

Consolidated Financial Statements of

VANCOUVER ISLAND HEALTH AUTHORITY

Year ended March 31, 2016



Statement of Management Responsibility

The consolidated financial statements of the Vancouver Island Health Authority (the "Authority") for the year ended March 31, 2016 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 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 fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Finance and Audit Committee of the Board. The Finance and Audit 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.

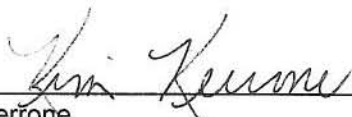
The Authority's internal auditor independently evaluates the effectiveness of internal controls on an ongoing basis and reports its findings to management and the Finance and Audit Committee.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the consolidated financial statements. Their examination considers internal control relevant to management's preparation and fair presentation of the consolidated 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 Finance and Audit Committee of the Board and meet with it on a regular basis.

On behalf of the Vancouver Island Health Authority



Dr. Brendan Carr
President and Chief Executive Officer



Kim Kerrone
Vice President and Chief Financial Officer

May 25, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Vancouver Island Health Authority and the Minister of Health

We have audited the accompanying consolidated financial statements of Vancouver Island Health Authority, which comprise the consolidated statement of financial position as at March 31, 2016, the consolidated statements of operations and accumulated deficit, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements of Vancouver Island Health Authority as at March 31, 2016, and for the year then ended are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

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

KPMG LLP

Chartered Professional Accountants

May 25, 2016
Victoria, Canada

VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Financial Position

(Tabular amounts expressed in thousands of dollars)


As at March 31, 2016, with comparative information for 2015


	2016	2015
Financial assets		
Cash and cash equivalents (note 2)	\$ 309,253	\$ 245,279
Accounts receivable (note 3)	61,552	71,774
Inventories held for sale (note 4)	1,056	704
Long-term disability and health and welfare benefits (note 9(b) (i))	-	4,679
	<u>371,861</u>	<u>322,436</u>
Liabilities		
Accounts payable and accrued liabilities (note 5)	221,437	191,122
Deferred operating contributions (note 6)	7,641	8,551
Deferred research and designated contributions (note 7)	3,100	3,008
Debt (note 8)	353,349	253,379
Retirement allowance (note 9(a))	112,854	111,833
Long-term disability and health and welfare liability (note 9(b) (i))	3,787	-
Replacement reserves (note 10)	215	325
Deferred capital contributions (note 11)	1,104,960	966,681
	<u>1,807,343</u>	<u>1,534,899</u>
Net debt	<u>(1,435,482)</u>	<u>(1,212,463)</u>
Non-financial assets		
Tangible capital assets (note 12)	1,327,922	1,126,405
Inventories held for use (note 13)	13,926	13,524
Prepaid expenses	41,007	16,252
Restricted assets (note 14)	244	244
	<u>1,383,099</u>	<u>1,156,425</u>
Accumulated deficit	<u>\$ (52,383)</u>	<u>\$ (56,038)</u>

Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


 _____ Director
 Don Hubbard


 _____ Director
 Matthew Watson

VANCOUVER ISLAND HEALTH AUTHORITY

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

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

	2016 Budget (note 1(p))	2016	2015
Revenues:			
Ministry of Health contributions	\$ 1,765,369	\$ 1,756,682	\$ 1,702,444
Medical Services Plan	141,595	146,155	139,779
Recoveries from other health authorities and BC government reporting entities	99,815	108,229	105,756
Patients, clients and residents (note 16(a))	59,713	58,578	57,675
Amortization of deferred capital contributions (note 11)	68,446	64,782	65,051
Other (note 16(b))	29,126	35,311	36,212
Other contributions (note 16(c))	4,940	8,063	7,099
Investment income	1,286	1,424	1,477
	<u>2,170,290</u>	<u>2,179,224</u>	<u>2,115,493</u>
Expenses (note 16(d)):			
Acute care	1,185,549	1,176,251	1,153,941
Residential care	348,800	360,141	358,221
Community care	239,115	247,096	231,529
Mental health and substance use	169,148	161,433	156,948
Corporate	167,088	171,988	152,041
Population health and wellness	60,590	58,660	57,890
	<u>2,170,290</u>	<u>2,175,569</u>	<u>2,110,570</u>
Annual surplus	-	3,655	4,923
Accumulated deficit, beginning of year	(56,038)	(56,038)	(60,961)
Accumulated deficit, end of year	\$ (56,038)	\$ (52,383)	\$ (56,038)

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Changes in Net Debt
(Tabular amounts expressed in thousands of dollars)

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

	2016 Budget (note 1(p))	2016	2015
Annual surplus	\$ -	\$ 3,655	4,923
Acquisition of tangible capital assets	(325,235)	(277,300)	(205,195)
Proceeds from disposal of tangible capital assets	-	47	14
Amortization of tangible capital assets	82,992	77,685	81,317
Loss on disposal of tangible capital assets	-	5,493	319
Capitalized interest	-	(7,444)	(1,427)
	(242,243)	(197,864)	(120,049)
Acquisition of inventories held for use	-	(110,949)	(179,213)
Acquisition of prepaid expenses	-	(54,609)	(25,035)
Consumption of inventories held for use	-	110,547	178,911
Use of prepaid expenses	-	29,854	21,901
	-	(25,157)	(3,436)
Increase in net debt	(242,243)	(223,021)	(123,485)
Net debt, beginning of year	(1,212,463)	(1,212,463)	(1,088,978)
Net debt, end of year	(1,454,706) \$	(1,435,484) \$	(1,212,463)

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

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

	2016	2015
Cash flows from (used in):		
Operating activities:		
Annual surplus	\$ 3,655	\$ 4,923
Items not involving cash:		
Amortization of deferred capital contributions	(64,782)	(65,051)
Amortization of tangible capital assets	77,685	81,317
Loss on disposal of tangible capital assets	5,493	319
Retirement allowance expense	9,629	10,189
Long-term disability benefits expense	46,439	45,782
Interest income	(1,424)	(1,477)
Interest expense	11,913	12,132
	88,608	88,134
Net change in non-cash operating items (note 17(a))	14,103	(19,789)
Interest received	1,424	1,477
Interest paid	(11,913)	(12,132)
Net change in cash from operating activities	92,222	57,690
Capital activities:		
Proceeds from disposal of tangible capital assets	47	14
Acquisition of tangible capital assets (note 17(b))	(180,975)	(148,460)
Net change in cash from capital activities	(180,928)	(148,446)
Financing activities:		
Retirement allowance benefits paid	(8,608)	(7,519)
Long-term disability benefits contributions	(37,973)	(20,738)
Repayment of debt	(3,798)	(3,695)
Capital contributions	203,060	147,396
Net change in cash from financing activities	152,681	115,444
Increase in cash and cash equivalents	63,975	24,688
Cash and cash equivalents, beginning of year	245,279	220,591
Cash and cash equivalents, end of year	\$ 309,254	\$ 245,279

See accompanying notes to consolidated financial statements.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

Vancouver Island 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 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 Vancouver Island region and those referred from outside the region.

1. Significant accounting policies:

(a) Basis of accounting:

The consolidated financial statements are 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 consolidated 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 are recorded and referred to as deferred capital contributions 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. 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 or deferred research and designated contributions, and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met by the Authority.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

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 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, Government Transfers;
- 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 the 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 consolidation:

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of Cumberland Regional Hospital Laundry Society. This entity is controlled by the Authority. Inter-entity transactions, balances and activities have been eliminated on consolidation.

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 consolidated financial statements do not include the assets, liabilities and results of operations of these entities (see note 18(b)).

(c) Affiliated organizations:

Within the Authority area, there are two denominational health care organizations, St. Joseph's General Hospital and Mount St. Mary Hospital (collectively the "Affiliates"), which have the responsibility to manage the administration of certain health care facilities under affiliation agreements with the Authority. These Affiliates are separate legal entities with separate board of directors and, accordingly, these consolidated financial statements do not include their assets, liabilities or results of operations. However, the funds received from the Ministry on behalf of these Affiliates are recorded as Ministry of Health contributions, and funds transferred to the Affiliates are recorded as expenses in the consolidated statement of operations.

(d) 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.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

1. Significant accounting policies (continued):

(e) 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 consolidated statement of operations. Interest is accrued on loans receivable to the extent it is deemed collectable.

(f) Inventories held for sale:

Inventories held for sale are recorded at the lower of weighted average cost or net realizable value. Cost includes the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition. Net realizable value is the estimated selling price less any costs to sell.

Inventories held for sale include pharmaceutical and other medical supplies.

(g) 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.

(h) 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.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

1. Significant accounting policies (continued):

(h) Employee benefits (continued):

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

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 benefits is 11 years (2015 - 10 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.

The discount rate used to measure an 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.

(i) 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.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

1. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(i) Tangible capital assets (continued):

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:

Asset	Basis
Land improvements	5 – 25 years
Buildings	5 – 50 years
Equipment	3 – 20 years
Information systems	3 – 10 years
Assets under capital lease and leasehold improvements	Lease term

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 consolidated statement of operations. Write-downs are not subsequently reversed.

Contributed tangible capital assets are recorded at their fair market 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. Certain inventory items are purchased on consignment and are not included in inventory.

(iii) Prepaid expenses:

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

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

1. Significant accounting policies (continued):

(j) 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.

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

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 consolidated 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.

(k) Measurement uncertainty:

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of estimates include 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 consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from the estimates.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

1. Significant accounting policies (continued):

(l) 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.

(m) 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 consolidated financial statement date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or consolidated statement of financial position date is recognized in the consolidated statement of operations.

(n) 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. Portfolio investments, other than equity investments quoted in an active market, are reported at cost 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 consolidated 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 consolidated 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.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

1. Significant accounting policies (continued):

(n) Financial instruments (continued):

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.

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

Correspondingly, an obligation net of contributions received, is recorded as a liability and included in debt.

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

(p) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2015/2016 Budget approved by the Board of Directors on May 27, 2015 and published in the Authority's Service Plan. The budget is reflected in the consolidated statement of operations and accumulated deficit and the consolidated statement of changes in net debt.

(q) Future accounting standards:

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

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

1. Significant accounting policies (continued):

(q) Future accounting standards (continued):

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

- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis;
- Transactions are measured at the carrying amount, except in specific circumstances;
- A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice; and
- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.

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

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

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

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

VANCOUVER ISLAND HEALTH AUTHORITY

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Year ended March 31, 2016

1. Significant accounting policies (continued):

(q) Future accounting standards (continued):

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

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

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

2. Cash and cash equivalents:

	2016	2015
Cash and cash equivalents	\$ 309,254	\$ 245,279
Amounts restricted for capital purposes	(175,292)	(156,481)
Amounts restricted for P3 projects	(11,257)	(9,276)
Amounts restricted for future operating purposes	(7,641)	(8,551)
Amounts restricted for research and designated purposes	(3,100)	(3,008)
Amounts internally restricted	(1,311)	(1,448)
Amounts restricted for replacement reserves	(215)	(325)
Amounts restricted for patient comfort funds	(220)	(222)
Unrestricted cash and cash equivalents	\$ 110,218	\$ 65,968

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3. Accounts receivable:

	2016	2015
Medical Services Plan	\$ 13,991	\$ 35,940
Other health authorities and BC government reporting entities	9,168	8,716
Ministry of Health	15,153	5,185
Patients, clients and residents	9,320	8,697
Regional Hospital Districts	2,643	2,493
Foundations and auxiliaries	6,193	4,425
Federal government	3,342	5,173
WorkSafe BC	1,041	1,035
Other	3,211	2,773
	64,062	74,437
Allowance for doubtful accounts	(2,510)	(2,663)
	\$ 61,552	\$ 71,774

4. Inventories held for sale:

	2016	2015
Medical supplies	\$ 479	\$ 356
Pharmaceuticals	577	348
	\$ 1,056	\$ 704

During the year, \$2.9 million (2015 - \$2.7 million) of inventories were sold by the Authority.

5. Accounts payable and accrued liabilities:

	2016	2015
Salaries and benefits payable	\$ 99,111	\$ 73,674
Trade accounts payable and accrued liabilities	67,679	61,523
Accrued vacation pay	54,650	55,925
	\$ 221,440	\$ 191,122

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6. Deferred operating contributions:

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

	2016	2015
Deferred operating contributions, beginning of year	\$ 8,551	\$ 8,659
Contributions received during the year	1,134	2,258
Amounts recognized as revenue in the year	(2,044)	(2,366)
Deferred operating contributions, end of year	\$ 7,641	\$ 8,551

7. Deferred research and designated contributions:

Deferred research and designated contributions represent unspent contributions received to fund research and other activities. Contributions are received from external sources for specific clinical research projects and specific educational purposes.

	2016	2015
Deferred research and designated contributions, beginning of year	\$ 3,008	\$ 3,456
Contributions received during the year	394	291
Amounts recognized as revenue in the year	(302)	(739)
Deferred research and designated contributions, end of year	\$ 3,100	\$ 3,008

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8. Debt:

	2016	2015
Public-private partnerships (P3):		
RJH Patient Care Centre, 30 year contract to December 1, 2040 with ISL Health, payable in monthly payments of \$1,229 including annual interest of 6.87%, payable in accordance with the project agreement terms	\$ 184,538	\$ 187,542
Campbell River and Comox Valley Hospitals, 30 year contract to April 1, 2047 with Tandem Health Partners, payable in monthly payments of \$1,526 including annual interest of 6.79%, payable in accordance with the project agreement terms commencing May 2017 with total debt at completion of \$232.0 million	161,931	58,162
	<u>346,469</u>	<u>245,704</u>
Bank loans:		
Royal Bank of Canada, payable in monthly payments of \$44, including annual interest of 2.58%, renewable November 19, 2016	4,916	5,313
Royal Bank of Canada, payable in monthly payments of \$15, including annual interest of 2.66%, renewable November 10, 2019	1,425	1,568
	<u>6,341</u>	<u>6,881</u>
Mortgages:		
Canada Mortgage and Housing Corporation (CMHC), secured by first charges on properties,		
Trillium Lodge, payable in monthly payments of \$13, including annual interest of 1.77%, maturing June 1, 2017	190	339
Dogwood Place, payable in monthly payments of \$2, including annual interest of 1.67%, renewable December 1, 2016	287	310
Cumberland Lodge, payable in monthly payments of \$7, including annual interest rate of 1.70%, maturing June 1, 2016	63	145
	<u>540</u>	<u>794</u>
	<u>\$ 353,350</u>	<u>\$ 253,379</u>

VANCOUVER ISLAND HEALTH AUTHORITY

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Year ended March 31, 2016

8. Debt (continued):

Required principal repayments and maturities on bank loans and mortgages over the years ending March 31 are as follows:

2017	\$	5,301
2018		214
2019		398
2020		968
2021		-
	\$	6,881

Required principal repayments on P3 debt over the years ending March 31 are disclosed with public-private partnership commitments in note 15.

9. 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, 2015, and extrapolated to March 31, 2016, from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2016, are derived. The next required valuation will be as of December 31, 2018.

Information about retirement allowance benefits is as follows:

	2016	2015
Accrued benefit obligation:		
Severance benefits	\$ 57,216	\$ 58,393
Sick leave benefits	41,267	42,867
	98,483	101,260
Unamortized actuarial gain	14,371	10,573
Accrued benefit liability	\$ 112,854	\$ 111,833

VANCOUVER ISLAND HEALTH AUTHORITY

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Year ended March 31, 2016

9. Employee benefits (continued):

(a) Retirement allowance (continued):

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

	2016	2015
Accrued benefit liability, beginning of year	\$ 111,833	\$ 109,163
Net benefit expense:		
Current service cost	6,847	6,762
Interest expense	4,076	4,310
Amortization of actuarial gain	(1,294)	(883)
Net benefit expense	9,629	10,189
Benefits paid	(8,608)	(7,519)
Accrued benefit liability, end of year	\$ 112,854	\$ 111,833

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

	2016	2015
Accrued benefit obligation, as at March 31:		
Discount rate	3.93%	3.98%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	3.98%	4.26%
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 benefits and group life insurance, accidental death and dismemberment, extended health and dental claims ("health and welfare benefits") 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.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2016

9. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

(i) Long-term disability and health and welfare benefits:

The Trust is a multiple employer plan, with the Authorities assets and liabilities being segregated with regards to long-term disability benefits after September 30, 1997 and health and welfare benefits after December 31, 2014. Accordingly, the Authority's net trust liabilities (assets) are reflected in these consolidated financial statements.

The Authority's liabilities (assets) as of March 31, 2016 are based on the actuarial valuation at December 31, 2015, extrapolated to March 31, 2016. The Authority's liabilities (assets) as of March 31, 2015 are based on the actuarial valuation at December 31, 2014. The next expected valuation as of December 31, 2016.

The long-term disability and health and welfare benefits liability (asset) reported on the consolidated statement of financial position is as follows:

	2016	2015
Fair value of plan assets	\$ 171,458	\$ 208,302
Accrued benefit obligation	175,245	203,623
Net liability (asset)	\$ 3,787	\$ (4,679)
	2016	2015
Long-term disability benefits asset, beginning of year	\$ (4,679)	\$ (29,723)
Net benefit expense:		
Long term disability expense	25,787	26,187
Health and welfare benefit expense	30,137	7,493
Interest expense	9,421	8,851
Actuarial loss (gain)	(8,518)	14,028
Employee payments	(466)	(593)
Expected return on assets	(9,922)	(10,184)
Net benefit expense	46,439	45,782
Contributions to the plan	(38,432)	(3,186)
Transfer of health and welfare benefits net surplus	459	(15,165)
Effect of change in plan valuation date	-	(2,387)
Long-term disability and health and welfare benefits liability (asset), end of year	\$ 3,787	\$ (4,679)
Benefits paid to claimants	\$ (62,506)	\$ (31,503)

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

9. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

Plan assets consist of:

	2016	2015
Debt securities	42%	43%
Foreign equities	36%	34%
Equity securities and other	22%	23%
Total	100%	100%

The significant actuarial assumptions adopted in measuring the Authority's accrued long-term disability and health and welfare benefits liabilities (asset) are as follows:

	2016	2015
Accrued benefit liability (asset) as at March 31:		
Discount rate	5.30%	5.30%
Rate of benefit increase	1.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	5.30%	5.80%
Rate of compensation increase	1.50%	2.50%
Expected future inflationary increases	2.00%	2.00%
Expected long-term rate of return on plan assets	5.30%	5.80%

Actual long-term rate of return on plan assets was 7.70% for the year ended December 31, 2015 (December 31, 2014 – 10.8%).

(ii) Other Trust benefits:

The health and welfare benefits administered by the Trust on behalf of the Authority were part of a multi-employer pool within the Trust prior to December 31, 2014. Contributions to this pool by the Authority for the nine month period ended December 31, 2014 of \$24.2 million were expensed during the 2014/15 year. From January 1, 2015 the Authority no longer participates in this pool. The benefits are now provided through the long-term disability and health and welfare benefit plans.

The 2014-2019 Health Science Professionals Bargaining Association, Community Bargaining Association, and Facilities Bargaining Association collective agreements include provisions to establish joint benefit trusts to provide long-term disability and health and welfare benefits to the employees covered by these agreements. During the 2016/17 fiscal year, management of the long-term disability and health and welfare benefits being provided to these employee groups through the Healthcare Benefit Trust will transition to the joint benefit trusts.

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2016

9. 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 \$73.4 million (2015 - \$70.0 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 available actuarial valuation for the plan at December 31, 2012, indicated an unfunded liability of approximately \$1,370.0 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 185,000 active members, of which approximately 15,100 are employees of the Authority (2015 - 15,000). The next actuarial valuation as of December 31, 2015 will have results available in fall 2016.

Employer contributions to the Public Service Pension Plan of \$1.8 million (2015 - \$1.4 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, 2014 indicated a surplus of approximately \$392.0 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 56,000 active members, of which approximately 400 (2015 - 400) are employees of the Authority. The next expected actuarial valuation will be as of March 31, 2017.

10. Replacement reserves:

Under the terms of mortgage agreements with CMHC and B.C. Housing Management Commission ("B.C. Housing"), the Authority is required to set aside certain amounts each year as a replacement reserve. Use of the reserve funds requires approval of CMHC or B.C. Housing, respectively. The Authority complies with these provisions.

The replacement reserves by facility are as follows:

	2016	2015
Cumberland Lodge	\$ 111	\$ 216
Trillium Lodge	76	68
Dogwood Manor	28	41
	<u>\$ 215</u>	<u>\$ 325</u>

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11. Deferred capital contributions:

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

	2016	2015
Deferred capital contributions, beginning of year	\$ 966,681	\$ 884,336
Capital contributions received:		
Ministry of Health	67,319	40,951
Regional hospital districts	121,876	85,831
Foundations and auxiliaries	9,035	11,485
Other	4,830	9,129
	203,060	147,396
Amortization for the year	(64,782)	(65,051)
Deferred capital contributions, end of year	\$ 1,104,959	\$ 966,681

Deferred capital contributions are comprised of the following:

	2016	2015
Contributions used to purchase tangible capital assets	\$ 930,666	\$ 810,200
Unspent contributions	174,293	156,481
	\$ 1,104,959	\$ 966,681

12. Tangible capital assets:

Cost	2015	Additions	Disposals	Transfers	2016
Land	\$ 25,133	\$ 2	\$ (5,486)	\$ -	\$ 19,649
Land improvements	18,276	134	-	72	18,482
Buildings	1,224,676	8,039	-	16,141	1,248,856
Equipment	513,710	13,405	(2,459)	9,993	534,649
Information systems	172,119	439	(6,045)	3,156	169,669
Leasehold improvements	24,390	94	-	-	24,484
Equipment under capital lease	328	-	(328)	-	-
Construction in progress	174,948	230,862	-	(17,271)	388,539
Equipment and information systems in progress	69,328	31,769	-	(12,091)	89,006
Total	\$ 2,222,908	\$ 284,744	\$ (14,318)	\$ -	\$ 2,493,334

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Year ended March 31, 2016

12. Tangible capital assets (continued):

Accumulated amortization	2015	Amortization	Disposals/ Transfers	2016
Land improvements	\$ 11,842	\$ 1,212	\$ -	\$ 13,054
Buildings	506,733	40,676	328	547,737
Equipment	418,120	25,469	(2,733)	440,856
Information systems	146,241	9,464	(6,045)	149,660
Leasehold improvements	13,239	864	-	14,103
Equipment under capital lease	328	-	(328)	-
Total	\$ 1,096,503	\$ 77,685	\$ (8,778)	\$ 1,165,410

Cost	2014	Additions	Disposals	Transfers	2015
Land	\$ 25,083	\$ 50	\$ -	\$ -	\$ 25,133
Land improvements	17,770	294	-	212	18,276
Buildings	1,156,842	7,515	(46)	60,365	1,224,676
Equipment	500,010	21,557	(2,585)	(5,272)	513,710
Information systems	162,973	746	-	8,400	172,119
Leasehold improvements	23,961	188	-	241	24,390
Equipment under capital lease	328	-	-	-	328
Construction in progress	83,791	147,122	-	(55,965)	174,948
Equipment and information systems in progress	48,159	29,150	-	(7,981)	69,328
Total	\$ 2,018,917	\$ 206,622	\$ (2,631)	\$ -	\$ 2,222,908

Accumulated amortization	2014	Amortization	Disposals/ Transfers	2015
Land improvements	\$ 10,871	\$ 971	\$ -	\$ 11,842
Buildings	464,874	41,892	(33)	506,733
Equipment	396,332	24,053	(2,265)	418,120
Information systems	132,695	13,546	-	146,241
Leasehold improvements	12,384	855	-	13,239
Equipment under capital lease	328	-	-	328
Total	\$ 1,017,484	\$ 81,317	\$ (2,298)	\$ 1,096,503

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12. Tangible capital assets (continued):

Net book value	2016	2015
Land	\$ 19,649	\$ 25,133
Land improvements	5,428	6,434
Buildings	701,119	717,943
Equipment	93,793	95,590
Information systems	20,009	25,878
Leasehold improvements	10,381	11,151
Equipment under capital lease	-	-
Construction projects in progress	388,539	174,948
Equipment and information systems in progress	89,006	69,328
Total	\$ 1,327,924	\$ 1,126,405

During the year \$7.4 million (2015 - \$1.4 million) of interest has been capitalized to construction projects in progress.

Tangible capital assets are funded as follows:

	2016	2015
Deferred capital contributions	\$ 930,666	\$ 810,200
Debt	335,302	237,415
Internally funded	61,956	78,790
Tangible capital assets	\$ 1,327,924	\$ 1,126,405

13. Inventories held for use:

	2016	2015
Medical supplies	\$ 9,899	\$ 9,276
Pharmaceuticals	4,027	4,248
	\$ 13,926	\$ 13,524

14. Restricted assets:

	2016	2015
Restricted assets, beginning of year	\$ 244	\$ 244
Contributions received during the year	-	-
Restricted assets, end of year	\$ 244	\$ 244

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15. Commitments and contingencies:

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

As at March 31, 2016, the Authority had outstanding commitments for construction, equipment and information systems projects in progress of \$185.0 million (2015 - \$385.7 million).

- (b) Contractual obligations:

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

	Contract terms	2017	2018	2019	2020	2021	Thereafter
Service contracts	2004-2024	\$ 163,092	\$ 67,511	\$ 60,499	\$ 21,119	\$ 9,421	\$ 53

- (c) Long-term residential care contracts:

The Authority has entered into contracts with 40 service providers to provide residential care services. The aggregate annual commitments for these contracts are as follows:

2017	\$ 190,550
2018	56,504
2019	55,234
2020	54,204
2021	53,796
Thereafter	463,990
	\$ 874,278

- (d) Operating leases:

The aggregate minimum future annual rentals under operating leases are as follows:

2017	\$ 19,208
2018	14,536
2019	10,531
2020	7,200
2021	5,203
Thereafter	63,548
	\$ 120,226

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15. Commitments and contingencies (continued):

(e) Public-private partnerships commitments:

The Authority has entered into multiple-year contracts to design, build, finance, and maintain the Royal Jubilee Hospital Patient Care Centre, the Campbell River Hospital and the Comox Valley Hospital. 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 capital assets and the corresponding liabilities are recorded as debt and disclosed in note 8. Facilities management and lifecycle 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
2017	\$ 14,749	\$ 8,655	\$ 23,404
2018	31,538	17,959	49,497
2019	33,064	19,215	52,279
2020	33,064	19,857	52,921
2021	33,064	19,995	53,059
Thereafter	769,015	754,332	1,523,347
	<u>\$ 914,494</u>	<u>\$ 840,013</u>	<u>\$ 1,754,507</u>

Required principal repayments on this debt over the years ending March 31 are as follows:

2017	\$ 3,199
2018	5,613
2019	6,199
2020	6,617
2021	7,064
Thereafter	317,777
	<u>\$ 346,469</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, 2016, 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.

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Notes to Consolidated Financial Statements
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Year ended March 31, 2016

15. Commitments and contingencies (continued):

(g) Asset retirement obligations:

The Authority has identified certain asset retirement obligations relating to asbestos removal in several of its facilities. At this time, the Authority has not recognized these asset retirement obligations as there is an indeterminate settlement date of the future demolition or renovation of the facilities and therefore the fair value cannot be reasonably estimated. The asset retirement obligations will be recognized as a liability in the period when the fair value can be reasonably estimated.

16. Consolidated statement of operations:

(a) Patients, clients and residents revenues:

	2016	2015
Long-term and extended care	\$ 33,255	\$ 32,650
WorkSafe BC	7,206	6,614
Non-residents of Canada	7,261	7,055
Residents of BC self pay	4,383	4,301
Federal government	3,603	3,908
Preferred accommodation	1,422	1,358
Other	1,448	1,789
	<u>\$ 58,578</u>	<u>\$ 57,675</u>

(b) Other revenues:

	2016	2015
Recoveries from sales of goods and services	\$ 24,140	\$ 23,102
Parking	7,502	7,300
Other	3,669	5,810
	<u>\$ 35,311</u>	<u>\$ 36,212</u>

(c) Other contributions:

	2016	2015
Federal government	171	191
Other	7,892	6,908
	<u>\$ 8,063</u>	<u>\$ 7,099</u>

VANCOUVER ISLAND HEALTH AUTHORITY

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16. Consolidated statement of operations (continued):

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

	2016	2015
Compensation:		
Compensation	\$ 1,059,171	\$ 1,015,992
Employee benefits	228,538	204,308
Loss (gain) on event driven employee benefits	(8,518)	14,028
	1,279,191	1,234,328
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	88,571	86,328
Health and support services providers	381,932	372,427
	470,503	458,755
Supplies:		
Medical and surgical	73,944	76,167
Drugs and medical gases	46,445	43,667
Diagnostic	20,053	18,951
Food and dietary	8,827	8,531
Laundry and linen	7,228	7,272
Printing, stationery and office	4,128	4,254
Housekeeping	2,675	2,872
Other	15,706	15,823
	179,006	177,537
Amortization of tangible capital assets	77,685	81,317
Equipment and building services:		
Equipment	63,755	58,635
Plant operations (utilities)	15,323	15,753
Rent	16,778	15,720
Building and ground service contracts	6,542	6,113
Other	4,353	7,560
	106,751	103,781
Sundry:		
Travel	11,389	11,387
Communication and data processing	7,056	6,868
Professional fees	5,012	5,288
Patient transport	4,605	4,282
Other	16,965	14,576
	45,027	42,401
Interest on debt and capital leases	11,913	12,132
Loss on disposal of tangible capital assets	5,493	319
	\$ 2,175,569	\$ 2,110,570

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Notes to Consolidated Financial Statements
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Year ended March 31, 2016

17. Supplementary cash flow information:

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

	2016	2015
Accounts receivable	\$ 10,222	\$ (16,782)
Inventories held for sale	(352)	(55)
Accounts payable and accrued liabilities	30,318	1,119
Deferred operating contributions	(910)	(108)
Deferred research and designated contributions	92	(448)
Replacement reserves	(110)	(79)
Inventories held for use	(402)	(302)
Prepaid expenses	(24,755)	(3,134)
	\$ 14,103	\$ (19,789)

(b) Acquisition of tangible capital assets:

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

	2016	2015
Acquisition of tangible capital assets (note 12)	\$ 180,975	\$ 148,410
Construction financed with debt	103,767	58,162
Acquisition of land	2	50
	\$ 284,744	\$ 206,622

18. Related parties and other agencies:

(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. 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.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

18. Related parties and other agencies (continued):

(a) BC government reporting entities (continued):

The consolidated financial statements include transactions and balances with these parties in the following amounts:

	2016	2015
Revenue		
Ministry of Health contributions	\$ 1,756,682	\$ 1,702,444
Medical Services Plan	146,155	139,779
Recoveries from other health authorities and BC government reporting entities	108,229	105,756
Amortization of deferred capital contributions	44,235	45,188
Other	28	378
	<u>\$ 2,055,329</u>	<u>\$ 1,993,545</u>
Expenses		
Referred out and contracted services	\$ 93,260	\$ 86,328
Equipment and building services	8,831	18,109
Sundry	15,583	12,956
Supplies	1,197	503
	<u>\$ 118,871</u>	<u>\$ 117,896</u>
Accounts receivable		
Medical Services Plan	\$ 13,991	\$ 35,940
Other health authorities and BC government reporting entities	9,168	8,716
Ministry of Health	15,153	5,185
	<u>\$ 38,312</u>	<u>\$ 49,841</u>
Deferred capital contributions	\$ 569,260	\$ 545,128
Accounts payable and accrued liabilities	6,821	17,182
Deferred operating contributions	6,929	6,421

(b) Foundations and auxiliaries:

Within the Authority area, there are 33 separate health care foundations and auxiliaries, which were established to raise funds for their respective hospitals and/or community health services organizations. 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 consolidated financial statements of the Authority. During the year, the foundations granted \$8.1 million (2015 - \$10.6 million) to various facilities within the Authority.

VANCOUVER ISLAND HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2016

19. 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, accounts receivable and portfolio investments. The risk exposure is limited to their varying amounts at the date of the consolidated statement of financial position.

The Authority manages credit risk by holding balances of cash and cash equivalents with reputable top rated financial institutions. The portfolio investments are in low risk instruments with varying maturities held with top rated financial institutions. The Authority periodically reviews its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its portfolio investments.

Accounts receivable primarily consist of amounts receivable from the Ministry, other health authorities and BC government reporting entities, patients, clients and agencies, hospital 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, 2016, the amount of allowance for doubtful accounts was \$2.5 million (2015: \$2.7 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. At March 31, 2016, the following accounts receivable were past due but not impaired:

	2016	2015
30 days	\$ 341	\$ 3,768
60 days	166	4,488
90 days	304	3,823
Over 120 days	3,105	14,744

(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. If the current funding and cash on hand were insufficient to satisfy its current obligations, the Authority has the option to sell its portfolio investments, which can be liquidated without additional cost.

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.

VANCOUVER ISLAND HEALTH AUTHORITY

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

Year ended March 31, 2016

19. Risk management (continued):

(b) Liquidity risk (continued):

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

2016 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 309,254	\$ -	\$ -	\$ 309,254
Accounts receivable	56,254	5,298	-	61,552
Total financial assets	\$ 365,508	\$ 5,298	\$ -	\$ 370,806

2016 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 216,007	\$ 4,339	\$ 1,094	\$ 221,440
Debt	8,501	34,613	310,236	353,350
Total financial liabilities	\$ 224,508	\$ 38,952	\$ 311,330	\$ 574,790

2015 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 245,279	\$ -	\$ -	\$ 245,279
Accounts receivable	67,488	3,376	910	71,774
Total financial assets	\$ 312,767	\$ 3,376	\$ 910	\$ 317,053

2015 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 185,101	\$ 4,934	\$ 1,087	\$ 191,122
Debt	3,798	35,574	214,007	253,379
Total financial liabilities	\$ 188,899	\$ 40,508	\$ 215,094	\$ 444,501

VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2016

19. 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 dollars. The results of the Authority's operations are subject to currency transaction and translation risks.

The Authority makes payments denominated in US dollars, and other currencies. Currencies most contributing to the foreign exchange risk are US dollars.

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

	2016	2015
US dollar per Canadian dollar	\$ 0.770	\$ 0.790

The Authority has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks, as management has assessed 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.

20. Comparative information:

Certain of the comparative information have been reclassified to conform with the current year's financial statement presentation.