

Financial Statements
(Expressed in thousands of dollars)

**BRITISH COLUMBIA CANCER
AGENCY BRANCH**

Years ended March 31, 2005 and 2004



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AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF BRITISH COLUMBIA CANCER AGENCY BRANCH

We have audited the statement of financial position of the British Columbia Cancer Agency Branch as at March 31, 2005 and the statements of operations, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Branch as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Vancouver, Canada

May 6, 2005

BRITISH COLUMBIA CANCER AGENCY BRANCH

Statements of Financial Position
(Expressed in thousands of dollars)

March 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash	\$ 28,794	\$ 8,491
Accounts receivable (note 3)	45,048	65,859
Inventories	3,513	2,761
Prepaid expenses	1,527	1,467
	<u>78,882</u>	<u>78,578</u>
Capital assets, net (note 4)	228,392	189,249
	<u>\$ 307,274</u>	<u>\$ 267,827</u>

Liabilities and Net Assets (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 43,530	\$ 48,946
Deferred contributions for designated purposes (note 6)	25,386	19,980
	<u>68,916</u>	<u>68,926</u>
Accrued sick and severance liabilities (note 7(a))	12,055	11,682
Deferred capital contributions (note 8)	229,273	191,535
	<u>310,244</u>	<u>272,143</u>
Net assets (deficiency):		
Invested in capital assets (note 9(a))	-	3,938
Unrestricted	(2,970)	(8,254)
	<u>(2,970)</u>	<u>(4,316)</u>
	<u>\$ 307,274</u>	<u>\$ 267,827</u>

Commitments and contingencies (note 10)

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director and Chair of the Board



Director

BRITISH COLUMBIA CANCER AGENCY BRANCH

Statements of Operations

(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

	2005	2004
Revenue:		
Provincial Health Services Authority operating grants	\$ 194,891	\$ 193,301
Patient/client revenue (note 11)	1,559	743
Medical Services Commission	41,439	39,933
Investment income	-	350
Other	11,241	8,598
<u>Contributions for designated purposes</u>	<u>41,397</u>	<u>33,416</u>
	290,527	276,341
Expenses:		
Compensation and benefits	129,859	138,975
Supplies	84,232	72,889
Sundry	6,977	7,289
Equipment and building services	4,305	4,189
Referred-out/contracted services	22,411	21,834
<u>Expenses for designated purposes</u>	<u>41,397</u>	<u>33,416</u>
	289,181	278,592
Excess (deficiency) of revenue over expenses before amounts related to capital assets	1,346	(2,251)
Amounts related to capital assets:		
Amortization of deferred capital contributions	16,799	16,133
<u>Amortization of capital assets</u>	<u>(16,799)</u>	<u>(16,099)</u>
	-	34
Excess (deficiency) of revenue over expenses	\$ 1,346	\$ (2,217)

See accompanying notes to financial statements.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Statements of Changes in Net Assets (Deficiency)
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

	Invested in capital assets	Unrestricted	Total	
			2005	2004
Balance, beginning of year	\$ 3,938	\$ (8,254)	\$ (4,316)	\$ (2,099)
Excess (deficiency) of revenue over expenses	-	1,346	1,346	(2,217)
Net change in capital assets (note 9(c))	(3,938)	3,938	-	-
Balance, end of year	\$ -	\$ (2,970)	\$ (2,970)	\$ (4,316)

See accompanying notes to financial statements.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Statements of Cash Flows
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 1,346	\$ (2,217)
Items not involving cash:		
Amortization of capital assets	16,799	16,099
Amortization of deferred capital contributions	(16,799)	(16,133)
	1,346	(2,251)
Changes in non-cash operating items (note 12)	20,362	(23,184)
	21,708	(25,435)
Investments:		
Purchase of capital assets	(30,638)	(38,230)
Net disposal of short-term investments	-	11,907
Contribution of building (note 9 (c))	(25,449)	-
Contribution of equipment (note 9 (c))	(800)	-
Net book value of capital assets transferred to PHSA	945	-
	(55,942)	(26,323)
Financing:		
Additions to deferred capital contributions	29,233	34,957
Contribution of building (note 9 (c))	25,449	-
Contribution of equipment (note 9 (c))	800	-
Unamortized deferred capital contributions relating to assets transferred to PHSA	(945)	-
	54,537	34,957
Increase (decrease) in cash	20,303	(16,801)
Cash, beginning of year	8,491	25,292
Cash, end of year	\$ 28,794	\$ 8,491

See accompanying notes to financial statements.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

1. Operations:

British Columbia Cancer Agency Branch (the "Branch") is a member of the Provincial Health Service Authority ("PHSA") which was established on December 12, 2001 to manage the quality, coordination, accessibility, and cost of certain province-wide health care programs and services. PHSA also includes the following members:

British Columbia Centre for Disease Control and Prevention Society Branch;
British Columbia Drug and Poison Information Centre;
British Columbia Mental Health Society (Riverview) Branch;
British Columbia Provincial Renal Agency;
British Columbia Transplant Society Branch;
Children's & Women's Health Centre of British Columbia Branch;
Forensic Psychiatric Services Commission; and
Red Cross Outpost Hospitals

Effective December 31, 2001, the above noted branch societies were amalgamated with, and continue the operations of, their respective former societies under bylaws and constitutions consistent with PHSA. The amalgamated Branch is considered a continuation of the former Branch for financial reporting purposes.

The Branch provides a comprehensive cancer control program to all British Columbians, which includes prevention and early detection, treatment, and related education and research. This program is provided through the specialized facilities of the Vancouver Cancer Centre, the Fraser Valley Cancer Centre, the Vancouver Island Cancer Centre, and the Cancer Centre for the Southern Interior, as well as decentralized programs for patient care. The Branch is also responsible for the operating activities of the British Columbia Cancer Research Centre.

The Branch is exempt from federal and provincial income and capital taxes.

The Branch is dependent on the Ministry of Health Services, through the Provincial Health Services Authority, to provide sufficient funding to continue operations, replace equipment and complete capital projects.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements, management has made estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates include the determination of useful lives of capital assets and the estimation of amounts which may become payable to retiring employees. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

These financial statements do not include the assets, liabilities, revenue and expenses of the Foundation of the Branch (see note 13).

(b) Revenue recognition:

The Branch follows the deferral method of accounting for contributions which include donations, research and government grants.

Operating grants are recorded as revenue in the year to which they relate. Grants approved but not yet received at the end of the year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in the subsequent year.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions externally restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

(c) Inventories:

Inventories, consisting of medical/surgical supplies, drugs and general supplies, are recorded at the lower of weighted average cost and market value.

(d) Capital assets:

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis over the assets' estimated useful lives or the lease term at the following rates:

Asset	Rate
Buildings	40 years
Research Centre	50 years
Leasehold improvements	Lease term to a maximum of 10 years
Equipment	3 - 10 years

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2004 and 2003

2. Significant accounting policies (continued):

(e) Employee future benefits:

Liabilities are recorded for employee sick and severance benefits as employees render services to earn the benefits. The actuarial determination of the accrued benefit obligations for employee sick and severance benefits 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). Actuarial gains and losses that exceed 10% of the benefit obligation are amortized over the average remaining service period of active covered employees. The average remaining service period of the active covered employees is 10 years (2004 - 10 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Defined contribution plan accounting is applied to multiemployer defined benefit plans and, accordingly, contributions are expensed.

(f) Financial instruments:

The Branch's financial instruments include accounts receivable, accounts payable and accrued liabilities, and accrued sick and severance liabilities. It is management's opinion that the Branch is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these instruments approximate their carrying values, except for the fair value of accrued sick and severance obligations which is disclosed in note 7(a).

(g) Asset retirement obligations:

Effective April 1, 2004, the Branch adopted Section 3110 of the CICA Handbook, "Asset Retirement Obligations." This section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and depreciated over the life of the asset. At this time, the Branch has determined that there are no significant asset retirement obligations with its assets.

(h) Comparative figures:

Certain comparative figures have been reclassified to conform with classifications adopted in the current year.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

3. Accounts receivable:

	2005	2004
Provincial Health Services Authority	\$ 6,821	\$ 28,625
Medical Services Commission	20,194	21,870
BC Cancer Foundation	5,482	4,916
Research grants	5,087	6,742
Ministry of Health Services	742	479
Other	6,722	3,227
	\$ 45,048	\$ 65,859

4. Capital assets:

2005	Cost	Accumulated amortization	Net book value
Land	\$ 7,000	\$ -	\$ 7,000
Buildings	122,888	35,527	87,361
Research Centre	76,549	471	76,078
Leasehold improvements	2,255	1,927	328
Equipment	122,679	71,150	51,529
Construction-in-progress	1,668	-	1,668
Deposits on equipment	4,428	-	4,428
	\$ 337,467	\$ 109,075	\$ 228,392

2004	Cost	Accumulated amortization	Net book value
Land	\$ 7,000	\$ -	\$ 7,000
Buildings	119,762	32,719	87,043
Leasehold improvements	2,132	1,706	426
Equipment	117,564	64,838	52,726
Construction-in-progress	42,054	-	42,054
	\$ 288,512	\$ 99,263	\$ 189,249

During fiscal 2004, the Provincial Government directed Partnerships British Columbia Inc. to assume the construction of a new Abbotsford Hospital and Cancer Centre using a public private partnerships approach. As a result, Abbotsford Hospital and Cancer Centre Inc. (AHCC Inc) was incorporated under the Company Act of September 2, 2003 and is registered as a not-for-profit organization under the Income Tax Act. AHCC Inc is wholly owned by Partnerships British Columbia Inc., a Crown Corporation of the Province of British Columbia.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

4. Capital assets (continued):

It is anticipated that once the hospital and cancer centre is available for use, ownership will be transferred to the Fraser Health Authority and the Provincial Health Services Authority. During 2004, the Branch expended \$742 in planning for this project. However, the Branch subsequently transferred responsibility for the construction of the Centre to AHCC Inc. and, as a result, in the prior year, both the capital costs and the corresponding deferred capital contributions of \$742 were removed from these financial statements.

In December 2004, the Branch completed construction of a new research centre with total construction costs of \$76,549. The Branch incurred construction costs of \$51,100, which were funded by the Canada Foundation for Innovation and British Columbia Knowledge Development Fund. The remainder of the construction costs, totaling \$25,449, were incurred by the BC Cancer Foundation. The Research centre was constructed on land that is leased by the Branch from the BC Cancer Foundation. The lease agreement with the Foundation is for a 50-year term, at nominal annual rent, and the Branch is responsible for all operating costs. As the lease term represents the full economic life of the asset, the total construction costs of the Research Centre, including the \$25,449 paid by BC Cancer Foundation, are recorded in capital assets. Deferred capital funding, of \$25,449, has been recorded in these financial statements to reflect the fair value of costs paid by the Foundation and contributed to the Branch through the lease.

5. Accounts payable and accrued liabilities:

	2005	2004
Trade accounts payable and accrued liabilities	\$ 26,230	\$ 31,902
Accrued salaries and benefits payable	8,951	9,115
Accrued vacation payable	7,448	7,336
Current portion of accrued sick and severance liabilities	901	593
	\$ 43,530	\$ 48,946

6. Deferred contributions for designated purposes:

Deferred contributions for designated purposes represent unspent grants and donations for research and other specified purposes. These deferred contributions will be recorded as revenue in the statement of operations when they are spent.

	2005	2004
Balance, beginning of year	\$ 19,980	\$ 13,797
Amount received for designated purposes	46,803	39,599
Amount recognized as revenue	(41,397)	(33,416)
Balance, end of year	\$ 25,386	\$ 19,980

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

7. Employee benefits:

(a) Employee sick and severance benefits:

Certain employees with ten 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. The Branch's liabilities are based on an actuarial valuation as at December 31, 2003, updated to March 31, 2005. The next required valuation will be as of December 31, 2006.

Information about employee sick and severance benefits is as follows:

	2005	2004
Accrued benefit obligation:		
Sick leave benefits	\$ 3,187	\$ 2,930
Severance benefits	8,325	7,912
Total unfunded obligation	11,512	10,842
Balance of unamortized amounts	1,444	1,433
Accrued sick and severance liabilities	\$ 12,956	\$ 12,275
Sick and severance plan expense	\$ 1,501	\$ 1,682
Benefits paid	820	547

The current portion of accrued sick and severance liabilities of \$901 (2004 - \$593) is included in accounts payable and accrued liabilities.

The significant actuarial assumptions adopted in measuring the Branch's accrued sick and severance liabilities are as follows:

	2005	2004
Accrued benefit obligation as at March 31:		
Discount rate	5.50%	5.75%
Rate of compensation increase	3.25%	3.25%
Benefit costs for the years ended March 31:		
Discount rate	5.75%	6.25%
Rate of compensation increase	3.25%	5.20%

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

7. Employee benefits (continued):

(b) Employee healthcare benefits:

The Healthcare Benefit Trust (the "Trust") administers long-term disability, group life insurance, accidental death and dismemberment, extended health and dental claims for certain employee groups of the Branch and other provincially funded organizations. Contributions to the Trust of \$3,468 (2004 - \$4,566) were expensed during the year.

Effective March 31, 2004, the Trust was restructured at the health authority level from a multiemployer to a multiple-employer plan only with respect to long-term disability benefits initiated after September 30, 1997. Assets and liabilities for these long-term disability benefits have been segregated for the PHSA, but not for individual branches of the PHSA. Accordingly, the Branch participates in a multiemployer defined benefit plan for long-term disability benefits that is now restricted to members of the PHSA. The most recent actuarial valuation for the PHSA plan at December 31, 2004 indicated an unfunded actuarial obligation of \$913. The PHSA plan covers approximately 4,160 active employees of which approximately 1,300 are employees of the Branch. The next required valuation will be as of December 31, 2005.

The group life insurance, accidental death and dismemberment, extended health, dental and pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multiemployer plan. The most recent actuarial valuation for the plan at December 31, 2004 indicated a deficit of \$6,415. The plan covers approximately 76,108 active employees of which approximately 1,400 are employees of the Branch. The next required valuation will be as of December 31, 2005.

(c) Employee pension benefits:

The Branch and its employees contribute to the Municipal Pension Plan, a multiemployer defined benefit pension plan governed by the *BC Public Sector Pension Plans Act*.

Employer contributions to the Municipal Pension Plan of \$6,333 (2004 - \$7,242) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2003 indicated an unfunded liability of \$789,000. The plan covers approximately 128,000 active employees of which approximately 1,707 are employees of the Branch. The next required valuation will be as of December 31, 2006.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

8. Deferred capital contributions:

Deferred capital contributions represent the unamortized amounts and unspent amounts of grants and donations received for the purchase of capital assets. Amortization of deferred capital contributions is recorded as revenue in the statement of operations.

	2005	2004
Deferred capital contributions, beginning of year	\$ 191,535	\$ 172,711
Additional contributions received:		
Provincial Health Services Authority	7,800	4,067
Foundations	27,534	549
Designated purposes	1,295	330
Research Grants	4,423	5,437
Other	14,430	24,574
	55,482	34,957
Less:		
Unamortized deferred capital contributions relating to assets transferred to PHSA	945	-
Amounts amortized to revenue	16,799	16,133
	17,744	16,133
Deferred capital contributions, end of year	\$ 229,273	\$ 191,535

The balance of deferred capital contributions related to capital assets consists of the following:

	2005	2004
Unamortized deferred capital contributions used to purchase capital assets	\$ 228,392	\$ 185,311
Unspent contributions	881	6,224
	\$ 229,273	\$ 191,535

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

9. Invested in capital assets:

(a) The amount invested in capital assets is calculated as follows:

	2005	2004
Capital assets	\$ 228,392	\$ 189,249
Amount financed by deferred capital contributions	(228,392)	(185,311)
	\$ -	\$ 3,938

(b) The excess of revenue over expenses related to capital assets is calculated as follows:

	2005	2004
Amortization of deferred capital contributions	\$ 16,799	\$ 16,133
Amortization of capital assets	(16,799)	(16,099)
	\$ -	\$ 34

(c) The net change in the amount invested in capital assets for the year is calculated as follows:

	2005	2004
Purchase of capital assets	\$ 30,638	\$ 38,230
Contribution of building from BC Cancer Foundation	25,449	-
Contribution of equipment from BC Cancer Foundation	800	-
Net book value of capital assets transferred to PHSA	(945)	-
	55,942	38,230
Amounts funded by deferred capital contributions	(34,576)	(34,839)
Contribution of building from BC Cancer Foundation	(25,449)	-
Contribution of equipment from BC Cancer Foundation	(800)	-
Unamortized deferred capital contributions relating to assets transferred to PHSA	945	-
	\$ (3,938)	\$ 3,391

The prior year unfunded assets related to holdbacks that were funded in the current year.

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

10. Commitments and contingencies:

(a) Operating lease commitments:

The Branch leases premises and office equipment under operating leases. Minimum lease payments for each of the next five years and in total are as follows:

Year ending March 31,		
2006	\$	875
2007		573
2008		149
2009		13
	\$	1,610

(b) Legal contingencies:

The nature of the Branch's activities is such that there is litigation pending or in prospect at any time. With respect to unsettled claims at March 31, 2005, management believes the Branch has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Branch's financial position.

Risk management and insurance services are provided by the BC Health Care Risk Management Society under the Health Care Protection Program.

11. Patient/client revenue:

	2005	2004
Patient/client revenue consists of:		
Non-residents of British Columbia	\$ 906	\$ 583
Non-residents of Canada	197	69
Residents of British Columbia - Self Pays	8	23
Other	448	68
	\$ 1,559	\$ 743

BRITISH COLUMBIA CANCER AGENCY BRANCH

Notes to Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

12. Supplementary information:

	2005	2004
Changes in non-cash operating items:		
Accounts receivable	\$ 20,811	\$ (41,425)
Inventories and prepaid expenses	(812)	2,303
Accounts payable and accrued liabilities	(5,416)	8,533
Deferred contributions for designated purposes	5,406	6,183
Accrued sick and severance liabilities	373	1,222
	\$ 20,362	\$ (23,184)

13. Related entities:

The Branch has an economic interest in the BC Cancer Foundation (the "Foundation"). The Foundation is responsible for fundraising activities for the Branch, the British Columbia Cancer Research Centre facility ("the Research Centre"), and the Genome Sequence Centre.

As at March 31, 2005, the Foundation held net assets of \$1,991 (2004 - \$20,592) to be used for research, patient care, education and capital assets at the Branch, the Research Centre and the Genome Sequence Centre.

14. Related party transactions:

Certain administrative, finance and accounting, and human resource services are provided to the Branch by the PHSA without charge. The costs of these services have not been recorded in the financial statements of the Branch.

During the year, the Branch was involved in the following related party transactions with the other PHSA members listed in note 1:

For the year ended March 31, 2005, revenues include \$nil (2004 - \$10) and expenses include \$891 (2004 - \$853) resulting from transactions with other PHSA members.

The above amounts exclude transactions with PHSA which are disclosed elsewhere in these financial statements.