

**REPORT TO CAPITAL REGIONAL HOSPITAL DISTRICT BOARD
MEETING OF WEDNESDAY, OCTOBER 10, 2018**

SUBJECT **Related Third Party Transaction Disclosure**

ISSUE

The Capital Regional Hospital District (CRHD) consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. A new standard, section 2200 of the CPA Canada Public Sector Accounting Handbook has recently been released and will apply prospectively to years beginning on or after April 1, 2017. As such, CRHD financial statements with the year ended December 31, 2018, and onwards are impacted by this new standard.

The standard requires disclosure of material transactions between related parties that occur at a value other than fair value. Fair value is the amount of consideration that is agreed upon in an arm's length transaction between willing parties under no compulsion to act.

Materiality has been defined as amounts over \$100k based on signing authority limits within Bylaw No. 4186 Delegation of Purchasing Power 3.(b) vi.

BACKGROUND

The Public Sector Accounting Board (PSAB) initiated this project because the CPA Canada Public Sector Accounting (PSA) Handbook did not have an overarching standard on related party transactions. The new standard reiterates that it is focused on disclosure of information about financially significant related party transactions that effect, or if not recognized, could effect, the reported financial position. The focus on disclosing information is intended to avoid the reporting of "moral hazards" in the financial statements.

A related party for the purposes of this disclosure include:

- key management personnel and their close family members, and
- entities controlled by key management personnel or their close family members.

Definitions

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

"related party transaction" means transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. For instance example transactions such as contractual agreements, purchases, asset transfers, leases, lending arrangements, guarantees, etc.

"key management personnel" means individuals who have authority and responsibility for planning, directing and controlling the activities of the entity. Consists of all CRHD board members (including Alternate Directors), the Chief Administrative Officer, and the Executive Leadership Team.

ALTERNATIVES

Alternative 1

That this report along with the *Declaration of Related Party Transactions Form* involving Directors, Management and Board be received for information.

Alternative 2

That the report be referred back to staff for further information.

IMPLICATIONS

The declaration form is to be completed annually by key management personnel commencing with 2018. For 2018 and subsequent election years, the declaration form will need to be completed to cover both the current and incoming CRHD Board (Board). In addition, any identified 2018 related party transactions will need 2017 related party transactions for comparative purposes only.

If a related party transaction meets the criteria for disclosure, the notes of the Summary Financial Statements in the Public Accounts may include details such as:

- Information about the nature of the relationship with related parties involved in related party transactions;
- The types of related party transactions that have been recognized;
- The amounts of the transactions recognized classified by financial statement category;
- The basis of measurement used;
- The amount of outstanding balances and the terms and conditions attached to them;
- Contractual obligations with related parties, separate from other contractual obligations;
- Contingent liabilities involving related parties, separate from other contingent liabilities; and
- The types of related party transactions that have occurred for which no amount has been recognized.

Please note disclosure is not required for key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered.

CONCLUSION

A declaration will be requested from each key management personnel to identify related party transactions that may have occurred at a value different from that which would have been arrived at if the parties were unrelated. Transactions will be assessed during the preparation of the annual financial statements and will be disclosed if they have a material financial effect on the financial statements.

As 2018 is an election year, there will be two sets of Board declarations for the fiscal year; one for the 2018 Board and one for the 2019 Board inaugurated in November 2018. All board members serving at any time in 2018 are required to complete the declaration form(s). There will be a declaration for the periods;

1. January 1 through November 13, 2018, and
2. November 14 through December 31, 2018

The signed forms should be returned to Emilie Gorman, Deputy Corporate Officer. If there are any questions relating to the new standard and/or completing the declaration form please contact Emilie Gorman at 250-360-3127.

RECOMMENDATION

That this report along with the *Declaration of Related Party Transactions Form* involving Directors, Management and Board be received for information.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

SE:ngm

Attachments

Appendix A: Declaration of Related Party Transactions Involving Directors and Key Management [CRHD], January 1 to November 13, 2018

Appendix B: Declaration of Related Party Transactions Involving Directors and Key Management [CRHD], November 14 to December 31, 2018