

Consolidated Financial Statements of

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2018

**Provincial Health Services Authority
Management Report**

The consolidated financial statements of the Provincial Health Services Authority (the "Authority") were prepared by management in accordance with the financial reporting framework disclosed in note 1(a) to these consolidated financial statements, and include amounts based upon management's best estimates and judgments. The accounting principles of the financial reporting framework were consistently applied. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 28, 2018.

Management is responsible for the integrity of the consolidated financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within the organization.

The Board of Directors has established an Audit Committee to provide oversight in the fulfillment by management of these responsibilities. The Audit Committee, comprising directors who are not employees, meets with management, internal assurance staff and external auditors with regard to the proper discharge of management's responsibilities with respect to consolidated financial statement presentation, disclosure and recommendations on internal control.

The internal assurance function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee.

The consolidated financial statements have been examined by PricewaterhouseCoopers, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, comply with the *Budget Transparency and Accountability Act* of the Province of British Columbia in presenting the Authority's financial position, results of operations, changes in net debt and cash flows in accordance with the financial reporting framework disclosed in note 1(a) to these consolidated financial statements. Their Auditor's Report, which follows, outlines the scope of their examination and their opinion.



Carl Roy
President and Chief Executive Officer



Thomas Chan
Chief Financial Officer

Vancouver, BC

May 28, 2018



May 28, 2018

Independent Auditor's Report

**To the Board of
Provincial Health Services Authority and Minister of Health, Province of British Columbia**

We have audited the accompanying consolidated financial statements of Provincial Health Services Authority, which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of operations and accumulated operating surplus, changes in net debt, cash flows, and remeasurement gains and losses for the year then ended, and the related notes, which comprise 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 accounting requirements 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.

Auditor's 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 the auditor's 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, the auditor considers 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.

*PricewaterhouseCoopers LLP
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**Opinion**

In our opinion, the consolidated financial statements which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of operations and accumulated operating surplus, changes in net debt, cash flows, and remeasurement gains and losses for the year then ended, and the related notes, are prepared, in all material respects, in accordance with the accounting requirements 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 your attention to note 1 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. Note 21 to the consolidated financial statements discloses the impact of these differences.

Report on other legal and regulatory requirements

As required by the British Columbia Society Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Financial Position
(Amounts expressed in thousands of dollars)


As at March 31, 2018

	2018	2017
Financial assets		
Cash and cash equivalents (note 2)	\$ 273,394	\$ 238,381
Portfolio investments (note 3)	321	16,345
Accounts receivable (note 4)	215,741	172,156
Inventories held for sale (note 5)	548	504
	<u>490,004</u>	<u>427,386</u>
Liabilities		
Accounts payable and accrued liabilities (note 6)	372,929	331,478
Deferred operating contributions (note 7)	56,262	45,930
Deferred research and designated contributions (note 8)	33,199	28,852
Debt (note 10)	254,474	249,565
Retirement allowance (note 11(a))	84,570	78,735
Long-term disability and health and welfare benefits (note 11(b)(i))	2,347	5,803
Deferred capital contributions (note 12)	1,128,703	1,058,562
	<u>1,932,484</u>	<u>1,798,925</u>
Net debt	\$ (1,442,480)	\$ (1,371,539)
Non-financial assets		
Tangible capital assets (note 13)	\$ 1,452,782	\$ 1,385,307
Inventories held for use (note 14)	50,407	47,248
Prepaid expenses	13,660	13,611
	<u>1,516,849</u>	<u>1,446,166</u>
Accumulated surplus		
Accumulated operating surplus	\$ 74,303	\$ 73,604
Accumulated remeasurement gains	66	1,023
	<u>\$ 74,369</u>	<u>\$ 74,627</u>

Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director and Chair of the Board



Director

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Operations and Accumulated Operating Surplus
(Amounts expressed in thousands of dollars)

Year ended March 31, 2018

	2018 Budget (note 1(o))	2018	2017
Revenues:			
Ministry of Health contributions	\$ 2,181,819	\$ 2,278,537	\$ 2,047,153
Medical Services Plan	195,380	196,305	200,594
Recoveries from other health authorities and BC government reporting entities	-	210,437	198,735
Other contributions (note 16(a))	109,306	108,214	105,801
Research and designated contributions (note 8)	87,791	86,144	86,465
Amortization of deferred capital contributions (note 12)	84,891	83,561	71,852
Other (note 16(b))	203,605	33,562	37,310
Patients, clients and residents (note 16(c))	15,701	20,812	22,071
Pharmacare	5,550	6,944	5,478
Investment income	2,233	1,854	2,313
	<u>2,886,276</u>	<u>3,026,370</u>	<u>2,777,772</u>
Expenses (note 16(d)):			
Acute	2,123,639	2,220,279	2,024,445
Corporate	235,235	282,899	265,444
Population health and wellness	216,409	196,754	192,850
Community care	170,846	169,699	152,100
Mental health and substance use	138,120	154,285	140,534
Residential care	2,027	1,755	1,755
	<u>2,886,276</u>	<u>3,025,671</u>	<u>2,777,128</u>
Annual operating surplus	\$ -	\$ 699	\$ 644
Accumulated operating surplus, beginning of year	73,604	73,604	72,960
Accumulated operating surplus, end of year	\$ 73,604	\$ 74,303	\$ 73,604

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

	2018 Budget (note 1(o))	2018	2017
Annual operating surplus	\$ -	\$ 699	\$ 644
Acquisition of tangible capital assets	(172,400)	(153,889)	(260,637)
Transfer of tangible capital assets	-	-	16,113
Amortization of tangible capital assets	91,345	88,728	73,929
Net book value of disposed tangible capital assets	-	447	813
Capitalized interest	-	(2,761)	(9,740)
	(81,055)	(66,776)	(178,878)
Acquisition of inventories held for use	-	(257,762)	(214,680)
Acquisition of prepaid expenses	-	(118,053)	(95,287)
Consumption of inventories held for use	-	254,603	213,274
Transfer of prepaid expenses	-	-	549
Use of prepaid expenses	-	118,004	95,722
	-	(3,208)	(422)
Net remeasurement losses	-	(957)	(72)
Increase in net debt	(81,055)	(70,941)	(179,372)
Net debt, beginning of year	(1,371,539)	(1,371,539)	(1,192,167)
Net debt, end of year	\$ (1,452,594)	\$ (1,442,480)	\$ (1,371,539)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Cash Flows
(Amounts expressed in thousands of dollars)

Year ended March 31, 2018

	2018	2017
Cash flows from (used in) operating activities:		
Annual operating surplus	\$ 699	\$ 644
Items not involving cash:		
Amortization of deferred capital contributions	(83,561)	(71,852)
Amortization of tangible capital assets	88,728	73,929
Net book value of disposed tangible capital assets	447	813
Retirement allowance expense	10,741	10,557
Long-term disability and health and welfare benefits expense	33,848	49,046
Interest expense	14,753	5,718
Interest income	(1,854)	(2,436)
	63,801	66,419
Net change in non-cash operating items (note 17(a))	9,291	17,775
Transfer of retirement obligation	587	(10,804)
Retirement allowance benefits paid	(5,493)	(5,368)
Long-term disability and health and welfare benefits contributions	(37,304)	(45,221)
Interest received	2,273	2,921
Interest paid	(14,753)	(5,718)
Net change in cash from operating activities	18,402	20,004
Capital activities:		
Acquisition of tangible capital assets	(149,617)	(203,442)
Net change in cash from capital activities	(149,617)	(203,442)
Investing activities:		
Proceeds from disposal and redemption of portfolio investments	14,650	18,550
Net change in cash from investing activities	14,650	18,550
Financing activities:		
Repayment of debt	(2,124)	(350)
Capital contributions	153,702	207,936
Net change in cash from financing activities	151,578	207,586
Increase in cash and cash equivalents	35,013	42,698
Cash and cash equivalents, beginning of year	238,381	195,683
Cash and cash equivalents, end of year	\$ 273,394	\$ 238,381

Supplementary cash flow information (note 17)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Remeasurement Gains and Losses
(Amounts expressed in thousands of dollars)

Year ended March 31, 2018

	2018	2017
Accumulated remeasurement gains, beginning of year	\$ 1,023	\$ 1,095
Unrealized losses attributable to portfolio investments	(957)	(9)
Realized gains on sale of portfolio investments	-	(63)
Accumulated remeasurement gains, end of year	\$ 66	\$ 1,023

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

Provincial Health Services Authority (the “Authority” or “PHSA”) was created under the *Society 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 not-for-profit organization under the *Income Tax Act* and, as such, is exempt from income and capital taxes.

The Authority was established to manage the quality, coordination, accessibility, and cost of certain province wide health-care programs and services through the governance of selected provincial agencies and programs.

The following agencies/programs (collectively referred to as “Agencies”) are also included in PHSA’s mandate:

- British Columbia Cancer Agency Branch;
- British Columbia Centre for Disease Control and Prevention Society Branch;
- British Columbia Emergency Health Services;
- British Columbia Mental Health Society Branch;
- British Columbia Provincial Renal Agency;
- British Columbia Transplant Society Branch;
- Cardiac Services British Columbia;
- Children’s & Women’s Health Centre of British Columbia Branch;
- Correctional Health Services; and
- Forensic Psychiatric Services Commission.

The Authority also has the responsibility for planning, coordinating, monitoring, evaluating and, in certain cases, funding a number of highly specialized health services to ensure access for all British Columbians.

Effective October 1, 2017, PHSA assumed responsibility for delivering health care services in correctional facilities operated by the Minister of Public Safety and Solicitor General, Corrections Branch (note 22(a)).

Effective March 6, 2018, PHSA assumed responsibility for the governance and oversight of BC Clinical and Support Services Society (“BCCSS”) (note 22(b)).

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies:

(a) Basis of accounting:

The consolidated 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 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, 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.
- (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 has been met by the Authority.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

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

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of PSAS which 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 liability criteria in accordance with PS 3200, *Liabilities*.

As a result, revenue recognized in the consolidated statement of operations and certain deferred capital contributions would be recorded differently under PSAS. The impact of accounting for restricted contributions in accordance with Regulation 198/2011 is disclosed in note 21.

(b) Basis of consolidation:

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the Agencies which are controlled by the Authority. The Agencies are fully consolidated in these consolidated financial statements. Inter-Agency transactions, balances and activities have been eliminated on consolidation.

The Authority, acting on behalf of the British Columbia Cancer Agency Branch ("BCCA"), and the Fraser Health Authority own Abbotsford Regional Hospital and Cancer Centre Inc. ("ARHCC Inc.") in accordance with the Share Transfer Agreement whereby 102 (85%) common shares of ARHCC Inc. are held by the Fraser Health Authority and 18 (15%) common shares are held by the Authority. BCCA's interest in ARHCC Inc. is recorded on a proportional consolidation basis in these consolidated financial statements (note 9).

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 (note 18(b)).

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, demand deposits and 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(d) Portfolio investments:

Portfolio investments include money market instruments, banker's acceptances, pooled money market funds, treasury bills, bonds and shares of publicly traded companies.

Money market instruments, banker's acceptances, pooled money market funds, treasury bills and bonds are recorded at cost adjusted for any write-downs. Shares of publicly traded companies are recorded at fair value. Any changes in fair value are recognized in the consolidated statement of remeasurement gains and losses. 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.

(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.

(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 consist of pharmaceuticals.

(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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(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 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 on 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 (2017 – 11 years). Actuarial gains and losses on event-driven benefits such as long-term disability and health and welfare benefits are recognized immediately.

The discount rate used to measure the obligations is based on the Province of BC's cost of borrowing if there are no plan assets. Where there are plan assets, the discount rate is the rate of return on 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.

(i) 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.

(ii) 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.

(iii) 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(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.

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	20 years
Buildings	15 – 50 years
Equipment	3 – 20 years
Information systems	3 – 5 years
Leasehold improvements	Lease term to a maximum of 20 years
Vehicles	4 – 7 years

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 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. Cost includes the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition. Replacement cost is the estimated current price to replace the items. Certain specific inventory items are purchased on consignment and are not included in inventory.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(iii) Prepaid expenses:

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

(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 fees being earned or the services being performed are deferred and recognized when the fees are earned or services are 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 fair value can be reasonably determined.

Contributions for the acquisition of land, or 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 financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of estimates include the fair value of portfolio investments, the valuation of accounts receivable, the estimated useful lives of tangible capital assets, amounts to settle asset retirement obligations, contingent liabilities, the future costs to settle employee benefit obligations, and certain amounts in public-private partnership projects.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(k) Measurement uncertainty (continued):

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.

(l) 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 and 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 consolidated statement of operations.

(m) Financial instruments:

Upon inception and subsequent to initial recognition, derivatives and equity instruments quoted in an active market are measured at fair value. These financial instruments are identified in this note by financial asset and financial liability classification and are not reclassified into another measurement category for the duration of the period they are held.

All other financial assets and financial liabilities 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 amortized cost less any amount for valuation allowance. Portfolio investments, other than equity investments quoted in an active market, are reported at cost or amortized 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.

The classification of financial instruments is determined upon their initial recognition.

Financial instruments are classified as level 1, 2 or 3 for the purposes of describing the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category as described below:

- | | |
|---------|---|
| Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| Level 2 | Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. |
| Level 3 | Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction. |

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(m) Financial instruments (continued):

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the consolidated statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the consolidated statement of remeasurement gains and losses and recognized in the consolidated statement of operations.

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

All financial assets except derivatives 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.

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.

(n) 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 is estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred by the Authority.

The asset cost includes development and financing fees estimated at fair value, which requires 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

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

Correspondingly, an obligation for the cost of capital and financing received to date, 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 partner's operating costs, financing costs and a return of their capital.

(o) 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 October 26, 2017 as part of the Authority's Service Plan. The budget is reflected in the consolidated statement of operations and accumulated operating surplus and the consolidated statement of changes in net debt.

(p) Newly adopted accounting standards:

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

- (i) 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 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) 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. Disclosure of information about contractual rights is required including description of their nature and extent, and the timing.

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1. Significant accounting policies (continued):

(p) Newly adopted accounting standards (continued):

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

2. Cash and cash equivalents:

	2018	2017
Cash and cash equivalents	\$ 273,129	\$ 238,191
Restricted cash	265	190
	\$ 273,394	\$ 238,381

Restricted cash is related to patient trust accounts.

3. Portfolio investments:

	2018	2017
Money market instruments, banker's acceptances, pooled money market funds, treasury bills and bonds	\$ 255	\$ 15,322
Shares of publicly traded companies	66	1,023
	\$ 321	\$ 16,345

Shares of publicly traded companies are recorded at fair value. Fair value of shares is determined with reference to the market price and is in the level 1 fair value measurement category. These shares were received by the Authority at \$0 cost as consideration in intellectual property licensing transactions.

4. Accounts receivable:

	2018	2017
Drug rebates	\$ 63,260	\$ 34,341
Other health authorities and BC government reporting entities	53,509	51,095
Ministry of Health	38,407	22,703
Foundations and auxiliaries	28,645	21,480
Medical Services Plan	19,083	21,079
Patients, clients and residents	16,636	14,385
Other grantors	13,508	10,937
Federal government	3,307	4,810
Other	6,774	11,631
	243,129	192,461
Allowance for doubtful accounts	(27,388)	(20,305)
	\$ 215,741	\$ 172,156

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5. Inventories held for sale:

Inventories held for sale consists of pharmaceuticals. During the year, \$8,861 (2017 – \$7,198) of inventories were sold by the Authority.

6. Accounts payable and accrued liabilities:

	2018	2017
Trade accounts payable and accrued liabilities	\$ 224,045	\$ 198,448
Salaries and benefits payable	79,536	67,829
Accrued vacation pay	65,082	60,946
Long-term accounts payable	3,688	3,752
Accrued Mental Health Plan costs	313	313
Patient trust funds	265	190
	<u>\$ 372,929</u>	<u>\$ 331,478</u>

Long-term accounts payable are long-term payment obligations in relation to the construction of Abbotsford Regional Hospital and Cancer Centre.

7. Deferred operating contributions:

Deferred operating contributions represent government transfers from the Ministry of Health, other ministries, the federal government and other sources in the form of externally restricted operating funding received for various programs and initiatives. These include Riverview site transition costs, funding to support the purchase of emergency health services minor equipment and opioid emergency response minor equipment, the pandemic drug inventory initiative, renovation work at the Burnaby Centre for Mental Health and Addiction, funding to support BC Medical Quality Improvement initiatives, the Suspected Child Abuse Neglect initiative, the TherapyBC website update, funding the eHealth and Panorama project initiatives, a Kidney Disease Registry project, Stroke Strategy initiative and other Ministry directed initiatives.

	2018	2017
Deferred operating contributions, beginning of year	\$ 45,930	\$ 39,914
Contributions received during the year	11,968	13,987
Transferred to deferred capital contributions (note 12)	(1,050)	(6,569)
Amounts recognized as revenue in the year	(586)	(1,402)
Deferred operating contributions, end of year	<u>\$ 56,262</u>	<u>\$ 45,930</u>

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8. Deferred research and designated contributions:

Deferred research and designated contributions represent unspent contributions received to fund research and other activities. Contributions are received from Canadian Institute of Health Research, Canadian Cancer Society Research Institute, Genome Canada, Terry Fox Research Institute, National Institutes of Health, foundations, pharmaceutical companies and other donors, for various research projects in the fields of diagnostics, treatment and prevention, clinical trials, health promotion, and other special purpose initiatives.

Government transfers	2018	2017
Deferred research and designated contributions, beginning of year	\$ 3,019	\$ 3,305
Contributions received during the year	14,397	13,689
Transferred to deferred capital contributions (note 12)	(84)	(142)
Amounts recognized as revenue in the year	(18,205)	(15,759)
Amounts to be received in future periods	3,685	1,926
Deferred research and designated contributions, end of year	\$ 2,812	\$ 3,019
Other contributions	2018	2017
Deferred research and designated contributions, beginning of year	\$ 25,833	\$ 25,772
Contributions received during the year	64,366	65,445
Transferred to deferred capital contributions (note 12)	(4,811)	(4,495)
Amounts recognized as revenue in the year	(67,939)	(70,706)
Amounts to be received in future periods	12,938	9,817
Deferred research and designated contributions, end of year	\$ 30,387	\$ 25,833
	2018	2017
Government transfers	\$ 2,812	\$ 3,019
Other contributions	30,387	25,833
Balance, end of year	\$ 33,199	\$ 28,852

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Notes to Consolidated Financial Statements
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9. Government Partnerships – ARHCC Inc.:

As described in Note 1, the Authority, through BCCA, has a 15% interest in ARHCC Inc., which is recorded on a proportional consolidation basis in the Authority's consolidated financial statements. The following is the condensed supplementary financial information of ARHCC Inc. as at and for the years ended March 31:

	2018	2017
Financial assets	\$ 149,430	\$ 144,371
Liabilities	431,056	435,440
Net debt	281,626	291,069
Non-financial assets	284,205	293,648
Accumulated surplus	2,579	2,579
Revenues	61,599	63,661
Expenses	61,599	63,661

10. Debt:

	2018	2017
P3:		
Abbotsford Regional Hospital and Cancer Centre, 30 year contract to May 2038 with Access Health Abbotsford Ltd., payable in accordance with the project agreement terms including annual interest of 7.75%	\$ 55,746	\$ 56,138
BC Cancer Agency Centre for the North, 30 year contract to September 2042 with Plenary Health Prince George GP, payable in monthly payments of \$117 including annual interest of 8.09% in accordance with the project agreement terms	16,083	16,188
Phase 2 BC Children's and BC Women's Redevelopment Project, 30 year contract to June 2047 with Affinity Partnerships, payable in monthly payments of \$1,195 including annual interest of 6.61% in accordance with the project agreement terms	182,645	177,239
	\$ 254,474	\$ 249,565

Required principal repayments on P3 debt for the years ending March 31 are disclosed in note 15(d).

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11. Employee benefits:

(a) Retirement allowance:

Certain employees with ten or more 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, 2018 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2018 are derived. The next expected valuation will be as of December 31, 2018.

Information about retirement allowance benefits is as follows:

	2018	2017
Accrued benefit obligation:		
Severance benefits	\$ 65,366	\$ 62,434
Sick leave benefits	31,237	30,081
	96,603	92,515
Unamortized actuarial loss	(12,033)	(13,780)
Accrued benefit liability	\$ 84,570	\$ 78,735

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

	2018	2017
Accrued benefit liability, beginning of year	\$ 78,735	\$ 84,350
Net benefit expense:		
Current service cost	5,934	5,853
Interest expense	3,630	3,457
Amortization of actuarial loss/(gain)	1,177	1,247
Net benefit expense	10,741	10,557
Benefits paid	(5,493)	(5,368)
Accrued benefit obligation related to Correctional Health		
Services employees	587	-
Accrued benefit obligation transferred to BCCSS	-	(10,804)
Accrued benefit liability, end of year	\$ 84,570	\$ 78,735

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11. Employee benefits (continued):

(a) Retirement allowance (continued):

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

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

(b) Healthcare Benefit Trust benefits:

The Healthcare Benefit Trust (the "Trust") administers long-term disability 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 Authority's 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, 2018 are based on the actuarial valuation at December 31, 2017, extrapolated to March 31, 2018. The next expected valuation will be as of December 31, 2018.

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11. 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 (asset) reported on the consolidated statement of financial position is as follows:

	2018	2017
Accrued benefit obligation	\$ 80,914	\$ 80,436
Fair value of plan assets	(78,567)	(74,633)
Net liability	\$ 2,347	\$ 5,803
	2018	2017
Long-term disability and health and welfare benefits obligation, beginning of year	\$ 5,803	\$ 1,978
Net benefit expense:		
Health and welfare benefit expense	19,453	29,503
Actuarial loss	6,515	7,624
Long-term disability expense	8,294	13,512
Interest expense	4,036	3,990
Non-employer contributions	(498)	(1,620)
Expected return on assets	(3,952)	(3,963)
Net benefit expense	33,848	49,046
Contributions to the plan	(37,304)	(45,221)
Long-term disability and health and welfare benefits liability, end of year	\$ 2,347	\$ 5,803
Benefits paid to claimants	\$ 40,464	\$ 48,724
Plan assets consist of:		
	2018	2017
Debt securities	42%	40%
Foreign equities	35	35
Canadian equities and other	23	25
Total	100%	100%

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11. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

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

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

Actual rate of return on plan assets was 7.58% (2017 – 3.98%).

(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 Healthcare Benefit Trust transitioned to the JBTs. Employer contributions to the JBTs are based on a specified percentage of payroll costs.

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

	2018
Joint Community Benefits Trust (JCBT)	\$ 213
Joint Facilities Benefits Trust (JFBT)	8,970
Joint Health Science Benefits Trust (JHSBT)	11,004
	\$ 20,187

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11. 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*, and to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan.

Employer contributions to the Municipal Pension Plan of \$67,681 (2017 – \$63,403) 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 \$2,224,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 193,000 active members, of which approximately 11,000 are employees of the Authority (2017 – 10,000). The next expected valuation will be as of December 31, 2018, with results available in 2019.

Employer contributions to the Public Service Pension Plan of \$21,016 (2017 – \$19,422) were expensed during the year. Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2017 indicated a funding surplus of approximately \$1,896,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 59,000 active members, of which approximately 4,100 are employees of the Authority (2017 – 4,200). The next actuarial valuation will be as of March 31, 2020, with results available in 2021.

The Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan is a single employer defined contribution plan. Employer contributions to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan of \$3,268 were expensed during the year (2017 – \$2,807). As at March 31, 2018, the plan covered approximately 1,700 (2017 – 1,400) active members, all of which are employees of the Authority.

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12. 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	\$ 1,058,562	\$ 916,199
Capital contributions received:		
Ministry of Health	92,294	138,233
Foundations and auxiliaries	59,369	82,718
Other	2,039	6,058
	153,702	227,009
Transfer of tangible capital assets	-	(12,794)
Amortization for the year	(83,561)	(71,852)
Deferred capital contributions, end of year	\$ 1,128,703	\$ 1,058,562

Deferred capital contributions comprise the following:

	2018	2017
Contributions used to purchase tangible capital assets	\$ 1,076,992	\$ 1,012,057
Unspent contributions	51,711	46,505
	\$ 1,128,703	\$ 1,058,562

13. Tangible capital assets:

Cost	2017	Additions	Disposals	Transfers	2018
Land	\$ 143,780	\$ -	\$ -	\$ -	\$ 143,780
Land improvements	2,393	223	-	5,972	8,588
Buildings	851,791	-	-	431,631	1,283,422
Equipment	440,091	13,679	(20,004)	84,206	517,972
Information systems	221,148	1,384	(2,058)	14,171	234,645
Leasehold improvements	39,349	16	-	1,088	40,453
Vehicles	87,521	7,888	(6,414)	-	88,995
Construction in progress	465,586	112,046	-	(529,828)	47,804
Equipment and information systems in progress	64,161	21,414	-	(7,240)	78,335
Total	\$2,315,820	\$ 156,650	\$ (28,476)	\$ -	\$2,443,994

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13. Tangible capital assets (continued):

Accumulated amortization	2017	Amortization	Disposals	Transfers	2018
Land improvements	\$ 2,153	\$ 477	\$ -	\$ -	\$ 2,630
Buildings	312,018	32,112	-	-	344,130
Equipment	341,083	30,335	(19,585)	-	351,833
Information systems	196,076	14,868	(2,058)	-	208,886
Leasehold improvements	25,238	2,654	-	-	27,892
Vehicles	53,945	8,282	(6,386)	-	55,841
Total	\$ 930,513	\$ 88,728	\$ (28,029)	\$ -	\$ 991,212

Cost	2016	Additions	Disposals	Transfers	2017
Land	\$ 143,780	\$ -	\$ -	\$ -	\$ 143,780
Land improvements	2,393	-	-	-	2,393
Buildings	841,518	-	(192)	10,465	851,791
Equipment	428,381	14,596	(21,713)	18,827	440,091
Information systems	244,869	638	(148)	(24,211)	221,148
Leasehold improvements	39,709	356	(1,121)	405	39,349
Vehicles	82,245	10,209	(4,618)	(315)	87,521
Construction in progress	261,775	222,038	-	(18,227)	465,586
Equipment and information systems in progress	73,872	22,539	-	(32,250)	64,161
Total	\$2,118,542	\$ 270,376	\$ (27,792)	\$ (45,306)	\$2,315,820

Accumulated amortization	2016	Amortization	Disposals	Transfers	2017
Land improvements	\$ 2,137	\$ 16	\$ -	\$ -	\$ 2,153
Buildings	288,643	23,671	(165)	(131)	312,018
Equipment	335,996	26,619	(21,028)	(504)	341,083
Information systems	212,183	12,562	(147)	(28,522)	196,076
Leasehold improvements	23,670	2,649	(1,051)	(30)	25,238
Vehicles	50,127	8,412	(4,588)	(6)	53,945
Total	\$ 912,756	\$ 73,929	\$ (26,979)	\$ (29,193)	\$ 930,513

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13. Tangible capital assets (continued):

Net book value	2018	2017
Land	\$ 143,780	\$ 143,780
Land improvements	5,958	240
Buildings	939,292	539,773
Equipment	166,139	99,008
Information systems	25,759	25,072
Leasehold improvements	12,561	14,111
Vehicles	33,154	33,576
Construction in progress	47,804	465,586
Equipment and information systems in progress	78,335	64,161
Total	\$ 1,452,782	\$ 1,385,307

During the year, \$2,761 (2017 – \$9,740) of interest on P3 debt has been capitalized to construction in progress.

Tangible capital assets are funded as follows:

	2018	2017
Deferred capital contributions	\$ 1,076,992	\$ 1,012,057
Debt	258,162	253,317
Internally funded	117,628	119,933
Tangible capital assets	\$ 1,452,782	\$ 1,385,307

14. Inventories held for use:

	2018	2017
Pharmaceuticals	\$ 45,566	\$ 42,166
Medical supplies	4,841	5,082
	\$ 50,407	\$ 47,248

At March 31, 2018, inventories held for use included \$19,262 of pandemic biologicals inventory which expires in fiscal year 2019.

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15. Commitments and contingencies:

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

As at March 31, 2018, the Authority had outstanding commitments for construction, equipment and information systems in progress of \$248,160 (2017 – \$337,690).

(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:

2019	\$	83,147
2020		29,843
2021		20,344
2022		20,496
2023		19,906
Thereafter		229,578
	\$	403,314

(c) Operating leases:

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

2019	\$	27,779
2020		21,624
2021		16,449
2022		11,362
2023		9,808
Thereafter		56,638
	\$	143,660

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15. Commitments and contingencies (continued):

(d) Public-private partnerships commitments:

ARHCC Inc. entered into a multi-year P3 contract with the private sector partner Access Health Abbotsford Ltd. ("AHA"). Under the agreement, AHA designed, constructed, financed and will maintain the Abbotsford Regional Hospital and Cancer Centre facilities until the end of the term of the agreement in May 2038. Payment guarantees have been provided by the Province of BC for the payment obligations to AHA.

BCCA entered into a multi-year P3 contract with the private sector partner Plenary Health Prince George GP ("Plenary Health") to build the BC Cancer Agency Centre for the North in Prince George, BC. Under the agreement, Plenary Health designed, constructed, financed and will maintain the facilities until the end of the term of the agreement in September 2042. Payment guarantees have been provided by the Province of BC for the payment obligations to Plenary Health.

Children's & Women's Health Centre of British Columbia Branch entered into a multi-year P3 contract with the private sector partner Affinity Partnerships. Under the agreement, Affinity Partnerships will design, construct, partially finance and maintain the Teck Acute Care Centre until the end of the term of the agreement in June 2047. Payment guarantees have been provided by the Province of BC for the payment obligations to Affinity Partnerships.

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. The asset values are recorded as tangible capital assets and the corresponding liabilities are recorded as debt and disclosed in note 10. FM and lifecycle payments to the private partners are contingent on specified performance criteria and include an estimation of inflation, where applicable.

	Capital and financing	FM and lifecycle	Total payments
2019	\$ 20,891	\$ 11,931	\$ 32,822
2020	20,992	12,396	33,388
2021	21,094	13,279	34,373
2022	21,138	13,780	34,918
2023	21,235	14,407	35,642
Thereafter	458,843	520,018	978,861
	\$ 564,193	\$ 585,811	\$ 1,150,004

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15. Commitments and contingencies (continued):

(d) Public-private partnerships commitments (continued):

Required principal repayments on P3 debt for the years ending March 31 included in capital and financing commitments above are as follows:

2019	\$	2,942
2020		3,209
2021		3,570
2022		3,922
2023		4,303
Thereafter		236,528
	\$	254,474

(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 a 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.

16. Statement of operations:

(a) Other contributions:

	2018	2017
Other health authorities	\$ 78,957	\$ 78,941
Foundations and auxiliaries	23,569	21,015
Other ministries	4,282	4,038
Federal government	295	247
Other	1,111	1,560
	\$ 108,214	\$ 105,801

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16. Statement of operations (continued):

(b) Other revenues:

	2018	2017
Recoveries from sales of goods and services	\$ 24,485	\$ 28,453
Parking	5,159	5,245
Drug sales	1,654	1,745
Other	2,264	1,867
	<u>\$ 33,562</u>	<u>\$ 37,310</u>

(c) Patients, clients and residents:

	2018	2017
Non-residents of BC	\$ 9,240	\$ 8,924
Non-residents of Canada	4,956	5,924
Preferred accommodation	1,867	2,381
Residents of BC self pay	1,773	1,885
Federal government	932	880
Workers' Compensation Board	304	805
Other	1,740	1,272
	<u>\$ 20,812</u>	<u>\$ 22,071</u>

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16. Statement of operations (continued):

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

	2018	2017
Compensation:		
Compensation	\$ 1,157,100	\$ 1,075,677
Employee benefits	235,202	210,606
Loss on event-driven employee benefits	6,515	7,624
	<u>1,398,817</u>	<u>1,293,907</u>
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	580,407	548,019
Health and support services providers	154,813	121,666
	<u>735,220</u>	<u>669,685</u>
Supplies:		
Drugs and medical gases	261,968	235,188
Medical and surgical	77,182	67,690
Diagnostic	28,403	27,274
Food and dietary	4,824	4,991
Printing, stationery and office	3,673	3,673
Laundry and linen	3,630	2,541
Housekeeping	794	850
Other	20,907	17,699
	<u>401,381</u>	<u>359,906</u>
Equipment and building services:		
Equipment	130,813	129,157
Rent	46,369	44,363
Plant operations (utilities)	12,084	9,401
Building and grounds service contracts	6,017	6,508
	<u>195,283</u>	<u>189,429</u>
Sundry:		
Professional fees	48,142	41,296
Travel	12,419	11,218
Communication and data processing	7,478	7,465
Patient transport	876	844
Other	35,983	36,453
	<u>104,898</u>	<u>97,276</u>
Amortization of tangible capital assets	88,728	73,929
Research and designated expenses	86,144	86,465
Interest on debt	14,753	5,718
Net book value of disposed tangible capital assets	447	813
	<u>\$ 3,025,671</u>	<u>\$ 2,777,128</u>

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17. Supplementary cash flow information:

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

	2018	2017
Accounts receivable	\$ (43,586)	\$ 63,533
Inventories held for sale	(44)	15,036
Accounts payable and accrued liabilities	41,447	(72,441)
Deferred operating contributions	10,332	12,295
Deferred research and designated contributions	4,350	(225)
Inventories held for use	(3,159)	(1,406)
Prepaid expenses	(49)	983
	<hr/> \$ 9,291	<hr/> \$ 17,775

(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. During the year, \$7,033 (2017 - \$50,469) of tangible capital asset additions were funded through P3 debt.

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.

Referred out and contracted services expenses, as outlined in note 16(d) are measured at the exchange amount, which is the amount established and agreed to by the related parties, and differs from fair market value.

The health authorities, hospital societies and BC Clinical Support Services Society provide various services to each other relating to the provision of healthcare and other support services. The related revenues and expenses are reflected in the statement of operations and are recorded on a cost recovery basis, as the entities would have otherwise delivered the services themselves. As a result, the values recorded in the financial statements approximate fair value.

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18. Related parties and other agencies (continued):

(b) Foundations and auxiliaries:

The following foundations and auxiliaries were established to raise funds for the respective hospitals and/or health services within the Authority. 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.

The Authority has the economic relationships with the following foundations and auxiliaries:

BC Cancer Foundation
BCCDC Foundation for Population and Public Health
British Columbia Transplant Foundation
British Columbia's Children's Hospital Foundation
Sunny Hill Foundation for Children
British Columbia's Women's Hospital and Health Centre Foundation
The Auxiliary to British Columbia's Children's Hospital
British Columbia's Women's Hospital and Health Centre Auxiliary
Auxiliary to Sunny Hill Centre for Children
British Columbia Centre of Excellence for Women's Health Society

During the year, the Authority received contributions of \$101 million (2017 – \$129 million) from the various foundations and auxiliaries:

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 and accounts receivable. The risk exposure is limited to their carrying 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 a reputable top rated financial institution. The portfolio investments are in low risk instruments with varying maturities held with a top rated financial institution. The Authority periodically reviews its investments and is satisfied with the credit rating of the financial institution and the investment grade of its portfolio investments.

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19. Risk management (continued):

(a) Credit risk (continued):

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 collectibility 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 \$27,388 (2017 – \$20,305).

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.

All of the Authority's financial assets mature within one year. The tables below show when various financial liabilities mature:

2018 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 367,946	\$ 1,511	\$ 3,472	\$ 372,929
Debt	2,942	15,004	236,528	254,474
Total financial liabilities	\$ 370,888	\$ 16,515	\$ 240,000	\$ 627,403

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19. Risk management (continued):

(b) Liquidity risk (continued):

2017		Up to 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities					
Accounts payable and accrued liabilities	\$	326,342	\$ 1,549	\$ 3,587	\$ 331,478
Debt		1,988	12,828	234,749	249,565
Total financial liabilities	\$	328,330	\$ 14,377	\$ 238,336	\$ 581,043

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 the Canadian dollar. 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. The currency most contributing to the foreign exchange risk is the US dollar.

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

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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19. Risk management (continued):

(c) Foreign exchange risk (continued):

The carrying amounts of the Authority's foreign currency denominated financial liabilities and financial assets as at March 31 are as follows:

	2018 US dollar	2017 US dollar
Cash and cash equivalents	\$ 262	\$ 3,984
Accounts receivable	770	2,331
Total financial assets	\$ 1,032	\$ 6,315
	2018 US dollar	2017 US dollar
Accounts payable and accrued liabilities	\$ 1,051	\$ 820
Deferred research and designated contributions	584	2,482
Total financial liabilities	\$ 1,635	\$ 3,302

20. Comparative figures:

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

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21. Impact of accounting for restricted contributions in accordance with Restricted Contributions Regulation 198/2011:

As disclosed in the significant accounting policies note 1(a), Regulation 198/2011 requires the Authority to recognize revenue from restricted contributions for the purpose of acquiring or developing a depreciable tangible capital asset on the same basis as the related amortization expense of the tangible capital asset. As these transfers do not contain stipulations or restrictions creating a liability over the term of the expected useful life of a related tangible capital asset, PSAS would require these contributions to be recognized in revenue as a tangible capital asset is acquired or development and construction of a tangible capital asset is complete.

The impact of the departure from PSAS on the consolidated financial statements of the Authority is as follows:

As at March 31, 2016	
Increase in accumulated operating surplus	\$ 875,412
Decrease in deferred capital contributions	(875,412)
For the year ended March 31, 2017	
Increase in annual operating surplus	136,645
As at March 31, 2017	
Increase in accumulated operating surplus	1,012,057
Decrease in deferred capital contributions	(1,012,057)
For the year ended March 31, 2018	
Increase in annual operating surplus	64,935
As at March 31, 2018	
Increase in accumulated operating surplus	1,076,992
Decrease in deferred capital contributions	(1,076,992)

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22. Restructuring transactions:

(a) Correctional Health Services:

Effective October 1, 2017, the Authority assumed responsibility for providing health care services at BC provincial correctional centres operated by the Ministry of Public Safety and Solicitor General, Corrections Branch (MPSSG). Under the Operational Agreement dated October 1, 2017, and pursuant to a direction issued by the Ministry of Health, the Authority has the operational responsibility of providing inmate health care services in provincial correctional centres and will only be accountable to the Ministry of Health with respect to the health care services provided. The Province of BC will remain the sole legal and beneficial owner of the sites and all areas and facilities within the sites, including the clinical space.

(b) Governance and oversight of BCCSS:

Effective March 6, 2018, the governance and oversight of BCCSS transferred over to PHSA. The transaction occurred under the direction of the Ministry in order to meet the Ministry's strategic direction for the health care system of British Columbia. Under the oversight of PHSA, BCCSS will continue rendering services to health organizations in BC. The consolidated financial statements of PHSA for the year ended March 31, 2018 do not include the assets, liabilities and results of operations of BCCSS as at March 31, 2018 and for the period from March 6, 2018 to March 31, 2018.

The carrying amount of the assets and liabilities of BCCSS as at March 31, 2018 are as follows:

Financial Assets	\$ 105,840
Liabilities	115,947
Net debt	(10,107)
Non-financial assets	10,727

Total commitments and contractual obligations of BCCSS as at March 31, 2018 are approximately \$226 million.

23. BC Societies Act:

Effective November 28, 2016, a new Societies Act came into force in British Columbia. Under the new Act, the Authority is subject to certain new financial statement disclosure requirements. These disclosure requirements include: (a) remuneration paid to the Society's directors, (b) remuneration paid to the ten most highly paid employees and contractors of the Society who were paid at least seventy-five thousand dollars during the period, and (c) any financial assistance provided by the Society during the period that was outside the ordinary course of activities.

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23. BC Societies Act (continued):

(a) Remuneration paid to Directors:

The following table sets out remuneration paid to each member of the Board of Directors for the year ended March 31, 2018:

Board Position	2018
Board Chair	\$ 22
Chair – Audit	19
Chair – Finance	17
Chair – Governance and Human Resources	17
Chair – Quality and Access	17
Chair – Research	17
Member	13
Member	12
Member	12
Member	12
Member, term began September 2017	7
Member, term began September 2017	7
Member, term ended September 2017	9
Member, term ended September 2017	7
	\$ 188

(b) Remuneration paid to highest paid employees and contractors:

The ten most highly remunerated persons whose remuneration was at least seventy-five thousand dollars during the year ended March 31, 2018 received an aggregate of \$6,013 from the Authority during that period. All of these individuals are physicians.

(c) Financial assistance:

The Authority did not provide any financial assistance outside the ordinary course of activities during the year ended March 31, 2018.