Financial Statements of

ST. JOSEPH'S GENERAL HOSPITAL

And Independent Auditors' Report thereon

Year ended March 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

Michael Aikins
Chief Administrative Officer

Katja Waldman
Director of Finance and IT

June 18, 2019

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INDEPENDENT AUDITORS' REPORT

To the Bishop of Victoria and to the Minister of Health, Province of British Columbia

Opinion

We have audited the financial statements of St. Joseph's General Hospital (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations and accumulated deficit for the year then ended
- the statement of changes in net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements as at and for the year ended March 31, 2019 of the entity are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of Province of British Columbia.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 1a to the financial statements which describes the applicable financial reporting framework and the significant differences between that financial reporting framework and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter

Responsibilities of Management for the Financial Statements Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
June 18, 2019

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Financial Position

March 31, 2019, with comparative information for 2018

		2019		2018
Financial assets				
Cash and cash equivalents	$	5,269,931	$	5,253,273
Accounts receivable (note 2)		637,663		269,179
		5,907,594		5,522,452
Financial liabilities				
Accounts payable (note 3)		319,837		381,201
Accrued wages and benefits		718,326		384,354
Accrued vacation		397,401		305,132
Deferred operating revenue		74,477		73,828
Retirement allowance (note 4)		836,235		801,757
Deferred capital contributions (note 6)		14,808,440		16,921,990
		17,154,716		18,868,262
Net debt		(11,247,122)		(13,345,810)
Non-financial assets				
Tangible capital assets (note 7)		10,798,713		12,894,384
Inventories held for use (note 8)		21,450		10,454
Prepaid expenses		8,856		13,834
		10,829,019		12,918,672
Accumulated deficit (note 9)	$	(418,103)	$	(427,138)

Contingencies and commitments (note 10)
Contractual rights (note 19)
Subsequent events (note 20)

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

Approved:

_______________ Bishop of Victoria

ST. JOSEPH’S GENERAL HOSPITAL

Statement of Operations and Accumulated Deficit

Year ended March 31, 2019, with comparative information for 2018

	Budget (note 16)	2019	2018
Revenue:			
Acute (note 13)	$ -	$ -	$ 44,337,057
Residential:			
Island Health:			
Contributions and grants	8,954,830	8,990,471	7,711,978
Sales and recoveries	-	577,438	6,084
Sales and recoveries	340,431	618,006	465,204
Clients and residents	2,710,709	2,811,578	2,582,932
Deferred capital contributions amortization (note 6):	-	2,469,496	2,961,103
Investment income	6,000	31,983	17,577
	12,011,970	15,498,972	58,081,935
Expenses (note 12):			
Acute	-	-	43,229,381
Corporate (note 1(k))	269,001	762,978	1,476,324
Mental health and substance use	-	-	1,914,775
Residential care	11,742,969	14,726,959	12,435,209
	12,011,970	15,489,937	59,055,689
Annual surplus (deficit) before the undernoted	-	9,035	(973,754)
Write-down of tangible capital assets (note 7)	-	-	(1,698,531)
Deferred capital contributions recognized due to write-down of tangible capital assets	-	-	1,698,531
Gain on restructuring of acute care (note 15)	-	-	6,013,866
Annual surplus	-	9,035	5,040,112
Accumulated deficit, beginning of year	(427,138)	(427,138)	(5,467,250)
Accumulated deficit, end of year	$ (427,138)	$ (418,103)	$ (427,138)

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

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Changes in Net Debt

Year ended March 31, 2019, with comparative information for 2018

	Budget (note 16)	2019	2018
Annual surplus	$ -	$ 9,035	$ 5,040,112
Acquisition of tangible capital assets	-	(398,656)	(76,155)
Amortization of tangible capital assets	-	2,494,327	2,961,103
Tangible capital assets transferred to Island Health	-	-	3,697,605
Write-down of tangible capital assets	-	-	1,698,531
Net change in prepaid expenses	-	4,978	347,084
Net change in inventories held for use	-	(10,996)	2,420,921
Decrease in net debt	-	2,098,688	16,089,201
Net debt, beginning of year	(13,345,810)	(13,345,810)	(29,435,011)
Net debt, end of year	$ (13,345,810)	$ (11,247,122)	$ (13,345,810)

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

ST. JOSEPH'S GENERAL HOSPITAL

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 9,035	$ 5,040,112
Items not involving cash:		
Amortization of tangible capital assets	2,494,327	2,961,103
Amortization of deferred capital contributions	(2,469,496)	(2,961,103)
Gain on restructuring of acute care	-	(6,013,866)
Loss on disposal of tangible capital assets	-	1,698,531
Capital contributions recognized on disposal	-	(1,698,531)
Retirement allowance expense	51,000	281,000
Cash received from Island Health on restructuring	-	1,067,585
Changes in non-cash operating working capital:		
Accounts receivable	(368,484)	3,827,413
Inventories held for use	(10,996)	464,423
Prepaid expenses	4,978	347,084
Accounts payable and accrued liabilities	364,877	(4,320,628)
Deferred operating contributions	649	(277,166)
	75,890	415,957
Capital activities:		
Purchase of tangible capital assets	(398,656)	(76,155)
Financing activities:		
Retirement allowance benefits paid	(16,522)	(735,795)
Deferred capital contributions received	355,946	836,500
	339,424	100,705
Increase in cash and cash equivalents	16,658	440,507
Cash and cash equivalents, beginning of year	5,253,273	4,812,766
Cash and cash equivalents, end of year	$ 5,269,931	$ 5,253,273

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

St. Joseph’s General Hospital (the “Hospital”) is a denominational hospital wholly owned by the Bishop of Victoria, a Corporation Sole, which provides healthcare and various other medical services to both long and short term patients. The Hospital is a strategic partner with Vancouver Island Health Authority ("VIHA" or “Island Health”). The formal relationship is delineated within an affiliation agreement signed by the respective partners on January 14, 2004. The affiliation agreement establishes accountability provisions, operating principles, funding guidelines, dispute mechanism, and termination rights between the Hospital and Island Health. On October 1, 2017, the acute care services provided by the Hospital transitioned to a new hospital in the Comox Valley owned and operated by Island Health. See note 15.

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

1. Significant accounting policies:

(a) Basis of accounting:

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

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

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

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

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

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

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

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

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

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

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

(b) Revenue recognition:

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

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

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

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

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

Investment income includes interest recorded on an accrual basis.

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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

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

(c) Retirement allowance:

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

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

(d) Non-financial assets:

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

(i) Tangible capital assets:

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

1. Significant accounting policies (continued):

(d) Non-financial assets (continued):

(i) Tangible capital assets (continued):

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

Building	5 - 40 years
Equipment	1 - 10 years

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

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

(ii) Leased tangible capital assets:

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

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

(iii) Inventories held for use:

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

1. **Significant accounting policies (continued):**

(e) Foreign currency translation:

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

(f) Use of estimates:

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

(g) Financial instruments:

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

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

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

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

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

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

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

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

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

(h) Statement of remeasurement gains and losses:

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

(i) Basis of consolidation:

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

(j) Cash and cash equivalents:

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

(k) Allocation of expenses:

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

1. Significant accounting policies (continued):

(l) Restructuring:

The Hospital adopted PS 3430, *Restructuring Transactions* in the fiscal year beginning on April 1, 2016 to account for the transfer of assets and liabilities related to the acute care services provided at the Hospital to Island Health's new hospital in the Comox Valley on October 1, 2017.

PS 3430 defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. The main features of PS 3430 are as follows:

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

2. Accounts receivable:

	2019	2018
Island Health	$ 457,331	$ 169,989
Other	180,332	99,190
	$ 637,663	$ 269,179

3. Accounts payable:

	2019	2018
Trade payables	$ 229,663	$ 276,979
Capital payables	4,502	-
Other	85,672	104,222
	$ 319,837	$ 381,201

4. Retirement allowance:

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

The Hospital's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2018, and extrapolated to March 31, 2019, from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2019, are derived.

Information about retirement allowance benefits is as follows:

	2019	2018
Accrued benefit obligation:		
Severance benefits	$ 345,000	$ 418,000
Sick leave benefits	223,000	250,000
	568,000	668,000
Unamortized actuarial gain	268,235	133,757
Accrued benefit liability	$ 836,235	$ 801,757

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

	2019	2018
Accrued benefit liability, beginning of year	$ 801,757	$ 6,517,778
Current service cost	49,000	223,000
Amortization of actuarial gain	(25,000)	(65,000)
Interest expense	27,000	123,000
Net benefit expense	51,000	281,000
Transfer of liabilities to Island Health (note 15)	-	(5,261,226)
Benefits paid	(16,522)	(735,795)
Accrued benefit liability, end of year	$ 836,235	$ 801,757

4. Retirement allowance (continued):

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

	2019	2018
Discount rate	4.01%	4.01%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

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

5. Employee benefits:

(a) Employee healthcare benefits:

The Healthcare Benefit Trust (the "Trust") administers long-term disability and group life insurance, accidental death and dismemberment, extended health and dental claims ("health and welfare benefits") for certain employee groups of the Hospital and other provincially funded organizations. The Hospital's share of the net trust position is not reflected in these financial statements.

Contributions to the Trust of $921,753 (2018 - $2,745,849) were expensed during the year.

(b) Employee pension benefits:

The Hospital and its employees contribute to the Municipal Pension Plan (a jointly trusteed pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of the assets and administration of the benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are based on a formula. As at December 31, 2017, the plan has about 197,000 active members and approximately 95,000 retired members.

The most recent actuarial valuation as at December 31, 2015 indicated a $2,224 million funding surplus for basic pension benefits on a going concern basis. The next valuation will be as at December 31, 2018 with results available in 2019. Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the plan.

Employer contributions to the Plan of $619,356 (2018 - $2,264,476) were expensed during the year.

6. Deferred capital contributions:

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

Included in deferred capital contributions is a lump sum payment of $4,000,000 received from Island Health as part of the Asset Transfer Agreement in respect of demolition costs of the acute facilities.

	2019	2018
Deferred capital contributions, beginning of year	$ 16,921,990	$ 24,442,729
Capital contributions received:		
Island Health	-	826,901
Comox Valley Regional Hospital District	-	17,933
Comox Valley Healthcare Foundation	193,671	31,321
Auxiliary Society for Comox Valley Healthcare	57,245	-
Seniors Safety & Quality Improvement Program	35,105	-
Interest from invested deferred contribution	69,925	27,606
	355,946	903,761
	17,277,936	25,346,490
Amounts realized due to disposal or write-down	-	(1,698,531)
Contributions recognized as operating revenue	-	(67,261)
Amortization for the year	(2,469,496)	(2,961,103)
Assets transferred to Island Health (note 15)	-	(3,697,605)
Deferred capital contributions, end of year	$ 14,808,440	$ 16,921,990

Deferred capital contributions are comprised of the following:

	2019	2018
Contributions used to purchase tangible capital assets	$ 10,702,495	$ 12,894,384
Unspent contributions	4,105,945	4,027,606
	$ 14,808,440	$ 16,921,990

7. Tangible capital assets:

Cost	Balance March 31, 2018	Additions	Disposals	Transfers	Balance March 31, 2019
Land	$ 14,045	$ -	$ -	$ -	$ 14,045
Buildings	35,971,370	353,635	-	-	36,325,005
Equipment	8,240,105	18,276	-	-	8,258,381
Construction projects in progress	53,642	26,745	-	-	80,387
	$44,279,162	$ 398,656	$ -	$ -	$44,677,818

Accumulated amortization	2018	Additions	Disposals	Transfers	2019
Land	$ -	$ -	$ -	$ -	$ -
Buildings	25,435,828	1,949,039	-	-	27,384,867
Equipment	5,948,950	545,288	-	-	6,494,238
	$31,384,778	$ 2,494,327	$ -	$ -	$33,879,105

Net book value	2018	2019
Land	$ 14,045	$ 14,045
Buildings	10,535,542	8,940,138
Equipment	2,291,155	1,764,143
Construction projects in progress	53,642	80,387
Total	$ 12,894,384	$10,798,713

Subsequent to the restructuring of acute care, the Hospital determined that $1,698,531 (net book value) of tangible capital assets, formerly used in acute care that were not transferred to Island Health, no longer contributed to the Hospital's ability to provide services and wrote-off those amounts. Additionally, the estimated useful life of the remaining assets associated with acute care services not transferred to Island Health was changed to 5 years or less to reflect the limited remaining service potential prior to demolition of the acute care facility. The change is considered a change in estimate and accounted for prospectively as of October 1, 2017, and resulted in an increase in amortization of $1,042,106 for the year end March 31, 2018. The write-down and increase in amortization were equally offset by recognition of deferred capital contributions of $2,740,637.

7. Tangible capital assets (continued):

Tangible capital assets are funded as follows:

	2019	2018
Deferred capital contributions	$ 10,702,495	$ 12,894,384
Internally funded	96,218	-
	$ 10,798,713	$ 12,894,384

8. Inventories held for use:

	2019	2018
Medical supplies	$ 10,996	$ -
Other	10,454	10,454
	$ 21,450	$ 10,454

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

9. Accumulated deficit:

Accumulated deficit is comprised of the following accounts:

	2019	2018
Operating surplus (deficit)	$ (84,776)	$ 2,407
Invested in capital assets	96,218	-
Unfunded deficit from operations	(429,545)	(429,545)
	$ (418,103)	$ (427,138)

9. Accumulated deficit (continued):

Investment in tangible capital assets is calculated as follows:

	2019	2018
Tangible capital assets	$ 10,798,713	$ 12,894,384
Deferred capital contributions	(10,702,495)	(12,894,384)
	$ 96,218	$ -

Unfunded deficit from operations:

Balance of $429,545 is comprised as follows:

Unfunded increase in liabilities resulting from 1989 change	
Directed by the Ministry of Health:	
Accrued vacation pay	$ 521,477
Accrued retirement allowance	667,238
Unfunded increase in liabilities relating to retirement allowance	
April 1, 1999 retroactive adjustment in retirement allowance	1,502,925
Accumulated unfunded portion of retirement allowance expense:	
Fiscal year ended March 31, 2000	166,495
Fiscal year ended March 31, 2001	167,878
Fiscal year ended March 31, 2011	518,771
Fiscal year ended March 31, 2012	34,758
Transferred to Island Health October 1, 2017	(3,149,997)
Total unfunded deficit from operations	$ 429,545

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.

10. Contingencies and commitments:

The nature of the Hospital's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2019, management is of the opinion that the Hospital has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Hospital's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement. Accruals are made when a liability is likely and can be reliably measured.

11. Related party transactions:

The following are types of related parties. Disclosure of values for related party transactions is required if the values are different from that which would have been arrived at if the parties were unrelated. Identified differences will be shown as a table within this note. The absence of a table indicates that no significant differences have been identified.

(a) BC government reporting entities:

The Hospital 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.

(b) Key management personnel:

The Hospital has deemed the Board of Directors and Senior Executive Team, their close family members or entities controlled by them to be key management personnel based on the PS2200 definition.

(c) Foundations and auxiliaries

The Comox Valley Healthcare Foundation and the Auxiliary Society for Comox Valley Healthcare raise funds in the community for the purposes of furthering the interests and objectives of the Hospital and healthcare in the Comox Valley area. These entities are not-for-profit organizations and registered charities under the income tax act. Contributions received during the year from these entities are disclosed in note 6.

12. Statement of operations:

The following is a summary of expenses by object:

	2019	2018
Compensation and benefits:		
Employee wages	$ 7,970,878	$ 29,991,850
Employee benefits (includes sick and severance)	2,609,189	8,438,293
Purchased services - personnel	166,465	681,065
Purchased services - physicians	-	3,701,934
Supplies:		
Drugs and medical gases	243,622	4,331,252
Medical and surgical	141,657	3,201,578
Diagnostic	-	896,100
Printing, stationery and office	15,741	129,333
Food and dietary	384,731	738,059
Laundry and linen	94,730	227,696
Housekeeping	30,657	111,652
Other	15,805	225,353
Equipment and building services:		
Equipment	31,194	945,366
Building and ground	99,590	26,797
Plant operation (utilities)	636,853	637,276
Rent	-	25,436
Maintenance	102,543	181,858
Sundry:		
Professional fees	105,086	339,650
Travel	7,477	75,928
Communication and data processing	44,283	89,691
Other	65,014	258,731
Amortization of tangible capital assets	2,494,327	2,961,103
Contracted services	230,095	839,688
	$ 15,489,937	$ 59,055,689

13. Acute care revenue:

	2019	2018
Island Health:		
Contributions and grants	$ -	$ 29,804,581
Sales and recoveries	-	3,947,946
Provincial Health Services Authority	-	3,449,564
Medical Services Plan	-	4,116,026
Sales and recoveries	-	2,273,828
Patients, clients and residents	-	677,313
Pharmacare	-	67,799
	$ -	$ 44,337,057

14. Economic dependence:

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

15. Restructuring of acute care:

On October 1, 2017 (the "transfer date"), Island Health commenced the provision of acute care services at the New Comox Valley Hospital, owned by Island Health. As of the transfer date, the Hospital ceased the provision of acute care services. The remaining healthcare services provided by the Hospital are hospice care services and long-term residential care services.

The Asset Transfer Agreement sets out which financial assets, non-financial assets, financial liabilities and accumulated deficits were transferred to Island Health as a result of the restructuring transaction, and the basis of accounting for the transferred amounts.

Key provisions from the Asset Transfer Agreement related to the segregation of the Hospital's assets, liabilities and accumulated deficits are as follows:

(a) Cash and cash equivalents:

The cash transferred to (from) Island Health was calculated based on the cash reconciliation formula in Schedule 1 of the Asset Transfer Agreement. See below for the cash reconciliation.

15. Restructuring of acute care (continued):

(b) Accounts receivable:

Accounts receivable in connection with acute care services were assumed by Island Health on the transfer date.

(c) Accounts payable:

Accounts payable as at September 30, 2018 were paid out by the Hospital and were not assumed by Island Health.

(d) Accrued wages and benefits:

Accrued wages and benefits as at September 30, 2018 were paid out by the Hospital and were not assumed by Island Health.

(e) Accrued vacation and overtime:

Accrued vacation and overtime payable for transferring employees were assumed by Island Health at the transfer date.

(f) Retirement allowance:

Retirement allowance consisting of accrued retirement sick and severance payable, based on an actuarial valuation for remaining employees was assumed by Island Health at the transfer date.

(g) Deferred capital contributions:

Deferred capital contributions for the assumed tangible capital assets related to acute care services were assumed by Island Health at the transfer date.

(h) Tangible capital assets:

Island Health assumed all equipment (including certain information technology hardware and software) used in connection with acute care services on the transfer date. Equipment includes all moveable equipment and furnishings used in connection with the provision of acute care services and not used in connection with long-term residential care services and hospice care services that Island Health determined, at its sole discretion, was useful and could be transferred to the New Comox Valley Hospital or any other Island Health site. The assumed information technology hardware did not include any assets that are needed to provide IT infrastructure to support the provision of long-term residential care services or hospice care services.

(i) Inventories held for use:

Inventories held for use in connection with acute care services were assumed by Island Health at the transfer date.

15. Restructuring of acute care (continued):

(j) Accumulated deficit:

Island Health assumed the Hospital's accumulated operating deficit to September 30, 2018 and the unfunded deficit from operations, including unfunded liabilities from accrued vacation and retirement allowances based on past actuarial valuations for the portion attributable to the acute care services. The portion of the unfunded deficit attributed to acute care services was calculated at 88% of the total deficit. See note 9.

The cash reconciliation resulted in a cash payment from Island Health to the Hospital due at the Transfer date calculated as follows:

	Cash due from (to) Island Health
Assigned accounts receivable	$ 2,603,410
Inventory	1,956,498
Accrued vacation and overtime payable	(2,326,193)
Retirement allowance	(5,261,226)
Accumulated operating deficit	2,863,869
Allowable unfunded deficit	3,149,997
Total cash due to the Hospital from Island Health	$ 2,986,355

Subsequent to the transfer date (until January 4, 2018), $1,918,770 in accounts receivables payments were received directly by the Hospital reducing the total outstanding cash amount due from Island Health to $1,067,585. As a result, the actual cash paid from Island Health to the Hospital on January 11, 2018 was $1,067,585. The cash reconciliation pertains solely to the specific assets and liabilities identified in the Asset Transfer Agreement which were transferred on October 1, 2017 and does not include any subsequent transitional or severance costs which are reimbursable by Island Health per the Asset Transfer Agreement.

Following is a reconciliation of the assets and liabilities transferred to Island Health on October 1, 2017 that resulted in the restructuring gain of $6,013,866 on the statement of operations and accumulated deficit:

	Amounts transferred to Island Health
Cash	$ (2,986,355)
Assigned accounts receivable	2,603,410
Inventory	1,956,498
Tangible capital assets	3,697,605
Accrued vacation and overtime payable	(2,326,193)
Retirement allowance	(5,261,226)
Deferred capital contributions	(3,697,605)
Restructuring gain	$ 6,013,866

15. Restructuring of acute care (continued):

The restructuring gain consists of:

Accumulated operating deficit of acute care as at September 30, 2017	$ 2,863,869
Allowable unfunded deficit related to acute care (note 9)	3,149,997
	$ 6,013,866

Restructuring related costs incurred during the year of $nil (2018 - $2,266,892) are included in acute care expenses. The costs included professional fees, supplies, information technology and staff costs incurred in planning and implementing the transition of acute care.

16. Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the 2018-2019 budget which was approved by the Board of Directors of the Hospital on September 26, 2018. The budget is reflected in the Statement of Operations and Accumulated Deficit and the Statement of Changes in Net Debt.

17. Financial instruments:

Risk Management Policy

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

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

17. Financial instruments (continued):

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

(a) Credit risk:

Financial instruments that potentially subject the Hospital to concentrations of credit include accounts receivable. Accounts receivable primarily consist of amounts receivable from Island Health, BC government reporting entities, patients, clients and agencies, hospital foundation and auxiliary, grantors etc. To reduce the risk, the Hospital periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. The Hospital historically has not had difficulty collecting receivables, nor have counterparties defaulted on any payments. The maximum credit risk exposure is $180,332 (2018 - $99,190).

(b) Interest rate risk:

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

(c) Liquidity risk:

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

18. Comparative information:

Certain comparative information has been reclassified to conform to the presentation adopted in the current year.

19. Contractual rights

The Hospital holds contractual rights from agreements that have been entered into with various parties, including Island Health, that provide the Hospital with future payments. Island Health has agreed to reimburse the Hospital for transition costs as defined in the Asset Transfer Agreement incurred following the transfer date that have not otherwise been paid for or reimbursed by the Island Health through other funding sources including through the cash reconciliation process. Non-recurring transition costs as well as ongoing maintenance of the vacant facilities and specified negotiated severance and benefits payments will be included in these subsequent costs as outlined in the Asset Transfer Agreement.

The estimated contractual rights under these agreements, for the period ending March 31, are as follows:

2020	$	505,754
2021		101,376
2022		31,393
2023		20,500
2024		20,500
Thereafter		279,105
	$	958,628

20. Subsequent events:

On April 1, 2019, (the "transfer date"), in accordance with the Asset Transfer Agreement between the Bishop of Victoria and Providence Residential and Community Care Services Society ("PRCC"), dated December 21, 2018, the Hospital transferred its rights and responsibilities under the Affiliation Agreement for Residential Care with Island Health, dated October 1, 2017, and the Asset Transfer Agreement between Island Health and the Bishop of Victoria, dated August 18, 2017. On the transfer date, the Hospital transferred its lands, buildings, other assets, and employees and contractors to PRCC, and PRCC assumed all related authorized liabilities and costs.

Effective March 31, 2019, the Bishop of Victoria dissolved the board of directors of the Hospital.