

Consolidated Financial Statements of

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2020

**Provincial Health Services Authority
Management Report**

The consolidated financial statements of the Provincial Health Services Authority (the "Authority") were prepared by management in accordance with the financial reporting framework disclosed in note 1(a) to these consolidated financial statements, and include amounts based upon management's best estimates and judgments. The accounting principles of the financial reporting framework were consistently applied. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 29, 2020.

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

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

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

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



Benoit Morin
President and Chief Executive Officer



Shera Clement
Chief Financial Officer

Vancouver, BC
May 29, 2020



Independent auditor's report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements of Provincial Health Services Authority and its subsidiaries (together the Authority) as at March 31, 2020 and for the year then ended are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

What we have audited

The Authority's consolidated financial statements comprise:

- the consolidated statement of financial position as at March 31, 2020;
- the consolidated statement of operations and accumulated operating surplus for the year then ended;
- the consolidated statement of changes in net debt for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of rereasurement gains and losses for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806



Emphasis of matter - basis of accounting

We draw attention to note 1 to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 20 to the consolidated financial statements discloses the impact of these differences. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 29, 2020

PROVINCIAL HEALTH SERVICES AUTHORITY

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

As at March 31, 2020

	2020	2019
Financial assets		
Cash and cash equivalents (note 2)	\$ 217,682	\$ 154,712
Portfolio investments (note 3)	281	268
Accounts receivable (note 4)	394,774	458,543
Inventories held for sale (note 5)	25,276	18,547
	<u>638,013</u>	<u>632,070</u>
Liabilities		
Accounts payable and accrued liabilities (note 6)	526,186	492,282
Deferred operating contributions (note 7)	39,636	57,353
Deferred research and designated contributions (note 8)	47,616	38,368
Debt (note 10)	250,721	253,784
Retirement allowance (note 11(a))	106,746	101,660
Long-term disability and health and welfare benefits (note 11(b))	9,503	10,349
Deferred capital contributions (note 12)	1,278,856	1,181,498
	<u>2,259,264</u>	<u>2,135,294</u>
Net debt	\$ (1,621,251)	\$ (1,503,224)
Non-financial assets		
Tangible capital assets (note 13)	\$ 1,627,858	\$ 1,519,904
Inventories held for use (note 14)	37,450	33,508
Prepaid expenses	22,444	15,920
	<u>1,687,752</u>	<u>1,569,332</u>
Accumulated surplus		
Accumulated operating surplus	\$ 66,422	\$ 66,047
Accumulated remeasurement gains	79	61
	<u>\$ 66,501</u>	<u>\$ 66,108</u>

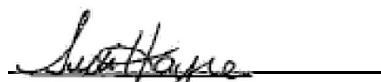
Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director and Chair of the Board



Director

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

	2020 Budget (note 1(n))	2020	2019
Revenues:			
Ministry of Health contributions	\$ 2,540,664	\$ 2,642,643	\$ 2,482,632
Recoveries from other health authorities and BC government reporting entities	534,154	614,793	577,458
Medical Services Plan	204,860	212,533	204,962
Other contributions (note 16(a))	108,612	116,004	115,761
Amortization of deferred capital contributions (note 12)	98,906	91,136	92,423
Research and designated contributions (note 8)	87,388	100,727	88,863
Other (note 16(b))	33,815	54,691	44,072
Patients, clients and residents (note 16(c))	15,540	21,775	21,983
Pharmacare	5,550	6,794	6,092
Investment income	2,233	2,825	2,940
	<u>3,631,722</u>	<u>3,863,921</u>	<u>3,637,186</u>
Expenses (note 16(d)):			
Acute	2,412,821	2,510,210	2,350,557
Corporate	625,670	735,453	707,090
Population health and wellness	206,672	213,579	223,413
Community care	192,307	205,456	186,986
Mental health and substance use	187,186	192,093	170,641
Residential care	7,066	6,755	6,755
	<u>3,631,722</u>	<u>3,863,546</u>	<u>3,645,442</u>
Annual operating surplus / (deficit)	\$ -	\$ 375	\$ (8,256)
Accumulated operating surplus, beginning of year	66,047	66,047	74,303
Accumulated operating surplus, end of year	\$ 66,047	\$ 66,422	\$ 66,047

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

	2020 Budget (note 1(n))	2020	2019
Annual operating surplus/(deficit)	\$ -	\$ 375	\$ (8,256)
Acquisition of tangible capital assets	(195,849)	(209,164)	(158,495)
Transfer of tangible capital assets (note 21)	-	-	(10,052)
Amortization of tangible capital assets	106,970	100,814	100,710
Net book value of disposed tangible capital assets	-	396	715
	(88,879)	(107,579)	(75,378)
Acquisition of inventories held for use	-	(274,969)	(282,864)
Acquisition of prepaid expenses	-	(160,012)	(160,134)
Consumption of inventories held for use	-	271,027	280,501
Write-off of inventories held for use	-	-	19,262
Use of prepaid expenses	-	153,488	157,874
	-	(10,466)	14,639
Net remeasurement gains/(losses)	-	18	(5)
Increase in net debt	(88,879)	(118,027)	(60,744)
Net debt, beginning of year	(1,503,224)	(1,503,224)	(1,442,480)
Net debt, end of year	\$ (1,592,103)	\$ (1,621,251)	\$ (1,503,224)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

	2020	2019
Cash flows from (used in) operating activities:		
Annual operating (deficit)/surplus	\$ 375	\$ (8,256)
Items not involving cash:		
Amortization of deferred capital contributions	(91,136)	(92,423)
Amortization of tangible capital assets	100,814	100,710
Net book value of disposed tangible capital assets	396	715
Retirement allowance expense	12,613	12,280
Long-term disability and health and welfare benefits expense	45,216	44,779
Interest expense	17,778	18,019
Interest income	(2,825)	(2,940)
Transfer of retirement obligation (note 11(a))	-	11,526
Transfer of tangible capital assets (note 21)	-	(10,052)
Transfer of deferred capital contributions (note 21)	-	8,153
Write-off of inventories held for use	-	19,262
	83,231	101,773
Net change in non-cash operating items (note 17(a))	72,010	(139,811)
Retirement allowance benefits paid	(7,527)	(6,716)
Long-term disability and health and welfare benefits contributions	(46,062)	(36,777)
Interest received	2,829	2,988
Interest paid	(17,778)	(18,019)
Net change in cash from (used in) operating activities	86,703	(96,562)
Capital activities:		
Acquisition of tangible capital assets	(209,164)	(156,368)
Net change in cash used in capital activities	(209,164)	(156,368)
Financing activities:		
Repayment of debt	(3,063)	(2,817)
Capital contributions	188,494	137,065
Net change in cash from financing activities	185,431	134,248
Increase (decrease) in cash and cash equivalents	62,970	(118,682)
Cash and cash equivalents, beginning of year	154,712	273,394
Cash and cash equivalents, end of year	\$ 217,682	\$ 154,712

Supplementary cash flow information (note 17)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Remeasurement Gains and Losses

(Amounts expressed in thousands of dollars)

Year ended March 31, 2020

	2020	2019
Accumulated remeasurement gains, beginning of year	\$ 61	\$ 66
Unrealized gains/(losses) attributable to portfolio investments	18	(5)
Accumulated remeasurement gains, end of year	\$ 79	\$ 61

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

Provincial Health Services Authority (the “Authority” or “PHSA”) was created under the *Society Act of British Columbia* on December 12, 2001 with a Board of Directors appointed by the Ministry of Health (the “Ministry”) and is one of six health authorities in British Columbia (“BC”). The Authority is dependent on the Ministry to provide sufficient funds to continue operations, replace essential equipment, and complete its capital projects. The Authority is a not-for-profit organization under the *Income Tax Act* and, as such, is exempt from income and capital taxes.

The Authority programs provide care and services through specialized hospitals and centres across BC. The Authority is also responsible for specialized health services, which are delivered across the province in collaboration with regional health authorities.

1. Significant accounting policies:

(a) Basis of accounting:

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

The *Budget Transparency and Accountability Act* requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards (“PSAS”) issued by the Canadian Public Sector Accounting Board (“PSAB”) without any PS 4200 series.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions, and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal periods during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions or deferred research and designated contributions, and recognized in revenue in the year in which the stipulation or restriction on the contributions has been met by the Authority.

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

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

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS 3410, *Government Transfers*;
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified, in accordance with PS 3100, *Restricted Assets and Revenues*; and
- deferred contributions meet liability criteria in accordance with PS 3200, *Liabilities*.

As a result, revenue recognized in the consolidated statement of operations and certain deferred capital contributions would be recorded differently under PSAS. The impact of accounting for restricted contributions in accordance with Regulation 198/2011 is disclosed in note 20.

(b) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, revenues and expenses of Forensic Psychiatric Services Commission and BC Emergency Health Services. These entities are controlled by the Authority and are fully consolidated in these consolidated financial statements. Inter-entity transactions, balances and activities have been eliminated on consolidation.

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

The Authority has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Authority and/or provide services under contracts. As the Authority does not control these organizations, the consolidated financial statements do not include the assets, liabilities, and results of operations of these entities (note 18(b)).

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

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

(d) Portfolio investments:

Portfolio investments are shares of publicly traded companies. Shares of publicly traded companies are recorded at fair value. These shares were received by the Authority at \$0 cost as consideration in intellectual property licensing transactions. Any changes in fair value are recognized in the consolidated statement of remeasurement gains and losses.

(e) Accounts receivable:

Accounts receivable are recorded at amortized cost less an amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and the net recoverable value when risk of loss exists. Changes in valuation allowance are recognized in the consolidated statement of operations.

(f) Inventories held for sale:

Inventories held for sale are recorded at the lower of weighted average cost or net realizable value. Cost includes the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition. Net realizable value is the estimated selling price less any costs to sell.

Inventories held for sale consist of pharmaceuticals and medical supplies.

(g) Employee benefits:

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

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

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

The cumulative unrecognized actuarial gains and losses on retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefits is 11 years (2019 – 11 years). Actuarial gains and losses on event-driven benefits such as long-term disability and health and welfare benefits are recognized immediately.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

1. Significant accounting policies (continued):

(g) Employee benefits (continued):

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

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

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

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

(iii) Accumulating, non-vesting benefit plans:

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

(iv) Non-accumulating, non-vesting benefit plans:

For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the Authority to pay benefits occurs.

(h) Non-financial assets:

(i) Tangible capital assets:

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

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

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

1. Significant accounting policies (continued):

(h) Non-financial assets (continued):

(i) Tangible capital assets (continued):

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

Contributed tangible capital assets are recorded at their fair value on the date of contribution. Such fair value becomes the cost of the contributed asset. When fair value of a contributed asset cannot be reliably determined, the asset is recorded at nominal value.

(ii) Inventories held for use:

Inventories held for use are recorded at the lower of weighted average cost and replacement cost. Cost includes the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition. Replacement cost is the estimated current price to replace the items. Certain specific inventory items are purchased on consignment and are not included in inventory.

(iii) Prepaid expenses:

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

(i) Revenue recognition:

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

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

Revenues related to fees or services received in advance of the fees being earned or the services being performed are deferred and recognized when the fees are earned or services are performed.

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

1. Significant accounting policies (continued):

(i) Revenue recognition (continued):

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

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

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

(j) Measurement uncertainty:

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

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

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

(k) Foreign currency translation:

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

(l) Financial instruments:

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

for valuation allowance. All debt and other financial liabilities are recorded using cost or amortized cost.

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

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

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

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

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

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

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

(m) Capitalization of public-private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets under construction is estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred by the Authority.

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

1. Significant accounting policies (continued):

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

Correspondingly, an obligation for the cost of capital and financing received to date, net of contributions received, is recorded as a liability and included in debt. Upon substantial completion, the private sector partner receives monthly payments over the term of the project agreement to cover the partner's operating costs, financing costs and a return of their capital.

(n) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2019/2020 Budget approved by the Board of Directors on September 26, 2019. The budget is reflected in the consolidated statement of operations and accumulated operating surplus and the consolidated statement of changes in net debt.

2. Cash and cash equivalents:

	2020	2019
Cash and cash equivalents	\$ 217,290	\$ 154,354
Restricted cash	392	358
	<u>\$ 217,682</u>	<u>\$ 154,712</u>

Restricted cash is related to patient trust accounts.

3. Portfolio investments:

Portfolio investments consists of shares of publicly traded companies recorded at fair value. Fair value of shares is determined with reference to the market price quoted in an active market. These shares were received by the Authority at \$0 cost as consideration in intellectual property licensing transactions.

4. Accounts receivable:

	2020	2019
Ministry of Health	\$ 72,471	\$ 209,852
Other health authorities and BC government reporting entities	107,181	102,865
Drug rebates	121,160	79,491
Foundations and auxiliaries	32,175	24,409
Patients, clients and residents	23,688	21,608
Medical Services Plan	23,201	19,790
Other grantors	20,750	14,537
Federal government	9,209	8,068
Other	10,004	10,646
	<u>419,839</u>	<u>491,266</u>
Allowance for doubtful accounts	(25,065)	(32,723)
	<u>\$ 394,774</u>	<u>\$ 458,543</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

5. Inventories held for sale:

Inventories held for sale consists of pharmaceuticals and medical supplies. During the year, \$251,803 (2019 – \$239,176) of inventories were sold by the Authority.

6. Accounts payable and accrued liabilities:

	2020	2019
Trade accounts payable and accrued liabilities	\$ 327,223	\$ 311,930
Salaries and benefits payable	115,411	97,810
Accrued vacation pay	79,387	78,512
Long-term accounts payable	3,773	3,672
Patient trust funds	392	358
	<u>\$ 526,186</u>	<u>\$ 492,282</u>

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

7. Deferred operating contributions:

Deferred operating contributions represent government transfers from the Ministry of Health, other ministries and other sources in the form of externally restricted operating funding received for various programs and initiatives. These include funding to support costs arising from the COVID-19 pandemic, start-up costs for the Centre for Mental Health and Addictions, the Forensic Psychiatric Action Plan initiative, the Enterprise Resource Planning project, the Forensic Greenhouse, the Suspected Child Abuse Neglect program, the eHealth/Panorama initiative, the Kidney Disease Registry project, Stroke Strategy initiative, BC Provincial Blood Coordinating Office initiatives and other Ministry directed initiatives.

	2020	2019
Deferred operating contributions, beginning of year	\$ 57,353	\$ 56,262
Contributions received during the year	750	12,339
Transfers in from BCCSS (note 21)	-	1,135
Transferred to deferred capital contributions	(1,058)	(569)
Amounts recognized as revenue in the year	(17,409)	(11,814)
Deferred operating contributions, end of year	<u>\$ 39,636</u>	<u>\$ 57,353</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

8. Deferred research and designated contributions:

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

Government transfers	2020	2019
Deferred research and designated contributions, beginning of year	\$ 2,231	\$ 2,812
Contributions received during the year	19,814	18,197
Amounts to be received in future periods	4,141	3,535
Transferred to deferred capital contributions	(181)	(20)
Amounts recognized as revenue in the year	(20,495)	(22,293)
Deferred research and designated contributions, end of year	\$ 5,510	\$ 2,231

Other contributions	2020	2019
Deferred research and designated contributions, beginning of year	\$ 36,137	\$ 30,387
Contributions received during the year	71,525	62,212
Amounts to be received in future periods	19,123	13,381
Transferred to deferred capital contributions	(4,447)	(3,273)
Amounts recognized as revenue in the year	(80,232)	(66,570)
Deferred research and designated contributions, end of year	\$ 42,106	\$ 36,137

	2020	2019
Government transfers	\$ 5,510	\$ 2,231
Other contributions	42,106	36,137
Balance, end of year	\$ 47,616	\$ 38,368

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

9. Government Partnerships – ARHCC Inc.:

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

	2020	2019
Financial assets	\$ 158,573	\$ 154,993
Liabilities	420,489	426,540
Net debt	261,916	271,546
Non-financial assets	264,495	274,127
Accumulated surplus	2,579	2,579
Revenues	60,958	62,446
Expenses	60,958	62,446

10. Debt:

	2020	2019
P3:		
Abbotsford Regional Hospital and Cancer Centre, 30 year contract to May 2038 with Access Health Abbotsford Ltd., payable in accordance with the project agreement terms including annual interest of 7.75%	\$ 54,632	\$ 55,265
BC Cancer Centre for the North, 30 year contract to September 2042 with Plenary Health Prince George GP, payable in monthly payments of \$117 including annual interest of 8.09% in accordance with the project agreement terms	15,852	15,968
Phase 2 BC Children's and BC Women's Redevelopment Project, 30 year contract to June 2047 with Affinity Partnerships, payable in monthly payments of \$1,195 including annual interest of 6.61% in accordance with the project agreement terms	180,237	182,551
	\$ 250,721	\$ 253,784

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

11. Employee benefits:

(a) Retirement allowance:

Certain employees with ten or more years of service and having reached a certain age are entitled to receive special payments upon retirement or as specified by collective or employee agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service.

The Authority's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2018 and extrapolated to March 31, 2020 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2020 are derived. The next expected valuation will be as of December 31, 2021.

Information about retirement allowance benefits is as follows:

	2020	2019
Accrued benefit obligation:		
Severance benefits	\$ 75,491	\$ 72,320
Sick leave benefits	39,276	37,475
	114,767	109,795
Unamortized actuarial loss	(8,021)	(8,135)
Accrued benefit liability	\$ 106,746	\$ 101,660

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

	2020	2019
Accrued benefit liability, beginning of year	\$ 101,660	\$ 84,570
Net benefit expense:		
Current service cost	7,449	6,844
Interest expense	4,342	4,405
Amortization of actuarial loss	822	1,031
Net benefit expense	12,613	12,280
Benefits paid	(7,527)	(6,716)
Accrued benefit obligation related to BCCSS Employees (note 21)	-	11,526
Accrued benefit liability, end of year	\$ 106,746	\$ 101,660

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

11. Employee benefits (continued):

(a) Retirement allowance (continued):

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

	2020	2019
Accrued benefit obligation as at March 31:		
Discount rate	3.79%	4.01%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	4.01%	4.01%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

(b) Healthcare Benefit Trust benefits:

The Healthcare Benefit Trust (the "Trust") administers long-term disability and group life insurance, accidental death and dismemberment, extended health and dental claims ("health and welfare benefits") for certain employee groups of the Authority and other provincially funded organizations.

The Authority and all other participating employers are jointly responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

The Trust is a multiple employer plan, with the Authority's assets and liabilities being segregated with regards to long-term disability benefits after September 30, 1997 and health and welfare benefits after December 31, 2014. Accordingly, the Authority's net Trust liabilities (assets) are reflected in these consolidated financial statements.

The Authority's liabilities (assets) as of March 31, 2020 are based on the actuarial valuation at December 31, 2019, extrapolated to March 31, 2020. The next expected valuation will be as of December 31, 2020.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

11. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

	2020	2019
Accrued benefit obligation	\$ 92,512	\$ 82,991
Fair value of plan assets	(83,009)	(72,642)
Net liability	\$ 9,503	\$ 10,349

	2020	2019
Long-term disability and health and welfare benefits obligation, beginning of year	\$ 10,349	\$ 2,347

Net benefit expense:

Health and welfare benefit expense	29,625	25,594
Actuarial loss	4,933	9,163
Long-term disability expense	10,605	10,750
Interest expense	4,733	4,626
Non-employer contributions	(401)	(920)
Expected return on assets	(4,279)	(4,434)
Net benefit expense	45,216	44,779

Contributions to the plan	(46,062)	(36,777)
---------------------------	----------	----------

Long-term disability and health and welfare benefits liability, end of year	\$ 9,503	\$ 10,349
---	----------	-----------

Benefits paid to claimants	\$ 44,092	\$ 41,287
----------------------------	-----------	-----------

Plan assets consist of:

	2020	2019
Debt securities	39%	40%
Foreign equities	36	34
Canadian equities and other	25	26
Total	100%	100%

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

11. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

	2020	2019
Accrued benefit obligation as at March 31:		
Discount rate	5.60%	5.80%
Rate of benefit increase	2.00%	1.50%
Benefit costs for years ended March 31:		
Discount rate	5.60%	5.80%
Rate of compensation increase	2.00%	1.50%
Expected future inflationary increases	2.00%	2.00%
Expected long-term rate of return on plan assets	5.60%	5.80%

Actual rate of return on plan assets was 12.40% (2019 – 0.53%).

(c) Joint benefit trusts:

Effective April 1, 2017, management of the long-term disability and health and welfare benefits being provided to Health Science Professionals Bargaining Association, Community Bargaining Association, and Facilities Bargaining Association employees transitioned to joint benefit trusts. Employer contributions to the joint benefit trusts are based on a specified percentage of payroll costs. During the year ended March 31, 2020, the Authority made contributions to these joint benefit trusts totaling \$30,530 (2019 - \$27,753).

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

11. Employee benefits (continued):

(d) Employee pension benefits:

The Authority and its employees contribute to the Municipal Pension Plan and the Public Service Pension Plan, multi-employer defined benefit pension plans governed by the *BC Public Sector Pension Plans Act*, and to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan.

Employer contributions to the Municipal Pension Plan of \$88,857 (2019 – \$82,649) were expensed during the year. Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at December 31, 2018 indicated a funding surplus of approximately \$2,866 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 205,000 active members, of which approximately 13,700 are employees of the Authority (2019 – 13,100). The next expected valuation will be as of December 31, 2021, with results available in 2022.

Employer contributions to the Public Service Pension Plan of \$24,629 (2019 – \$21,901) were expensed during the year. Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2017 indicated a funding surplus of approximately \$1,896 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 64,000 active members, of which approximately 4,300 are employees of the Authority (2019 – 4,100). The next actuarial valuation will be as of March 31, 2020, with results available in 2021.

The Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan is a single employer defined contribution plan. Employer contributions to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan of \$3,495 were expensed during the year (2019 – \$3,392). As at March 31, 2020, the plan covered approximately 1,700 (2019 – 1,700) active members, all of which are employees of the Authority.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

12. Deferred capital contributions:

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

	2020	2019
Deferred capital contributions, beginning of year	\$ 1,181,498	\$ 1,128,703
Capital contributions received:		
Ministry of Health	165,792	123,110
Foundations and auxiliaries	20,187	11,342
Other	2,515	2,613
	188,494	137,065
Transfer of deferred capital contributions related to BCCSS tangible capital assets (note 21)	-	8,153
Amortization for the year	(91,136)	(92,423)
Deferred capital contributions, end of year	\$ 1,278,856	\$ 1,181,498

Deferred capital contributions comprise the following:

	2020	2019
Contributions used to purchase tangible capital assets	\$ 1,231,497	\$ 1,127,329
Unspent contributions	47,359	54,169
	\$ 1,278,856	\$ 1,181,498

13. Tangible capital assets:

Cost	2019	Additions	Disposals	Transfers	2020
Land	\$ 143,780	\$ -	\$ -	\$ -	\$ 143,780
Land improvements	8,598	-	-	-	8,598
Buildings	1,293,196	182	(149)	6,415	1,299,644
Equipment	519,179	18,211	(10,918)	30,172	556,644
Information systems	266,281	1,767	(238)	22,373	290,183
Leasehold improvements	41,131	65	-	15,742	56,938
Vehicles	84,345	8,752	(7,349)	2,599	88,347
Construction in progress	114,001	126,804	-	(52,585)	188,220
Equipment and information systems in progress	119,222	53,383	-	(24,716)	147,889
Total	\$2,589,733	\$ 209,164	\$ (18,654)	\$ -	\$2,780,243

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

13. Tangible capital assets (continued):

Accumulated amortization	2019	Amortization	Disposals	Transfers	2020
Land improvements	\$ 3,254	\$ 626	\$ -	\$ -	\$ 3,880
Buildings	379,469	35,376	(69)	-	414,776
Equipment	365,524	35,695	(10,768)	-	390,451
Information systems	238,675	17,860	(238)	-	256,297
Leasehold improvements	30,624	2,401	-	-	33,025
Vehicles	52,283	8,856	(7,183)	-	53,956
Total	\$1,069,829	\$ 100,814	\$ (18,258)	\$ -	\$1,152,385

Cost	2018	Additions	Disposals	Transfers	2019
Land	\$ 143,780	\$ -	\$ -	\$ -	\$ 143,780
Land improvements	8,588	16	-	(6)	8,598
Buildings	1,283,422	340	-	9,434	1,293,196
Equipment	517,972	13,747	(21,297)	8,757	519,179
Information systems	234,645	2,618	(1,761)	30,779	266,281
Leasehold improvements	40,453	-	-	678	41,131
Vehicles	88,995	7,730	(12,784)	404	84,345
Construction in progress	47,804	83,016	-	(16,819)	114,001
Equipment and information systems in progress	78,335	51,028	-	(10,141)	119,222
Total	\$2,443,994	\$ 158,495	\$ (35,842)	\$ 23,086	\$2,589,733

Accumulated amortization	2018	Amortization	Disposals	Transfers	2019
Land improvements	\$ 2,630	\$ 624	\$ -	\$ -	\$ 3,254
Buildings	344,130	35,272	-	67	379,469
Equipment	351,833	34,683	(21,158)	166	365,524
Information systems	208,886	18,851	(1,558)	12,496	238,675
Leasehold improvements	27,892	2,587	-	145	30,624
Vehicles	55,841	8,693	(12,411)	160	52,283
Total	\$ 991,212	\$ 100,710	\$ (35,127)	\$ 13,034	\$1,069,829

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

13. Tangible capital assets (continued):

Net book value	2020	2019
Land	\$ 143,780	\$ 143,780
Land improvements	4,718	5,344
Buildings	884,868	913,727
Equipment	166,193	153,655
Information systems	33,886	27,606
Leasehold improvements	23,913	10,507
Vehicles	34,391	32,062
Construction in progress	188,220	114,001
Equipment and information systems in progress	147,889	119,222
Total	\$ 1,627,858	\$ 1,519,904

Tangible capital assets are funded as follows:

	2020	2019
Deferred capital contributions	\$ 1,231,497	\$ 1,127,329
Debt	254,494	257,456
Internally funded	141,867	135,119
Tangible capital assets	\$ 1,627,858	\$ 1,519,904

14. Inventories held for use:

	2020	2019
Pharmaceuticals	\$ 36,420	\$ 32,561
Medical supplies	1,030	947
	\$ 37,450	\$ 33,508

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

15. Commitments and contingencies:

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

As at March 31, 2020, the Authority had outstanding commitments for construction, equipment and information systems in progress of \$107,884 (2019 – \$183,716).

(b) Contractual obligations:

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

2021	\$	139,294
2022		37,300
2023		31,038
2024		20,596
2025		17,626
Thereafter		222,196
	\$	468,050

(c) Operating leases:

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

2021	\$	37,571
2022		31,275
2023		22,783
2024		16,705
2025		13,984
Thereafter		81,598
	\$	203,916

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

15. Commitments and contingencies (continued):

(d) Public-private partnerships commitments:

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

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

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

The information presented below shows the anticipated cash outflow for future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. The asset values are recorded as tangible capital assets and the corresponding liabilities are recorded as debt and disclosed in note 10. FM and lifecycle payments to the private partners are contingent on specified performance criteria and include an estimation of inflation, where applicable.

	Capital and financing	FM and lifecycle	Total payments
2021	\$ 21,245	\$ 13,310	\$ 34,555
2022	21,319	13,816	35,135
2023	21,429	14,450	35,879
2024	21,507	15,317	36,824
2025	21,685	15,435	37,120
Thereafter	430,315	490,778	921,093
	\$ 537,500	\$ 563,106	\$ 1,100,606

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

15. Commitments and contingencies (continued):

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

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

2021	\$	3,406
2022		3,748
2023		4,116
2024		4,480
2025		4,940
Thereafter		230,031
	\$	250,721

(e) Litigation and claims:

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

The nature of the Authority's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2020, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

16. Statement of operations:

(a) Other contributions:

	2020	2019
Other health authorities	\$ 78,958	\$ 79,917
Foundations and auxiliaries	29,282	25,132
Federal government	1,534	4,462
Other ministries	3,714	4,290
Other	2,516	1,960
	\$ 116,004	\$ 115,761

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

16. Statement of operations (continued):

(b) Other revenues:

	2020	2019
Recoveries from sales of goods and services	\$ 35,284	\$ 32,178
Parking	5,875	5,839
Drug sales	1,139	1,409
Other	12,393	4,646
	<u>\$ 54,691</u>	<u>\$ 44,072</u>

(c) Patients, clients and residents:

	2020	2019
Non-residents of Canada	\$ 7,711	\$ 8,137
Non-residents of BC	8,495	7,913
Residents of BC self pay	1,494	2,110
Preferred accommodation	1,191	1,191
Federal government	735	840
Workers' Compensation Board	135	152
Other	2,014	1,640
	<u>\$ 21,775</u>	<u>\$ 21,983</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

16. Statement of operations (continued):

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

	2020	2019
Compensation:		
Compensation	\$ 1,410,024	\$ 1,338,772
Employee benefits	326,109	289,609
Loss on event-driven employee benefits	4,933	9,163
	1,741,066	1,637,544
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	605,913	566,913
Health and support services providers	205,255	183,744
	811,168	750,657
Supplies:		
Drugs and medical gases	311,982	307,579
Medical and surgical	82,075	74,296
Diagnostic	30,805	30,995
Food and dietary	5,640	5,123
Printing, stationery and office	4,594	4,693
Laundry and linen	2,150	2,749
Housekeeping	1,095	883
Other	23,267	25,478
	461,608	451,796
Cost of inventories sold to other health authorities	242,228	230,855
Equipment and building services:		
Equipment	167,676	152,454
Rent	60,975	54,144
Plant operations (utilities)	10,970	12,340
Building and grounds service contracts	5,213	5,657
	244,834	224,595
Sundry:		
Professional fees	85,605	77,285
Travel	11,797	14,373
Communication and data processing	9,006	9,097
Patient transport	1,121	1,084
Other	35,398	39,849
	142,927	141,688
Amortization of tangible capital assets	100,814	100,710
Research and designated expenses	100,727	88,863
Interest on debt	17,778	18,019
Net book value of disposed tangible capital assets	396	715
	\$ 3,863,546	\$ 3,645,442

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

17. Supplementary cash flow information:

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

	2020	2019
Accounts receivable	\$ 63,769	\$ (242,802)
Inventories held for sale	(6,729)	(17,999)
Accounts payable and accrued liabilities	33,905	119,353
Deferred operating contributions	(17,717)	1,091
Deferred research and designated contributions	9,248	5,169
Inventories held for use	(3,942)	(2,363)
Prepaid expenses	(6,524)	(2,260)
	\$ 72,010	\$ (139,811)

(b) Acquisition of tangible capital assets:

Assets purchased or acquired through debt or other non-cash transactions are excluded from acquisition of tangible capital assets on the consolidated statement of cash flows. During the year, \$0 (2019 - \$2,127) of tangible capital asset additions were funded through P3 debt.

18. Related parties and other agencies:

(a) BC government reporting entities:

The Authority is related through common control to all Province of BC ministries, agencies, Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are considered to be in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

18. Related parties and other agencies (continued):

(b) Foundations and auxiliaries:

The following foundations and auxiliaries were established to raise funds for the respective hospitals and/or health services within the Authority. The foundations and auxiliaries are separate legal entities incorporated under the *Society Act of British Columbia* with separate governance structures. The foundations and some of the auxiliaries are registered charities under the provisions of the *Income Tax Act of Canada*. The financial and non-financial assets and liabilities and results from operations of the foundations and auxiliaries are not included in the consolidated financial statements of the Authority.

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

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

During the year, the Authority received contributions of \$79 million (2019 – \$66 million) from the various foundations and auxiliaries.

19. Risk management:

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

(a) Credit risk:

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

The Authority manages credit risk by holding balances of cash and cash equivalents with a reputable top rated financial institution.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

19. Risk management (continued):

(a) Credit risk (continued):

Accounts receivable primarily consist of amounts receivable from the Ministry, other health authorities and BC government reporting entities, patients, clients and agencies, hospital foundations and auxiliaries, grantors, etc. To reduce the risk, the Authority periodically reviews the collectibility of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2020, the amount of allowance for doubtful accounts was \$25,065 (2019 – \$32,723).

The Authority is not exposed to significant credit risk with respect to the amounts receivable from the Ministry, other health authorities and BC government reporting entities.

(b) Liquidity risk:

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. It is the Authority's intention to meet its financial obligations through the collection of current accounts receivable, cash on hand and future funding from the Ministry. If the current funding and cash on hand were insufficient to satisfy its current obligations, the Authority has the option to sell its portfolio investments, which can be liquidated without additional cost.

The Authority's principal source of funding is from the Ministry. The Authority is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined in the funding letter or grant documentation. The Authority has complied with the external restrictions on the funding provided.

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

2020				
Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 509,215	\$ 13,980	\$ 2,991	\$ 526,186
Debt	3,406	17,284	230,031	250,721
Total financial liabilities	\$ 512,621	\$ 31,264	\$ 233,022	\$ 776,907

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

19. Risk management (continued):

(b) Liquidity risk (continued):

2019					
Financial liabilities		Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$	468,978	\$ 19,951	\$ 3,353	\$ 492,282
Debt		3,056	15,751	234,977	253,784
Total financial liabilities	\$	472,034	\$ 35,702	\$ 238,330	\$ 746,066

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

(c) Foreign exchange risk:

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

The Authority makes payments denominated in US dollars and other currencies. The currency most contributing to the foreign exchange risk is the US dollar.

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

		2020		2019
US dollar per Canadian dollar	\$	0.705	\$	0.748

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

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

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

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

As at March 31, 2018	
Increase in accumulated operating surplus	\$ 1,076,992
Decrease in deferred capital contributions	(1,076,992)
For the year ended March 31, 2019	
Increase in annual operating surplus	50,337
As at March 31, 2019	
Increase in accumulated operating surplus	1,127,329
Decrease in deferred capital contributions	(1,127,329)
For the year ended March 31, 2020	
Increase in annual operating surplus	104,168
As at March 31, 2020	
Increase in accumulated operating surplus	1,231,497
Decrease in deferred capital contributions	(1,231,497)

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

21. Restructuring transaction:

Effective March 6, 2018, the governance and oversight of BC Clinical and Support Services Society (“BCCSS”) transferred to PHSA. The transaction occurred under the direction of the Ministry in order to meet the Ministry’s strategic direction for the health care system of British Columbia. The consolidated financial statements of PHSA for the year ended March 31, 2019 include the assets, liabilities and results of operations of BCCSS for the period from April 1, 2018 to June 28, 2018. On June 29, 2018, BCCSS was legally amalgamated with PHSA to form one society under the Societies Act of British Columbia.

The carrying amount of the assets and liabilities of BCCSS as at April 1, 2018 are as follows:

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

22. BC Societies Act:

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2020

22. BC Societies Act (continued):

(a) Remuneration paid to Directors:

The following table sets out remuneration paid to each member of the Board of Directors for the year ended March 31, 2020:

Board Position	2020
Board Chair	\$ 22
Chair – Audit	19
Chair – Finance	17
Chair – People and Governance	17
Chair – Quality and Access	17
Chair – Research	17
Member	14
Member	14
Member	14
Member	13
Member	12
Member	11
	\$ 187

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

The ten most highly remunerated persons whose remuneration was at least seventy-five thousand dollars during the year ended March 31, 2020 received an aggregate of \$6,676 from the Authority during that period. Most of these individuals are physicians.

(c) Financial assistance:

The Authority did not provide any financial assistance outside the ordinary course of activities during the year ended March 31, 2020.

23. Significant Event:

In March 2020, the World Health Organization declared a global pandemic related to the disease known as COVID-19 for which the impacts are expected to be far reaching. The health authorities in BC are continuing to respond to COVID-19 by creating capacity in the system to handle the crisis. The potential impacts to the Authority for 2020/21 are being assessed, but the nature and amount is still to be determined.