

Consolidated Financial Statements of

FRASER HEALTH AUTHORITY

Year ended March 31, 2019

Statement of Management Responsibility

The consolidated financial statements of Fraser Health Authority (the “Authority”) for the year ended March 31, 2019 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 consolidated financial statements.

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

The Board of Directors is responsible for ensuring that management 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.

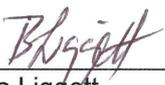
The Authority’s internal auditor independently evaluates the effectiveness of internal controls on an ongoing basis and reports its findings to management and the Finance and Audit Committee.

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

On behalf of Fraser Health Authority



Dr. Victoria Lee,
President and CEO



Brenda Liggett,
Vice President, Facilities Management and
Chief Financial Officer

June 5, 2019



Independent auditor's report

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

Our opinion

In our opinion, the accompanying consolidated financial statements of Fraser Health Authority (the Authority) as at March 31, 2019 and for the year then ended 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.

What we have audited

The Authority's consolidated financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

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

Emphasis of matter – basis of accounting

We draw attention to note 1(a) to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 1 (a) to the consolidated financial statements provides a description of the nature of these differences. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP
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Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of the 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.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Surrey, British Columbia
June 7, 2019

FRASER HEALTH AUTHORITY

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

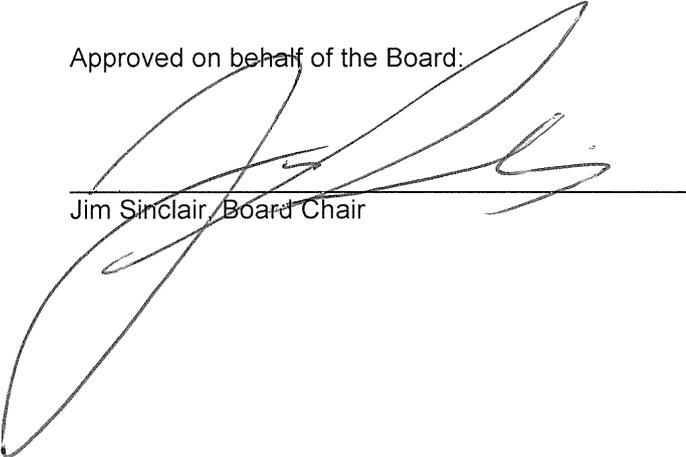
As at March 31, 2019

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Financial assets | | |
| Cash and cash equivalents (note 2) | \$ 321,484 | \$ 349,812 |
| Accounts receivable (note 3) | 189,967 | 131,593 |
| Long-term disability and health and welfare benefits (note 7(b)) | 4,535 | 15,243 |
| | <u>515,986</u> | <u>496,648</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities (note 4) | 374,354 | 333,668 |
| Deferred operating contributions (note 5) | 6,087 | 7,191 |
| Debt (note 6) | 627,667 | 637,345 |
| Lease inducements | 7,567 | 8,662 |
| Retirement allowance (note 7(a)) | 159,962 | 158,012 |
| Deferred capital contributions (note 8) | 1,098,136 | 980,753 |
| | <u>2,273,773</u> | <u>2,125,631</u> |
| Net debt | <u>(1,757,787)</u> | <u>(1,628,983)</u> |
| Non-financial assets | | |
| Prepaid expenses | 51,708 | 50,763 |
| Inventories held for use (note 9) | 9,249 | 9,022 |
| Tangible capital assets (note 10) | 1,565,030 | 1,455,500 |
| | <u>1,625,987</u> | <u>1,515,285</u> |
| Accumulated deficit | <u>\$ (131,800)</u> | <u>\$ (113,698)</u> |

Commitments and contingencies (note 11)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Jim Sinclair, Board Chair



Tom Kim

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

| | Budget | 2019 | 2018 |
|--|------------------|------------------|------------------|
| | (note 1(m)) | | (note 17) |
| Revenues: | | | |
| Ministry of Health contributions | \$ 3,088,800 | \$ 3,135,745 | \$ 2,982,438 |
| Medical Services Plan | 176,500 | 194,401 | 188,605 |
| Recoveries from other health authorities and BC government reporting entities | 113,500 | 122,122 | 116,968 |
| Patients, clients and residents (note 12(a)) | 91,630 | 105,110 | 99,221 |
| Amortization of deferred capital contributions (note 8) | 81,700 | 86,175 | 85,195 |
| Other contributions (note 12(b)) | 81,100 | 85,656 | 83,788 |
| Other (note 12(c)) | 34,443 | 62,595 | 58,628 |
| Interest income | 2,727 | 5,087 | 3,467 |
| | 3,670,400 | 3,796,891 | 3,618,310 |
| Expenses (note 12(d)): | | | |
| Acute | 2,049,900 | 2,198,179 | 2,079,531 |
| Residential care | 623,300 | 615,532 | 586,836 |
| Community care | 360,000 | 352,161 | 336,244 |
| Mental health and substance use | 284,100 | 277,637 | 258,902 |
| Corporate | 261,200 | 275,907 | 267,439 |
| Population health and wellness | 91,900 | 95,577 | 88,959 |
| | 3,670,400 | 3,814,993 | 3,617,911 |
| Annual surplus (deficit) | - | (18,102) | 399 |
| Accumulated deficit, beginning of year | (113,698) | (113,698) | (114,097) |
| Accumulated deficit, end of year | \$ (113,698) | \$ (131,800) | \$ (113,698) |

See accompanying notes to consolidated financial statements.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

| | Budget (note 1(m)) | 2019 | 2018 |
|---|-----------------------|----------------|----------------|
| Annual surplus (deficit) | \$ - | \$ (18,102) | \$ 399 |
| Acquisition of tangible capital assets | (283,647) | (220,091) | (150,161) |
| Adjustment on disposal of tangible capital assets | - | 258 | 251 |
| Amortization of tangible capital assets | 107,400 | 110,303 | 109,802 |
| Loss on disposal of tangible capital assets | - | 1 | 16 |
| | (176,247) | (127,631) | (39,693) |
| Acquisition of inventories held for use | - | (80,837) | (78,109) |
| Acquisition of prepaid expenses | - | (82,073) | (69,736) |
| Consumption of inventories held for use | - | 80,610 | 77,488 |
| Use of prepaid expenses | - | 81,127 | 66,451 |
| | - | (1,173) | (3,906) |
| Increase in net debt | (176,247) | (128,804) | (43,599) |
| Net debt, beginning of year | (1,628,983) | (1,628,983) | (1,585,384) |
| Net debt, end of year | \$ (1,805,230) | \$ (1,757,787) | \$ (1,628,983) |

See accompanying notes to consolidated financial statements.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Cash flows from (used in) operating activities: | | |
| Annual surplus (deficit) | \$ (18,102) | \$ 399 |
| Items not involving cash: | | |
| Amortization of deferred capital contributions | (86,175) | (85,195) |
| Amortization of tangible capital assets | 110,303 | 109,802 |
| Amortization of lease inducements | (1,095) | (1,095) |
| Loss on disposal of tangible capital assets | 1 | 16 |
| Retirement allowance expense | 13,133 | 12,882 |
| Long-term disability and health and welfare benefits expense | 81,633 | 54,070 |
| Interest expense | 47,277 | 47,843 |
| Interest income | (5,087) | (3,467) |
| | 141,888 | 135,255 |
| Net change in non-cash operating items (note 13) | (19,964) | 35,232 |
| Net change in accrued acquisition of tangible capital assets | (17,081) | (12,197) |
| Retirement allowance benefits paid | (11,183) | (8,858) |
| Long-term disability and health and welfare benefits contributions | (70,925) | (78,746) |
| Interest paid | (47,277) | (47,843) |
| Interest received | 5,087 | 3,467 |
| Net change in cash from (used in) operating activities | (19,455) | 26,310 |
| Capital activities: | | |
| Adjustment on disposal of tangible capital assets | 258 | 251 |
| Acquisition of tangible capital assets | (203,011) | (137,964) |
| Net change in cash used in capital activities | (202,753) | (137,713) |
| Financing activities: | | |
| Repayment of debt | (9,678) | (8,404) |
| Capital contributions | 203,558 | 134,105 |
| Net change in cash from financing activities | 193,880 | 125,701 |
| Increase (decrease) in cash and cash equivalents | (28,328) | 14,298 |
| Cash and cash equivalents, beginning of year | 349,812 | 335,514 |
| Cash and cash equivalents, end of year | \$ 321,484 | \$ 349,812 |

Supplementary cash flow information (note 13)

See accompanying notes to consolidated financial statements.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

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

The Authority provides services including inpatient hospital care, outpatient diagnostics and treatments, rehabilitation care, residential care, specialized children's services and programs, community, home care and home support services, and environmental and public health services.

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.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions has 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 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 related deferred capital contributions would be recorded differently under PSAS.

(b) Basis of consolidation:

The Authority and the Provincial Health Services Authority ("PHSA") 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 Authority and 18 (15%) common shares are held by the PHSA. The Authority's interest in ARHCC Inc. is recorded on a proportional consolidation basis in these consolidated financial statements.

(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.

(d) Lease inducements:

Lease inducements are monies advanced on an operating lease by the property owner to finance tenant improvements. Inducements are amortized on a straight-line basis over the lease term.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(e) Asset retirement obligations:

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

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

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

(f) Employee benefits:

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

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

The actuarial determination of the accrued benefit obligations uses the projected benefit method pro-rated 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 (2018 - 10 years). Actuarial gains and losses from event-driven benefits such as long-term disability and health and welfare benefits that do not vest or accumulate are recognized immediately.

The discount rate used to measure obligations 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.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(f) Employee benefits (continued):

(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.

(g) Non-financial assets:

(i) Tangible capital assets:

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

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

| Asset | Basis |
|------------------------|---------------|
| Land improvements | 20 years |
| Buildings | 10 - 50 years |
| Equipment | 3 - 20 years |
| Information systems | 3 - 10 years |
| Leasehold improvements | Lease term |

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

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(g) Non-financial assets (continued):

(i) Tangible capital assets (continued):

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.

(iii) Prepaid expenses:

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

(h) Revenue recognition:

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

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

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 consolidated financial statements.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(h) Revenue recognition (continued):

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

(i) Measurement uncertainty:

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

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

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

(j) Foreign currency translation:

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

(k) Financial instruments:

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

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

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

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

All financial assets recorded at amortized cost are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated statement of operations.

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.

(l) 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 directly by the Authority.

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

Correspondingly, an obligation net of the 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 the capital.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(m) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's initial budget approved by the Board of Directors on April 10, 2018.

(n) Newly adopted accounting standard:

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. There is no impact to the consolidated financial statements upon transition to this standard.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

1. Significant accounting policies (continued):

(o) Future accounting standards:

(i) 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.
- 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 consolidated financial statements of the Authority.

(ii) In June 2018, PSAB issued PS 3400, *Revenue*. PS 3400 proposes a framework describing two categories of revenue – transactions with performance obligations and transactions with no performance obligations. PS 3400 applies to fiscal years beginning on or after April 1, 2022. Management is in the process of assessing the impact of adoption of PS 3400 on the consolidated financial statements of the Authority.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

2. Cash and cash equivalents:

| | 2019 | 2018 |
|--|------------|------------|
| Cash and cash equivalents | \$ 321,484 | \$ 349,812 |
| Amounts restricted for capital purposes | (106,418) | (108,111) |
| Amounts restricted for P3 projects | (139,125) | (132,924) |
| Amounts restricted for patient comfort funds | (771) | (689) |
| Unrestricted cash and cash equivalents | \$ 75,170 | \$ 108,088 |

3. Accounts receivable:

| | 2019 | 2018 |
|---|------------|------------|
| Ministry of Health | \$ 68,534 | \$ 13,924 |
| Other health authorities and BC government reporting entities | 57,481 | 56,142 |
| Patients, clients and residents | 43,902 | 35,642 |
| Medical Services Plan | 13,178 | 14,174 |
| Other | 11,136 | 8,341 |
| Federal government | 3,405 | 3,841 |
| Foundations and auxiliaries | 2,091 | 5,468 |
| | 199,727 | 137,532 |
| Allowance for doubtful accounts | (9,760) | (5,939) |
| | \$ 189,967 | \$ 131,593 |

4. Accounts payable and accrued liabilities:

| | 2019 | 2018 |
|--|------------|------------|
| Trade accounts payable and accrued liabilities | \$ 180,101 | \$ 160,094 |
| Salaries and benefits payable | 108,266 | 92,596 |
| Accrued vacation pay | 85,987 | 80,978 |
| | \$ 374,354 | \$ 333,668 |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

5. Deferred operating contributions:

Deferred operating contributions represent externally restricted operating funding received for specific purposes, such as multi-year projects and research.

| | 2019 | 2018 |
|--|----------|----------|
| Deferred operating contributions, beginning of year | \$ 7,191 | \$ 3,248 |
| Contributions received during the year for specific purposes | 4,699 | 7,111 |
| Amounts recognized as revenue in the year | (5,803) | (3,168) |
| Deferred operating contributions, end of year | \$ 6,087 | \$ 7,191 |

6. Debt:

| | 2019 | 2018 |
|---|------------|------------|
| Abbotsford Regional Hospital and Cancer Centre Inc., 30-year contract to May 2038 with Access Health Abbotsford Ltd., payable in monthly payments including annual interest of 7.75%, payable in accordance with the project agreement terms | \$ 313,169 | \$ 315,993 |
| Surrey Memorial Hospital Redevelopment Project, 30-year contract to February 2044 with Integrated Team Solutions SMH Partnership, payable in monthly payments including annual interest of 7.76%, payable in accordance with the project agreement terms | 170,118 | 172,302 |
| Jim Pattison Outpatient Care and Surgery Centre, 30-year contract to March 2041 with BCHS Healthcare (Surrey) Limited Partnership, payable in monthly payments including annual interest of 6.21%, payable in accordance with the project agreement terms | 144,380 | 149,050 |
| | \$ 627,667 | \$ 637,345 |

Required principal repayments on P3 debt for the years ending March 31 are disclosed with P3 commitments in note 11(e).

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

7. Employee benefits:

(a) Retirement allowance:

Certain employees with 10 or 20 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, 2018 and extrapolated to March 31, 2019 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2019 are derived. The next required valuation will be as of December 31, 2019.

Information about retirement allowance benefits is as follows:

| | 2019 | 2018 |
|-----------------------------|------------|------------|
| Accrued benefit obligation: | | |
| Severance benefits | \$ 87,493 | \$ 83,192 |
| Sick leave benefits | 57,595 | 56,524 |
| | 145,088 | 139,716 |
| Unamortized actuarial gain | 14,874 | 18,296 |
| Accrued benefit liability | \$ 159,962 | \$ 158,012 |

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

| | 2019 | 2018 |
|--|------------|------------|
| Accrued benefit liability, beginning of year | \$ 158,012 | \$ 153,988 |
| Net benefit expense: | | |
| Current service cost | 9,835 | 9,752 |
| Interest expense | 5,730 | 5,347 |
| Amortization of actuarial gain | (2,432) | (2,217) |
| Net benefit expense | 13,133 | 12,882 |
| Benefits paid | (11,183) | (8,858) |
| Accrued benefit liability, end of year | \$ 159,962 | \$ 158,012 |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

7. Employee benefits (continued):

(a) Retirement allowance (continued):

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

| | 2019 | 2018 |
|--|-------|-------|
| Accrued benefit obligation as at March 31: | | |
| Discount rate | 4.01% | 4.01% |
| Rate of compensation increase | 2.50% | 2.50% |
| Benefit costs for years ended March 31: | | |
| Discount rate | 4.01% | 3.86% |
| Rate of compensation increase | 2.50% | 2.50% |
| Expected future inflationary increases | 2.00% | 2.00% |

(b) Healthcare Benefit Trust benefits:

The Healthcare Benefit Trust (the "Trust") administers long-term disability benefits and group life insurance, accidental death and dismemberment, extended health and dental claims ("health and welfare benefits") for certain employee groups of the Authority and other provincially funded organizations. The Authority and all other participating employers are jointly responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

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 are reflected in these consolidated financial statements.

The Authority's net liabilities as of March 31, 2019 are based on the actuarial valuation at December 31, 2018, extrapolated to March 31, 2019. The next expected valuation is as of December 31, 2019.

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

| | 2019 | 2018 |
|--|------------|-------------|
| Accrued benefit obligation | \$ 218,276 | \$ 218,699 |
| Fair value of plan assets | (222,811) | (233,942) |
| Long-term disability and health and welfare benefits asset | \$ (4,535) | \$ (15,243) |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

7. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

| | 2019 | 2018 |
|---|-------------|-------------|
| Long-term disability and health and welfare benefits liability (asset), beginning of year | \$ (15,243) | \$ 9,433 |
| Net benefit expense: | | |
| Benefit expense | 66,846 | 61,840 |
| Interest expense | 12,431 | 11,804 |
| Employees' payments | (2,785) | (1,276) |
| Expected return on assets | (13,460) | (11,940) |
| Actuarial loss (gain) | 18,601 | (6,358) |
| Net benefit expense | 81,633 | 54,070 |
| Contributions to the plan | (70,925) | (78,746) |
| Long-term disability and health and welfare benefits asset, end of year | \$ (4,535) | \$ (15,243) |
| Benefits paid to claimants | \$ 80,429 | \$ 85,793 |
| Plan assets consist of: | | |
| | 2019 | 2018 |
| Debt securities | 40% | 42% |
| Foreign equities | 34% | 34% |
| Canadian equities and other | 26% | 24% |
| Total | 100% | 100% |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

7. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

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

| | 2019 | 2018 |
|--|-------|-------|
| Accrued benefit obligation as at March 31: | | |
| Discount rate | 5.80% | 5.80% |
| Rate of benefit increase | 1.50% | 1.50% |
| Benefit costs for years ended March 31: | | |
| Discount rate | 5.80% | 5.30% |
| Rate of compensation increase | 1.50% | 1.50% |
| Expected future inflationary increases | 2.00% | 2.00% |
| Expected long-term rate of return on plan assets | 5.80% | 5.30% |

The actual rate of return on plan assets was 0.5% for the year ended December 31, 2018 (December 31, 2017 – 7.6%).

During the year, performance within the Authority's Trust pool was significantly poorer than expected resulting in a substantial portion of the deficit recognized in the consolidated statement of operations and accumulated deficit for the year ended March 31, 2019.

(c) Joint Benefit Trust benefits:

The Health Science Professionals Bargaining Association, Community Bargaining Association and Facilities Bargaining Association, jointly with employers, manage joint benefit trusts ("JBTs") to provide long term disability and health and welfare benefits to these groups of employees. Employer contributions to the JBTs are based on a specified percentage of payroll costs. During the year ended March 31, 2019, the Authority made contributions of \$45.6 million (2018 - \$43.0 million) which were expensed in the year.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

7. Employee benefits (continued):

(d) 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 \$120.2 million (2018 - \$113.7 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 to individual employers. The plan covers approximately 197,000 active members, of which approximately 23,540 (2018 – 23,101) are employees of the Authority. The next expected actuarial valuation date would be as of December 31, 2018 with results available in fall 2019.

Employer contributions to the Public Service Pension Plan of \$1.9 million (2018 - \$2.2 million) were expensed during the year. Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2017 indicated a surplus of approximately \$1,896 million. The actuary does not attribute portions of the unfunded liability/surplus to individual employers. The plan covers approximately 62,000 active members, of which approximately 301 (2018 - 338) are employees of the Authority. The next expected actuarial valuation date will be as of March 31, 2020 with results available in early 2021.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

8. Deferred capital contributions:

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

| | 2019 | 2018 |
|---|--------------|------------|
| Deferred capital contributions, beginning of year | \$ 980,753 | \$ 931,843 |
| Capital contributions received: | | |
| Ministry of Health | 181,102 | 117,606 |
| Foundations and auxiliaries | 15,265 | 9,196 |
| Regional hospital district | 4,356 | 3,258 |
| Other | 3,093 | 4,198 |
| | 203,816 | 134,258 |
| Amortization for the year | (86,175) | (85,195) |
| Adjustment on disposal of tangible capital assets | (258) | (153) |
| Deferred capital contributions, end of year | \$ 1,098,136 | \$ 980,753 |

Deferred capital contributions comprise the following:

| | 2019 | 2018 |
|---|--------------|------------|
| Contribution used to purchase tangible capital assets | \$ 993,996 | \$ 870,338 |
| Unspent contributions | 104,140 | 110,415 |
| | \$ 1,098,136 | \$ 980,753 |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

9. Inventories held for use:

| | 2019 | 2018 |
|------------------|----------|----------|
| Pharmaceuticals | \$ 7,310 | \$ 6,709 |
| Medical supplies | 1,939 | 2,313 |
| | \$ 9,249 | \$ 9,022 |

10. Tangible capital assets:

| Cost | 2018 | Additions | Disposals | Transfers | 2019 |
|---|--------------|------------|-------------|-----------|--------------|
| Land | \$ 25,665 | \$ - | \$ - | \$ - | \$ 25,665 |
| Land improvements | 11,740 | 1,136 | - | 445 | 13,321 |
| Buildings | 1,988,079 | 3,419 | (368) | 26,323 | 2,017,453 |
| Equipment | 590,666 | 20,850 | (15,624) | 8,139 | 604,031 |
| Information systems | 118,131 | 4,100 | (49) | 5,069 | 127,251 |
| Leasehold improvements | 32,555 | 3,708 | - | 2,544 | 38,807 |
| Construction in progress | 116,900 | 167,776 | - | (29,040) | 255,636 |
| Equipment and information systems in progress | 22,970 | 19,103 | - | (13,480) | 28,593 |
| Total | \$ 2,906,706 | \$ 220,092 | \$ (16,041) | \$ - | \$ 3,110,757 |

| Accumulated amortization | 2018 | Amortization | Disposals | 2019 |
|--------------------------|--------------|--------------|-------------|--------------|
| Land improvements | \$ 6,578 | \$ 557 | \$ - | \$ 7,135 |
| Buildings | 877,396 | 59,579 | (350) | 936,625 |
| Equipment | 457,369 | 38,123 | (15,383) | 480,109 |
| Information systems | 94,451 | 9,406 | (49) | 103,808 |
| Leasehold improvements | 15,412 | 2,638 | - | 18,050 |
| Total | \$ 1,451,206 | \$ 110,303 | \$ (15,782) | \$ 1,545,727 |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

10. Tangible capital assets (continued):

| Cost | 2017 | Additions | Disposals | Transfers | 2018 |
|---|---------------------|-------------------|--------------------|-------------|---------------------|
| Land | \$ 25,665 | \$ - | \$ - | \$ - | \$ 25,665 |
| Land improvements | 10,400 | 1,337 | - | 3 | 11,740 |
| Buildings | 1,934,765 | 15,916 | (1,209) | 38,607 | 1,988,079 |
| Equipment | 567,893 | 24,404 | (11,015) | 9,384 | 590,666 |
| Information systems | 111,898 | 2,661 | - | 3,572 | 118,131 |
| Leasehold improvements | 30,556 | 1,715 | - | 284 | 32,555 |
| Construction in progress | 67,631 | 88,162 | - | (38,893) | 116,900 |
| Equipment and information systems in progress | 19,961 | 15,966 | - | (12,957) | 22,970 |
| Total | \$ 2,768,769 | \$ 150,161 | \$ (12,224) | \$ - | \$ 2,906,706 |

| Accumulated amortization | 2017 | Amortization | Disposals | 2018 |
|--------------------------|---------------------|-------------------|--------------------|---------------------|
| Land improvements | \$ 6,114 | \$ 464 | \$ - | \$ 6,578 |
| Buildings | 819,838 | 58,752 | (1,194) | 877,396 |
| Equipment | 430,489 | 37,643 | (10,763) | 457,369 |
| Information systems | 83,813 | 10,638 | - | 94,451 |
| Leasehold improvements | 13,107 | 2,305 | - | 15,412 |
| Total | \$ 1,353,361 | \$ 109,802 | \$ (11,957) | \$ 1,451,206 |

| Net book value | 2019 | 2018 |
|---|---------------------|---------------------|
| Land | \$ 25,665 | \$ 25,665 |
| Land improvements | 6,186 | 5,162 |
| Buildings | 1,080,828 | 1,110,683 |
| Equipment | 123,922 | 133,297 |
| Information systems | 23,443 | 23,680 |
| Leasehold improvements | 20,757 | 17,143 |
| Construction in progress | 255,636 | 116,900 |
| Equipment and information systems in progress | 28,593 | 22,970 |
| Total | \$ 1,565,030 | \$ 1,455,500 |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

10. Tangible capital assets (continued):

Tangible capital assets are funded as follows:

| | 2019 | 2018 |
|--------------------------------|---------------------|---------------------|
| Deferred capital contributions | \$ 993,996 | \$ 870,338 |
| Debt | 613,671 | 623,258 |
| Internally funded | (42,637) | (38,096) |
| Tangible capital assets | \$ 1,565,030 | \$ 1,455,500 |

11. Commitments and contingencies:

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

As at March 31, 2019, the Authority had outstanding commitments for construction, equipment and information systems in progress of \$175.8 million (2018 - \$183.2 million).

(b) Contractual obligations:

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

| | |
|------------|-------------------|
| 2020 | \$ 67,181 |
| 2021 | 53,022 |
| 2022 | 18,641 |
| 2023 | 18,051 |
| 2024 | 18,503 |
| Thereafter | 58,330 |
| | \$ 233,728 |

(c) Residential care and health care service provider contracts:

The Authority has entered into contracts with 936 service providers to provide residential and health care services. The aggregate annual commitments for these contracts for the year ended March 31, 2019 are \$664.6 million (2018 - \$652.0 million).

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

11. Commitments and contingencies (continued):

(d) Operating leases:

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

| | | |
|------------|----|---------|
| 2020 | \$ | 36,628 |
| 2021 | | 33,336 |
| 2022 | | 28,189 |
| 2023 | | 24,804 |
| 2024 | | 21,177 |
| Thereafter | | 68,981 |
| | \$ | 213,115 |

(e) Public-private partnerships commitments:

The Authority has entered into multiple-year P3 contracts to design, build, finance and maintain the Abbotsford Regional Hospital and Cancer Centre, the Jim Pattison Outpatient Care and Surgery Centre and the Surrey Memorial Hospital Redevelopment Project. The information presented below shows the anticipated cash outflow for future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. As construction progressed, the asset values were recorded as tangible capital assets and the corresponding liabilities were recorded as debt and disclosed in note 6. FM and lifecycle payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

| | Capital and financing | FM and lifecycle | Total payments |
|------------|--------------------------|---------------------|-------------------|
| 2020 | \$ 57,056 | \$ 33,011 | \$ 90,067 |
| 2021 | 57,238 | 35,006 | 92,244 |
| 2022 | 57,176 | 35,761 | 92,937 |
| 2023 | 57,338 | 39,976 | 97,314 |
| 2024 | 58,012 | 44,457 | 102,469 |
| Thereafter | 1,002,055 | 832,649 | 1,834,704 |
| | \$ 1,288,875 | \$ 1,020,860 | \$ 2,309,735 |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

11. Commitments and contingencies (continued):

(e) 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:

| | | |
|------------|----|---------|
| 2020 | \$ | 10,966 |
| 2021 | | 11,921 |
| 2022 | | 12,696 |
| 2023 | | 13,526 |
| 2024 | | 15,190 |
| Thereafter | | 563,368 |
| | \$ | 627,667 |

(f) Litigation and claims:

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

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

(g) Asset retirement obligations:

The Authority has certain asset retirement obligations relating to several of its facilities that may contain asbestos which may require special handling procedures. At this time, the Authority has not recognized these asset retirement obligations as there are no current approved plans and the timing of the future demolition or renovation of the facilities is unknown and therefore the value of 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.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

12. Consolidated statement of operations:

(a) Patients, clients and residents revenue:

| | 2019 | 2018 |
|-----------------------------|-------------------|------------------|
| Long-term and extended care | \$ 34,770 | \$ 34,561 |
| Non-residents of Canada | 25,193 | 23,398 |
| WorkSafe BC | 15,830 | 15,416 |
| Non-residents of BC | 13,572 | 11,229 |
| Residents of BC self-pay | 7,581 | 6,532 |
| Preferred accommodation | 3,971 | 4,312 |
| Federal government | 2,270 | 2,045 |
| Other | 1,923 | 1,728 |
| | <u>\$ 105,110</u> | <u>\$ 99,221</u> |

(b) Other contributions:

| | 2019 | 2018 |
|--------------------------|------------------|------------------|
| Other health authorities | \$ 78,007 | \$ 75,960 |
| Other ministries | 3,663 | 3,767 |
| Other | 3,986 | 4,061 |
| | <u>\$ 85,656</u> | <u>\$ 83,788</u> |

(c) Other revenues:

| | 2019 | 2018 |
|--|------------------|------------------|
| Compensation recoveries | \$ 22,290 | \$ 17,450 |
| Parking | 15,471 | 14,974 |
| Recoveries from sale of goods and services | 9,046 | 8,699 |
| Other | 15,788 | 17,505 |
| | <u>\$ 62,595</u> | <u>\$ 58,628</u> |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

12. Consolidated statement of operations (continued):

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

| | 2019 | 2018 |
|---|---------------------|---------------------|
| Compensation: | | |
| Compensation | \$ 1,765,815 | \$ 1,690,482 |
| Employee benefits | 375,829 | 356,966 |
| Loss (gain) on event-driven employee benefits | 17,494 | (7,176) |
| | <u>2,159,138</u> | <u>2,040,272</u> |
| Referred-out and contracted services: | | |
| Health and support services providers | 745,624 | 714,164 |
| Other health authorities and BC government reporting entities | 230,353 | 219,888 |
| | <u>975,977</u> | <u>934,052</u> |
| Supplies: | | |
| Medical and surgical | 159,361 | 151,998 |
| Drug and medical gases | 60,651 | 60,459 |
| Diagnostic | 28,458 | 27,492 |
| Food and dietary | 13,928 | 13,804 |
| Laundry and linen | 14,492 | 13,705 |
| Printing, stationery and office | 6,541 | 7,154 |
| Housekeeping | 4,996 | 4,803 |
| Other | 20,627 | 19,404 |
| | <u>309,054</u> | <u>298,819</u> |
| Equipment and building services: | | |
| Equipment | 64,340 | 56,778 |
| Rent | 33,323 | 31,546 |
| Plant operation (utilities) | 19,230 | 17,140 |
| Building and ground service contracts | 10,979 | 10,313 |
| Other | 8,814 | 8,756 |
| | <u>136,686</u> | <u>124,533</u> |
| Amortization of tangible capital assets | 110,303 | 109,802 |
| Sundry: | | |
| Patient transport | 13,863 | 13,023 |
| Professional fees | 11,567 | 6,636 |
| Communication and data processing | 9,134 | 7,968 |
| Travel | 8,172 | 7,625 |
| Other | 33,822 | 27,338 |
| | <u>76,558</u> | <u>62,590</u> |
| Interest on debt | 47,277 | 47,843 |
| | <u>\$ 3,814,993</u> | <u>\$ 3,617,911</u> |

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

13. Supplementary cash flow information:

Net change in non-cash operating items:

| | 2019 | 2018 |
|--|-------------|------------|
| Accounts receivable | \$ (58,374) | \$ (9,000) |
| Accounts payable and accrued liabilities | 40,686 | 44,195 |
| Deferred operating contributions | (1,104) | 3,943 |
| Prepaid expenses | (945) | (3,285) |
| Inventories held for use | (227) | (621) |
| | \$ (19,964) | \$ 35,232 |

14. Related party and other agency operations:

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. The following are identified related parties:

(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 health authorities and hospital societies 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 consolidated 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 consolidated financial statements approximate fair value.

(b) Key management personnel:

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

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

14. Related party and other agency operations (continued):

(c) Foundations and auxiliaries:

There are 18 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's 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 consolidated financial statements of the Authority.

15. Risk management:

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

(a) Credit risk:

Credit risk primarily arises from the Authority's cash and cash equivalents and accounts receivable. The risk exposure is limited to their varying amounts at the date of the 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.

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 uncollectable amounts. As at March 31, 2019, the amount of allowance for doubtful accounts was \$9.8 million (2018 - \$5.9 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.

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.

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

15. Risk management (continued):

(b) Liquidity risk (continued):

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

| 2019 Financial assets | Up to 1 year | 1 to 5 years | Over 5 Years |
|-------------------------------|-------------------|--------------|--------------|
| Cash and cash equivalents | \$ 321,484 | \$ - | \$ - |
| Accounts receivable | 189,967 | - | - |
| Total financial assets | \$ 511,451 | \$ - | \$ - |

| 2019 Liabilities | Up to 1 year | 1 to 5 years | Over 5 Years |
|--|-------------------|------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 374,354 | \$ - | \$ - |
| Debt | 10,966 | 53,333 | 563,368 |
| Total liabilities | \$ 385,320 | \$ 53,333 | \$ 563,368 |

| 2018 Financial assets | Up to 1 year | 1 to 5 years | Over 5 Years |
|-------------------------------|-------------------|--------------|--------------|
| Cash and cash equivalents | \$ 349,812 | \$ - | \$ - |
| Accounts receivable | 131,593 | - | - |
| Total financial assets | \$ 481,405 | \$ - | \$ - |

| 2018 Liabilities | Up to 1 year | 1 to 5 years | Over 5 Years |
|--|-------------------|------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 333,668 | \$ - | \$ - |
| Debt | 9,678 | 49,109 | 578,558 |
| Total liabilities | \$ 343,346 | \$ 49,109 | \$ 578,558 |

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

FRASER HEALTH AUTHORITY

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

Year ended March 31, 2019

15. Risk management (continued):

(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:

| | 2019 | 2018 |
|-------------------------------|----------|----------|
| US dollar per Canadian dollar | \$ 0.748 | \$ 0.776 |

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.

16. Government partnership

As described in Note 1, the Authority has an 85% 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. for the year ended March 31, 2019.

| | 2019 | 2018 |
|----------------------|------------|------------|
| Financial assets | \$ 154,993 | \$ 149,430 |
| Liabilities | 426,540 | 431,056 |
| Net debt | 271,546 | 281,626 |
| Non-financial assets | 274,127 | 284,205 |
| Accumulated surplus | 2,579 | 2,579 |
| Revenues | 62,446 | 61,599 |
| Expenses | 62,446 | 61,599 |

17. Comparative figures

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