Branch of the Ministry of Finance.

The nature of the Authority's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2018, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

(g) Asset retirement obligations:

The Authority has certain asset retirement obligations relating to several of its facilities that may contain asbestos which may require special handling procedures. At this time, the Authority has not recognized these asset retirement obligations as there are no current approved plans and the timing of the future demolition or renovation of the facilities is unknown and therefore the value of the future obligations cannot be reasonably estimated. These asset retirement obligations will be recognized as a liability in the period when their value can be reasonably estimated.

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

14. Statement of operations:

(a) Patients, clients and residents revenue:

	2018	2017
Long-term and extended care	\$ 44,728	\$ 43,459
Non-residents of BC	27,422	26,799
Non-residents of Canada	13,595	12,485
WorkSafe BC	12,302	10,878
Residents of BC self pay	9,187	9,845
Federal government	1,658	982
Preferred accommodation	671	569
Other	1,189	1,017
	<u>\$ 110,752</u>	<u>\$ 106,034</u>

(b) Other contributions:

	2018	2017
Provincial Health Services Authority	\$ 31,912	\$ 30,851
Other BC government reporting entities	2,452	2,402
Other	1,049	965
	<u>\$ 35,413</u>	<u>\$ 34,218</u>

(c) Other revenues:

	2018	2017
Compensation recoveries	\$ 11,331	\$ 12,130
Parking	5,328	4,860
Other	13,127	12,995
	<u>\$ 29,786</u>	<u>\$ 29,985</u>

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Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

14. Statement of operations (continued):

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

	2018	2017
Compensation:		
Compensation	\$ 1,158,827	\$ 1,119,259
Employee Benefits	263,616	251,568
(Gain) loss on event-driven employee benefits	(5,705)	(15,413)
	1,416,738	1,355,414
Referred-out and contracted services:		
Health and support services providers	322,147	295,355
Other health authorities and BC government reporting entities	17,374	17,378
	339,521	312,733
Supplies:		
Medical and surgical	87,845	85,847
Drugs and medical gases	58,313	60,028
Diagnostic	23,849	23,646
Food and dietary	15,903	16,147
Printing, stationery and office	5,922	5,926
Laundry and linen	4,477	5,742
Housekeeping	5,769	5,079
Other	12,461	12,157
	214,539	214,572
Amortization of tangible capital assets	91,952	88,742
Equipment and building services:		
Equipment	31,555	30,902
Plant operation (utilities)	19,656	18,727
Rent	10,354	8,491
Building and ground service contracts	10,102	8,884
Other	6,139	6,502
	77,806	73,506
Sundry:		
Patient transport	8,765	9,054
Travel	9,428	8,813
Communication and data processing	4,977	5,212
Professional fees	3,562	4,392
Other	21,102	21,391
	47,834	48,862
Interest on debt	15,083	15,515
	\$ 2,203,473	\$ 2,109,344

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

15. Supplementary cash flow information:

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

	2018	2017
Accounts receivable	\$ (6,519)	\$ 6,579
Accounts payable and accrued liabilities	16,040	(12,152)
Deferred operating contributions	(3,655)	(1,758)
Replacement reserves	(987)	50
Inventories held for use	(45)	(633)
Prepaid expenses	3,423	(6,032)
Other non-cash	46	-
	<u>\$ 8,303</u>	<u>\$ (13,946)</u>

(b) Acquisition of tangible capital assets:

Assets purchased or acquired through debt or other non-cash transactions are excluded from purchase of tangible capital assets on the statement of cash flows.

	2018	2017
Acquisition of tangible capital assets (note 10)	\$ 192,985	\$ 170,425
Construction financed with debt	(63,060)	(38,801)
	<u>\$ 129,925</u>	<u>\$ 131,624</u>

16. Related parties and other agencies:

The following are types of related parties. Disclosure of values for related party transactions is only required if the values are different from that which would have been arrived at if the parties were unrelated.

(a) BC Government reporting entities:

The Authority is related through common control to all Province of BC ministries, agencies, Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity.

The Authority contracts certain services to BC Clinical and Support Services (BCCSS), including accounts payable, tech services and supply chain. The expense recorded for contracted services with BCCSS in 2018 was \$13.0 million (2017 - \$13.1 million).

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

16. Related parties and other agencies (continued):

(a) BC Government reporting entities (continued):

The Authority contracts clinical and other services from government reporting entities (GRE's) including cancer programs, renal services, and other programs. The revenue recorded for the recoveries from GRE's in 2018 was \$11.8 million (2017 - \$11.1 million). As at March 31, the Authority has accounts receivable of \$14.1 million (2017 - \$9.5 million) and accounts payable of \$10.8 million (2017 - \$10.1 million) to other GRE's for these services.

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. Other transactions have been recorded at fair value and are not disclosed.

(b) Key management personnel:

The Authority has deemed the Board of Directors and Senior Executive Team and their close family members or entities controlled by them to be related parties based on the PS 2200 definition. A declaration is completed by key management personnel annually to confirm whether there are any related party transactions between themselves, their close family members, or entities under their control and the Authority. No transactions were reported that required disclosure.

(c) Foundations and auxiliaries:

There are 68 separate health care foundations and auxiliaries, which were established to raise funds for their respective hospitals and/or community health services organizations within the Authority area. The foundations and auxiliaries are separate legal entities incorporated under the *Society Act of British Columbia* with separate governance structures. The foundations and some of the auxiliaries are registered charities under the provisions of the *Income Tax Act* of Canada. The financial and non-financial assets and liabilities and results from operations of the foundations and auxiliaries are not included in the financial statements of the Authority. During the year, the foundations and auxiliaries granted \$14.7 million (2017 - \$11.6 million) to various facilities within the Authority.

INTERIOR HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018.

17. Risk management:

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

(a) Credit risk

Credit risk primarily arises from the Authority's cash and cash equivalents and accounts receivable. The risk exposure is limited to their varying amounts at the date of the statement of financial position. The Authority manages credit risk by holding balances of cash and cash equivalents with reputable top rated financial institutions.

Accounts receivable primarily consist of amounts receivable from the Ministry, other health authorities and BC government reporting entities, patients, clients and agencies, foundations and auxiliaries, grantors etc. To reduce the risk, the Authority periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2018, the amount of allowance for doubtful accounts was \$15.8 million (2017 - \$11.4 million).

The Authority is not exposed to significant credit risk with respect to the amounts receivable from the Ministry, other health authorities and BC government reporting entities.

INTERIOR HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

17. Risk management (continued):

(b) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. It is the Authority's intention to meet its financial obligations through the collection of current accounts receivable, cash on hand and future funding from the Ministry.

The Authority's principal source of funding is from the Ministry. The Authority is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined in the funding letter or grant documentation. The Authority has complied with the external restrictions on the funding provided.

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

2018 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 234,038	\$ -	\$ -	\$ 234,038
Accounts receivable	68,690	-	-	68,690
Total financial assets	\$ 302,728	\$ -	\$ -	\$ 302,728

2018 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 208,206	\$ 99	\$ -	\$ 208,305
Debt	4,820	29,407	275,441	309,668
Total financial liabilities	\$ 213,026	\$ 29,506	\$ 275,441	\$ 517,973

2017 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 236,826	\$ -	\$ -	\$ 236,826
Accounts receivable	62,171	-	-	62,171
Total financial assets	\$ 298,997	\$ -	\$ -	\$ 298,997

2017 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 192,066	\$ 218	\$ -	\$ 192,284
Debt	4,880	28,146	220,937	253,963
Total financial liabilities	\$ 196,946	\$ 28,364	\$ 220,937	\$ 446,247

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

17. Risk management (continued):

(b) Liquidity risk (continued):

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

(c) Foreign exchange risk

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

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

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

	2018	2017
US dollar per Canadian dollar	\$ 0.776	\$ 0.752

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

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

18. Budget:

The original budget, as approved by the Board on December 5, 2017, has been adjusted to reflect changes made to sector allocations for various programs and services and the refinement of allocation between accounts. The changes are as follows:

	Board Approved Plan	Reallocations	Restated Budget
Revenues:			
Provincial government sources	\$ 2,025,400	\$ (2,025,400)	\$ -
Non-provincial government sources	171,500	(171,500)	-
Ministry of Health contributions	-	1,749,795	1,749,795
Medical Services Plan	-	148,049	148,049
Patients, clients and residents	-	107,661	107,661
Amortization	-	77,683	77,683
Recoveries from other Health Authorities and government reporting entities	-	46,849	46,849
Other contributions	-	34,028	34,028
Other	-	30,698	30,698
Investment Income	-	2,137	2,137
	2,196,900	-	2,196,900
Expenses:			
Acute	1,218,670	-	1,218,670
Residential care	392,684	-	392,684
Community care	226,296	-	226,296
Corporate	149,988	-	149,988
Mental health and substance use	146,004	-	146,004
Population health and wellness	63,258	-	63,258
	2,196,900	-	2,196,900
Annual Surplus	\$ -	\$ -	\$ -