

**REPORT TO THE HOSPITALS AND HOUSING COMMITTEE
MEETING OF WEDNESDAY, MAY 07, 2025**

SUBJECT **Capital Regional Hospital District 2024 Audit Findings Report and Audited Financial Statements**

ISSUE SUMMARY

This report summarizes the Capital Regional Hospital District (CRHD) 2024 Audit Findings Report and requests approval of the Audited Financial Statements.

BACKGROUND

The CRHD was established in 1967 under the *Hospital District Act* to provide the local share of capital funding for healthcare infrastructure in the capital region. The CRHD shares the same boundaries, board of directors and administrative staff as the Capital Regional District (CRD).

Section 17 of the *Hospital District Act* and Section 814 of the *Local Government Act* require that audited financial statements be prepared each year. The 2024 Financial Statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS).

Partnering with Island Health and community stakeholder agencies, the CRHD supports a healthy region by investing in strategic priorities in healthcare. These include new construction, upgrades, renewals and expansion of health facilities and medical equipment. The CRHD also contributes by developing land and health facilities for Island Health to occupy for health authority purposes.

Under PSAS the CRHD is required to present four statements with accompanying notes:

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

The CRHD 2024 Audited Financial Statements are attached as Appendix A and include Schedule A which provides a listing of contributions paid to district hospitals.

The Audit Findings Report (Appendix B) summarizes the responsibilities of the auditor, the scope of work and audit results. The report also confirms there were no significant changes in the audit approach from the Audit Planning Report presented to the Board on January 8, 2025. The audit findings confirm the financial statements present fairly, in all material respects, the financial position of CRHD as of and for the year ended December 31, 2024.

ALTERNATIVES

Alternative 1

That the Hospitals and Housing Committee recommends to the Capital Regional Hospital District Board:

That the Capital Regional Hospital District 2024 Audited Financial Statements be approved.

Alternative 2

That the Capital Regional Hospital District 2024 Audited Financial Statements be referred back to staff for additional information.

IMPLICATIONS

Financial Implications

New Accounting Standards

PS 3400 - Revenue

On January 1, 2024, the CRD adopted Public Sector Accounting Standard PS 3400 *Revenue*. The new accounting standard provides direction on accounting for revenues that are not in scope of other existing standards. Management performed a review of all CRHD revenue streams and determined that there was no impact to net debt, accumulated surplus or annual surplus on adoption of this standard.

HIGHLIGHTS

1. Statement of Financial Position

The Statement of Financial Position presents the financial position of an entity at a given date. It is comprised of three main components: financial assets, financial liabilities and non-financial assets. As of December 31, 2024, the CRHD is in a net debt financial position of \$54.8 million with an accumulated surplus of \$57.1 million.

Financial Assets

Financial assets as of December 31, 2024, totalled \$34.9 million, a decrease of \$3.5 million from 2023. Table 1 summarizes financial assets and provides the change year-over-year.

Table 1 – Change in Financial Assets Year-Over-Year

Financial Assets (\$M)	2024	2023	\$ Change	% Change
Cash and Cash Equivalents	11.6	10.2	1.4	14%
Investments	19.5	24.0	(4.5)	(19%)
Due from CRD	0.5	0.1	0.4	400%
Other Receivables	1.3	1.3	-	-
Restricted Cash – MFA DRF*	2.0	2.8	(0.8)	(29%)
Total Financial Assets	\$34.9	\$38.4	(\$3.5)	(9%)

*Municipal Finance Authority (MFA) Debt Reserve Fund (DRF)

- **Cash and cash equivalents:** This category includes cash on hand, bank deposits and short-term highly liquid investments. The balance increased by \$1.4 million, primarily due to the scheduled transfers of investments to cash during the year.
- **Investments:** Investments decreased by \$4.5 million due to a strategy that converted guaranteed investment certificates (GICs) into cash to fund the acquisition of tangible capital assets. Further details on these changes can be found in Statement 4 (Statement of Cash Flows) of Appendix A.
- **Due from the CRD:** Receivables from the CRD increased by \$0.4 million due to the timing of cash transfers between the CRD and CRHD for processing operating expenses.
- **Restricted cash:** Restricted cash includes the DRF, a 1% holdback by the MFA at loan inception, retained until maturity as security against default. This decreased by \$0.8 million as debt maturities exceeded new issuances during the year.

Financial Liabilities

Financial liabilities as of December 31, 2024, totalled \$89.7 million, a decrease of \$13.6 million from 2023. Table 2 summarizes financial liabilities and provides the change year-over-year.

Table 2 – Change in Financial Liabilities Year-Over-Year

Financial Liabilities (\$M)	2024	2023	\$ Change	% Change
Accounts Payable and Other Liabilities	3.5	3.8	(0.3)	(8%)
Deferred Revenue	0.4	0.4	-	-
Short-Term Debt	0.5	-	0.5	-
Long-Term Debt	84.2	98.5	(14.3)	(15%)
Asset Retirement Obligation	1.1	0.6	0.5	83%
Total Financial Liabilities	\$89.7	\$103.3	(\$13.6)	(13%)

- **Accounts payable and other liabilities:** Accounts payable decreased by \$0.3 million, primarily due to the timing of claim payments on major capital projects.
- **Short-term debt:** The CRHD engaged in short-term borrowing through the MFA in 2024 to finance capital grant payments to Island Health. This debt will be repaid in 2025 through a transfer from the debt management reserve.
- **Long-term debt:** Long-term debt decreased by \$14.3 million as debt maturities exceeded new borrowings in 2024.
- **Asset retirement obligation:** The CRHD purchased Mt. Tolmie Hospital and leased the building and property to BC Housing for twenty years. As part of the purchase, the CRHD assumed the obligation to remediate potential hazardous materials at the end of the lease term, resulting in an asset retirement obligation in the year of acquisition.

Non-Financial Assets

Non-financial assets as of December 31, 2024, totalled \$111.8 million, an increase of \$7.3 million from 2023. As shown in Table 3, non-financial assets consist solely of tangible capital assets.

Table 3 – Change in Non-Financial Assets Year-Over-Year

Non-Financial Assets (\$M)	2024	2023	\$ Change	% Change
Tangible Capital Assets	\$111.8	\$104.5	\$7.3	7%

Tangible capital assets increased by \$7.3 million, reflecting \$10.5 million in capital additions for the purchase of Mt. Tolmie Hospital and renovations at The Summit, partially offset by \$3.2 million in amortization expenses.

Additional detail is presented in Note 7 – Tangible Capital Assets of the 2024 Financial Statements (Appendix A).

2. Statement of Operations

The Statement of Operations reports the annual results of the entity's financial activities, presenting revenues less expenses and net surplus/(deficit).

Revenue

Revenue as of December 31, 2024, totalled \$37.1 million, a decrease of \$1.5 million from 2023. Table 4 summarizes revenue and provides the change year-over-year.

Table 4 – Change in Revenue Year-Over-Year

Statement of Operations (\$M)	2024	2023	\$ Change	% Change
Requisition	26.5	26.5	-	-
Payments in Lieu of Taxes	0.7	0.7	-	-
Lease and Other Property Revenue	4.6	4.9	(0.3)	(6%)
Interest Income	2.0	1.8	0.2	11%
Debenture Maturity Refund	0.1	0.2	(0.1)	(50%)
Actuarial Adjustment on Long-Term Debt	3.2	4.5	(1.3)	(29%)
Total Revenue	\$37.1	\$38.6	(\$1.5)	(4%)

- **Lease and other property income:** Lease and other property income decreased by \$0.3 million in 2024, reflecting a one-time recovery of insurance costs at The Summit from Island Health.
- **Interest income:** Interest income increased by \$0.2 million, driven by higher reserve balances throughout the year and favorable interest rates on GICs and high-interest savings accounts.
- **Debenture maturity refund:** The debenture maturity refund revenue decreased by \$0.1 million in 2024. This refund represents interest earnings on the DRF, which are distributed as debt matures. The decline in revenue for 2024 is due to fewer debt maturities compared to 2023.
- **Actuarial adjustment on long-term debt:** The actuarial adjustment reflects anticipated earnings on the CRHD's principal payments towards its outstanding debt with the MFA. Recognized annually starting one year after the first principal payment, it reduces the outstanding loan balance over time. As debt is being retired at a faster pace than new debt is being issued, the total outstanding debt is gradually decreasing, resulting in a corresponding decline in the actuarial adjustment.

Expenses

Expenses as of December 31, 2024, totalled \$19.6 million, no change from 2023. Table 5 summarizes revenue and provides the change year-over-year.

Table 5 – Change in Expenses Year-Over-Year

Statement of Operations (\$M)	2024	2023	\$ Change	% Change
Grants to District Hospitals	9.3	8.8	0.5	6%
Interest on Long-Term and Short-Term Debt	5.1	6.2	(1.1)	(18%)
Amortization and Accretion	3.2	3.2	-	-
Operating Expenses	2.0	1.4	0.6	43%
Total Expenses	\$19.6	\$19.6	-	-

- **Grants to district hospitals:** Contributions to Island Health increased by \$0.5 million in 2024. Contributions vary year-over-year based on the timing of claims submitted by Island Health for capital initiatives. Of the \$9.3 million paid in 2024, \$7.3 million supported minor capital projects and capital equipment grants, while \$2.0 million funded major capital projects. Notable 2024 projects included the Lady Minto Hospital Emergency Department redevelopment, magnetic resonance imaging scanner replacement and the new long-term care facility at Royal Bay.
- **Interest on long-term and short-term debt:** Interest expenses decreased \$1.1 million in 2024 as debt maturities outpaced new debt issuances, reducing overall debt balances with the MFA.
- **Operating expenses:** Operating expenses increased \$0.6 million in 2024 as the CRHD recognized an asset retirement obligation liability related to the acquisition of Mt. Tolmie Hospital. This one-time cost was expensed in the year of purchase and classified as an operating expense.

2024 Annual Surplus

The accumulated surplus represents the CRHD's total net equity, reflecting the sum of annual surpluses and deficits to date. As of 2024, the accumulated surplus stands at \$57.1 million, indicating that the CRHD's total assets (both financial and non-financial) exceed its financial liabilities.

The annual surplus, which represents the excess of revenues over expenses, was \$17.5 million in 2024, a decrease of \$1.6 million from the previous year. This decline is primarily due to a lower actuarial adjustment on long-term debt and one-time operating expenses.

Surplus funds are either transferred to reserves to support future capital commitments and operating expenses or used to repay outstanding debt.

3. Other Financial Statement Analysis

Appendix C contains an analysis of the Statement of Change in Net Debt, the Statement of Cash Flows and Schedule A - Grants to District Hospitals.

4. Financial Indicators

Financial indicators are metrics used to quantify current conditions in addition to forecasting trends. They can be used as a tool to evaluate overall financial condition of the entity. The following indicators measure CRHD's performance and financial sustainability.

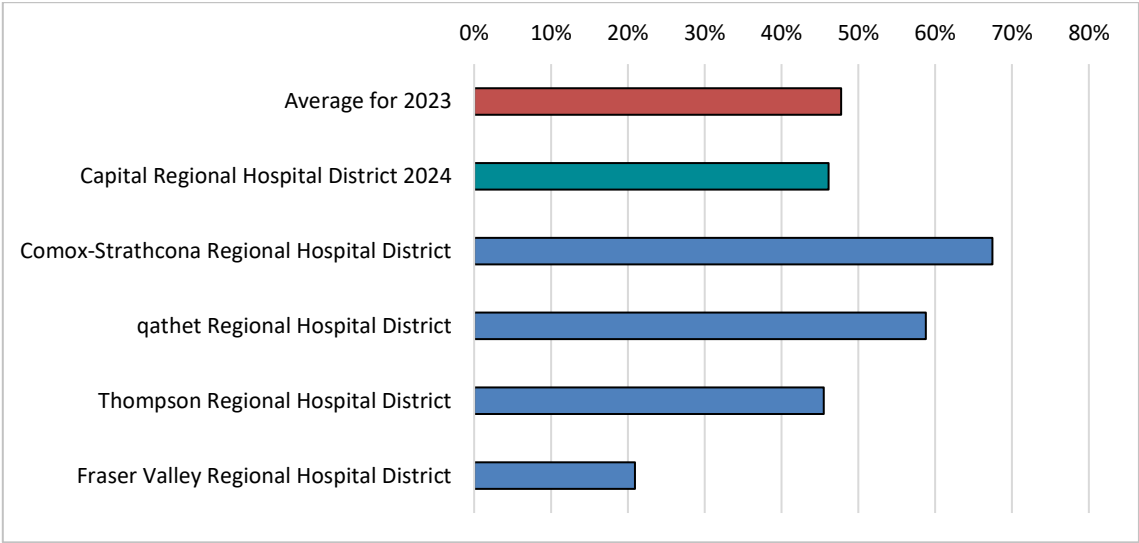
4.1 Debt Service Ratio – Debt Service Costs as a Percentage of Revenue

The debt service ratio is an indicator of the percentage of revenue committed to the payment of interest and principal on temporary and long-term debt. A high percentage indicates greater use of revenue for the repayment of debt. As the CRHD's primary mandate is to secure borrowing and provide capital contributions for health facility infrastructure, a high debt

servicing ratio is expected. CRHD’s debt servicing costs as percentage of revenue as of December 31, 2024, is 46% (2023: 52%).

Table 6 compares CRHD’s debt service ratio as of December 31, 2024, with the 2023 ratios of hospital districts on Vancouver Island and the southern mainland of British Columbia. CRHD’s debt service ratio is in line with the average of the hospital districts analyzed.

Table 6 – Debt Service Ratio Comparison



4.2 Current Ratio – Current Assets Versus Current Liabilities

The current ratio is a measure of the liquidity of an organization, meaning the CRHD’s ability to meet current obligations using current assets (cash, accounts receivable, short-term investments). A high ratio indicates a greater ability to meet both planned and unplanned expenditures. The CRHD’s current ratio as of December 31, 2024, is 8.4 to 1 (2023: 5.7 to 1), indicating CRHD’s current assets are sufficient to pay current liabilities 8.4 times.

4.3 Interest Coverage Ratio – Interest Costs as a Percentage of Total Revenues

This ratio is an indicator of the percentage of revenue committed to the payment of interest on temporary and long-term debt. A high percentage indicates greater use of revenues for servicing interest on outstanding debt. The CRHD’s interest coverage ratio on December 31, 2024, is 7.3 (2023: 6.1), indicating the CRHD’s revenue is sufficient to repay interest expense 7.3 times.

CONCLUSION

Board approval of the CRHD 2024 Audited Financial Statements is required by the *Hospital District Act* and the *Local Government Act*. Audited financial statements must be available for the Ministry of Health and the MFA. As noted in the Auditor Findings Report, it is the auditor's opinion these Financial Statements present fairly the financial position of the CRHD for the year ending December 31, 2024, in accordance with Canadian PSAS.

RECOMMENDATION

The Hospitals and Housing Committee recommends to the Capital Regional Hospital District Board:

That the Capital Regional Hospital District 2024 Audited Financial Statements be approved.

Submitted by:	Varinia Somosan, CPA, CGA, Sr. Mgr., Financial Services / Deputy CFO
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer, GM Finance & IT
Concurrence:	Kevin Lorette, P. Eng., MBA, General Manager, Planning & Protective Services
Concurrence:	Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer

ATTACHMENTS

Appendix A: CRHD 2024 Financial Statements

Appendix B: CRHD Audit Findings Report [for the year ended December 31, 2024 (KPMG)]

Appendix C: CRHD Other Financial Statement Analysis