

Capital Regional Hospital District

2015 Financial Statements

Fiscal year ended December 31, 2015



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Cover photo: The microbiology lab at Royal Jubilee Hospital, a project supported by the CRHD.

Management Report



Capital Regional District
625 Fisgard Street, PO Box 1000
Victoria, BC V8W 2S6

T: 250.360.3000
F: 250.360.3023
www.crd.bc.ca

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, 2015.

On behalf of Capital Regional Hospital District,

A handwritten signature in black ink, appearing to read 'Rajat Sharma', is written over a horizontal line.

Rajat Sharma, B. Eng., MBA, CPA, CMA
Acting Chief Financial Officer *
June 1, 2016

* For municipalities, the officer assigned responsibility for financial administration signs
Prepared pursuant to Financial Information Regulation, Schedule 1, section 9

Board of Directors

Capital Regional Hospital District	2016	2015
Chair	Director David Howe	Director David Howe
Vice Chair	Mayor Barb Desjardins	Mayor Nils Jensen
Electoral Area Directors:		
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
Municipal Directors:		
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	Mayor Barb Desjardins
District of Highlands	Mayor Ken Williams	Mayor Ken Williams
District of Langford	Councillor Denise Blackwell	Councillor Denise Blackwell
	Councillor Lanny Seaton	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	Mayor Richard Atwell
	Councillor Susan Brice	Councillor Susan Brice
	Councillor Judy Brownoff	Councillor Judy Brownoff
	Councillor Vic Derman	Councillor Vic Derman
	Councillor Colin Plant	Councillor Colin Plant
Town of Sidney	Mayor Steve Price	Mayor Steve Price
District of Sooke	Councillor Rick Kasper	Mayor Maja Tait
City of Victoria	Mayor Lisa Helps	Mayor Lisa Helps
	Councillor Marianne Alto	Councillor Marianne Alto
	Councillor Ben Isitt	Councillor Ben Isitt
	Councillor Geoff Young	Councillor Geoff Young
Town of View Royal	Mayor David Screech	Mayor David Screech
Total Number of Directors	24	24

Staff & Statistics

Senior Administration Staff

Chief Administrative Officer - Robert Lapham

General Manager, Planning and Protective Services - Kevin Lorette

Acting Chief Financial Officer - Rajat Sharma

Statistics

Incorporated October 17, 1967

Total Area: 2,446 Square Kilometers

Population: 378,232 (2015 Estimate)

Total 2015 Assessments (Hospital Converted): 9,452,082,420

Total 2015 Assessments (Hospital Actual): 79,787,754,757

Bank: Royal Bank of Canada (RBC)

Auditors: KPMG LLP

Solicitors: Stewart McDannold Stuart

Independent Auditors' Report



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, 2015, 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, 2015, 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

June 8, 2016
Victoria, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Statements

1. Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Financial assets		
Cash and cash equivalents (Note 2)	\$ 13,812,400	\$ 834,390
Accounts receivable		
Capital Regional District	21,557	-
Other	141,285	5,238
Investments (Note 3)	-	8,550,534
Restricted cash - MFA Debt Reserve Fund (Note 4)	3,254,487	3,205,865
Land for resale (Note 5)	898,037	898,037
	<u>18,127,766</u>	<u>13,494,064</u>
Financial liabilities		
Accounts payable and other liabilities	2,744,960	3,501,054
Due to Capital Regional District	-	45,410
Temporary borrowings (Note 6)	50,885	1,123,281
Long-term debt (Note 7)	148,111,503	156,213,389
	<u>150,907,348</u>	<u>160,883,134</u>
Net debt	(132,779,582)	(147,389,070)
Non-financial assets		
Tangible capital assets (Note 8)	9,153,180	8,420,886
Contingent liability (Note 7)		
Accumulated Deficit (Note 11)	\$ (123,626,402)	\$ (138,968,184)

The accompanying notes are an integral part of these financial statements



Rajat Sharma, B. Eng, MBA, CPA, CMA
Acting Chief Financial Officer

2. Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	Budget	2015	2014
	(Note 12)		
Revenue			
Taxation - Municipalities	\$ 26,197,900	\$ 26,197,900	\$ 26,539,799
Taxation - Electoral Areas	2,158,219	2,158,219	2,216,542
Taxation - First Nations	88,591	88,591	90,779
Payments in lieu of taxes	1,050,630	1,051,202	976,654
Interest income	50,000	215,148	294,943
Debenture maturity refund	-	18,210	241,026
Actuarial adjustment on long-term debt	-	4,020,253	4,387,280
	<u>29,545,340</u>	<u>33,749,523</u>	<u>34,747,023</u>
Expenses			
Grants to district hospitals (Schedule 1)	9,234,690	8,518,510	17,601,306
Interest on long-term debt	9,596,060	9,251,875	9,645,500
Interest on temporary borrowings	125,520	19,590	42,014
Debenture issue expense	88,530	54,308	60,684
Operating expenses	680,220	563,458	607,273
	<u>19,725,020</u>	<u>18,407,741</u>	<u>27,956,777</u>
Annual surplus	9,820,320	15,341,782	6,790,246
Accumulated deficit, beginning of year	(138,968,184)	(138,968,184)	(145,758,430)
Accumulated deficit, end of year	<u>\$ (129,147,864)</u>	<u>\$ (123,626,402)</u>	<u>\$ (138,968,184)</u>

The accompanying notes are an integral part of these financial statements

3. Statement of Change in Net Debt

Year ended December 31, 2015, with comparative information for 2014

	Budget	2015	2014
	(Note 12)		
Annual surplus	\$ 9,820,320	\$ 15,341,782	\$ 6,790,246
Acquisition of tangible capital assets	10,000,000	732,294	-
Change in net debt	(179,680)	14,609,488	6,790,246
Net debt, beginning of year	(145,475,430)	(145,475,430)	(152,265,676)
Net debt, end of year	\$ (145,655,110)	\$ (130,865,942)	\$ (145,475,430)

The accompanying notes are an integral part of these financial statements

4. Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 15,341,782	\$ 6,790,246
Items not involving cash:		
Actuarial adjustment on long-term debt	(4,020,253)	(4,387,280)
Change in non-cash assets and liabilities		
Accounts receivable	(136,047)	8,643,723
Accounts payable and accrued liabilities	(756,095)	(148,925)
Due to/(from) Capital Regional District	(66,967)	45,410
Restricted cash	(48,622)	(20,825)
Net change in cash from operating activities	10,313,798	10,922,349
Capital activities:		
Cash used to acquire tangible capital assets	(732,294)	-
Net change in cash from capital activities	(732,294)	-
Investing activities:		
Investments	8,550,534	(5,601,068)
Net change in cash from investing activities	8,550,534	(5,601,068)
Financing activities:		
Temporary borrowings increase	2,841,877	4,439,767
Temporary borrowings repaid	(3,914,273)	(10,113,960)
Long-term debt borrowings	9,051,347	10,113,960
Repayment of long-term debt	(13,132,979)	(12,966,216)
Net change in cash from financing activities	(5,154,028)	(8,526,449)
Net change in cash and cash equivalents	12,978,010	(3,205,168)
Cash and cash equivalents, beginning of year	834,390	4,039,558
Cash and cash equivalents, end of year	\$ 13,812,400	\$ 834,390
Cash paid for interest	\$ 9,288,472	\$ 9,690,038
Cash received for interest	205,463	349,054

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

Year ended December 31, 2015

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 turned over 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 purchase of equipment, minor renovations to hospitals, and related studies.

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

	2015	2014
Bank account	\$13,728,018	\$750,724
MFA Money Market	84,382	83,666
	<u>\$13,812,400</u>	<u>\$834,390</u>

3. INVESTMENTS

Investments consist of term deposits that have a cost approximating market value.

4. 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, 2015 is \$3,254,487 (2014: \$3,205,865).

5. 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.

6. TEMPORARY BORROWINGS

Temporary borrowings are with the MFA at variable interest rates. The interest rate at year end was 1.38% (2014: 1.8%).

7. LONG-TERM DEBT

a) Debenture Debt

Long-term debt represents debenture debt principal which is reported net of sinking fund deposits of \$94,020,572 (2014: \$85,300,841).

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:

	2016	2017	2018	2019	2020
\$	13,017,905	12,613,098	11,825,813	11,278,531	10,568,866

b) Interest Rates of MFA Debentures Issued in the Year

2015	2014
1.45% to 2.75%	2.05% to 3.30%

The long-term debt bears interest at rates ranging from 1.45% to 4.9%. The weighted average interest rate in 2015 is 3.64%

c) Demand Notes – Contingent Liability

The MFA holds demand notes related to the Hospital District's debenture debt in the amount of \$9,613,834. 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.

8. 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.

	<u>2015</u>	<u>2014</u>
Capital Budget (including land)	\$86,443,285	\$86,443,285
Less:		
Expenditures to date	(7,239,540)	(6,507,246)
Commitments	(3,910,648)	-
Remaining Balance	<u>\$75,293,097</u>	<u>\$79,936,039</u>

9. COMMITMENTS

Several major hospital construction and refurbishing projects have been approved. The Hospital District's share is \$23,846,423 against which grants of approximately \$14,928,673 have been expensed.

10. 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, \$670,882 (2014: \$509,005) of administrative support and project management services from the Capital Regional District.

11. ACCUMULATED DEFICIT

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

	<u>2015</u>	<u>2014</u>
Deficit:		
Other	\$ (130,236,696)	\$ (145,015,258)
Reserve funds set aside for specific purposes:		
Hospital District Act Section 20(3) reserve	<u>6,610,294</u>	<u>6,047,074</u>
Accumulated Deficit	<u>\$ (123,626,402)</u>	<u>\$ (138,968,184)</u>

12. BUDGET DATA

The budget data presented in these financial statements is based upon the 2015 operating and capital budgets approved by the Board. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

	Budget Amount
Revenues:	
Operating budget	<u>\$ 29,545,340</u>
Total revenue	29,545,340
Expenses:	
Operating budget	29,726,450
Capital budget – grants to district hospitals	3,279,690
Capital budget – asset acquisition	10,000,000
Less:	
Capital budget – asset acquisition	(10,000,000)
MFA debt reserve fund	(147,550)
Debt principal payments	<u>(13,133,570)</u>
Total expenses	<u>19,725,020</u>
Annual Deficit	<u>\$ 9,820,320</u>

13. SUBSEQUENT EVENTS

On March 1, 2016 the Hospital District purchased, for \$5,800,000, the 950 Kings site as a strategic acquisition for future development.

14. COMPARATIVE INFORMATION

Certain 2014 comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.

Schedules

Grants to District Hospitals

Year Ended December 31, 2015

	Total grants December 31 2014	Expense 2015	Transfers to completed projects	Total grants December 31 2015
PROJECTS IN PROGRESS				
Designated Health Care facilities	\$ 19,174,812	\$ 135,011	\$ (17,767,541)	\$ 1,542,282
Vancouver Island Health Authority	7,205,480	2,971,974	(4,352,410)	5,825,044
Gorge Road Hospital	828,309	345,284	(186,474)	987,119
Juan de Fuca Hospital	738,539	365,458	(91,106)	1,012,891
Lady Minto Hospital	737,445	236,626	(73,319)	900,752
Mount St. Mary Hospital - Fairfield	30,000	30,000	(30,000)	30,000
Queen Alexandra Hospital	590,439	425,942	(40,548)	975,833
Royal Jubilee Hospital	9,710,911	3,199,212	(2,226,871)	10,683,252
Saanich Peninsula Hospital	2,020,879	70,877	(842,736)	1,249,020
Victoria General Hospital - Helmcken	3,586,032	738,126	(651,753)	3,672,405
	<u>44,622,846</u>	<u>8,518,510</u>	<u>(26,262,758)</u>	<u>26,878,598</u>
COMPLETED PROJECTS				
Designated Health Care facilities	3,011,403	-	17,767,541	20,778,944
Vancouver Island Health Authority	57,826,814	-	4,352,410	62,179,224
Gorge Road Hospital	6,121,786	-	186,474	6,308,260
Juan de Fuca Hospital	36,179,660	-	91,106	36,270,766
Lady Minto Hospital	4,285,969	-	73,319	4,359,288
Mount St. Mary Hospital - Fairfield	15,269,545	-	30,000	15,299,545
Queen Alexandra Hospital	7,648,762	-	40,548	7,689,310
Royal Jubilee Hospital	244,934,019	-	2,226,871	247,160,890
Saanich Peninsula Hospital	18,423,714	-	842,736	19,266,450
Victoria General Hospital - Helmcken	93,224,625	-	651,753	93,876,378
	<u>486,926,297</u>	<u>-</u>	<u>26,262,758</u>	<u>513,189,055</u>
	531,549,143	8,518,510	-	540,067,653
LESS:				
Province of British Columbia share of grants to hospitals recorded before change in capital payment process in 2000	(126,010,301)	-	-	(126,010,301)
	<u>\$ 405,538,842</u>	<u>\$ 8,518,510</u>	<u>\$ -</u>	<u>\$ 414,057,352</u>