



## Notice of Meeting and Meeting Agenda Capital Regional Hospital District Board

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Wednesday, June 14, 2017

1:30 PM

6th Floor Boardroom  
625 Fisgard Street  
Victoria, BC

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### 1. APPROVAL OF THE AGENDA

### 2. ADOPTION OF MINUTES

### 3. REPORT OF THE CHAIR

### 4. PRESENTATIONS/DELEGATIONS

#### 4.1 Presentations

#### 4.2 Delegations

### 6. ADMINISTRATION REPORTS

6.1. [17-443](#) KPMG LLP Audit Findings - Verbal Presentation

6.2. [17-438](#) Capital Regional Hospital District 2016 Audited Financial Statements and Audit Findings Report

**Recommendation:** That the Capital Regional Hospital District Board receive the Audit Findings Report and approve the 2016 Audited Financial Statements.  
(NWA)

**Attachments:** [Staff Report: CR Hospital District 2016 Financial Statements](#)

[Appendix 1: CRHD 2016 Financial Statements](#)

[Appendix 2: CRHD 2016 Audit Report](#)

### 7. BYLAWS

### 8. NEW BUSINESS

### 9. ADJOURNMENT

**Voting Key:**

**NWA - Non-weighted vote of all Directors**

**NWP - Non-weighted vote of participants (as listed)**

**WA - Weighted vote of all Directors**

**WP - Weighted vote of participants (as listed)**



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## REPORT TO CAPITAL REGIONAL HOSPITAL DISTRICT BOARD MEETING OF JUNE 14, 2017

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### **SUBJECT** Capital Regional Hospital District 2016 Audited Financial Statements and Audit Findings Report

### **ISSUE**

To request receipt of the Capital Regional Hospital District Audit Findings Report and approval of the CRHD 2016 Audited Financial Statements.

### **BACKGROUND**

Section 17 of the *Hospital District Act* and Section 814 of the *Local Government Act* require that audited financial statements be prepared each year. The 2016 Statements of Financial Information have been prepared by management in accordance with Canadian public sector accounting standards (PSAB), as recommended by the Canadian Institute of Chartered Accountants.

The Capital Regional Hospital District (CRHD) partners with Island Health and community stakeholder agencies to develop and improve healthcare facilities in the region and provide capital funding for infrastructure such as acute care, residential care and hospital equipment. The CRHD was established by the provincial government (Hospital District Act) to provide the local share of capital funding for healthcare infrastructure in the capital region. CRHD shares the same boundaries, Directors and administrative staff as the Capital Regional District (CRD).

Working with Island Health, the CRHD supports a healthy region by investing in healthcare service and capital strategic priorities including upgrades and renewal of existing health facilities and medical equipment, replacement of existing buildings, new projects and expansion of existing facilities. Its financial activities consist of raising 30 or 40% of the costs of approved capital projects and purchases as annually proposed by the Vancouver Island Health Authority.

To ensure accountability for CRHD expenditures, the CRD provides oversight and review of facility projects and expenditures for major capital projects (greater than \$2 million), minor capital (between \$100,000 and \$2 million), healthcare equipment and non-traditional projects. The CRD also works through community-based networks to identify the need for non-traditional capital funding requirements in the areas of primary and residential-based healthcare services.

Under PSAB regulations, governments are required to present four statements with explanatory notes:

1. Statement of Financial Position
2. Statement of Operations
3. Statement of Net Debt
4. Statement of Cash Flows

It is important to note that these statements, prepared in accordance with PSAB, contain some differences relative to how the annual CRHD budget is presented, which is prepared to determine the annual revenue requirements to meet budgeted obligations.

The CRHD 2016 audited financial statements are attached as Appendix 1.

### INDEPENDENT AUDITOR'S DRAFT REPORT

Management is responsible for the preparation and fair presentation of CRHD financial statements in accordance with Canadian public sector accounting standards, and for internal controls necessary to enable the preparation of accurate financial statements. KPMG LLP is responsible for expressing an opinion to the Board based on the results of their audit. The Auditor's opinion is expressed in Appendix 1. In KPMG's opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Regional Hospital District as at December 31, 2016, and its results of operations, its change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

The audit findings report from KPMG (Appendix 2) summarizes the responsibilities of the audit firm, scope of investigations, and the audit results. There were no items of note requiring adjustment in 2016.

### CAPITAL REGIONAL HOSPITAL DISTRICT FINANCIAL STATEMENT OVERVIEW

#### Statement of Financial Position

The Capital Regional Hospital District is largely a financing agency for local health facilities, by way of borrowing funds and in turn providing capital grant funding for various projects. As a result, CRHD typically reports a net debt and accumulated deficit position in the Statement of Financial Position. The accumulated deficit of the CRHD at December 31, 2016, was \$108.6M (2015: \$123.6M) which represents the total financial assets less total financial liabilities.

The CRHD continues the development of The Summit at Quadra Village ("Summit") capital project. The most significant changes on the Statement of Financial Position year over year relate to the Summit project. Cash and cash equivalents have increased by \$4.5M in the year due to the execution of the CRHD's portion of long term debt for the Summit project in Q4 2016. Tangible capital assets also increased by \$10.2M as a result of project construction and purchase of the adjacent property to Summit (950 Kings: \$5.8M) in Q1 2016. Accounts payable also increased by \$1.2M due to construction invoices received but not paid in 2016 for services rendered in year and for increased volume of Island Health's grant claims at year end.

Temporary borrowings represents interim financing for major and minor projects that are then converted to long-term debenture debt at the Municipal Finance Authority (MFA) Spring and Fall issues. In fiscal 2016, the increase in temporary borrowing relates to additional major projects being approved, including the Royal Jubilee Hospital Boiler Plant, Victoria General Hospital Endoscopy, and Unit Dose Medication Disposal (UDMD).

Outstanding long term debt totals \$146.2M with retirement dates ranging from 2016 to 2031. Long term debt principal in the amount of \$13.0M was repaid during the year. In 2016 \$15.3M was secured in new long-term debt, of which \$12.2M was for CRHD's contribution to Summit.

### Statement of Operations

The revenues for the year were higher than forecast as a result of receiving higher interest revenues, debenture maturity funds of \$77.7k and an actuarial adjustment of \$4.3M. Interest earnings vary year over year depending on the timing of Vancouver Island Health Authority claims and accordingly, how long cash from tax levies is available and earning interest.

The grants to the district hospitals vary year over year depending on the timing of the project and grant claims submissions of various capital projects. The actual expense includes the annual grant expense from the Revenue Fund as well as the Capital Fund expenditures where debt was incurred to finance major projects.

The accumulated deficit represents the sum of all of the annual surpluses and deficits reported by the CRHD.

CRHD financial statements are prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board (PSAB) for local government, and reported an annual surplus of \$15M in 2016.

The CRHD's operating budget includes impacts of capital and financing activities expected in the period. Under PSAB reporting, presentation of the Statement of Operations excludes capital investment and changes in financing activities, as these are included in the Statement of Financial Position. PSAB also requires that actuarial gains and losses incurred are reported in the period. These three presentation differences result in the overall variance between PSAB surplus and actual/budgeted surplus.

### Statement of Change in Net Debt

Net debt is the remainder of liabilities less financial assets. The accumulated surplus/deficit is the remainder of nonfinancial assets less net debt. The Statement of Change in Net Debt is primarily designed to explain the difference between the CRHD's annual surplus reported on the Statement of Operations and the change in net debt. The Statement of Change in Net Debt reports the amount that expenditures in the accounting period are met by revenues recognized, at both the beginning and end of the fiscal year.

The primary reason for the CRHD's change in net debt in 2016 is the \$10.2M acquisition of tangible capital assets. The actual level of capital spending in the year compared to the planned capital spend are highlighted in this statement; the actual capital spend was \$1.7M less than what was budgeted due to the Summit schedule adjustments.

In 2016 net debt was reduced by \$4.8M as a result of the higher than anticipated annual surplus of \$15M and the acquisition of capital assets being less than planned.

### Statement of Cash Flows

The statement of cash flows reports how CRHD generated and used cash and cash equivalents in the accounting period. The net change in cash and cash equivalents in 2016 was \$4.5M and can be classified by a net change of \$11.8M in operating, the acquisition of tangible capital assets (\$-10.2M) and a net change in short and long term financing activities (\$2.96M).

**Schedule of Capital Grant Fund Activities**

This schedule summarizes the amounts raised for capital grants that are approved in conjunction with the annual budget and the expenditures of those funds during the year. CRHD-authorized projects at fiscal yearend were in the amount of 31.7M, an increase of 7.8M over prior year. The increase relates to the approval of the Unit Dose Medication Distribution Project and the 2016 Minor capital projects. Actual grant expenses in the year were 9.56M.

**ALTERNATIVES**

**Alternative 1**

That the Capital Regional Hospital District Board receive the Audit Findings Report and approve the 2016 Audited Financial Statements.

**Alternative 2**

The Capital Regional Hospital District Board refer the report back to staff for additional information.

**FINANCIAL IMPLICATIONS**

The CRHD financial statements are a statutory requirement prepared in accordance to PSAB accounting principles. The statements have been audited by KPMG and are ready for Board approval. Approved financial statements are required to be filed with the Ministry of Health, Municipal Finance Authority, bankers and other institutions.

The annual audit fee of \$16,250 was accrued in the Capital Regional Hospital District's 2016 budget. An additional \$7,000 was accrued for estimated audit work related to the review of the Summit. There are no additional costs at this time.

**RECOMMENDATION**

That the Capital Regional Hospital District Board receive the Audit Findings Report and approve the 2016 Audited Financial Statements.

|               |                                                                             |
|---------------|-----------------------------------------------------------------------------|
| Submitted by: | Agnes Piotrowski, CPA, CA, Manager, Finance                                 |
| Concurrence:  | Nelson Chan, MBA, CPA, CMA, Chief Financial Officer                         |
| Concurrence:  | Kevin Lorette, P.Eng., MBA, General Manager, Planning & Protective Services |
| Concurrence:  | Robert Lapham, MCIP, RPP, Chief Administrative Officer                      |

AP:ngm

Attachments: Appendix 1 – CRHD 2016 Financial Statements  
Appendix 2 – Audit Findings Report

**CAPITAL REGIONAL HOSPITAL DISTRICT**

**2016 FINANCIAL STATEMENTS**

**Fiscal Year Ended December 31, 2016**

**CAPITAL REGIONAL HOSPITAL DISTRICT  
FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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**Introduction**

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**Statements**

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## Capital Regional Hospital District MANAGEMENT REPORT

The Financial Statements contained in this report have been prepared by management in accordance with Canadian public sector accounting standards. 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 Capital Regional Hospital District Board of Directors are responsible for approving the financial statements and for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Finance Committee of the Board.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian public sector accounting standards, and express their opinion on the financial statements. Their examination does not relate to the other schedules and statements required by the *Financial Information Act*. The independent Auditors' Report outlines the scope of the audit for the year ended December 31, 2016.

On behalf of Capital Regional Hospital District,

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Nelson Chan, MBA, CPA, CMA  
Chief Financial Officer

June 14, 2017

Prepared pursuant to Financial Information Regulation, Schedule 1, section 9

## BOARD OF DIRECTORS

| <b>Capital Regional Hospital District</b> | <b>2017</b>                                                                                                                                                                                               | <b>2016</b>                                                                                                                       |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Chair                                     | Councillor Marianne Alto                                                                                                                                                                                  | Director David Howe                                                                                                               |
| Acting Chair                              | Mayor Barb Desjardins                                                                                                                                                                                     | Mayor Barb Desjardins                                                                                                             |
| <b>Electoral Area Directors:</b>          |                                                                                                                                                                                                           |                                                                                                                                   |
| Area F - Salt Spring Island               | Director Wayne McIntyre                                                                                                                                                                                   | Director Wayne McIntyre                                                                                                           |
| Area G - Southern Gulf Islands            | Director David Howe                                                                                                                                                                                       | Director David Howe                                                                                                               |
| Area H - Juan de Fuca                     | Director Mike Hicks                                                                                                                                                                                       | Director Mike Hicks                                                                                                               |
| <b>Municipal Directors:</b>               |                                                                                                                                                                                                           |                                                                                                                                   |
| District of Central Saanich               | Mayor Ryan Windsor                                                                                                                                                                                        | Mayor Ryan Windsor                                                                                                                |
| City of Colwood                           | Mayor Carol Hamilton                                                                                                                                                                                      | Mayor Carol Hamilton                                                                                                              |
| Township of Esquimalt                     | Mayor Barb Desjardins<br>(Alternate during Provincial<br>election period is Councillor<br>Lynda Hundleby)                                                                                                 | Mayor Barb Desjardins                                                                                                             |
| District of Highlands                     | Mayor Ken Williams                                                                                                                                                                                        | Mayor Ken Williams                                                                                                                |
| District of Langford                      | Councillor Denise Blackwell<br>Councillor Lanny Seaton                                                                                                                                                    | Councillor Denise Blackwell<br>Councillor Lanny Seaton                                                                            |
| District of Metchosin                     | Mayor John Ranns                                                                                                                                                                                          | Mayor John Ranns                                                                                                                  |
| District of North Saanich                 | Mayor Alice Finall                                                                                                                                                                                        | Mayor Alice Finall                                                                                                                |
| District of Oak Bay                       | Mayor Nils Jensen                                                                                                                                                                                         | Mayor Nils Jensen                                                                                                                 |
| District of Saanich                       | Mayor Richard Atwell<br>Councillor Susan Brice<br>Councillor Judy Brownoff<br>Councillor V. Derman (d.<br>March 2017) replaced by<br>Councillor Dean Murdock,<br>April 24, 2017<br>Councillor Colin Plant | Mayor Richard Atwell<br>Councillor Susan Brice<br>Councillor Judy Brownoff<br><br>Councillor Vic Derman<br>Councillor Colin Plant |
| Town of Sidney                            | Mayor Steve Price                                                                                                                                                                                         | Mayor Steve Price                                                                                                                 |
| District of Sooke                         | Councillor Rick Kasper                                                                                                                                                                                    | Councillor Rick Kasper                                                                                                            |
| City of Victoria                          | Mayor Lisa Helps<br>Councillor Marianne Alto<br>Councillor Ben Isitt<br>Councillor Geoff Young                                                                                                            | Mayor Lisa Helps<br>Councillor Marianne Alto<br>Councillor Ben Isitt<br>Councillor Geoff Young                                    |
| Town of View Royal                        | Mayor David Screech                                                                                                                                                                                       | Mayor David Screech                                                                                                               |
| <b>Total Number of Directors</b>          | <b>24</b>                                                                                                                                                                                                 | <b>24</b>                                                                                                                         |

## STAFF AND STATISTICS

### Senior Administration Staff

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Chief Administrative Officer - Robert Lapham

General Manager, Planning and Protective Services - Kevin Lorette

Chief Financial Officer - Nelson Chan

### Statistics

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Incorporated October 17, 1967

Total Area: 2,446 Square Kilometers

Population: 378,232 (2015 Estimate)

Total 2016 Assessments (Hospital Converted): 9,875,481,087

Total 2016 Assessments (Hospital Actual): 83,496,044,662

Bank: Royal Bank of Canada (RBC)

Auditors: KPMG LLP

Solicitors: Stewart McDannold Stuart



KPMG LLP  
800-730 View Street  
Victoria BC V8W 3Y7  
Telephone (250) 480-3500

## INDEPENDENT AUDITORS' REPORT

*To the Chair and Directors of the Capital Regional Hospital District*

We have audited the accompanying financial statements of the Capital Regional Hospital District, which comprise the statement of financial position as at December 31, 2016, the statements of operations, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' 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 our 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, we consider 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.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Regional Hospital District as at December 31, 2016, and its results of operations, its change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

\_\_\_\_\_, 2017  
Victoria, Canada

**Statement of Financial Position**

December 31, 2016, with comparative information for 2015

|                                                  | 2016               | 2015               |
|--------------------------------------------------|--------------------|--------------------|
| <b>Financial assets</b>                          |                    |                    |
| Cash and cash equivalents (Note 2)               | \$ 18,290,610      | \$ 13,812,400      |
| Accounts receivable                              |                    |                    |
| Capital Regional District                        | 104,184            | 21,557             |
| Other                                            | 104,927            | 141,285            |
| Restricted cash - MFA Debt Reserve Fund (Note 3) | 3,461,923          | 3,254,487          |
| Land for resale (Note 4)                         | 898,037            | 898,037            |
|                                                  | <u>22,859,681</u>  | <u>18,127,766</u>  |
| <b>Financial liabilities</b>                     |                    |                    |
| Accounts payable and other liabilities           | 3,941,401          | 2,744,960          |
| Temporary borrowings (Note 5)                    | 696,342            | 50,885             |
| Long-term debt (Note 6)                          | 146,170,672        | 148,111,503        |
|                                                  | <u>150,808,415</u> | <u>150,907,348</u> |
| <b>Net debt</b>                                  | (127,948,734)      | (132,779,582)      |
| <b>Non-financial assets</b>                      |                    |                    |
| Tangible capital assets (Note 7)                 | 19,388,257         | 9,153,180          |
| Contingent liability (Note 6)                    |                    |                    |
| Commitments (Note 8)                             |                    |                    |
| <b>Accumulated Deficit (Note 10)</b>             | \$ (108,560,477)   | \$ (123,626,402)   |

The accompanying notes are an integral part of these financial statements

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Nelson Chan, MBA, CPA, CMA  
Chief Financial Officer

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**Statement of Operations**
**Year ended December 31, 2016, with comparative information for 2015**

|                                           | <b>Budget</b>           | <b>2016</b>             | <b>2015</b>             |
|-------------------------------------------|-------------------------|-------------------------|-------------------------|
|                                           | <b>(Note 11)</b>        |                         |                         |
| <b>Revenue</b>                            |                         |                         |                         |
| Taxation - Municipalities                 | \$ 26,529,624           | \$ 26,529,624           | \$ 26,197,900           |
| Taxation - Electoral Areas                | 2,130,708               | 2,130,708               | 2,158,219               |
| Taxation - First Nations                  | 84,378                  | 84,378                  | 88,591                  |
| Payments in lieu of taxes                 | 1,042,980               | 1,042,981               | 1,051,202               |
| Interest income                           | 50,000                  | 223,945                 | 215,148                 |
| Debenture maturity refund                 | -                       | 77,681                  | 18,210                  |
| Actuarial adjustment on long-term debt    | -                       | 4,259,156               | 4,020,253               |
|                                           | <u>29,837,690</u>       | <u>34,348,473</u>       | <u>33,749,523</u>       |
| <b>Expenses</b>                           |                         |                         |                         |
| Grants to district hospitals (Schedule 1) | 12,585,890              | 9,559,007               | 8,518,510               |
| Interest on long-term debt                | 9,390,680               | 9,080,777               | 9,251,875               |
| Interest on temporary borrowings          | 40,480                  | 16,651                  | 19,590                  |
| Debenture issue expense                   | -                       | -                       | 54,308                  |
| Operating expenses                        | 735,910                 | 626,113                 | 563,458                 |
|                                           | <u>22,752,960</u>       | <u>19,282,548</u>       | <u>18,407,741</u>       |
| Annual surplus                            | 7,084,730               | 15,065,925              | 15,341,782              |
| Accumulated deficit, beginning of year    | (123,626,402)           | (123,626,402)           | (138,968,184)           |
| <b>Accumulated deficit, end of year</b>   | <b>\$ (116,541,672)</b> | <b>\$ (108,560,477)</b> | <b>\$ (123,626,402)</b> |

The accompanying notes are an integral part of these financial statements

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**Statement of Change in Net Debt**  
**Year ended December 31, 2016, with comparative information for 2015**

|                                               | <b>Budget</b>           | <b>2016</b>             | <b>2015</b>             |
|-----------------------------------------------|-------------------------|-------------------------|-------------------------|
|                                               | <b>(Note 11)</b>        |                         |                         |
| <b>Annual surplus</b>                         | \$ 7,084,730            | \$ 15,065,925           | \$ 15,341,782           |
| Acquisition of tangible capital assets        | (11,965,020)            | (10,235,077)            | (732,294)               |
| Reclassification of land held for sale to TCA | -                       | -                       | (1,913,640)             |
| <b>Change in net debt</b>                     | <b>(4,880,290)</b>      | <b>4,830,848</b>        | <b>12,695,848</b>       |
| <b>Net debt, beginning of year</b>            | <b>(132,779,582)</b>    | <b>(132,779,582)</b>    | <b>(145,475,430)</b>    |
| <b>Net debt, end of year</b>                  | <b>\$ (137,659,872)</b> | <b>\$ (127,948,734)</b> | <b>\$ (132,779,582)</b> |

The accompanying notes are an integral part of these financial statements

## Statement of Cash Flows

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

|                                                     | 2016                 | 2015                 |
|-----------------------------------------------------|----------------------|----------------------|
| <b>Cash provided by (used in):</b>                  |                      |                      |
| <b>Operating activities:</b>                        |                      |                      |
| Annual surplus                                      | \$ 15,065,925        | \$ 15,341,782        |
| Items not involving cash:                           |                      |                      |
| Actuarial adjustment on long-term debt              | (4,259,156)          | (4,020,253)          |
| Change in non-cash assets and liabilities           |                      |                      |
| Accounts receivable                                 | 36,358               | (136,047)            |
| Accounts payable and accrued liabilities            | 1,196,441            | (756,095)            |
| Due to/(from) Capital Regional District             | (82,627)             | (66,967)             |
| Restricted cash                                     | (207,436)            | (48,622)             |
| <b>Net change in cash from operating activities</b> | <b>11,749,505</b>    | <b>10,313,798</b>    |
| <b>Capital activities:</b>                          |                      |                      |
| Cash used to acquire tangible capital assets        | (10,235,077)         | (732,294)            |
| <b>Net change in cash from capital activities</b>   | <b>(10,235,077)</b>  | <b>(732,294)</b>     |
| <b>Investing activities:</b>                        |                      |                      |
| Investments                                         | -                    | 8,550,534            |
| <b>Net change in cash from investing activities</b> | <b>-</b>             | <b>8,550,534</b>     |
| <b>Financing activities:</b>                        |                      |                      |
| Temporary borrowings increase                       | 8,445,124            | 2,841,877            |
| Temporary borrowings repaid                         | (7,799,668)          | (3,914,273)          |
| Long-term debt borrowings                           | 15,348,238           | 9,051,347            |
| Repayment of long-term debt                         | (13,029,912)         | (13,132,979)         |
| <b>Net change in cash from financing activities</b> | <b>2,963,782</b>     | <b>(5,154,028)</b>   |
| <b>Net change in cash and cash equivalents</b>      | <b>4,478,210</b>     | <b>12,978,010</b>    |
| Cash and cash equivalents, beginning of year        | 13,812,400           | 834,390              |
| <b>Cash and cash equivalents, end of year</b>       | <b>\$ 18,290,610</b> | <b>\$ 13,812,400</b> |
| Cash paid for interest                              | \$ 9,114,435         | \$ 9,288,472         |
| Cash received for interest                          | 214,260              | 205,463              |

The accompanying notes are an integral part of these financial statements



## CAPITAL REGIONAL HOSPITAL DISTRICT

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### NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016

#### GENERAL

The Capital Regional Hospital District (the "Hospital District") is incorporated under letters patent issued October 17, 1967. The Hospital District provides Capital Region hospitals with funding for capital project construction and the purchase of moveable equipment.

#### 1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hospital District are prepared by management in accordance with Canadian public sector accounting standards for local governments as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Hospital District are as follows:

**a) Basis of Accounting**

The Hospital District follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

**b) Taxation**

Each Municipality, Electoral Area and First Nations within the Regional District is requisitioned for their portion of the Hospital District service. These funds are then levied by the Municipalities, First Nations and the Province (for Electoral Areas) to individual taxpayers and remitted to the Hospital District by August 1 of each year.

**c) Cash Equivalents**

Cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition.

**d) Tangible Capital Assets**

Tangible capital assets are recorded at cost which includes amounts directly attributable to acquisition, construction, development or betterment of the asset.

i. Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

ii. Works of art and cultural and historic assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

iii. Interest capitalization

The Hospital District does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

**e) Long-Term Debt**

Long-term debt is presented net of related sinking fund balances.

**f) Section 20(3) Reserve**

As permitted by section 20(3) of the Hospital District Act, funds are raised for the future purchase of equipment, minor renovations to hospitals, and related studies.

## CAPITAL REGIONAL HOSPITAL DISTRICT

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### NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016

**g) Use Of Estimates**

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

**h) Government Transfers**

Government transfers including grants to district hospitals are recognized as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

**i) Investments**

Investments are recorded at cost plus reinvested earnings. Investment income is reported in the period earned.

## 2. CASH AND CASH EQUIVALENTS

|                  | <b>2016</b>         | <b>2015</b>         |
|------------------|---------------------|---------------------|
| Bank account     | \$18,205,523        | \$13,728,018        |
| MFA Money Market | 85,087              | 84,382              |
|                  | <u>\$18,290,610</u> | <u>\$13,812,400</u> |

## 3. RESTRICTED CASH – MFA DEBT RESERVE FUND

The Municipal Finance Authority of British Columbia (the “MFA”) is required to establish a Debt Reserve Fund into which each borrower who shares in the proceeds of a debt issue is required to pay certain amounts set out in the debt agreements. Interest earned on these funds (less administrative expenses) becomes an obligation of the MFA to the borrower. If at any time insufficient funds are provided by the borrowers, the MFA will then use these funds to meet payments on its obligations. When this occurs, the borrowers may be called upon to restore the fund. The balance of the Debt Reserve Fund cash deposits at December 31, 2016 is \$3,461,923 (2015: \$3,254,487).

## CAPITAL REGIONAL HOSPITAL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016

#### 4. LAND FOR RESALE

In 2002, the Hospital District purchased the Carey Road Lot 1 site for \$2,175,556. In 2007, the Hospital District purchased the Carey Road Lot 2 site for \$5,524,000. The Hospital District has approved various uses for the property including: residential care, independent living and affordable housing for seniors; supportive housing for the homeless and affordable family housing. In 2010, the Hospital District transferred a parcel of land (\$576,296) to the Capital Regional District to be used for supportive housing for the homeless and another parcel (\$1,233,038) to the District of Saanich to be used for a public park. In 2011, the Hospital District transferred three parcels of land (\$3,116,681) to the Capital Regional District to be used for affordable family and seniors' housing and future phase development. In 2012, the Hospital District approved a 27 year land lease with the Baptist Housing Mount View Heights Care Society for 3814 Carey Road (book value \$1,913,640). The remaining parcel of land is held for resale and is presented on the Statement of Financial Position as a financial asset at the original cost.

#### 5. TEMPORARY BORROWINGS

Temporary borrowings are with the MFA at variable interest rates. The interest rate at year end was 1.44% (2015: 1.38%).

#### 6. LONG-TERM DEBT

##### a) Debenture Debt

Long-term debt represents debenture debt principal which is reported net of sinking fund deposits of \$106,325,971 (2015: \$94,020,572).

The loan agreements with the MFA provide that, if at any time the scheduled payments provided for in the agreements for the Hospital District and other authorities are not sufficient to meet the MFA's obligation in respect to such borrowings, the resulting deficiency becomes a liability of the Hospital District and other authorities to the MFA.

The following sinking fund payments are payable over the next five years:

|    | 2017       | 2018       | 2019       | 2020       | 2021       |
|----|------------|------------|------------|------------|------------|
| \$ | 13,751,707 | 12,964,422 | 12,417,141 | 11,707,476 | 10,896,816 |

##### b) Interest Rates of MFA Debentures Issued in the Year

| 2016           | 2015           |
|----------------|----------------|
| 1.50% to 2.60% | 1.45% to 2.75% |

The long-term debt bears interest at rates ranging from 1.45% to 5.15%. The weighted average interest rate in 2016 is 3.59%

##### c) Demand Notes – Contingent Liability

The MFA holds demand notes related to the Hospital District's debenture debt in the amount of \$10,038,093. The demand notes are not recorded as they only become payable should debt be in default or if the MFA requires the funds to meet debt obligations.

## CAPITAL REGIONAL HOSPITAL DISTRICT

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### NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016

#### 7. TANGIBLE CAPITAL ASSETS

##### a) The Heights Residential Care Facility Site

In 2012, the Hospital District approved a 27 year land lease with the Baptist Housing Mount View Heights Care Society for 3814 Carey Road. The land has a book value of \$1,913,640.

##### b) The Summit at Quadra Village Residential Care Project

In 2013, the Hospital District purchased land at the Hillside site for \$6,507,246. The Hospital District has approved the building of 320 residential care beds at this site. Anticipated completion is Spring, 2019. The property is to be leased to Island Health and be utilized as a residential health facility.

|                                 | <u>2016</u>         | <u>2015</u>         |
|---------------------------------|---------------------|---------------------|
| Capital Budget (including land) | \$86,443,285        | \$86,443,285        |
| Less:                           |                     |                     |
| Expenditures to date            | (11,647,813)        | (7,239,540)         |
| Commitments                     | (7,213,481)         | (3,910,648)         |
| <b>Remaining Balance</b>        | <u>\$67,581,991</u> | <u>\$75,293,097</u> |

#### 8. COMMITMENTS

Several major hospital construction and refurbishing projects have been approved. The Hospital District's share is \$31,720,423 against which grants of approximately \$21,197,641 have been expensed.

#### 9. RELATED PARTY TRANSACTIONS

The Hospital District is related to the Capital Regional District since the same individuals are members of the Board of Directors of both organizations. As legislated by the Hospital District Act, the officers and employees of the Capital Regional District are the corresponding officers and employees of the Hospital District. Each of the Regional District and the Hospital District are separate legal entities as defined by separate Letters Patent and authorized by separate legislation. During the year the Hospital District purchased, at cost, \$632,511 (2015: \$670,882) of administrative support and project management services from the Capital Regional District.

## CAPITAL REGIONAL HOSPITAL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2016

#### 10. ACCUMULATED DEFICIT

Accumulated deficit consists of individual fund surpluses, deficits and reserves as follows:

|                                                | <u>2016</u>                    | <u>2015</u>                    |
|------------------------------------------------|--------------------------------|--------------------------------|
| Deficit:                                       |                                |                                |
| Other                                          | \$ (112,565,020)               | \$ (130,236,696)               |
| Reserve funds set aside for specific purposes: |                                |                                |
| Hospital District Act Section 20(3) reserve    | 4,004,543                      | 6,610,294                      |
| <b>Accumulated Deficit</b>                     | <b><u>\$ (108,560,477)</u></b> | <b><u>\$ (123,626,402)</u></b> |

#### 11. BUDGET DATA

The budget data presented in these financial statements is based upon the 2016 operating and capital budgets approved by the Board. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

|                                               | <b>Budget Amount</b>       |
|-----------------------------------------------|----------------------------|
| Revenues:                                     |                            |
| Operating budget                              | \$ 29,837,690              |
| Total revenue                                 | <u>29,837,690</u>          |
| Expenses:                                     |                            |
| Operating budget                              | 30,523,690                 |
| Capital budget – grants to district hospitals | 6,380,890                  |
| Capital budget – asset acquisition            | 11,965,020                 |
| Less:                                         |                            |
| Capital budget – asset acquisition            | (11,965,020)               |
| MFA debt reserve fund                         | (171,710)                  |
| Transfers to other funds                      | (950,000)                  |
| Debt principal payments                       | <u>(13,029,910)</u>        |
| Total expenses                                | <u>22,752,960</u>          |
| <b>Annual Deficit</b>                         | <b><u>\$ 7,084,730</u></b> |

#### 12. SUBSEQUENT EVENTS

On January 19, 2017 the Hospital District executed a 25 year fixed loan in the amount of \$61,250,000 related to Bylaw 160, the Summit Residential Care facility.

#### 13. COMPARATIVE INFORMATION

Certain 2015 comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.

**Grants to District Hospitals**  
**Year Ended December 31, 2016**

|                                                                                                                     | <b>Total grants<br/>December 31<br/>2015</b> | <b>Expense<br/>2016</b> | <b>Transfers to<br/>completed<br/>projects</b> | <b>Total grants<br/>December 31<br/>2016</b> |
|---------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-------------------------|------------------------------------------------|----------------------------------------------|
| <b>PROJECTS IN PROGRESS</b>                                                                                         |                                              |                         |                                                |                                              |
| Designated Health Care facilities                                                                                   | \$ 1,542,282                                 | \$ 29,452               | \$ (105,270)                                   | \$ 1,466,464                                 |
| Vancouver Island Health Authority                                                                                   | 5,825,044                                    | 3,002,309               | (2,925,000)                                    | 5,902,353                                    |
| Gorge Road Hospital                                                                                                 | 987,119                                      | 429,411                 | (406,149)                                      | 1,010,381                                    |
| Juan de Fuca Hospital                                                                                               | 1,012,891                                    | 225,193                 | -                                              | 1,238,084                                    |
| Lady Minto Hospital                                                                                                 | 900,752                                      | 53,456                  | (137,234)                                      | 816,974                                      |
| Mount St. Mary Hospital - Fairfield                                                                                 | 30,000                                       | 30,000                  | (30,000)                                       | 30,000                                       |
| Queen Alexandra Hospital                                                                                            | 975,833                                      | 93,854                  | (408,000)                                      | 661,687                                      |
| Royal Jubilee Hospital                                                                                              | 10,683,252                                   | 3,991,647               | (1,011,111)                                    | 13,663,788                                   |
| Saanich Peninsula Hospital                                                                                          | 1,249,020                                    | 25,540                  | (347,984)                                      | 926,576                                      |
| Victoria General Hospital - Helmcken                                                                                | 3,672,405                                    | 1,678,145               | (922,308)                                      | 4,428,242                                    |
|                                                                                                                     | <u>26,878,598</u>                            | <u>9,559,007</u>        | <u>(6,293,056)</u>                             | <u>30,144,549</u>                            |
| <b>COMPLETED PROJECTS</b>                                                                                           |                                              |                         |                                                |                                              |
| Designated Health Care facilities                                                                                   | 20,778,944                                   | -                       | 105,270                                        | 20,884,214                                   |
| Vancouver Island Health Authority                                                                                   | 62,179,224                                   | -                       | 2,925,000                                      | 65,104,224                                   |
| Gorge Road Hospital                                                                                                 | 6,308,260                                    | -                       | 406,149                                        | 6,714,409                                    |
| Juan de Fuca Hospital                                                                                               | 36,270,766                                   | -                       | -                                              | 36,270,766                                   |
| Lady Minto Hospital                                                                                                 | 4,359,288                                    | -                       | 137,234                                        | 4,496,522                                    |
| Mount St. Mary Hospital - Fairfield                                                                                 | 15,299,545                                   | -                       | 30,000                                         | 15,329,545                                   |
| Queen Alexandra Hospital                                                                                            | 7,689,310                                    | -                       | 408,000                                        | 8,097,310                                    |
| Royal Jubilee Hospital                                                                                              | 247,160,890                                  | -                       | 1,011,111                                      | 248,172,001                                  |
| Saanich Peninsula Hospital                                                                                          | 19,266,450                                   | -                       | 347,984                                        | 19,614,434                                   |
| Victoria General Hospital - Helmcken                                                                                | 93,876,378                                   | -                       | 922,308                                        | 94,798,686                                   |
|                                                                                                                     | <u>513,189,055</u>                           | <u>-</u>                | <u>6,293,056</u>                               | <u>519,482,111</u>                           |
|                                                                                                                     | 540,067,653                                  | 9,559,007               | -                                              | 549,626,660                                  |
| LESS:                                                                                                               |                                              |                         |                                                |                                              |
| Province of British Columbia share of grants to hospitals recorded before change in capital payment process in 2000 | <u>(126,010,301)</u>                         | <u>-</u>                | <u>-</u>                                       | <u>(126,010,301)</u>                         |
|                                                                                                                     | <u>\$ 414,057,352</u>                        | <u>\$ 9,559,007</u>     | <u>\$ -</u>                                    | <u>\$ 423,616,359</u>                        |



# Capital Regional Hospital District

**Audit Findings Report**  
**For the year ended December 31, 2016**

For the meeting on June 7, 2017

[kpmg.ca/audit](http://kpmg.ca/audit)



The contacts at KPMG in connection with this report are:

**Randy Decksheimer**

Audit Engagement  
Partner

Tel: (250) 480-3515  
rdecksheimer@kpmg.ca

**Heather Crow**

Audit Senior Manager

Tel: (250) 480-3504  
hcrow@kpmg.ca

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# Executive summary

## Purpose of this report\*

The purpose of this Audit Findings Report is to assist you, as a member of the Board of Directors, in your review of the results of our audit of the financial statements of Capital Regional Hospital District ("the Hospital District") as at and for the year ended December 31, 2016.

This Audit Findings Report builds on the Audit Plan we presented to the Board of Directors on April 12, 2017.

## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

## Audit results

We discussed with you at the start of the audit the financial reporting risks related to revenue recognition and management override that are presumed risks in accordance with professional standards. These risk have been addressed in our audit with no issues identified.

Our planning report identified certain **areas of audit focus**. Our findings report discusses the audit findings related to the financial reporting related to the Summit at Quadra Village.

We are satisfied that our audit work has appropriately dealt with this focus area.

## Adjustments and differences

We did not identify any adjustments that remain uncorrected.

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Directors. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Executive summary (ctd.)

## Finalizing the audit

As of May 15, 2017, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with the Board of Directors;
- obtaining a signed management representation letter;
- obtaining evidence of the Board's approval of the financial statements.

We will update the Board of Directors on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

## Independence

We confirm we are independent with respect to the Hospital District within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

# Audit results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

| Significant financial reporting risks  | Our response and significant findings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Summit at Quadra Village</b></p> | <ul style="list-style-type: none"> <li>• During 2015, the Hospital District entered into a project development agreement for the Summit at Quadra Village (955 Hillside Ave) with Island Health. The development is a 320-unit residential care facility intended to replace Oak Bay Lodge and Mount Tolmie Hospital. The estimated costs for the development project is \$86.4M. The land and future building is to be owned by the Hospital District, while the funding for the residential care services will be provided for by Island Health. Anticipated completion of the project is slated for 2019.</li> <li>• Through a financing agreement Island Health will lease the building for a 25 year term. A lease agreement has not been signed at this time.</li> <li>• During the current fiscal year, project design was completed in the summer and construction began during the fall. Total project costs to date are \$11.6M, including land, while asset additions related to the project in the current fiscal year were \$4.4M.</li> <li>• KPMG selected a sample of asset additions and agreed to underlying source documentation. No issues were noted.</li> <li>• KPMG reviewed management's assessment of the draft project development agreement with Island Health, analysing the accounting treatment of the project. KPMG concurs with management's assessment that the project, as set out in the draft agreement, is to be recorded as an asset for the Hospital District.</li> </ul> |

# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we recommend that all identified differences be corrected.

## Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

We did not identify any adjustments that were communicated to management and remain uncorrected in the financial statements.

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Draft auditors' report**

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**Appendix 3: Draft management representation letter**

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**Appendix 4: Current developments**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.
- **Audit findings report** - as attached.
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Board of Directors. The management representation letter is attached.
- **Engagement letter** - the objectives of the audit, our responsibilities in carrying out our audit, as well as Management's responsibilities, are set out in the engagement letter.

# Appendix 2: Draft auditors' report

## INDEPENDENT AUDITORS' REPORT

*To the Chair and Directors of the Capital Regional Hospital District*

We have audited the accompanying financial statements of the Capital Regional Hospital District, which comprise the statement of financial position as at December 31, 2016, the statements of operations, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' 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 our 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, we consider 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.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Capital Regional Hospital District as at December 31, 2016, and its results of operations, its change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

# Appendix 3: Draft management representation letter

June 7, 2017

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Capital Regional Hospital District ("the Entity") as at and for the period ended December 31, 2016.

## **General:**

We confirm that the representations we make in this letter are in accordance with the definitions as set out in Attachment I to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## **Responsibilities:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated May 18, 2017, for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
  - b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

## **Internal control over financial reporting:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

## **Fraud & non-compliance with laws and regulations:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others



- d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
- e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

**Subsequent events:**

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**Related parties:**

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**Estimates:**

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Yours very truly,

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By: Mr. Robert Lapham, Chief Administrative Officer

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By: Mr. Nelson Chan, Chief Financial Officer

## **Attachment I – Definitions**

### **Materiality**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **Fraud & error**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **Related parties**

In accordance with Canadian public sector accounting standards *related party* is defined as:

- one party that has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence.

In accordance with Canadian public sector accounting standards, a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged.

# Appendix 4: Current developments

## Public Sector Accounting Standards:

The following is a summary of current Public Sector Accounting Standards developments:

| Standard                                                 | Summary and implications                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Related Party Transactions and Inter-entity Transactions | <ul style="list-style-type: none"><li>• Two new Handbook sections were approved, effective for fiscal years beginning on or after April 1, 2017.</li><li>• Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.</li><li>• Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.</li><li>• Determining which related party transactions to disclose is a matter of judgment based on assessment of:<ul style="list-style-type: none"><li>○ the terms and conditions underlying the transactions;</li><li>○ the financial significance of the transactions;</li><li>○ the relevance of the information; and</li><li>○ the need for the information to enable users' understanding of the financial statements and for making comparisons.</li></ul></li><li>• A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.</li><li>• Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.</li></ul> |
| Assets, Contingent Assets and Contractual Rights         | <ul style="list-style-type: none"><li>• Three new Handbook sections were approved, effective for fiscal years beginning on or after April 1, 2017.</li><li>• The intended outcome of the three new Handbook Sections is improved consistency and comparability.</li><li>• The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity.</li><li>• Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Asset Retirement Obligations | <ul style="list-style-type: none"> <li>• A new standard is under development addressing the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. PSAB currently contains no specific guidance in this area.</li> <li>• PSAB recently released an Exposure Draft following the consideration of comments received in response to the previously released Statement of Principles.</li> <li>• The proposed ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”).</li> <li>• The Exposure Draft also proposes to remove section PS3270 Solid Waste Landfill Closure and Post-closure Liability from the Public Sector Handbook, resulting in identical recognition and measurement concepts for all asset retirement obligations. This is an important change for those public sector entities who are operating, and have closure and post-closure liabilities associated with solid waste landfills. The liability will be recognized earlier, and in larger amounts than were recorded under the incremental usage method. This will also have an impact on net debt; organizations will have to anticipate the difference between the liability under the proposed PS3280 and as currently measured under PS3270.</li> <li>• As a result of the proposed standard, the public sector entity will have to: <ul style="list-style-type: none"> <li>○ consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;</li> <li>○ carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;</li> <li>○ begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.</li> </ul> </li> <li>• The standard has a proposed effective date of April 1, 2021.</li> </ul> |
| Restructuring Transactions   | <ul style="list-style-type: none"> <li>• A new Handbook section was approved effective for fiscal years beginning on or after April 1, 2018.</li> <li>• A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred.</li> <li>• The new standard requires the transferor remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense.</li> <li>• Restructuring-related costs are recognized as expenses when incurred.</li> <li>• Financial information prior to the restructuring date would not be restated.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Financial Instruments        | <ul style="list-style-type: none"> <li>• New accounting standards, Financial Instruments PS3450 and Foreign Currency Translation PS2601 have been approved by PSAB and are effective for years commencing on or after April 1, 2019. Early adoption is permitted.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

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- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice. This choice must be made on initial recognition of the financial instrument and is irrevocable. Instruments denominated in foreign currencies must be adjusted to reflect the exchange rate in effect at the reporting date.
  - A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted and foreign currency denominated financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the Statement of Operations.

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Revenue

- PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and an Exposure Draft is anticipated to be published in early 2017.
  - Adoption of these principles would result in a need to assess current accounting policies.
  - In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
  - For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
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