

Financial Statements of

**BC CLINICAL AND SUPPORT
SERVICES SOCIETY**

(formerly the SSO Administration Society)

Year ended March 31, 2017

STATEMENT OF MANAGEMENT RESPONSIBILITY


The financial statements of BC Clinical and Support Services Society ("BCCSS") for the year ended March 31, 2017 have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") issued by the Public Sector Accounting Board ("PSAB"), as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and in regard to the accounting for restricted contributions which is based on the Restricted Contributions Regulation 198/2011. The integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.


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

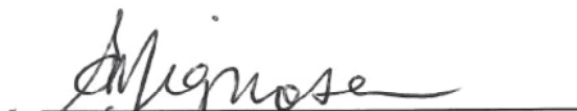
The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Finance and Audit Committee of the Board. The Board established the Finance and Audit Committee in March 2017. The Finance and Audit Committee meets with management no fewer than four times a year and the external auditors a minimum of two times a year.

The external auditors, the Auditor General of British Columbia, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. Their examination considers internal control relevant to management's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of BCCSS's internal control. The external auditors have full and free access to the Board and the Finance and Audit Committee of the Board.

On behalf of BC Clinical and Support Services Society:


Doug Kent
Executive Lead, Support Services


John Andruschak
Executive Lead, Clinical Services


Elana Mignosa
Chief Financial Officer

June 20, 2017
Burnaby, Canada



INDEPENDENT AUDITOR'S REPORT

*To the Board of Directors of the BC Clinical and Support Services Society, and
To the Minister of Health, Province of British Columbia*

I have audited the accompanying financial statements of *BC Clinical and Support Services Society* (“the entity”), which comprise the statement of financial position as at March 31, 2017, and the statements of operations and accumulated surplus, changes in net debt, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

As described in Note 1 (a) to the financial statements, the entity's accounting treatment for contributions received from governments and for externally restricted contributions received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized. The entity was required to adopt this accounting policy as prescribed by Province of British Columbia Treasury Board Regulation 198/2011.

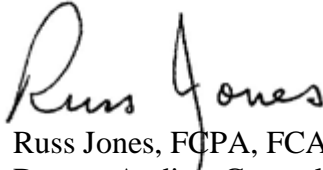
Under Canadian Public Sector Accounting Standards, the entity's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In my opinion certain contributions of the entity do not meet the definition of a liability, and as such the entity's method of accounting for those contributions represents a departure from Canadian Public Sector Accounting Standards.

The effect of this departure on the financial statements is an overstatement of the liability for deferred contributions of \$10.3 million, and an understatement of revenue of \$10.3 million. Accordingly, the current year surplus is understated by \$10.3 million, and net debt is overstated by \$10.3 million.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of BC Clinical and Support Services Society as at March 31, 2017, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Victoria, British Columbia
June 20, 2017


Russ Jones, FCPA, FCA
Deputy Auditor General

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Statement of Financial Position

(Tabular amounts expressed in thousands of dollars)

As at March 31, 2017

	2017
Financial assets	
Cash and cash equivalents	\$ 34,589
Accounts receivable (note 2)	66,268
Inventories held for sale (note 3)	15,727
	<u>116,584</u>
Liabilities	
Accounts payable and accrued liabilities (note 4)	108,950
Deferred operating contributions (note 5)	1,104
Retirement allowance (note 6(a))	11,037
Deferred capital contributions (note 7)	9,223
	<u>130,314</u>
Net debt	\$ (13,730)
Non-financial assets	
Tangible capital assets (note 8)	\$ 12,270
Inventories held for use	247
Prepaid expenses	1,213
	<u>13,730</u>
Accumulated surplus	\$ -

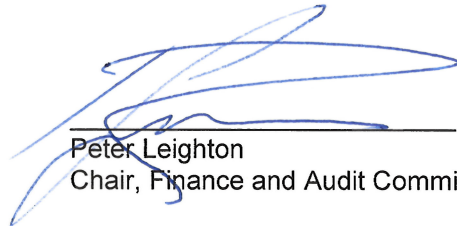
Commitments and contingencies (note 9)

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:



Rick Roger
Chair, Board of Directors



Peter Leighton
Chair, Finance and Audit Committee

BC CLINICAL AND SUPPORT SERVICES SOCIETY

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

Year ended March 31, 2017

	Budget (Notes 1(k))	2017
Revenues:		
Recoveries from health authorities and BC government reporting entities	\$ 336,778	\$ 373,900
Amortization of deferred capital contributions (note 7)	8,132	7,960
BC Ministry of Health contributions	7,350	7,102
Other (note 10(a))	1,000	1,817
Investment income	-	279
Federal government	240	240
	<u>353,500</u>	<u>391,298</u>
Expenses (note 10(b)):		
Support Services		
Cost of goods sold	209,900	221,460
Core Services	123,727	128,364
Administration (note 11(a))	11,348	12,366
eHealth Network Gateway & Private Physicians Network (note 11(b))	796	10,776
Project Services (note 11(b))	-	10,748
Clinical Services		
BC Agency for Pathology and Laboratory Medicine	4,410	3,762
Provincial Blood Coordinating Office	2,569	2,510
Corporate (note 11(a))	750	1,312
	<u>353,500</u>	<u>391,298</u>
Annual surplus	-	-
Accumulated surplus, beginning of year	-	-
Accumulated surplus, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

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

Year ended March 31, 2017

	Budget (Notes 1(k))	2017
Annual surplus	\$ -	\$ -
Acquisition of tangible capital assets	-	(5,302)
Transfer of tangible capital assets (note 17)	-	(16,113)
Amortization of tangible capital assets	9,049	9,145
	9,049	(12,270)
Acquisition of prepaid expenses	-	(1,875)
Acquisition of inventories held for use	-	(247)
Transfer of prepaid expenses (note 17)	-	(549)
Use of prepaid expenses	-	1,211
	-	(1,460)
Increase in net debt	9,049	(13,730)
Net debt, beginning of year	-	-
Net debt, end of year	\$ 9,049	\$ (13,730)

The accompanying notes are an integral part of these financial statements.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

	2017
Cash flows from (used in) operating activities:	
Annual surplus	\$ -
Items not involving cash:	
Amortization of deferred capital contributions	(7,960)
Transfer of deferred capital contributions (note 17)	12,794
Amortization of tangible capital assets	9,145
Transfer of tangible capital assets (note 17)	(16,113)
Amortization of lease inducements	(60)
Accretion of asset retirement obligations	1
Retirement allowance expense	1,161
Transfer of retirement allowance (note 17)	10,804
	9,772
Net change in non-cash operating items (note 12)	26,298
Net change in cash from operating activities	36,070
Capital activities:	
Acquisition of tangible capital assets	(5,302)
Net change in cash from capital activities	(5,302)
Financing activities:	
Retirement allowance benefits paid	(928)
Leasehold inducements	360
Capital contributions	4,389
Net change in cash from financing activities	3,821
Increase in cash and cash equivalents	34,589
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ 34,589

The accompanying notes are an integral part of these financial statements.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

BC Clinical and Support Services Society (“BCCSS”, formerly the SSO Administration Society) is a society governed by the *Societies Act of the Province of British Columbia* and is funded by the Ministry of Health (the “Ministry”) and the health authorities in British Columbia (“BC”). BCCSS is a not-for-profit organization under the *Income Tax Act* and, as such, is exempt from income and capital taxes.

BCCSS was established to promote health in British Columbia by coordinating, managing and/or providing clinical, diagnostic and support services to British Columbia’s health care system for the benefit of all users of British Columbia’s health care system. The divisions of BCCSS are Clinical Services and Support Services.

In the prior year BCCSS was inactive. Effective April 1, 2016, BCCSS acquired assets and liabilities and commenced operations. For Support Services it provides services previously provided by Health Shared Services BC, a division of the Provincial Health Services Authority (PHSA). The Clinical Services Division consists of the BC Agency for Pathology and Laboratory Medicine and the Provincial Blood Coordinating Office. Note 17 provides a summary of the assets and liabilities transferred.

1. Significant accounting policies:

(a) Basis of accounting:

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

The Budget Transparency and Accountability Act requires that the financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for 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.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

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 period during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.
- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions has been met.

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 Revenue*; and
- deferred contributions meet the liability criteria in accordance with PS 3200, *Liabilities*.

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

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(b) 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.

(c) Lease inducements:

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

(d) 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 include medical/surgical and other materials and supplies.

(e) Asset retirement obligations:

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

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

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

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(f) Employee benefits:

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

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits plans as employees render services to earn the benefits.

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

The cumulative unrecognized actuarial gains and losses for retirement allowance benefits are amortized over the expected average remaining service lifetime 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.

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

(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 BCCSS to pay benefits occurs.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(g) Non-financial assets:

(i) Tangible capital assets:

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

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

Asset	Basis
Equipment	3 - 20 years
Information systems	3 - 5 years
Leasehold improvements	Lease term
Vehicles	4 years

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

Tangible capital assets are written down when conditions indicate that they no longer contribute to BCCSS'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 statement of operations. Write downs are not subsequently reversed.

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

(ii) Inventories held for use:

Inventories held for use are recorded at the lower of weighted average cost and replacement cost.

(iii) Prepaid expenses:

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

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(h) Revenue recognition:

BCCSS is funded primarily by the Province of BC and the health authorities in BC in accordance with budget management plans and performance agreements established and approved by the Ministry and the health authorities in BC.

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

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

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

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

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

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

(i) Measurement uncertainty:

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

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

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

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(j) Foreign currency translation:

BCCSS's functional currency is the Canadian dollar. Foreign currency transactions are translated at the exchange rates prevailing at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the financial statement date.

Any gain or loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the statement of operations.

(k) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from BCCSS's fiscal 2016/2017 preliminary budget approved by the Board of Directors on July 6, 2016. The budget is reflected in the statement of operations and the statement of changes in net debt.

(l) Restructuring Transactions:

Effective April 1, 2016, BCCSS adopted PS 3430, *Restructuring Transactions*, and applied the standards to the transfer of assets and liabilities that occurred on April 1, 2016 (note 17).

A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and individual liabilities transferred.

The net effect of a restructuring transaction is recognized as revenue or as an expense by entities involved. A transferor derecognizes individual assets and liabilities transferred in a restructuring transaction at their carrying amount at the restructuring date.

The recipient recognizes individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the restructuring date.

The transferor and the recipient do not restate their financial position or results of operations. The transferor and the recipient also disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

(m) Future accounting standards:

(i) In March 2015, PSAB issued PS 2200, *Related Party Disclosures*. PS 2200 defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when the transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated, and the transactions have, or could have, a material financial effect on the financial statements. PS 2200 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 2200 on the financial statements of BCCSS.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(m) Future accounting standards (continued):

(ii) In March 2015, PSAB issued PS 3420, *Inter-entity Transactions*. PS 3420 establishes standards of how to account for and report transactions between public sector entities that comprise a government reporting entity from both a provider and a recipient perspective. The main features of PS 3420 are as follows:

- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis;
- Transactions are measured at the carrying amount, except in specific circumstances;
- A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice; and
- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.

Requirements of this standard are considered in conjunction with requirements of PS 2200. PS 3420 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3420 on the financial statements of BCCSS.

(iii) In June 2015, PSAB issued PS 3210, *Assets*. PS 3210 provides guidance for applying the definition of assets set out in PS 1000, *Financial Statement Concepts*, and establishes general disclosure standards for assets. Disclosure of information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate of the amount involved cannot be made, a disclosure should be provided. PS 3210 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3210 on the financial statements of BCCSS.

(iv) In June 2015, PSAB issued PS 3320, *Contingent Assets*. PS 3320 defines and establishes disclosure standards for contingent assets. Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely. PS 3320 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3320 on the financial statements of BCCSS.

(v) In June 2015, PSAB issued PS 3380, *Contractual Rights*. PS 3380 defines and establishes disclosure standards for contractual rights. Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Disclosure of information about contractual rights is required including description of their nature and extent, and the timing. PS 3380 applies to fiscal years beginning on or after April 1, 2017. Management is in the process of assessing the impact of adoption of PS 3380 on the financial statements of BCCSS.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

2. Accounts receivable:

	2017
Health Authorities and BC government reporting entities	\$ 60,529
Federal government	2,470
BC Ministry of Health	627
Other	2,781
	66,407
Allowance for doubtful accounts	(139)
	\$ 66,268

3. Inventories held for sale:

	2017
Medical supplies	\$ 15,727
	\$ 15,727

During the year, \$221.5 million of inventories were sold by BCCSS.

4. Accounts payable and accrued liabilities:

	2017
Trade accounts payable and accrued liabilities	\$ 96,878
Accrued vacation pay	6,639
Salaries and benefits payable	5,133
Lease inducement	300
	\$ 108,950

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

5. Deferred operating contributions:

Deferred operating contributions represent government transfers from the Ministry, the federal government and the health authorities in BC in the form of externally restricted operating funding received for various programs.

	2017
Deferred operating contributions, beginning of year	\$ -
Deferred contributions transferred in the year (note 17)	1,106
Contributions received in the year	-
Amount recognized as revenue in the year	(2)
<u>Deferred operating contributions, end of year</u>	<u>\$ 1,104</u>

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

6. 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 agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service.

BCCSS's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2015 and extrapolated to March 31, 2017 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2017 are derived. The next required valuation will be as of December 31, 2018.

Information about retirement allowance benefits are as follows:

	2017
Accrued benefit obligation	
Severance benefits	\$ 6,689
Sick leave benefits	4,501
	11,190
Unamortized actuarial loss	(153)
Accrued benefit liability	\$ 11,037

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

	2017
Accrued benefit liability, beginning of year	\$ -
Transferred during the year (note 17)	10,804
Net benefit expense:	
Current service cost	797
Interest expense	421
Amortization of actuarial gain	(57)
Net benefit expense	1,161
Benefits paid	(928)
Accrued benefit liability, end of year	\$ 11,037

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

6. Employee benefits (continued):

(a) Retirement allowance (continued):

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

	2017
Accrued benefit obligation as at March 31:	
Discount rate	3.86%
Rate of compensation increase	2.50%
Benefit costs for years ended March 31:	
Discount rate	3.93%
Rate of compensation increase	2.50%
Expected future inflationary increase	2.00%

(b) Healthcare Benefit Trust benefits:

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

The net trust asset or liability of the combined pool as at March 31, 2017 is recorded by the health authorities in BC. For BCCSS, this is considered a multi-employer plan and therefore, BCCSS's share of the net trust position is not reflected in these financial statements.

Contributions to the Trust of \$7.8 million were expensed during the year.

The 2014 - 2019 Health Science Professionals Bargaining Association, Community Bargaining Association and Facilities Bargaining Association collective agreements include provisions to establish joint benefit trusts to provide long-term disability and health and welfare benefits to the employees covered by these agreements. Effective April 1, 2017, BCCSS Health Science Professionals Bargaining Association employees and Facilities Bargaining Association employees will transition to joint benefit trusts.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

6. Employee benefits (continued):

(c) Employee pension benefits:

BCCSS and its employees contribute to the Public Service Pension Plan and Municipal Pension Plan (jointly trustee pension plans). The boards of trustees for these plans, representing plan members and employers, are responsible for administering the pension plans, including investing assets and administering benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at March 31, 2016, the Public Service Pension Plan has about 58,000 active members and approximately 45,000 retired members. As at December 31, 2015, the Municipal Pension Plan has about 189,000 active members and approximately 85,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate is then adjusted to the extent there is amortization of any funding deficit.

The latest actuarial valuation of the Public Service Pension Plan as at March 31, 2014, indicated a funding surplus of \$194 million for basic pension benefits on a going concern basis.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis.

BCCSS paid \$7.9 million for employer contributions to the plans during the year.

The next valuation for the Public Service Pension Plan will be as at March 31, 2017, with results available in early 2018. The next valuation for the Municipal Pension Plan will be as at December 31, 2018, with results available in 2019.

Employers participating in the plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plans record accrued liabilities and accrued assets for the plans in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

7. Deferred capital contributions:

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

	2017
Deferred capital contributions, beginning of year	\$ -
Capital contributions received:	
Transfer (note 17)	12,794
BC Ministry of Health	4,368
Health authorities and BC government reporting entities	21
	<hr/> 17,183
Amortization for the year	(7,960)
Deferred capital contributions, end of year	<hr/> \$ 9,223 <hr/>

Deferred capital contributions are comprised of the following:

	2017
Contributions used to purchase tangible capital assets (note 8)	\$ 7,654
Unspent contributions	1,569
	<hr/> \$ 9,223 <hr/>

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

8. Tangible capital assets:

Cost	2016	Additions	Disposals	Transfers	2017
Equipment	\$ -	\$ 1,065	\$ -	\$ 13	\$ 1,078
Information systems	-	13,933	-	2,525	16,458
Leasehold improvements	-	460	-	-	460
Construction and equipment in progress	-	5,957	-	(2,538)	3,419
Total	\$ -	\$ 21,415	\$ -	\$ -	\$ 21,415

Included in additions is \$16.1 million in tangible capital assets transferred from PHSA on April 1, 2016 (note 17). Of the balance, \$0.9 million was in equipment, \$13.9 million in information systems, \$0.1 million in leasehold improvements, and \$1.2 million in constructions and equipment in progress.

Accumulated amortization	2016	Disposals	Amortization	2017
Equipment	\$ -	\$ -	\$ 177	\$ 177
Information systems	-	-	8,901	8,901
Leasehold improvements	-	-	67	67
Total	\$ -	\$ -	\$ 9,145	\$ 9,145

Net book value	2017
Equipment	\$ 901
Information systems	7,557
Leasehold improvements	393
Construction and equipment in progress	3,419
Total	\$ 12,270

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

8. Tangible capital assets (continued):

Tangible capital assets are funded as follows:

	2017
Deferred capital contributions (note 7)	\$ 7,654
Internally funded	4,616
Tangible capital assets	\$ 12,270

9. Commitments and contingencies:

(a) Contractual obligations:

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

2018	\$ 9,716
2019	810
Thereafter	-
	\$ 10,526

(b) Operating leases:

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

2018	\$ 4,527
2019	4,632
2020	4,731
2021	4,831
2022	4,479
Thereafter	44,969
	\$ 68,169

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

9. Commitments and contingencies (continued):

(c) Agency commitments:

BCCSS enters into contracts as the agent on behalf of the health authorities in BC. For certain contracts, BCCSS is the intermediary and settles amounts due to the suppliers (note 13). Reimbursement of these annual commitments is expected to be received from the health authorities in BC. The estimated contractual obligations under these contracts for the years ending March 31 are as follows:

2018	\$	38,941
2019		9,281
2020		9,250
2021		9,250
2022		9,250
Thereafter		18,501
	\$	94,473

(d) Litigation and claims:

Risk management and insurance services for BCCSS are provided by the Risk Management and Government Security Branch of the Ministry of Finance.

Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

10. Statement of operations:

(a) Other revenue:

		2017
Recoveries from sales of goods and services	\$	1,738
Other		79
	\$	1,817

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

10. Statement of operations (continued):

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

	2017
Compensation:	
Compensation	\$ 95,751
Employee benefits	23,244
	118,995
Referred out and contracted services:	
Health authorities and	
BC government reporting entities	888
	888
Supplies:	
Printing, stationery and office	2,206
Other	885
	3,091
Cost of inventories sold to the health authorities	221,460
Equipment and building services:	
Equipment	3,468
Equipment expense for eHealth Network Gateway &	
Private Physicians Network	9,716
Rent	4,334
Other	78
	17,596
Amortization of tangible capital assets	9,145
Sundry:	
Professional fees:	
Legal fees	1,181
Consulting fees	4,193
Consulting fees for Project Services	8,311
Other	131
Travel	846
Communications and data processing	334
Postage and courier	4,028
Other	1,099
	20,123
	\$ 391,298

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

11. Supplementary budget information:

(a) Corporate expenses:

As BCCSS is funded by the Ministry and the health authorities in BC, funding of corporate expenses is shared. Corporate expense funded by the Ministry is presented in the statement of operations as corporate expense. Administration expense funded by the health authorities in BC is presented in the statement of operations as administration expense under Support Services.

(b) Unbudgeted expenses:

BCCSS did not budget fully for two programs. Included in the budget figure for eHealth Network Gateway & Private Physicians Network is compensation for staff. Expenses for this program are fully recoverable. Project Services is an on-demand service provided to the health authorities in BC. These services are paid as consumed and therefore, are not budgeted.

12. Supplementary cash flow information:

Net change in non-cash operating items:

	2017
Accounts receivable	\$ (66,268)
Accounts payable and accrued liabilities	108,649
Deferred operating contributions	1,104
Prepaid expenses	(1,213)
Inventories held for sale	(15,727)
Inventories held for use	(247)
	\$ 26,298

13. Agency transactions:

BCCSS enters into contracts as the agent on behalf of the health authorities in BC. For certain contracts, BCCSS is the intermediary and settles amounts due to the suppliers. These flow-through transactions are not included in the statement of operations as they do not represent expenses incurred by BCCSS, the transactions are not controlled by BCCSS, nor are the benefits realized by BCCSS. The amounts are flowed through the statement of financial position, with amounts due to suppliers as accounts payable and accrued liabilities, and the offsetting amounts as accounts receivable from the health authorities in BC. During the year, \$163,646,116 of flow-through costs were recognized through the statement of financial position.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

14. Related parties:

BCCSS 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.

The financial statements include transactions and balances with these parties in the following amounts:

	2017
Revenues:	
Recoveries from health authorities and other	
BC government reporting entities	\$ 373,900
BC Ministry of Health contributions	7,102
Amortization of deferred capital contributions	7,960
	\$ 388,962
Expenses:	
Cost of goods sold to Health Authorities	\$ 221,460
Referred-out and contracted services	888
Sundry	473
Compensation	396
Equipment	315
Supplies	13
	\$ 223,545
Accounts receivables:	
Health authorities and other	
BC government reporting entities	\$ 60,529
BC Ministry of Health	627
	\$ 61,156
Liabilities:	
Accounts payable and accrued liabilities	\$ 53,574
Deferred operating contributions	1,104
Deferred capital contributions	9,223
	\$ 63,901

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

15. Risk management:

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

(a) Credit risk:

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

BCCSS manages credit risk by holding balances of cash and cash equivalents with reputable top rated financial institutions.

Accounts receivable primarily consists of amounts receivable from the Ministry, the health authorities in BC and BC government reporting entities. To reduce the risk, BCCSS periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2017, the amount of allowance for doubtful accounts was \$138,760.

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

(b) Liquidity risk:

Liquidity risk is the risk that BCCSS will not be able to meet its financial obligations as they become due. It is BCCSS's intention to meet its financial obligations through the collection of current accounts receivable, cash on hand and future funding from the Ministry and the health authorities in BC.

BCCSS's principal source of funding is from the Ministry and the health authorities in BC. BCCSS 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. BCCSS has complied with the external restrictions on the funding provided.

As at March 31, 2017, financial assets include cash and cash equivalents and accounts receivable and are all due within one year, except for \$6.5 million due from health authorities in BC and other BC government reporting entities without any terms. Financial liabilities include accounts payable and accrued liabilities and are due within one year, except for \$3.2 million due to health authorities in BC and other BC government reporting entities that is due in \$1 million instalments per annum and \$0.2M in the fourth year, and \$40.1 million due to health authorities in BC and other BC government reporting entities without any terms.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

15. Risk management (continued):

(c) Foreign exchange risk:

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

BCCSS 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:

	2017
US dollar per Canadian dollar	\$ 0.751

BCCSS 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.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

16. Remuneration of directors, employees and contractors:

Effective November 28, 2016, the new Societies Act came into effect. The new Societies Act requires certain financial statements disclosures.

(a) Remuneration for being a director:

The following table sets out the remuneration paid to the directors of the board during the year:

	2017
Chair of the board	\$ 18
Chair of the finance and audit committee	1
Chair of the governance and human resources committee	3
Chair of the planning and priorities committee	3
Director at-large #1	4
Director at-large #2	4
Director at-large #3	-
Director at-large #4	-
Director at-large #5	-
Director at-large #6	-
	<hr/> \$ 33 <hr/>

(b) Remuneration for acting in another capacity:

In the year no director received remuneration from BCCSS for acting in another capacity.

(c) Remuneration of employees and contractors:

The 10 most highly remunerated persons, whose remuneration was at least \$75,000 in the year, were paid \$2.4 million in the aggregate during the year.

BC CLINICAL AND SUPPORT SERVICES SOCIETY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2017

17. Assets and liabilities transferred upon commencement:

Effective April 1, 2016, the assets and liabilities of Support Services and Clinical Services were transferred from PHSA to BCCSS in accordance with the provisions of the Asset and Liability Transfer Agreement dated April 1, 2016 and the Staff Transfer Agreement dated March 24, 2016. The transfer of assets and liabilities from PHSA was completed in accordance with note 1(l) and completed at carrying amounts as follows:

Financial assets:	
Cash and cash equivalents	\$ 1
Accounts receivable	64,041
Inventories held for sale	15,089
	<hr/>
	\$ 79,131
Liabilities:	
Accounts payable and accrued liabilities	\$ 70,944
Deferred operating contributions	1,106
Asset retirement obligations	145
Retirement allowance	10,804
Deferred capital contributions	12,794
	<hr/>
	\$ 95,793
Non-financial assets:	
Prepaid expenses	\$ 549
Tangible capital assets	16,113
	<hr/>
	\$ 16,662
