



Financial Statements of

NORTHERN HEALTH AUTHORITY

Year ended March 31, 2018

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

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

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit and Finance Committee of the Board. The Audit and Finance Committee meets with management and the internal auditor regularly.

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

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

On behalf of Northern Health Authority

ORIGINAL SIGNED BY

Cathy Ulrich
President and Chief Executive Officer
June 11, 2018

ORIGINAL SIGNED BY

Mark De Croos
Vice President, Financial & Corporate Services/Chief Financial Officer
June 11, 2018



June 11, 2018

Independent Auditor's Report

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

We have audited the accompanying financial statements of Northern Health Authority, which comprise the statement of financial position as at March 31, 2018 and the statements of operations and accumulated deficit, changes in net debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Management's responsibility for the financial statements

Management is responsible for the preparation the financial statements in accordance with 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 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 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 financial statements are free from material misstatement.

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

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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements, which comprise the statement of financial position of Northern Health Authority as at March 31, 2018 and the statement of operations and accumulated surplus, changes in net debt and cash flow for the year then ended, and the related notes, are prepared in all material respects in accordance with 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 of the financial statements, which describe the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Other matter

The financial statements of Northern Health Authority for the year ended March 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 12, 2017.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

NORTHERN HEALTH AUTHORITY

Statement of Financial Position
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

| | 2018 | 2017 |
|--|------------------|-------------------|
| Financial assets | | |
| Cash and cash equivalents (note 2) | \$ 79,807 | \$ 72,353 |
| Portfolio investments (note 2) | 905 | 881 |
| Accounts receivable (note 3) | 30,404 | 32,649 |
| Long-term disability benefits and health and welfare (note 8(b)) | 4,153 | - |
| | <u>115,269</u> | <u>105,883</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities (note 4) | 75,966 | 73,457 |
| Deferred operating contributions (note 5) | 10,508 | 9,467 |
| Obligations under public-private partnership (note 6) | 30,903 | 30,915 |
| Debt (note 7) | 5,428 | 6,135 |
| Retirement allowance (note 8(a)) | 39,659 | 39,117 |
| Long-term disability benefits and health and welfare (note 8(b)) | - | 3,100 |
| Replacement reserves (note 9) | 1,391 | 1,315 |
| Deferred capital contributions (note 10) | 631,049 | 649,705 |
| | <u>794,904</u> | <u>813,211</u> |
| Net debt | <u>(679,635)</u> | <u>(707,328)</u> |
| Non-financial assets | | |
| Tangible capital assets (note 11) | 671,186 | 693,190 |
| Inventories held for use (note 12) | 5,716 | 5,341 |
| Prepaid expenses | 3,399 | 6,104 |
| | <u>680,301</u> | <u>704,635</u> |
| Accumulated surplus (deficit) | <u>\$ 666</u> | <u>\$ (2,693)</u> |

Commitments and contingencies (note 13)

See accompanying notes to financial statements.

Approved on behalf of the Board:

ORIGINAL SIGNED BY

Colleen Nyce, Director

ORIGINAL SIGNED BY

Ben Sander, Director

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

| | 2018 Budget (note 1(k),18) | 2018 | 2017 |
|--|-------------------------------|----------------|-------------------|
| Revenues: | | | |
| Ministry of Health contributions | \$ 612,924 | \$ 618,380 | \$ 588,116 |
| Medical Services Plan | 90,897 | 93,920 | 92,208 |
| Amortization of deferred capital contributions | 48,383 | 47,716 | 52,560 |
| Patients, clients and residents (note 14(a)) | 40,340 | 42,279 | 40,359 |
| Other contributions (note 14(b)) | 17,182 | 15,984 | 16,403 |
| Recoveries from other health authorities and BC government reporting entities | 12,123 | 11,984 | 12,761 |
| Investment income | 900 | 902 | 952 |
| Other revenues (note 14(c)) | 10,387 | 11,833 | 13,050 |
| | <u>833,136</u> | <u>842,998</u> | <u>816,409</u> |
| Expenses (note 14(d)): | | | |
| Acute | 449,174 | 463,263 | 457,873 |
| Community care | 127,951 | 120,353 | 107,301 |
| Long term care | 111,263 | 114,167 | 106,245 |
| Mental health and substance use | 46,158 | 43,957 | 45,164 |
| Population health and wellness | 28,476 | 27,273 | 29,779 |
| Corporate | 70,114 | 66,231 | 65,127 |
| Cariboo wildfires (note 14(e)) | - | 4,395 | - |
| | <u>833,136</u> | <u>839,639</u> | <u>811,489</u> |
| Annual operating surplus (note 20) | - | 3,359 | 4,920 |
| Accumulated (deficit), beginning of year | (7,613) | (2,693) | (7,613) |
| Accumulated surplus (deficit), end of year | <u>\$ (7,613)</u> | <u>\$ 666</u> | <u>\$ (2,693)</u> |

See accompanying notes to financial statements.

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

| | 2018 Budget (note 1(k)) | 2018 | 2017 |
|---|----------------------------|--------------|--------------|
| Annual operating surplus | \$ - | \$ 3,359 | \$ 4,920 |
| Acquisition of tangible capital assets | (49,415) | (29,892) | (36,020) |
| Amortization of tangible capital assets | 52,780 | 51,641 | 56,242 |
| Loss on disposal of tangible capital assets | - | 193 | 110 |
| Proceeds from the disposal of tangible capital assets | - | 62 | 60 |
| | 3,365 | 25,363 | 25,312 |
| Consumption of inventories held for use | - | (375) | 641 |
| Change in prepaid expenses | - | 2,705 | (4,370) |
| | - | 2,330 | (3,729) |
| Decrease in net debt | 3,365 | 27,693 | 21,583 |
| Net debt, beginning of year | (707,328) | (707,328) | (728,911) |
| Net debt, end of year | \$ (703,963) | \$ (679,635) | \$ (707,328) |

See accompanying notes to financial statements.

NORTHERN HEALTH AUTHORITY

Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

| | 2018 | 2017 |
|---|-----------|-----------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual surplus | \$ 3,359 | \$ 4,920 |
| Items not involving cash: | | |
| Amortization of deferred capital contributions | (47,716) | (52,560) |
| Amortization of tangible capital assets | 51,641 | 56,242 |
| Loss on disposal of tangible capital assets | 193 | 110 |
| Retirement allowance expense | 3,394 | 3,966 |
| Retirement allowance benefits paid | (2,852) | (2,109) |
| Long-term disability benefits expense | 8,217 | 14,488 |
| Long-term disability benefits contributions | (15,470) | (27,173) |
| | 766 | (2,116) |
| Net change in non-cash operating items (note 15(a)) | 8,125 | (13,814) |
| Net change in cash from operating activities | 8,891 | (15,930) |
| Capital activities: | | |
| Acquisition of tangible capital assets (note 15(b)) | (29,892) | (36,020) |
| Proceeds from the disposal of tangible capital assets | 62 | 60 |
| Net change in cash used in capital activities | (29,830) | (35,960) |
| Investing activities: | | |
| Change in portfolio investments | (24) | 1,986 |
| Net change in cash used in investing activities | (24) | 1,986 |
| Financing activities: | | |
| Capital contributions | 29,060 | 37,341 |
| Repayment of obligations under public-private partnership | (12) | (126) |
| Repayment of debt | (707) | (804) |
| Change in replacement reserves | 76 | 47 |
| Net change in cash from financing activities | 28,417 | 36,458 |
| Increase (decrease) in cash and cash equivalents | 7,454 | (13,446) |
| Cash and cash equivalents, beginning of year | 72,353 | 85,799 |
| Cash and cash equivalents, end of year | \$ 79,807 | \$ 72,353 |

Supplementary cash flow information (note 15(c))

See accompanying notes to financial statements.

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

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

1. Significant accounting policies:

(a) Basis of accounting:

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

The *Budget Transparency and Accountability Act* requires that the financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for 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, and recognized in revenue in the year in which the stipulation or restriction on the contributions has been met by the Authority.

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

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

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

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

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

(b) Cash and cash equivalents and portfolio investments:

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

Portfolio investments include guaranteed income certificates and bonds and are recorded at fair value, which approximates cost, adjusted for any write-downs. Transaction costs are recorded using the effective interest rate method.

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

(c) 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.

Obligations which can be reasonably estimated are measured at the best estimate of the future cash flows required to settle the liabilities, 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.

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(c) Asset retirement obligations (continued):

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.

(d) Employee benefits:

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

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

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

The cumulative unrecognized actuarial gains and losses for retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefits is 11 years (2016 – 11 years). Actuarial gains and losses from event-driven benefits such as long-term disability benefits that do not vest or accumulate are recognized immediately.

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

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

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

(iii) Accumulating, non-vesting benefit plans:

Benefits that accrue to employees, which do not vest, such as sick leave banks for certain employee groups, are accrued as the employees render services to earn the benefits, based on estimates of the expected future settlements.

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(d) Employee benefits (continued):

(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.

(e) 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:

| <u>Asset</u> | <u>Basis</u> |
|---|---------------|
| Land improvements | 5 - 25 years |
| Buildings | 10 - 50 years |
| Equipment and vehicles | 4 - 25 years |
| Information systems | 3 - 10 years |
| Assets under capital lease and leasehold improvements | Lease term |

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

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

Contributed tangible capital assets are recorded at their fair value on the date of contribution. 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.

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(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.

(f) 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.

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

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

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

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

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

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

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(g) Measurement uncertainty:

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

Significant areas requiring the use of estimates include the valuation of accounts receivable, the estimated useful lives of tangible capital assets, 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 financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from the estimates.

(h) Foreign currency translation:

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

(i) Financial instruments:

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

Financial assets and financial liabilities, other than derivatives, equity instruments quoted in an active market and financial instruments designated at fair value, are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are measured at cost. Accounts receivable are recorded at cost less any amount for valuation allowance. Portfolio investments, other than equity investments quoted in an active market, are reported at cost less any write-downs associated with a loss in value that is other than a temporary decline. All debt and other financial liabilities are recorded using cost or amortized cost.

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

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

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

1. Significant accounting policies (continued):

(i) Financial instruments (continued):

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

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

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

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

(j) Capitalization of public-private partnership projects:

The Authority's public-private partnership ("P3") project was delivered by the private sector partner (ISL Health (FSJ) General Partnership) who designed, built, financed and will maintain and perform life cycle rehabilitation of the asset, which includes the Fort St. John Hospital and Peace Villa.

The asset cost included 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 contribution received and amounts repaid, during the construction term. The interest rate used is the project internal rate of return. The completed facility is being amortized over 40 years.

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 to cover the partners' operating costs, financing costs and a return of their capital.

(k) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2017/2018 Budget conditionally approved by the Board of Directors on April 23, 2017. Note 18 reconciles the approved budget to the budget reflected in the statement of operations and accumulated surplus and the statement of changes in net debt.

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(l) 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.

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

(m) Future accounting standards:

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

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

1. Significant accounting policies (continued):

(m) Future accounting standards (continued):

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

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

2. Cash and cash equivalents and portfolio investments:

| | 2018 | 2017 |
|--|------------------|------------------|
| Cash and cash equivalents | \$ 79,807 | \$ 72,353 |
| Portfolio investments | 905 | 881 |
| | <u>\$ 80,712</u> | <u>\$ 73,234</u> |
| Cash restricted for the following: | | |
| Unspent capital contributions | 23,239 | 23,369 |
| Deferred operating contributions | 10,508 | 9,467 |
| P3 project | 6,842 | 6,414 |
| Replacement reserves | 1,391 | 1,315 |
| Patient comfort funds | 230 | 228 |
| | <u>42,210</u> | <u>40,793</u> |
| Unrestricted cash and cash equivalents and portfolio investments | 38,502 | 32,441 |
| | <u>\$ 80,712</u> | <u>\$ 73,234</u> |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

3. Accounts receivable:

| | 2018 | 2017 |
|---|-----------|-----------|
| Medical Services Plan | \$ 13,096 | \$ 12,164 |
| Other health authorities and BC government reporting entities | 7,632 | 7,401 |
| Patients, clients and residents | 4,376 | 3,950 |
| Foundations and auxiliaries | 1,196 | 1,329 |
| WorkSafe BC | 1,018 | 931 |
| Federal government | 767 | 791 |
| Regional Hospital Districts | 606 | 1,803 |
| Ministry of Health | 493 | 1,609 |
| Other | 2,156 | 3,550 |
| | 31,340 | 33,528 |
| Allowance for doubtful accounts (note 17 (a)) | (936) | (879) |
| | \$ 30,404 | \$ 32,649 |

4. Accounts payable and accrued liabilities:

| | 2018 | 2017 |
|--|-----------|-----------|
| Trade accounts payable and accrued liabilities | \$ 26,134 | \$ 27,002 |
| Salaries and benefits payable | 25,223 | 22,724 |
| Accrued vacation pay | 24,609 | 23,731 |
| | \$ 75,966 | \$ 73,457 |

5. Deferred operating contributions:

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

| | 2018 | 2017 |
|---|-----------|-----------|
| Deferred operating contributions, beginning of year | \$ 9,467 | \$ 11,887 |
| Contributions received during the year | 5,624 | 2,726 |
| Amounts recognized as revenue in the year | (4,583) | (5,146) |
| Deferred operating contributions, end of year | \$ 10,508 | \$ 9,467 |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

6. Obligations under public-private partnership:

| | 2018 | 2017 |
|---|-----------|-----------|
| Fort St. John Hospital and Peace Villa, 30 year contract to May 2042 with ISL Health (FSJ) General Partnership, payable in monthly payments including annual interest of 14.76%, in accordance with the project agreement terms | \$ 30,903 | \$ 30,915 |
| | \$ 30,903 | \$ 30,915 |
| 2019 | \$ | 84 |
| 2020 | | (31) |
| 2021 | | 288 |
| 2022 | | 462 |
| 2023 | | 253 |
| Thereafter | | 29,847 |
| | | \$ 30,903 |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

7. Debt:

Mortgages:

| | 2018 | 2017 |
|---|----------|----------|
| Mortgages payable to Canada Mortgage and Housing Corporation ("CMHC"), at an interest rate of 2.11% payable in blended payments of \$46,106 per month, with maturity dates ranging to March 2028, secured by first charges on properties. Renewal dates range from January 2019 to June 2019. | \$ 1,843 | \$ 2,414 |
| Mortgages payable to TD Canada Trust not renewed replaced with MCAP Financial Corp and Peoples Trust as noted below: | - | 3,721 |
| Mortgages payable to MCAP Financial Corporation, at an interest rate of 2.62%, payable in payments of \$11,417 per month, with a maturity date of May 2037, secured by building and first charge on properties. Renewal date is May 1, 2027. | 2,065 | - |
| Mortgages payable to People's Trust, at an interest rate of 2.965%, payable in payments of \$8,549 per month, with a maturity date of September 2037, secured by building and first charge on properties. Renewal date is Sept. 1, 2027. | 1,520 | - |
| | \$ 5,428 | \$ 6,135 |

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

| | |
|------------|----------|
| 2019 | \$ 661 |
| 2020 | 360 |
| 2021 | 280 |
| 2022 | 287 |
| 2023 | 295 |
| Thereafter | 3,545 |
| | \$ 5,428 |

NORTHERN HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

8. 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, 2017 and extrapolated to March 31, 2018 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2018 are derived.

Information about retirement allowance benefits is as follows:

| | 2018 | 2017 |
|----------------------------|------------------|------------------|
| Accrued benefit liability: | | |
| Severance benefits | \$ 20,701 | \$ 19,965 |
| Sick leave benefits | 14,393 | 13,847 |
| | <u>35,094</u> | <u>33,812</u> |
| Unamortized actuarial gain | 4,565 | 5,305 |
| Accrued benefit liability | <u>\$ 39,659</u> | <u>\$ 39,117</u> |

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

| | 2018 | 2017 |
|--|------------------|------------------|
| Accrued benefit liability, beginning of year | \$ 39,117 | \$ 37,260 |
| Net benefit expense: | | |
| Current service cost | 2,653 | 2,708 |
| Interest expense | 1,345 | 1,328 |
| Amortization of actuarial gain | (604) | (461) |
| Accrued benefit liability transferred from Affiliate | - | 391 |
| Net Benefit Expense | <u>3,394</u> | <u>3,966</u> |
| Benefits paid | <u>(2,852)</u> | <u>(2,109)</u> |
| Accrued benefit liability, end of year | <u>\$ 39,659</u> | <u>\$ 39,117</u> |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

8. Employee benefits (continued):

(a) Retirement allowance (continued):

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

| | 2018 | 2017 |
|---|-------|-------|
| Accrued benefit liability 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, 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 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 regard to long-term disability benefits after September 30, 1997 and health and welfare benefits after March 31, 2004. Accordingly, the Authority's net trust assets (liabilities) are reflected in these financial statements.

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

NORTHERN HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

8. 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 asset (liability) reported on the statement of financial position is as follows:

| | 2018 | 2017 |
|--|------------|-------------|
| Fair value of plan assets | \$ 60,511 | \$ 58,653 |
| Accrued benefit obligation | 56,358 | 61,753 |
| Net asset (liability) | \$ 4,153 | \$ (3,100) |
| | 2018 | 2017 |
| Net liability, beginning of year | \$ (3,100) | \$ (15,785) |
| Net benefit expense: | | |
| Long-term disability expense | (11,827) | (22,052) |
| Interest expense | (3,146) | (3,634) |
| Return on assets | 3,035 | 3,003 |
| Employee payments | 289 | 655 |
| Contribution adjustment | 192 | - |
| Actuarial gain | 3,183 | 7,921 |
| | (8,274) | (14,107) |
| Transfer of affiliate pool surplus (deficit) | 57 | (381) |
| Net benefit expense: | (8,217) | (14,488) |
| Contributions to the plan | 15,470 | 27,173 |
| Net asset (liability), end of year | \$ 4,153 | \$ (3,100) |
| Benefits paid to claimants | \$ 17,361 | \$ 22,336 |

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

8. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

Plan assets consist of:

| | 2018 | 2017 |
|-----------------------------|---------------|---------------|
| Debt securities | 42.2% | 40.4% |
| Foreign equities | 34.4% | 34.4% |
| Equity securities and other | 23.4% | 25.2% |
| Total | 100.0% | 100.0% |

The significant actuarial assumptions adopted in measuring the Authority's accrued long-term disability and health and welfare benefits asset (liability) 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 (CPI) | 2.00% | 2.00% |
| Expected long-term rate of return on plan assets | 5.80% | 5.30% |

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

(c) Joint Benefit Trust

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

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

8. Employee benefits (continued):

(c) Joint Benefit Trust (continued):

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

| | 2018 | 2017 |
|-------------------------------------|-----------|------|
| Joint Facilities Benefits Trust | \$ 8,686 | \$ - |
| Joint Health Science Benefits Trust | 4,054 | - |
| Joint Community Benefits Trust | 1,691 | - |
| | \$ 14,431 | \$ - |

(d) Employee pension benefits:

The Authority and its employees contribute to the Municipal Pension Plan and the Public Service Pension Plan, which are multi-employer defined benefit plans governed by the *BC Public Sector Pension Plans Act*.

Employer contributions to the Municipal Pension Plan of \$30.6 million (2017 - \$29.3 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The most recent actuarial valuation for the plan at December 31, 2015, indicated a surplus of approximately \$2,224 million. The actuary does not attribute portions of the unfunded liability/surplus to individual employers. The plan covers approximately 193,000 active members, of which approximately 7,200 are employees of the Authority. The next expected actuarial valuation date will be as of December 31, 2018 with results available in 2019.

Employer contributions to the Public Service Pension Plan of \$0.327 (2017 - \$0.367 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The most recent actuarial valuation for the plan at March 31, 2017, indicated a surplus of approximately \$1,896 million. The actuary does not attribute portions of the unfunded liability/surplus to individual employers. The plan covers approximately 59,000 active members, of which approximately 41 are employees of the Authority. The next actuarial valuation date will be as of March 31, 2020 with results available in early 2021.

9. Replacement reserves:

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

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

9. Replacement reserves (continued):

The change in the replacement reserves is calculated as follows:

| | 2018 | 2017 |
|---|----------|----------|
| Balance, beginning of year | \$ 1,315 | \$ 1,268 |
| Expenditures | (65) | (47) |
| Provision for replacement reserve funding | 120 | 81 |
| Interest on replacement reserves | 21 | 13 |
| Balance, end of year | \$ 1,391 | \$ 1,315 |

The replacement reserves by facility are as follows:

| | 2018 | 2017 |
|---|----------|----------|
| Laurier Manor - Prince George | \$ 395 | \$ 390 |
| McConnell Estates - Terrace | 236 | 206 |
| Parkside Intermediate Care Home - Prince George | 229 | 211 |
| Alward Place - Phase 1 - Prince George | 186 | 189 |
| Alward Place - Phase 2 - Prince George | 165 | 161 |
| Terraceview Lodge - Terrace | 155 | 136 |
| Nick Grosse - Masset | 25 | 22 |
| | \$ 1,391 | \$ 1,315 |

10. 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 | \$ 649,705 | \$ 664,924 |
| Capital contributions received: | | |
| Ministry of Health | 14,343 | 21,845 |
| Regional Hospital District | 11,417 | 9,125 |
| Foundations and Auxiliaries | 1,804 | 2,621 |
| Other | 1,496 | 3,750 |
| | 29,060 | 37,341 |
| Amortization for the year | (47,716) | (52,560) |
| Deferred capital contributions, end of year | \$ 631,049 | \$ 649,705 |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

10. Deferred capital contributions (continued):

Deferred capital contributions comprise of the following:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Contributions used to purchase tangible capital assets | \$ 607,810 | \$ 626,336 |
| Unspent contributions | 23,239 | 23,369 |
| | <u>\$ 631,049</u> | <u>\$ 649,705</u> |

11. Tangible capital assets:

| Cost | 2017 | Additions | Disposals | Transfers | 2018 |
|---|---------------------|------------------|--------------------|-------------|---------------------|
| Land | \$ 4,780 | \$ - | \$ - | \$ - | \$ 4,780 |
| Land improvements | 5,835 | - | (60) | - | 5,775 |
| Buildings | 944,051 | - | (1,258) | 6,925 | 949,718 |
| Equipment and vehicles | 172,281 | - | (11,163) | 22,968 | 184,086 |
| Information systems | 90,573 | - | (341) | 5,758 | 95,990 |
| Leasehold improvements | 7,326 | - | - | - | 7,326 |
| Construction in progress | 4,995 | 5,816 | - | (6,925) | 3,886 |
| Equipment and Information systems in progress | 18,144 | 24,076 | - | (28,726) | 13,494 |
| Total | <u>\$ 1,247,985</u> | <u>\$ 29,892</u> | <u>\$ (12,822)</u> | <u>\$ -</u> | <u>\$ 1,265,055</u> |

| Accumulated amortization | 2017 | Amortization | Disposals | Transfers | 2018 |
|--------------------------|-------------------|------------------|--------------------|-------------|-------------------|
| Land improvements | \$ 4,429 | \$ 255 | \$ (60) | \$ - | \$ 4,624 |
| Buildings | 361,165 | 24,094 | (1,188) | - | 384,071 |
| Equipment and vehicles | 116,042 | 18,325 | (10,991) | - | 123,376 |
| Information systems | 67,414 | 8,748 | (328) | - | 75,834 |
| Leasehold improvements | 5,745 | 219 | - | - | 5,964 |
| Total | <u>\$ 554,795</u> | <u>\$ 51,641</u> | <u>\$ (12,567)</u> | <u>\$ -</u> | <u>\$ 593,869</u> |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

11. Tangible capital assets (continued):

| Cost | 2016 | Additions | Disposals | Transfers | 2017 |
|---|---------------------|------------------|--------------------|-----------------|---------------------|
| Land | \$ 4,719 | \$ 61 | \$ - | \$ - | \$ 4,780 |
| Land improvements | 5,835 | - | - | - | 5,835 |
| Buildings | 894,068 | - | (3,686) | 53,669 | 944,051 |
| Equipment and vehicles | 168,389 | - | (6,604) | 10,496 | 172,281 |
| Information systems | 86,623 | - | (2,339) | 6,289 | 90,573 |
| Leasehold improvements | 6,365 | - | - | 961 | 7,326 |
| Construction in progress | 43,689 | 13,417 | - | (52,111) | 4,995 |
| Equipment and Information systems in progress | 14,906 | 19,740 | - | (16,502) | 18,144 |
| Total | \$ 1,224,594 | \$ 33,218 | \$ (12,629) | \$ 2,802 | \$ 1,247,985 |

| Accumulated amortization | 2016 | Amortization | Disposals | Transfers | 2017 |
|--------------------------|-------------------|------------------|--------------------|-------------|-------------------|
| Land improvements | \$ 4,168 | \$ 261 | \$ - | \$ - | \$ 4,429 |
| Buildings | 341,654 | 23,160 | (3,649) | - | 361,165 |
| Equipment and vehicles | 99,812 | 22,701 | (6,471) | - | 116,042 |
| Information systems | 60,597 | 9,156 | (2,339) | - | 67,414 |
| Leasehold improvements | 4,781 | 964 | - | - | 5,745 |
| Total | \$ 511,012 | \$ 56,242 | \$ (12,459) | \$ - | \$ 554,795 |

| Net book value | 2018 | 2017 |
|---|-------------------|-------------------|
| Land | \$ 4,780 | \$ 4,780 |
| Land improvements | 1,151 | 1,406 |
| Buildings | 565,647 | 582,886 |
| Equipment and vehicles | 60,710 | 56,239 |
| Information systems | 20,156 | 23,159 |
| Leasehold improvements | 1,362 | 1,581 |
| Construction in progress | 3,886 | 4,995 |
| Equipment and Information systems in progress | 13,494 | 18,144 |
| Total | \$ 671,186 | \$ 693,190 |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

11. Tangible capital assets (continued):

Tangible capital assets are funded as follows:

| | 2018 | 2017 |
|--------------------------------|-------------------|-------------------|
| Deferred capital contributions | \$ 607,810 | \$ 626,336 |
| Public-private partnership | 30,903 | 30,915 |
| Internally funded | 27,045 | 29,804 |
| Debt | 5,428 | 6,135 |
| Tangible capital assets | \$ 671,186 | \$ 693,190 |

12. Inventories held for use:

| | 2018 | 2017 |
|------------------|-----------------|-----------------|
| Pharmaceuticals | \$ 3,176 | \$ 3,026 |
| Medical supplies | 2,540 | 2,315 |
| | \$ 5,716 | \$ 5,341 |

13. 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 projects in progress of \$7.4 million (2017 – \$11.3 million).

(b) Contractual obligations:

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

| | | |
|------------|-----------|---------------|
| 2019 | \$ | 19,228 |
| 2020 | | 16,822 |
| 2021 | | 2,006 |
| 2022 | | 247 |
| 2023 | | 48 |
| Thereafter | | - |
| | \$ | 38,351 |

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

13. Commitments and contingencies (continued):

(c) Long term care contracts:

The Authority has entered into contracts with a service provider to provide long term care services. The aggregate annual commitments for these contracts for the years ending March 31 are as follows:

| | | |
|------------|----|---------|
| 2019 | \$ | 10,968 |
| 2020 | | 10,197 |
| 2021 | | 10,401 |
| 2022 | | 10,609 |
| 2023 | | 10,821 |
| Thereafter | | 204,006 |
| | \$ | 257,002 |

(d) Operating leases:

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

| | | |
|------------|----|--------|
| 2019 | \$ | 8,453 |
| 2020 | | 6,994 |
| 2021 | | 4,848 |
| 2022 | | 2,270 |
| 2023 | | 692 |
| Thereafter | | 4,250 |
| | \$ | 27,507 |

(e) Public-private partnership (P3) commitments:

The Authority has entered into a multiple-year P3 contract to design, build, finance, and maintain the Fort St. John Hospital and Residential Care Project. The information presented below shows the anticipated cash outflow for all future obligations under this contract for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. Construction costs are recorded as a capital asset and the corresponding liabilities are recorded as debt and disclosed in note 6. FM and life cycle payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

13. Commitments and contingencies (continued):

(e) Public-private partnership (P3) commitments (continued):

| | Interest on Debt | FM and lifecycle | Debt Repayment | Total payments |
|------------|---------------------|---------------------|-------------------|-------------------|
| 2019 | \$ 4,561 | \$ 5,869 | \$ 84 | \$ 10,514 |
| 2020 | 4,549 | 6,170 | (31) | 10,688 |
| 2021 | 4,553 | 6,027 | 288 | 10,868 |
| 2022 | 4,511 | 6,121 | 462 | 11,094 |
| 2023 | 4,443 | 6,513 | 253 | 11,209 |
| Thereafter | 70,699 | 131,665 | 29,847 | 232,211 |
| | \$ 93,316 | \$ 162,365 | \$ 30,903 | \$ 286,584 |

(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, 2018, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

(g) Resident trust:

Various facilities operated by the Authority hold resident comfort funds in trust for the residents. The total amount for all trusts is \$230,305 (2017 - \$228,340).

(h) 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 the future obligations cannot be reasonably estimated. These asset retirement obligations will be recognized as a liability in the period when their value can be reasonably estimated.

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

14. Statement of operations:

(a) Patients, clients and residents revenue:

| | 2018 | 2017 |
|-----------------------------|------------------|------------------|
| Long-term and extended care | \$ 19,785 | \$ 19,517 |
| Non-residents of BC | 8,355 | 7,094 |
| WorkSafe BC | 5,863 | 5,972 |
| Residents of BC-self pay | 4,460 | 4,299 |
| Non-residents of Canada | 1,972 | 1,559 |
| Uninsured residents | 713 | 762 |
| Federal government | 56 | 118 |
| Other | 1,075 | 1,038 |
| | <u>\$ 42,279</u> | <u>\$ 40,359</u> |

(b) Other contributions:

| | 2018 | 2017 |
|--|------------------|------------------|
| Provincial Health Services Authority | \$ 6,518 | \$ 6,435 |
| Other BC government reporting entities | 6,572 | 7,873 |
| Other | 2,894 | 2,095 |
| | <u>\$ 15,984</u> | <u>\$ 16,403</u> |

(c) Other revenues:

| | 2018 | 2017 |
|--|------------------|------------------|
| Recoveries from the sale of goods and services | \$ 6,615 | \$ 7,536 |
| Compensation recoveries | 3,532 | 2,961 |
| Parking | 713 | 661 |
| Other | 973 | 1,892 |
| | <u>\$ 11,833</u> | <u>\$ 13,050</u> |

NORTHERN HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

14. Statement of operations (continued):

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

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Compensation: | | |
| Compensation | \$ 403,934 | \$ 387,026 |
| Employee benefits | 90,609 | 81,614 |
| Purchased services - physicians | 86,444 | 83,556 |
| | <u>580,987</u> | <u>552,196</u> |
| Supplies | | |
| Medical and surgical | 23,209 | 21,226 |
| Drugs and medical gases | 18,747 | 18,851 |
| Diagnostic | 10,593 | 10,350 |
| Food and dietary | 9,037 | 8,435 |
| Laundry and linen | 3,741 | 3,406 |
| Housekeeping | 2,401 | 2,200 |
| Printing, stationery and office | 1,697 | 1,733 |
| Other | 5,649 | 5,668 |
| | <u>75,074</u> | <u>71,869</u> |
| Referred-out and contracted services: | | |
| Health and support service providers | 52,648 | 52,105 |
| Other health authorities and BC government reporting entities | 8,182 | 7,645 |
| | <u>60,830</u> | <u>59,750</u> |
| Amortization of tangible capital assets | 51,641 | 56,242 |
| Equipment and building services: | | |
| Equipment expenses | 20,046 | 19,927 |
| Utilities | 9,981 | 10,012 |
| Rent | 9,335 | 9,267 |
| Service contracts | 4,534 | 4,107 |
| Other | 1,695 | 1,707 |
| | <u>45,591</u> | <u>45,020</u> |
| Sundry: | | |
| Patient transport | 3,845 | 3,763 |
| Communication and data processing | 2,838 | 2,688 |
| Travel and accommodation | 2,652 | 2,987 |
| Professional fees | 2,582 | 3,532 |
| Other | 8,697 | 8,551 |
| | <u>20,614</u> | <u>21,521</u> |
| Interest on debt | 4,709 | 4,781 |
| Loss on disposal of tangible capital assets | 193 | 110 |
| | <u>\$ 839,639</u> | <u>\$ 811,489</u> |

NORTHERN HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

14. Statement of operations (continued):

(e) Cariboo Wildfires

The Authority experienced extraordinary expenses during the summer of 2017 due to the Cariboo wildfires. In order to have comparative figures between years these expenses have been presented separately.

15. Supplementary cash flow information:

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

| | 2018 | 2017 |
|--|-----------------|--------------------|
| Accounts receivable | \$ 2,245 | \$ 2,634 |
| Accounts payable and accrued liabilities | 2,509 | (10,299) |
| Deferred operating contributions | 1,041 | (2,420) |
| Inventories held for use | (375) | 641 |
| Prepaid expenses | 2,705 | (4,370) |
| | <u>\$ 8,125</u> | <u>\$ (13,814)</u> |

(b) Acquisition of tangible capital assets:

| | 2018 | 2017 |
|--------------------------------|------------------|------------------|
| Externally funded acquisitions | \$ 29,190 | \$ 33,563 |
| Internally funded acquisitions | 702 | 2,457 |
| | <u>\$ 29,892</u> | <u>\$ 36,020</u> |

(c) Supplementary cash flow information:

| | 2018 | 2017 |
|-------------------|----------|----------|
| Interest paid | \$ 4,709 | \$ 4,781 |
| Interest received | \$ 902 | \$ 952 |

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

16. Related party and other agency operations:

The following are types of related parties. Disclosure of values for related party transactions is only required if the values are different from that which would have been arrived at if the parties were unrelated.

(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 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.

(b) Key management personnel

The Authority has deemed the Board of Directors and Senior Executive Team, and their close family members to be key management personnel for the purpose of PS 2200 Related Party Disclosure.

(c) Foundations and auxiliaries:

Within the Authority area, there are 28 separate health care foundations and auxiliaries, which were established to raise funds for their respective hospitals and/or community health services organizations. The foundations and auxiliaries are separate legal entities incorporated under the *Societies Act (British Columbia)* with separate governance structures. The foundations and the auxiliaries are registered charities under the provisions of the *Income Tax Act* of Canada. The financial and non-financial assets and liabilities and results from operations of the foundations and auxiliaries are not included in the financial statements of the Authority. During the year, the foundations and auxiliaries granted \$2.184 million (2017 - \$2.621 million) to various facilities within the Authority.

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

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

(c) Foundations and auxiliaries (continued):

| | |
|--|--|
| Auxiliary to GR Baker Memorial Hospital | Kitimat Hospital Foundation |
| Bulkley Valley & District Hospital Auxiliary | Mackenzie Hospital Auxiliary |
| Bulkley Valley Health Care & Hospital Foundation | Max Lang Estate |
| Burns Lake & District Health Care Auxiliary | McBride & District Hospital Auxiliary |
| Chetwynd Hospital Foundation | Mills Memorial Hospital Auxiliary |
| Dawson Creek & District Auxiliary Society | North Coast Health Improvement Society |
| Dawson Creek Hospital Foundation | Prince Rupert Regional Hospital Auxiliary |
| Dr. REM Lee Foundation | QCI Hospital Days Foundation |
| Fort Nelson Hospital & Healthcare Foundation | Spirit of the North Health Care Foundation |
| Fort Nelson Hospital Auxiliary | St. John Hospital Auxiliary Society |
| Fort St. John Hospital Foundation | Stuart Lake Hospital Auxiliary Society |
| Fort St. John Hospital Ladies Auxiliary | Tumbler Ridge Health Centre Foundation |
| GR Baker Hospital Auxiliary | Wrinch Memorial Foundation |
| Kitimat General Hospital Auxiliary | Wrinch Memorial Hospital Auxiliary |

17. Risk management:

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

(a) Credit risk

Credit risk primarily arises from the Authority's cash and cash equivalents, accounts receivable and portfolio investments. The risk exposure is limited to their carrying amounts at the date of the statement of financial position.

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

Accounts receivable primarily consist of amounts receivable from the Ministry, other Health Authorities and BC government reporting entities patients, clients and agencies, hospital foundations and auxiliaries, grantors etc. To reduce the risk, the Authority periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectable amounts. As at March 31, 2018, the amount of allowance for doubtful accounts was \$0.936 million (2017 - \$0.879 million).

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

17. Risk management (continued):

(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 financial assets mature within one year. The table below shows 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 | \$ 75,966 | \$ - | \$ - | \$ 75,966 |
| Obligations under public-private partnership | 84 | 972 | 29,847 | 30,903 |
| Debt | 661 | 1,222 | 3,545 | 5,428 |
| | \$ 76,711 | \$ 2,194 | \$ 33,392 | \$ 112,297 |

| 2017 Financial liabilities | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|--|-----------------|-----------------|-----------------|------------|
| Accounts payable and accrued liabilities | \$ 73,457 | \$ - | \$ - | \$ 73,457 |
| Obligations under public-private partnership | 11 | 803 | 30,101 | 30,915 |
| Debt | 695 | 1,542 | 3,898 | 6,135 |
| | \$ 74,163 | \$ 2,345 | \$ 33,999 | \$ 110,507 |

(c) Foreign exchange risk

The Authority's operating results and financial position are reported in Canadian dollars. As the Authority operates in an international environment, some of the Authority's financial instruments and transactions are denominated in currencies other than Canadian dollar. The results of the Authority's operations are subject to currency transaction and translation risks.

NORTHERN HEALTH AUTHORITY

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

Year ended March 31, 2018

17. Risk management (continued):

(c) Foreign exchange risk (continued):

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

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.

18. Budget

The original budget, as approved by the board on April 23, 2017, has been adjusted to reflect changes made to sector allocations for various programs and services and the refinement of allocations between accounts. The changes are as follows:

| | Board approved plan | Additional Ministry contributions | Reallocations | Restated budget |
|--|------------------------|---|---------------|--------------------|
| Revenue: | | | | |
| Ministry of Health contributions | \$ 605,729 | \$ 7,195 | \$ - | \$ 612,924 |
| Medical Services Plan | 89,529 | - | 1,368 | 90,897 |
| Amortization of deferred capital contributions | 49,356 | - | (973) | 48,383 |
| Patients, clients and residents | 40,098 | - | 242 | 40,340 |
| Other contributions | 14,621 | - | 2,561 | 17,182 |
| Recoveries from other health authorities and BC government reporting entities | 11,815 | - | 308 | 12,123 |
| Investment income | 900 | - | - | 900 |
| Other revenues | 14,552 | - | (4,165) | 10,387 |
| | \$ 826,600 | \$ 7,195 | \$ (659) | \$ 833,136 |
| Expenses: | | | | |
| Acute | \$ 456,625 | \$ 656 | \$ (8,107) | \$ 449,174 |
| Community care | 124,431 | 1,804 | 1,716 | 127,951 |
| Long term care | 105,534 | 1,232 | 4,497 | 111,263 |
| Mental health and substance use | 45,463 | 3,381 | (2,686) | 46,158 |
| Population health and wellness | 28,761 | 74 | (359) | 28,476 |
| Corporate | 65,786 | 48 | 4,280 | 70,114 |
| | \$ 826,600 | \$ 7,195 | \$ (659) | \$ 833,136 |
| Annual operating surplus | \$ - | \$ - | \$ - | \$ - |

19. Comparative figures:

Certain comparative information has been reclassified to conform with current year's financial statement presentation

NORTHERN HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2018

20. Annual operating surplus:

The Authority's annual operating surplus of \$3.359 million (2017 – \$4.920 million) can be broken down as follows:

| | 2018 | 2017 |
|---|----------|----------|
| Annual operating surplus before the following: | \$ 119 | \$ 380 |
| Actuarial gain on long-term disability (note 8b(i)) | 3,183 | 7,921 |
| Transfer of affiliate pool surplus (deficit) (note 8b(i)) | 57 | (381) |
| Ministry restriction of global operating funds for future capital | - | (3,000) |
| Annual operating surplus | \$ 3,359 | \$ 4,920 |