

Financial Statements of

**VANCOUVER COASTAL
HEALTH AUTHORITY**

Year Ended March 31, 2018

Statement of Management Responsibility

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

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements.

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, the Office of the Auditor General of British Columbia, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. The external auditors have full and free access to management and the Finance and Audit Committee of the Board and meet with each on a regular basis.

On behalf of Vancouver Coastal Health Authority



Mary Ackenhusen
President & Chief Executive Officer



Glen Copping
Chief Financial Officer & Vice President,
System Development & Performance

Vancouver, BC
June 20, 2018



INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Vancouver Coastal Health Authority (“the entity”), which comprise the statement of financial position as at March 31, 2018, and the statement of operations and accumulated surplus (deficit), statement of changes in net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As described in Note 1 (a) to the financial statements, the entity's accounting treatment for contributions received from governments and for externally restricted contributions received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized. The entity was required to adopt this accounting policy as prescribed by Province of British Columbia Treasury Board Regulation 198/2011.

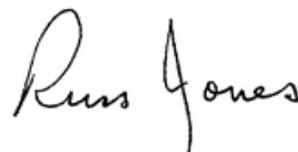
Under Canadian Public Sector Accounting Standards, the entity's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received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

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. When the cumulative effects of this departure to date are adjusted through opening accumulated surplus, the entity's records indicate that the effects of this departure on the current year financial statements is an overstatement of the liability for deferred revenue of \$766 million, an understatement of opening accumulated surplus of \$706 million, and a current year understatement of revenue of \$60 million. Accordingly, the current year surplus is understated by \$60 million and net debt is overstated by \$766 million.

Qualified Opinion

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

Victoria, British Columbia
June 21, 2018



Russ Jones, FCPA, FCA
Deputy Auditor General



VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Financial Position

(Tabular amounts expressed in thousands of dollars)

As at March 31, 2018

	2018	2017
Financial assets		
Cash and cash equivalents (note 2)	\$ 466,187	\$ 462,934
Portfolio investments (note 2)	-	326
Accounts receivable (note 3)	112,979	88,805
Demand loan receivable (note 4)	29,000	29,000
Loan receivable (note 5)	4,791	4,892
Pearson receivable (note 6)	142,055	155,815
Long-term disability and health and welfare benefits (note 12(b))	3,750	-
	<u>758,762</u>	<u>741,772</u>
Liabilities		
Accounts payable and accrued liabilities (note 7)	293,384	272,979
Deferred operating contributions (note 8)	3,506	3,433
Deferred research and designated contributions (note 9)	12,447	10,452
Obligation under capital lease (note 10)	104,740	106,386
Debt (note 11)	1,370	2,391
Retirement allowance (note 12(a))	133,508	131,203
Long-term disability and health and welfare benefits (note 12(b))	-	8,904
Replacement reserves (note 13)	790	633
Deferred capital contributions (note 14)	1,288,652	1,184,951
	<u>1,838,397</u>	<u>1,721,332</u>
Net debt	\$ (1,079,635)	\$ (979,560)
Non-financial assets		
Tangible capital assets (note 15)	1,145,756	1,035,262
Tangible capital assets under lease (note 15)	86,004	88,239
Inventories held for use (note 16)	10,480	9,002
Prepaid expenses (note 17)	21,944	25,695
	<u>\$ 1,264,184</u>	<u>\$ 1,158,198</u>
Accumulated surplus	\$ 184,549	\$ 178,638

Commitments and contingencies (note 18)

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

Approved on behalf of the Board:



Director

Kip Woodward, Board Chair



Director

Allan Baydala, Acting Chair Audit & Finance Committee

VANCOUVER COASTAL HEALTH AUTHORITY

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

Year Ended March 31, 2018

	2018 Budget (note 1(q))	2018	2017
Revenues:			
Ministry of Health contributions	\$ 2,714,946	\$ 2,700,947	\$ 2,584,119
Medical Services Plan	237,457	246,591	251,178
Other contributions (note 19(a))	160,666	173,592	160,808
Recoveries from other health authorities and BC government reporting entities	138,382	146,882	141,921
Patients, clients and residents (note 19(b))	94,406	129,390	101,777
Amortization of deferred capital contributions (note 14)	72,242	72,818	68,406
Other (note 19(c))	31,091	30,529	31,112
Research and designated contributions (note 9)	20,000	15,542	13,090
Investment income	4,160	2,644	4,646
	<u>3,473,350</u>	<u>3,518,935</u>	<u>3,357,057</u>
Expenses (note 19(d)):			
Acute	2,018,874	2,067,685	1,988,466
Residential care	468,515	468,857	449,900
Mental health and substance use	317,466	309,719	282,274
Corporate	305,924	299,607	274,039
Community care	257,751	263,080	250,448
Population health and wellness	104,820	104,076	100,272
	<u>3,473,350</u>	<u>3,513,024</u>	<u>3,345,399</u>
Annual surplus	\$ -	\$ 5,911	\$ 11,658
Accumulated surplus, beginning of year	178,638	178,638	166,980
Accumulated surplus, end of year	\$ 178,638	\$ 184,549	\$ 178,638

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

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Changes in Net Debt

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

	2018 Budget (note 1(q))	2018	2017
Annual surplus	\$ -	\$ 5,911	\$ 11,658
Acquisition of tangible capital assets	(238,307)	(185,537)	(159,959)
Amortization of tangible capital assets	76,711	77,278	72,865
	(161,596)	(102,348)	(75,436)
Acquisition of inventories held for use	-	(244,355)	(237,144)
Acquisition of prepaid expenses	-	(39,049)	(45,091)
Consumption of inventories held for use	-	242,877	237,034
Use of prepaid expenses	-	42,800	43,082
	-	2,273	(2,119)
(Increase) decrease in net debt	(161,596)	(100,075)	(77,555)
Net debt, beginning of year	(979,560)	(979,560)	(902,005)
Net debt, end of year	\$ (1,141,156)	\$ (1,079,635)	\$ (979,560)

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

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

	2018	2017
Cash flows from operating activities:		
Annual surplus	\$ 5,911	\$ 11,658
Items not involving cash:		
Amortization of deferred capital contributions	(72,818)	(68,406)
Amortization of tangible capital assets	77,278	72,865
Retirement allowance expense	10,952	11,157
Long term disability, health and welfare benefits expense	40,524	60,925
Interest expense	5,598	5,697
Interest income	(2,644)	(4,646)
	64,801	89,250
Net change in non-cash operating items (note 20(a))	729	(64,338)
Interest paid	(5,598)	(5,697)
Interest received	2,644	4,786
Net change in cash from operating activities	62,576	24,001
Capital activities:		
Acquisition of tangible capital assets (note 20(b))	(185,537)	(159,959)
Net change in cash from capital activities	(185,537)	(159,959)
Investing activities:		
Proceeds from redemption of portfolio investments	326	5,232
Proceeds (advance) of pearson receivable	13,760	(4,158)
Proceeds from loan receivable	101	108
Net change in cash from investing activities	14,187	1,182
Financing activities:		
Repayment of obligation under capital lease	(1,646)	(1,386)
Retirement allowance contributions	(8,647)	(7,726)
Long term disability, health and welfare benefits contributions	(53,178)	(69,609)
Repayment of debt	(1,021)	(1,000)
Capital contributions	176,519	199,067
Net change in cash from financing activities	112,027	119,346
Increase (decrease) in cash and cash equivalents	3,253	(15,430)
Cash and cash equivalents, beginning of year	462,934	478,364
Cash and cash equivalents, end of year	\$ 466,187	\$ 462,934

Supplementary cash flow information (note 20)

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

Vancouver Coastal 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 seven health authorities in British Columbia ("BC"). The Authority is dependent on the Ministry to provide sufficient funds to continue operations, replace essential equipment, and complete its capital projects. The Authority is a registered charity under the *Income Tax Act*, and as such, is exempt from income and capital taxes.

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

1. Significant accounting policies:

The financial statements of the Authority are prepared by management in accordance with significant accounting policies as follows:

(a) Basis of accounting:

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

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

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

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

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate 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 periods during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

- (ii) Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred 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.

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

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

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

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

(b) Basis of presentation:

The Authority has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Authority and/or provide services under contracts. As the Authority does not control these organizations, the financial statements do not include the assets, liabilities and results of operations of these entities (see note 21(b)).

(c) Affiliated organization:

Within the Authority's geographical region, there is one denominational health care organization, Providence Health Care ("PHC"), which has the responsibility to manage the administration of certain health care facilities under affiliation agreements with the Authority. This Affiliate is a separate legal entity with a separate Boards of Directors and accordingly, these financial statements do not include their assets, liabilities or results of operations. However, the funds received from the Ministry on behalf of this affiliate are recorded as Ministry of Health contributions, and funds transferred to the affiliate are recorded as expenses in the statement of operations. As the Authority's performance agreement with the Ministry includes the performance of this affiliate, information on the equity and results of operations of the affiliate is provided in note 21(c) of these financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(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 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.

(e) Portfolio investments:

Portfolio investments include guaranteed investment certificates and are recorded at cost adjusted for any write-downs. Transaction costs are recorded using the effective interest rate method.

Write-downs of investments are recognized when the loss in value is determined to be other-than-temporary. Write-downs are not reversed in the future if circumstances change.

(f) Accounts receivable:

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

(g) Assets available for sale:

Assets available for sale are those expected to be sold within one year. They are valued at the lower of cost, less accumulated amortization, or expected net realizable value. Cost includes amounts for improvements to prepare the assets for sale.

(h) 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 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.

At each reporting date, the Authority reviews its asset retirement obligations to reflect current best estimates.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(i) 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 benefit plans as employees render services to earn the benefits.

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

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

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

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

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

(j) Contaminated sites:

Liabilities for contaminated sites are recorded when contamination of a site or part of a site not in productive use exceeds an accepted environmental standard and the Authority is directly responsible, or accepts responsibility for the damage. Liabilities are measured at the Authority's best estimate of the costs directly attributable to remediation of the contamination.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(k) Non-financial assets:

(i) Tangible capital assets:

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

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

Asset	Basis
Buildings	5 - 50 years
Equipment and information systems	3 - 20 years
Leasehold improvements	lease term
Buildings under capital lease	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 statement of operations. Write-downs are not subsequently reversed.

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

(ii) 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 Authority's rate for incremental borrowing or the interest rate implicit in the lease. Note 10 provides a schedule of repayments and amount of interest on the leases.

(iii) Inventories held for use:

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(l) Prepaid expenses:

Prepaid expenses include cash disbursements for future events, and operational costs, which will be charged to expense over the periods expected to benefit from it.

(m) 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 fees being earned or the services being performed are deferred and recognized when the fees are earned or services performed.

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

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

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

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

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

(n) Measurement uncertainty:

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

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

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(o) Foreign currency translation:

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

(p) 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. Loans 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.

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

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

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

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

(q) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2017/2018 Budget approved by the Board of Directors on March 8, 2017 and published in the Authority's Service Plan. The budget is reflected in the statement of operations and the statement of changes in net debt.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(r) Newly adopted accounting standards:

Effective April 1, 2017 the Authority adopted the following new accounting standards:

- (i) PS 2200, Related Party Disclosure. 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 financial statements.
- (ii) 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. Requirements of this standard are considered in conjunction with requirements of PS 2200.
- (iii) 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.
- (iv) 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
- (v) 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. Disclosure of information about contractual rights is required including description of their nature and extent, and the timing.

Except for the disclosure changes resulting from the adoption of PS 2200, there is no impact to the financial statements upon transition to the other standards.

VANCOUVER COASTAL HEALTH AUTHORITY

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

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(s) Future accounting standards:

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

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

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

(ii) In March 2018, PSAB issued PS 3280, Asset Retirement Obligations. PS 3280 defines and establishes standards for recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of tangible capital assets. The main features of PS 3280 are as follows:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset;
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner;
- Asset retirement costs associated with an asset no longer in productive use are expensed;
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use;
- Asset retirement obligations include post-retirement operation, maintenance and monitoring;

VANCOUVER COASTAL HEALTH AUTHORITY

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(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

1. Significant accounting policies (continued):

(s) Future accounting standards (continued):

(ii) The main features of PS 3280 are as follows (continued):

- A present value technique is often the best method with which to estimate the liability.

PS 3280 applies to fiscal years beginning on or after April 1, 2021. Management is in the process of assessing the impact of adoption of PS 3280 on the financial statements of the Authority.

2. Cash and cash equivalents and portfolio investments:

	2018	2017
Cash and cash equivalents	\$ 466,187	\$ 462,934
Portfolio investments	-	326
	466,187	463,260
Amounts restricted for capital purposes	(190,579)	(187,266)
Amounts restricted for research and designated purposes	(13,910)	(12,336)
Amounts restricted for replacement reserves	(790)	(633)
Amounts restricted for patient comfort funds	(728)	(660)
Unrestricted cash and cash equivalents and portfolio investments	\$ 260,180	\$ 262,365

Included in cash and cash equivalents is \$387.2 million (2017 - \$381.2 million) held in the Provincial Treasury Central Deposit program.

3. Accounts receivable:

	2018	2017
Other health authorities and BC government reporting entities	\$ 51,182	\$ 36,489
Patients, clients and residents	24,386	11,276
Foundations and auxiliaries	15,578	12,469
Ministry of Health	14,201	15,144
Medical Services Plan	8,308	11,353
Federal government	3,153	3,118
WorkSafeBC	2,723	3,014
Other	16,693	10,443
	136,224	103,306
Allowance for doubtful accounts	(23,245)	(14,501)
	\$ 112,979	\$ 88,805

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

4. Demand loan receivable:

The demand loan receivable represents funds advanced to PHC during the fiscal year ended March 31, 2016 to assist PHC with the acquisition of the Station Street Lands. The unsecured loan bears interest at the Government of BC Central Deposit Rate, currently 1.95%, and is payable at the earlier of:

- VCH's demand, which demand may be issued at any time
- the sale of any portion(s) of the Station Street Lands which are not intended to be used as a hospital site, or
- the sale of the lands comprising the current location of St. Paul's Hospital

5. Loan receivable:

The loan consists of funds advanced for the repayment of a debt related to the Vancouver General Hospital ("VGH") Parkade. The debt was repaid on behalf of 578583 BC Ltd., a corporation which is the trustee of the VGH Parkade Trust (the "Trust") and is wholly owned by the VGH and UBC Hospital Foundation.

The Trust was created by agreement between the Authority and 578583 BC Ltd. In its capacity as the trustee of the Trust, 578583 BC Ltd. holds beneficial ownership in the VGH Parkade and earns the associated revenue.

The loan receivable from 578583 BC Ltd. earns interest at a variable rate which equals the RBC prime rate, currently 3.45%, and has a maturity date of March 2020.

6. Pearson receivable:

On January 31, 2015, VCH entered into an agreement with the Onni Group to sell the lands at the Pearson Dogwood site for \$302.0 million and redevelop the facilities.

The Pearson receivable represents cash due to the Authority related to the proceeds due from Onni Pearson Dogwood Development Limited Partnership on the sale of the Pearson lands. The remaining balance of \$172.0 million is due to be received over a period of 7 years, as follows: \$17.5 million to be received each July 2017 to 2019; \$25.0 million to be received each July 2020 to 2022; and the final payment of \$44.5 million to be received July 2023. The receivable has been discounted to net present value of \$142.1 million (2017 - \$155.8 million) using the BC Provincial Loan Concessionary Rate of 2.61%.

The deferred payments by the Onni Group are secured with a mortgage in favour of the Authority. There is also a security agreement which charges the personal property of the Onni Group relating to the Dogwood and Pearson lands, buildings and the redevelopment work.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

7. Accounts payable and accrued liabilities:

	2018	2017
Trade accounts payable and accrued liabilities	\$ 139,853	\$ 130,627
Salaries and benefits payable	85,046	77,322
Accrued vacation pay	68,485	65,030
	\$ 293,384	\$ 272,979

8. Deferred operating contributions:

Deferred operating contributions represent externally restricted operating funding received for specific purposes, including grants from provincial ministries for various programs (including mental health, youth services, speech pathology and special needs). Other funds received are used for “go green” projects and to further the well-being of the Authority’s employees. Funds received for exchange transactions, environmental health permits and parking paid in advance, are also recorded as deferred operating contributions and recognized throughout the fiscal year.

	2018	2017
Deferred operating contributions, beginning of year	\$ 3,433	\$ 3,330
Contributions received during the year	2,501	3,053
Amounts recognized as revenue in the year	(2,428)	(2,950)
Deferred operating contributions, end of year	\$ 3,506	\$ 3,433

9. Deferred research and designated contributions:

Deferred research and designated contributions represent unspent contributions received to fund research and other activities through the Vancouver Coastal Health Research Institute and the Prostate Research Centre. Contributions are received from pharmaceutical companies and other donors for various research projects to promote the health and well-being of residents within the region.

	2018	2017
Deferred research and designated contributions, beginning of year	\$ 10,452	\$ 7,367
Contributions received during the year	17,537	16,175
Amounts recognized as revenue in the year	(15,542)	(13,090)
Deferred research and designated contributions, end of year	\$ 12,447	\$ 10,452

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

10. Obligation under capital lease:

	2018	2017
Building under capital lease obligations, with weighted average interest rate of 5.37% and maturities to 2036	\$ 104,740	\$ 106,386
	\$ 104,740	\$ 106,386

Future minimum lease payments for the years ending March 31 are as follows:

2019	\$ 7,381
2020	7,566
2021	7,756
2022	7,950
2023	8,149
Thereafter	130,824
Total minimum lease payments	169,626
Amounts representing interest	(64,886)
	\$ 104,740

11. Debt:

	2018	2017
Canada Mortgage and Housing Corporation ("CMHC"), secured by first charges on properties, payable in monthly (blended) payments of \$88, including annual interest of 1.99%, renewable January 2019	\$ 1,370	\$ 2,391
	\$ 1,370	\$ 2,391

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

2019	\$ 439
2020	267
2021	237
2022	242
2023	185
	\$ 1,370

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

12. Employee benefits:

(a) Retirement allowance:

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

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

Information about retirement allowance benefits is as follows:

	2018	2017
Accrued benefit obligation:		
Severance benefits	\$ 69,324	\$ 68,568
Sick leave benefits	51,924	51,208
	121,248	119,776
Unamortized actuarial gain	12,260	11,427
Accrued benefit obligation	\$ 133,508	\$ 131,203

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

	2018	2017
Accrued benefit obligation, beginning of year	\$ 131,203	\$ 127,772
Net benefit expense:		
Current service cost	7,861	7,976
Interest expense	4,675	4,559
Amortization of actuarial gain	(1,584)	(1,378)
Net benefit expense	10,952	11,157
Benefits paid	(8,647)	(7,726)
Accrued benefit obligation, end of year	\$ 133,508	\$ 131,203

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

12. Employee benefits (continued):

(a) Retirement allowance (continued):

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

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

(b) Healthcare Benefit Trust 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 Authority and other provincially-funded organizations.

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

(i) Long-term disability 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 assets are reflected in these financial statements.

The Authority's assets as of March 31, 2018 are based on the actuarial valuation at December 31, 2017, extrapolated to March 31, 2018. The Authority's liabilities as of March 31, 2017 are based on the actuarial valuation at December 31, 2016. The next expected valuation is as of December 31, 2018.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

12. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

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

	2018	2017
Fair value of plan assets	\$ 166,141	\$ 159,206
Accrued benefit obligation	(162,391)	(168,110)
Net funded (unfunded) obligation	\$ 3,750	\$ (8,904)
	2018	2017
Long-term disability and health and welfare benefits liability, beginning of year	\$ (8,904)	\$ (17,588)
Net benefit expense:		
Long-term disability expense	(18,109)	(27,988)
Actuarial gain	337	10,632
Health and welfare benefit expense	(26,095)	(41,946)
Interest expense	(8,580)	(9,411)
Employee payments	830	2,306
Contributions adjustment	(624)	-
Ancillary business units expense	2,821	-
Expected return on assets	8,378	8,896
Transfer of health and welfare benefits net surplus	518	(3,414)
Net benefit expense	(40,524)	(60,925)
Contributions to the plan - VCH	53,178	69,609
Long-term disability and health and welfare benefits asset (liability), end of year	\$ 3,750	\$ (8,904)
Benefits paid to claimants	\$ (63,166)	\$ (73,239)

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

12. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

Plan assets consist of:

	2018	2017
Debt securities	42%	40%
Foreign equities	35%	35%
Equity securities and other	23%	25%
Total	100%	100%

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

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

Actual long-term rate of return on plan assets was 7.58% for the year ended December 31, 2017 (December 31, 2016 – 3.98%).

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

12. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

(ii) Joint benefit trusts:

The 2014-2019 Health Science Professionals Bargaining Association, Community Bargaining Association and Facilities Bargaining Association collective agreements include provisions to establish joint benefit trusts ("JBTs") to provide long-term disability and health and welfare benefits to the employees covered by these agreements. Effective April 1, 2017, management of the long-term disability and health and welfare benefits being provided to these employee groups through the Healthcare Benefit Trust transitioned to the JBTs. Employer contributions to the JBTs are based on a specified percentage of payroll costs. These rates may change for remaining years of the current collective agreements (2018 and 2019).

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

\$ thousands	2018
Joint Facilities Benefits Trust (JFBT)	15,696
Joint Health Science Benefits Trust (JHSBT)	14,167
Joint Community Benefits Trust (JCBT)	3,841
Total	33,704

(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 \$86.9 million (2017 - \$83.3 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at December 31, 2015 indicated a funding surplus of approximately \$2,224.0 million. The actuary does not attribute portions of the unfunded liability/funding surplus to individual employers. The plan covers approximately 193,000 active members, of which 17,448 are employees of the Authority. The next expected actuarial valuation will be as of December 31, 2018, with results available in 2019.

Employer contributions to the Public Service Plan of \$0.5 million (2017 - \$0.6 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 the plan funding. The most recent actuarial valuation for the plan at March 31, 2017, indicated a surplus of approximately \$1,895.9 million. The actuary does not attribute portions of the unfunded liability/surplus to individual employers.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

12. Employee benefits (continued):

(c) Employee pension benefits (continued):

The plan covers approximately 59,000 active members, of which 83 are employees of the Authority. The next actuarial valuation date will be as of March 31, 2020 with results available in early 2021.

13. Replacement reserves:

Under the terms of mortgage agreements with Canada Mortgage and Housing Corporation ("CMHC") and BC Housing Management Commission ("BC 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 BC Housing, respectively. The Authority complies with these provisions.

The change in the replacement reserves is calculated as follows:

	2018	2017
Replacement reserves, beginning of year	\$ 633	\$ 600
Provision for replacement reserve funding	88	45
Interest on replacement reserves	14	6
Replacement reserve adjustment ⁽¹⁾	85	-
Capital Payment	(30)	(18)
Replacement reserves, end of year	\$ 790	\$ 633

⁽¹⁾ Adjustment to Lions Park reserve fund per BC Housing replacement reserve reconciliation.

The replacement reserves by facility are as follows:

	2018	2017
Lions Park Senior Citizens Housing	\$ 249	\$ 117
Shorncliffe Intermediate Care	204	187
Kiwanis Intermediate Care ⁽¹⁾	172	172
Cedarview Lodge ⁽¹⁾	92	90
Hilltop House	73	67
	\$ 790	\$ 633

⁽¹⁾ During fiscal year 2016, Kiwanis Intermediate Care mortgage was paid in full and during fiscal year 2018, Cedarview Lodge mortgage was paid in full. The Authority is no longer required to increase the reserves, and the balance remaining will be used for future maintenance.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

14. Deferred capital contributions:

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

	2018	2017
Deferred capital contributions, beginning of year	\$ 1,184,951	\$ 1,054,290
Capital contributions received:		
Ministry of Health	130,823	147,553
Foundations and auxiliaries	34,621	45,669
Regional hospital districts	2,579	1,421
Other	8,496	4,424
	176,519	199,067
	1,361,470	1,253,357
Amortization for the year	(72,818)	(68,406)
Write-downs of tangible capital assets	-	-
Deferred capital contributions, end of year	\$ 1,288,652	\$ 1,184,951

Deferred capital contributions are comprised of the following:

	2018	2017
Contributions used to purchase tangible capital assets	\$ 1,098,073	\$ 997,685
Unspent contributions	190,579	187,266
	\$ 1,288,652	\$ 1,184,951

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

15. Tangible capital assets:

Cost	2017	Additions	Disposals	Transfers	2018
Land	\$ 17,656	\$ -	\$ -	\$ -	\$ 17,656
Land Improvements	-	10,941	-	-	10,941
Buildings	1,353,676	-	-	103,247	1,456,923
Equipment	719,182	26,706	(228)	(80)	745,580
Information systems	318,520	-	-	1,875	320,395
Leasehold improvements	32,507	2,279	-	-	34,786
Buildings under capital lease	111,955	-	-	-	111,955
Construction in progress	133,993	71,459	-	(103,167)	102,285
Equipment and information systems in progress	160,556	74,152	-	(1,875)	232,833
	\$ 2,848,045	\$ 185,537	\$ (228)	\$ -	\$ 3,033,354

Accumulated amortization	2017	Amortization	Disposals	Transfers	2018
Buildings	\$ 745,803	\$ 41,893	\$ -	\$ -	\$ 787,696
Equipment	623,264	28,902	(228)	-	651,938
Information systems	309,472	2,779	-	-	312,251
Leasehold improvements	22,289	1,469	-	-	23,758
Buildings under capital lease	23,716	2,235	-	-	25,951
	\$ 1,724,544	\$ 77,278	\$ (228)	\$ -	\$ 1,801,594

Cost	2016	Additions	Disposals	Transfers	2017
Land	\$ 17,656	\$ -	\$ -	\$ -	\$ 17,656
Land Improvements	-	-	-	-	-
Buildings	1,324,473	-	(2,485)	31,688	1,353,676
Equipment	688,976	31,514	(1,308)	-	719,182
Information systems	311,187	636	(33)	6,730	318,520
Leasehold improvements	31,595	1,175	(263)	-	32,507
Buildings under capital lease	111,955	-	-	-	111,955
Construction in progress	87,566	78,115	-	(31,688)	133,993
Equipment and information systems in progress	118,767	48,519	-	(6,730)	160,556
	\$ 2,692,175	\$ 159,959	\$ (4,089)	\$ -	\$ 2,848,045

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

15. Tangible capital assets (continued):

Accumulated amortization	2016	Amortization	Disposals	Transfers	2017
Buildings	\$ 707,907	\$ 40,381	\$ (2,485)	\$ -	\$ 745,803
Equipment	596,823	27,749	(1,308)	-	623,264
Information systems	308,289	1,216	(33)	-	309,472
Leasehold improvements	21,290	1,262	(263)	-	22,289
Buildings under capital lease	21,459	2,257	-	-	23,716
	\$ 1,655,768	\$ 72,865	\$ (4,089)	\$ -	\$ 1,724,544

Net book value	2018	2017
Land	\$ 17,656	\$ 17,656
Land Improvements	10,941	-
Buildings	669,227	607,873
Equipment	93,642	95,918
Information systems	8,144	9,048
Leasehold improvements	11,028	10,218
Buildings under capital lease	86,004	88,239
Construction in progress	102,285	133,993
Equipment and information systems in progress	232,833	160,556
	\$ 1,231,760	\$ 1,123,501

Contributed tangible capital assets total \$0.75 million (2017 - \$0.02 million).

Tangible capital assets are funded as follows:

	2018	2017
Deferred capital contributions	\$ 1,098,073	\$ 997,685
Debt	106,110	108,777
Internally funded	27,577	17,039
Tangible capital assets	\$ 1,231,760	\$ 1,123,501

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

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Year Ended March 31, 2018

16. Inventories held for use:

	2018		2017	
Pharmaceuticals	\$	8,439	\$	7,555
Medical supplies		2,041		1,447
	\$	10,480	\$	9,002

17. Prepaid expenses:

	2018		2017	
Contracted services	\$	10,905	\$	10,375
Maintenance contracts		4,464		4,172
Rent and operating costs		2,839		2,347
JBT interim funding		-		4,181
Other		3,736		4,620
	\$	21,944	\$	25,695

18. Commitments and contingencies:

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

As at March 31, 2018, the Authority had outstanding commitments for construction, equipment and information systems projects in progress of \$442.3 million (2017 - \$480.3 million).

(b) Contractual obligations:

The Authority has entered into contracts for various services within the normal course of operations. The estimated contractual obligations under these contracts for the years ending March 31 are as follows:

	Contract Term	2019	2020	2021	2022	2023	Thereafter	Total
Housekeeping	2015 - 2023	\$ 28,806	\$ 29,210	\$ 29,619	\$ 30,033	\$ 15,269	-	\$ 132,937
Laundry	2015 - 2027	14,504	15,072	13,849	11,350	11,633	49,515	115,923
Patient food services	2015 - 2020	35,756	6,095	-	-	-	-	41,851
Waste management	2015 - 2021	1,606	807	174	-	-	-	2,587
Access Health Vancouver	2015 - 2037	924	635	526	855	1,032	18,668	22,640
		\$ 81,596	\$ 51,819	\$ 44,168	\$ 42,238	\$ 27,934	\$ 68,183	\$ 315,938

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

18. Commitments and contingencies (continued):

(c) Long-term residential care contracts:

The Authority has entered into contracts with 31 service providers to provide residential care services. The aggregate annual commitment for these contracts is \$313.0 million for 2019 (2018 – 31 service providers, \$307.0 million).

(d) Operating leases:

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

2019	\$	37,280
2020		35,236
2021		27,753
2022		24,698
2023		21,554
Thereafter		121,642
	\$	268,163

(e) Litigation and claims:

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

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

(f) Asset retirement obligations:

The Authority has accrued asset retirement obligations for certain buildings on the Vancouver General Hospital site that are contractually required to be demolished as part of a zoning agreement with the City of Vancouver. The aggregate amount of the liability relating to the demolition of these buildings can be reasonably determined as of March 31, 2018 as \$10.9 million and is recorded in accounts payable and accrued liabilities.

The Authority has not recognized asset retirement obligations where there are no current approved plans and the timing of the future demolition or renovation of the facilities is unknown and therefore the value of the future obligations cannot be reasonably estimated. These asset retirement obligations will be recognized as a liability in the period when their value can be reasonably estimated.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

19. Statement of operations:

(a) Other contributions:

	2018	2017
Provincial Health Services Authority	\$ 146,313	\$ 139,844
BC government reporting entities	13,740	11,912
Other	13,539	9,052
	<u>\$ 173,592</u>	<u>\$ 160,808</u>

(b) Patients, clients and residents revenue:

	2018	2017
Non-residents of Canada	\$ 45,354	\$ 20,849
Long-term and extended care	36,613	36,132
Non-residents of BC	17,511	20,345
WorkSafe BC	12,355	11,035
Residents of BC self pay	4,872	6,441
Preferred accommodation	3,968	4,153
Other	8,717	2,822
	<u>\$ 129,390</u>	<u>\$ 101,777</u>

(c) Other revenue:

	2018	2017
Parking	\$ 5,537	\$ 5,562
Other	24,992	25,550
	<u>\$ 30,529</u>	<u>\$ 31,112</u>

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

19. Statement of operations (continued):

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

	2018	2017
Compensation:		
Compensation	\$ 1,266,477	1,219,889
Employee benefits	261,228	248,415
Loss/(Gain) on event driven employee benefits	(652)	(10,023)
	<u>1,527,053</u>	<u>1,458,281</u>
Referred-out and contracted services:		
Other health authorities and BC government reporting entities (note 21(a))	860,059	818,635
Health and support services providers	581,477	557,802
	<u>1,441,536</u>	<u>1,376,437</u>
Supplies:		
Medical and surgical	110,442	105,407
Drugs and medical gases	68,732	70,802
Diagnostic	22,860	22,618
Printing, stationery and office	4,318	4,629
Laundry and linen	3,548	3,550
Food and dietary	2,329	2,659
Housekeeping	2,150	2,079
Other	28,498	25,290
	<u>242,877</u>	<u>237,034</u>
Amortization of tangible capital assets	<u>77,278</u>	<u>72,865</u>
Equipment and building services:		
Equipment	64,678	58,889
Building and grounds service contracts	22,677	23,676
Plant operations (utilities)	20,143	20,217
Rent	21,177	19,638
Other	7,555	8,352
	<u>136,230</u>	<u>130,772</u>
Sundry:		
Professional fees	21,497	16,238
Communication and data processing	7,457	7,088
Travel	6,741	6,462
Patient transport	5,112	5,545
Other	26,034	15,890
	<u>66,841</u>	<u>51,223</u>
Research	15,611	13,090
Interest on debt and capital leases	5,598	5,697
	<u>\$ 3,513,024</u>	<u>\$ 3,345,399</u>

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

20. Supplementary cash flow information:

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

	2018	2017
Accounts receivable	\$ (24,174)	\$ (5,717)
Accounts payable and accrued liabilities	20,405	(59,723)
Deferred operating contributions	73	103
Deferred research and designated contributions	1,995	3,085
Replacement reserves	157	33
Inventories held for use	(1,478)	(110)
Prepaid expenses	3,751	(2,009)
	<u>\$ 729</u>	<u>\$ (64,338)</u>

(b) Acquisition of tangible capital assets:

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

	2018	2017
Acquisition of tangible capital assets	\$ 185,537	\$ 159,959
Disposal of tangible capital assets	(228)	(4,089)
	<u>\$ 185,309</u>	<u>\$ 155,870</u>

VANCOUVER COASTAL HEALTH AUTHORITY

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(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

21. Related parties and other agencies:

The following are types of related parties. Disclosure of values for related party transactions is only required if the values are different from that which would have been arrived at if the parties were unrelated. 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 Authority is related through common control to all Province of BC ministries, agencies, Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity.

The Authority contracts certain services from BC Clinical and Support Services (BCCSS), including accounts receivable and payable, payroll, tech services and supply chain. The expense recorded for contracted services with BCCSS in 2018 was \$41.6 million (2017 - \$40.6 million).

The Authority contracts clinical and other services to government reporting entities (GREs), including Medical Imaging Services. The revenue recorded for the recoveries from GREs in 2018 was \$112.4 million (2017 - \$105.7 million). The Authority contracts clinical and other services from GREs, including pharmacy and lab services. The expense recorded for the services provided by other GREs in 2018 was \$136.5 million (2017 - \$130.8 million). As at March 31, the Authority has an accounts receivable of \$28.9 million (2017 - \$14.1 million) and accounts payable of \$25.9 million (2017 - \$27.3 million) to other GREs for these services.

Transactions with these entities, unless disclosed otherwise, are considered to be in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Other transactions have been recorded at fair value and are not disclosed in this note.

(b) Foundations and auxiliaries:

There are 15 separate health care foundations and auxiliaries, which were established to raise funds for their respective hospitals and/or community health services organizations within the Authority area. The foundations and auxiliaries are separate legal entities incorporated under the *Society Act of British Columbia* with separate governance structures. The foundations and some of the auxiliaries are registered charities under the provisions of the *Income Tax Act* of Canada. The financial and non-financial assets and liabilities and results from operations of the foundations and auxiliaries are not included in the financial statements of the Authority. During the year, the foundations granted \$55.1 million (2017 - \$70.8 million) to various facilities within the Authority.

(c) Affiliated organization:

The financial statements of the affiliate, PHC, are not consolidated with the Authority. The annual deficit and accumulated deficit of PHC is \$(4.7) million (2017 - \$(11.0) million), and \$85.5 million (2017 - \$80.7 million), respectively.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

21. Related parties and other agencies (continued):

(d) Key management personnel:

The Authority has deemed the Board of Directors and Senior Executive Team to be key management personnel based on the PS 2200 definition. A declaration is completed by the key management personnel annually to confirm whether there are any related party transactions.

22. 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 by type of risk below.

(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 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, 2018, the amount of allowance for doubtful accounts was \$23.2 million (2017 - \$14.5 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.

(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 COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

22. Risk management (continued):

(b) Liquidity risk (continued):

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

2018 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 466,187	\$	\$	\$ 466,187
Accounts receivable	112,979			112,979
Demand loan receivable	29,000			29,000
Loan receivable	4,791			4,791
Pearson receivable	14,120	83,765	44,170	142,055
Financial assets	\$ 627,077	\$ 83,765	\$ 44,170	\$ 755,012

2018 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 293,384	\$	\$	\$ 293,384
Obligations under capital leases	1,919	10,814	92,007	104,740
Debt	439	931		1,370
Financial liabilities	\$ 295,742	\$ 11,745	\$ 92,007	\$ 399,494

2017 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 462,934	\$	\$	\$ 462,934
Portfolio investments	182	144		326
Accounts receivable	88,805			88,805
Demand loan receivable	29,000			29,000
Loan receivable	4,892			4,892
Pearson receivable	16,343	72,843	66,629	155,815
Financial assets	\$ 602,156	\$ 72,987	\$ 66,629	\$ 741,772

2017 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 272,979	\$	\$	\$ 272,979
Obligations under capital leases	1,646	9,516	95,224	106,386
Debt	1,021	1,185	185	2,391
Financial liabilities	\$ 275,646	\$ 10,701	\$ 95,409	\$ 381,756

The maturity dates of the remaining financial assets and liabilities cannot be determined and therefore, are excluded from the above amounts.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2018

22. Risk management (continued):

(c) Foreign currency 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 the Canadian dollar. The results of the Authority's operations are subject to currency transaction and translation risks.

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