

Consolidated Financial Statements
(Expressed in thousands of dollars)

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2010



Provincial Health Services Authority Management Report

The consolidated financial statements of the Provincial Health Services Authority (the "Authority") were prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied, and include amounts based upon management's best estimates and judgments. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at April 30, 2010.

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

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

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

The consolidated financial statements have been examined by KPMG LLP, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, fairly presents the Authority's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. Their Auditors' Report, which follows, outlines the scope of their examination and their opinion.



President and Chief Executive Officer



Chief Financial Officer

Vancouver, BC
April 30, 2010



KPMG LLP
Chartered Accountants
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AUDITORS' REPORT

To the Board of Provincial Health Services Authority

We have audited the consolidated statement of financial position of Provincial Health Services Authority as at March 31, 2010 and the consolidated statements of operations, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2010 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 period.

Chartered Accountants

Vancouver, Canada

April 30, 2010

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

March 31, 2010, with comparative figures for 2009

	2010	2009 (Restated - note 2)
Assets		
Current assets:		
Cash	\$ 48,557	\$ 94,352
Restricted cash	167	179
Short-term investments (note 4)	16,328	27,953
Accounts receivable (note 5)	95,908	75,133
Inventories (note 6)	57,971	34,987
Prepaid expenses	5,823	5,731
	224,754	238,335
Long-term investments (note 4)	46,260	46,800
Capital assets (note 7)	806,360	784,144
Long-term disability asset (note 12(b))	2,661	-
	\$ 1,080,035	\$ 1,069,279

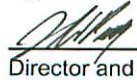
Liabilities and Net Assets (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 215,895	\$ 225,240
Deferred operating contributions (note 9)	35,001	29,063
Deferred contributions for designated purposes (note 10)	30,110	27,860
Current portion of obligations under capital leases (note 11)	256	255
Current portion of retirement allowance (note 12(a))	5,247	4,095
	286,509	286,513
Long-term obligations under capital leases (note 11)	249	534
Retirement allowance (note 12(a))	46,590	45,802
Long-term disability benefits (note 12(b))	-	4,303
Asset retirement obligations (note 15(c))	1,919	1,815
Long-term debt (note 13)	13,365	-
Deferred capital contributions (note 14)	658,904	658,393
	1,007,536	997,360
Net assets (deficiency):		
Invested in capital assets (note 15(a))	148,335	149,453
Internally restricted	448	448
Unrestricted	(76,284)	(77,982)
	72,499	71,919
	\$ 1,080,035	\$ 1,069,279

Commitments and contingencies (note 16)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


Director and Chair of the Board


Director

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Operations
(Expressed in thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenues:		
Ministry of Health contributions	\$ 1,282,456	\$ 1,195,303
Medical Services Plan	170,319	146,613
Other contributions (note 17)	117,642	108,389
Amortization of deferred capital contributions	67,172	57,361
Other (note 18)	34,439	31,333
Patients, clients and residents (note 19)	11,383	9,275
Pharmacare	5,511	5,711
Investment income	2,620	4,012
Research and designated contributions	71,533	72,514
	<u>1,763,075</u>	<u>1,630,511</u>
Expenses:		
Compensation and benefits (note 20)	720,570	678,342
Referred-out and contracted services (note 21)	504,188	445,819
Supplies (note 22)	280,069	244,152
Amortization of capital assets	68,078	58,522
Equipment and building services	70,024	60,773
Sundry (note 23)	47,945	69,726
Accretion of asset retirement obligations	88	104
Research and designated expenses	71,533	72,514
	<u>1,762,495</u>	<u>1,629,952</u>
Excess of revenues over expenses	\$ 580	\$ 559

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Changes in Net Assets (Deficiency)
(Expressed in thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	Invested in capital assets	Internally restricted	Unrestricted	Total	
				2010	2009 (Restated)
Balance, beginning of the year	\$ 149,453	\$ 448	\$ (74,859)	\$ 75,042	\$ 74,483
Restatement of prior years (note 2)	-	-	(3,123)	(3,123)	(3,123)
Balance, beginning of the year, as restated	149,453	448	(77,982)	71,919	71,360
Excess (deficiency) of revenues over expenses	(906)	-	1,486	580	559
Net change in capital assets (note 15(c))	(212)	-	212	-	-
Balance, end of year	\$ 148,335	\$ 448	\$ (76,284)	\$ 72,499	\$ 71,919

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 580	\$ 559
Items not involving cash:		
Amortization of capital assets	68,078	58,522
Amortization of deferred capital contributions	(67,172)	(57,361)
Accretion of asset retirement obligations	88	104
Transfer of deferred capital contributions	(6,783)	-
Retirement allowance expense	4,236	5,226
Long-term disability benefits expense	8,841	7,911
Net change in non-cash operating items (note 25)	(44,996)	62,903
	(37,128)	77,864
Cash flows from investing activities:		
Purchase of investments	(15,485)	(31,180)
Proceeds from redemption of investments	27,650	15,748
Purchase of capital assets	(76,932)	(108,337)
Proceeds from disposal of capital assets	19	-
	(64,748)	(123,769)
Cash flows from financing activities:		
Capital contributions	74,466	87,269
Repayment of capital leases	(284)	(244)
Retirement allowance benefits paid	(2,296)	(2,877)
Long-term disability benefits contributions	(15,805)	(7,731)
	56,081	76,417
Increase (decrease) in cash	(45,795)	30,512
Cash, beginning of year	94,352	63,840
Cash, end of year	\$ 48,557	\$ 94,352

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

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

The Authority was established to manage the quality, coordination, accessibility, and cost of certain province wide health-care programs and services through the governance of selected provincial agencies and programs.

The agencies/programs (individually and collectively the Agencies) of PHSA are:

- British Columbia Cancer Agency Branch;
- 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;
- Women's Health Research Institute Society;
- Mental Health and Addictions Research Institute; and
- Cardiac Services British Columbia.

The Authority also has the responsibility for planning, coordinating, monitoring, evaluating and, in certain cases, funding a number of highly specialized health services to ensure access for all British Columbians.

The Authority is a member of the SSO Administration Society (the Society), which is a non-profit society exempt from federal and provincial income taxes. Its purpose is to find opportunities where the Health Authorities in British Columbia can improve cost effectiveness by working collaboratively on common services. The Society was incorporated on October 15, 2008 and operations officially commenced April 1, 2009. The assets, liabilities, revenues, and expenses of the Society are not consolidated in the Authority's financial statements. All material transactions have been disclosed in note 26(b). During fiscal year 2011, the Society will no longer be a separate legal entity and its operations will be absorbed within the Authority.

Effective April 1, 2010, the financial operations of the Emergency and Health Services Commission ("EHSC") will be transferred to PHSA to align BC's pre-hospital services with the health care system. The fiscal 2011 annual operating budget of EHSC is approximately \$320 million.

These consolidated financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries (see note 26) and other organizations that provide services under contracts.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition:

The Authority follows the deferral method of accounting for contributions which include donations and government contributions.

Under the *Health Insurance Act and Regulations* thereto, the Authority is funded primarily by the Province of British Columbia in accordance with budget management plans and performance agreements established and approved by the Ministry of Health Services.

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 period in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis as the related capital assets are depreciated.

(c) Asset and service contributions:

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

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

(d) Short-term investments:

Short-term investments include banker's acceptances, treasury bills and bonds and are recorded at amortized cost adjusted for any permanent declines in value.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

1. Significant accounting policies (continued):

(e) Inventories:

Inventories are recorded at the lower of weighted average cost and replacement cost. If there is any subsequent increase in the value of inventories following a write-down, a reversal of the previous write-down will be recorded. Certain specific inventory items are purchased on consignment and are not included in inventory.

(f) Long-term investments:

Long-term investments include bonds and bankers' acceptances that are not expected to mature within the next fiscal year and are recorded at cost. Where the market value of long-term investments becomes lower than cost and this decline in value is considered to be other than temporary, the long-term investments are written down to market value.

(g) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. The Authority records depreciation on its assets on a straight-line basis over the useful life of the assets as follows:

Land improvements	20 years
Buildings	20 - 50 years
Leased buildings	50 years
Leasehold improvements	Lease term to a maximum of 20 years
Building service equipment	15 - 20 years
Equipment	3 - 20 years
Software licence fees	3 - 5 years
Assets under capital lease	5 - 7 years

(h) Internally restricted net assets:

The Authority has internally restricted certain funds for capital asset acquisitions. Use of these funds is limited to the related terms of reference as approved by the Board.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

1. Significant accounting policies (continued):

(i) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple-employer defined long-term disability benefits 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). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. 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 entitled to retirement allowance benefits is 10 years (2009 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined long-term disability benefits is 10 years (2009 - 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 multi-employer defined benefit plans and, accordingly, contributions are expensed.

(j) Asset retirement obligations:

The Authority recognizes an asset retirement obligation in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

(k) 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. Management reviews all significant estimates affecting its financial statements on a recurring basis and records the effect of any necessary adjustments. Significant areas requiring the use of estimates include determination of rates of depreciation of capital assets, recognition of asset retirement obligations, contingencies and, in particular, assumptions with respect to accrued retirement allowance benefits and long-term disability, and accrued liabilities resulting from implementing the Mental Health Plan. Actual results could differ from the estimates.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2010

1. Significant accounting policies (continued):

(l) Financial instruments:

The Authority has designated all non-derivative financial assets and liabilities as held for trading with the exception of certain obligations designated as other liabilities and receivables and investments which are designated as held to maturity.

- The Authority initially records all non-derivative financial assets and liabilities at fair value.
- Assets and liabilities classified as held for trading are measured at fair value and changes in fair value are recognized in the statement of operations.
- Held to maturity investments and receivables are measured at amortized cost using the effective interest rate method.
- Other liabilities which include the Authority's long-term disability liabilities and assets, and accrued retirement allowance liabilities, are recorded at amortized cost.
- All transaction costs incurred on held to maturity investments, receivables, and other liabilities are incorporated in the fair value of the instrument and are amortized to operations using the effective interest rate method.

Assets and liabilities classified as available for sale are measured at fair value and changes in fair value are recorded in the statement of changes in net assets until the financial instruments are re-recognized or other than temporarily impaired at which time the amounts are recorded in the statement of operations. The Authority has not classified any assets or liabilities as available for sale.

Derivative instruments are recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized as earnings unless specific hedge criteria are met, which require that an entity must formally document, designate and assess the effectiveness of the transaction that received hedge accounting.

The Authority has elected to defer applying the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862, *Financial Instruments - Disclosure* and 3863, *Financial Instruments - Presentation*. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Authority has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

1. Significant accounting policies (continued):

(m) Capitalization of public private partnership project:

The Branch's public-private partnership project (P3) is delivered by the private sector partner (Plenary Health Prince George GP (Plenary Health)) selected to design, build, finance, and maintain the asset. The project is for the BC Cancer Agency Centre for the North in Prince George. The cost of the asset is estimated at fair value, based on progress billings verified by an independent verifier, and also includes costs incurred by the Branch. Included in the asset costs are development and financing fees estimated at fair value, which requires the extraction of cost information from the financial model embedded in the Project Agreement. Interest incurred during construction is also included in the asset cost and is calculated on the P3 asset value less contributions paid during the construction term. The interest rate used is 8.37%.

Correspondingly, an obligation net of the Branch's funding payments made during the construction period is recorded as a liability and included in long-term debt. The obligation will be met as part of periodic payments over the term of the Project Agreement.

Upon substantial completion, the private sector partner will receive periodic payments to cover operating costs, financing costs and a return on capital costs.

(n) Changes in accounting standards:

(i) Revisions to Not-for-Profit accounting standards:

Effective April 1, 2009, the Authority adopted the amendments to CICA Handbook Sections 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, and 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments remove the requirement to disclose net assets invested in capital assets, clarify capital asset recognition criteria and amortization, and add a requirement for disclosure of allocated fundraising and general support expenses by not-for-profit organizations, and a requirement to follow Handbook Section 1540, *Cash Flow Statements*. The implementation of these amendments did not have any significant impact on the Authority's financial statements.

(ii) Amendments to Section 1000, Financial Statement Concepts:

Effective April 1, 2009, the Authority adopted the amendments in CICA Handbook Section 1000, *Financial Statement Concepts*. The amendments clarify the relationship between incurring expenditures and creating assets, and clarified that items which do not meet the definition of assets or liabilities are not eligible for recognition. The implementation of the amendments did not have any impact on the Authority's financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

1. Significant accounting policies (continued):

(o) Future accounting framework:

The Authority is currently classified as a government not-for-profit (NPO) organization. Under the direction of the Public Sector Accounting Standards Board (PSAB), the Authority adheres to the standards for NPO organizations in the CICA Handbook.

PSAB proposes to incorporate into the PSAB Handbook, the current NPO Sections (4400 standards) of the CICA Handbook to deal with areas not currently addressed by the PSAB framework. PSAB has decided not to make any further substantive changes to the Sections at this time. The exposure draft proposes to amend the Introduction so that the PSAB standards will be applicable to all government NPO organizations, for fiscal periods beginning on or after January 1, 2012.

The Authority intends to continue applying the existing NPO standards and is awaiting the finalization of the new standards. Once the new standards are finalized, the Authority will determine the impact on the financial statements.

2. Long-term disability benefits restatement:

During the year, management ascertained that long-term disability benefits did not include extended health, dental, life, accidental death and dismemberment, and 50% of Medical Services Plan premiums related to employees on long-term disability. As a result, the Authority's financial statements have been restated on a retrospective basis. The effect of the restatement has been to increase long-term disability benefits at March 31, 2009 by \$3,123, and reduce unrestricted net assets by an equivalent amount. There was no restatement required to the consolidated statement of operations for the year ended March 31, 2009.

3. Financial instruments:

The Authority's financial instruments include cash, restricted cash, short-term investments, accounts receivable, long-term investments, accounts payable and accrued liabilities. It is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these instruments approximate their carrying values, except for the fair value of short-term and long-term investments which are disclosed in note 4.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

4. Investments:

Investments consist of money market instruments, short-term bonds (maturity less than 1 year) and long-term bonds (maturity between 1 to 5 years), which have been designated as held to maturity financial instruments. The cost and quoted market value of the investments are as follows:

2010	Cost	Market value
Short-term bonds	\$ 16,328	\$ 16,089
Long-term bonds	46,260	47,092
	\$ 62,588	\$ 63,181

2009	Cost	Market value
Short-term bonds	\$ 27,953	\$ 28,096
Long-term bonds	46,800	48,161
	\$ 74,753	\$ 76,257

5. Accounts receivable:

	2010	2009
Patients, clients and agencies	\$ 5,948	\$ 5,269
Ministry of Health Services	50,303	31,505
Hospital foundations	11,679	13,492
Research grants	7,367	7,583
Goods and services tax	2,752	2,886
Other	17,859	14,398
	\$ 95,908	\$ 75,133

6. Inventories:

The Authority's inventories of \$57,971 (2009 - \$34,987) are recorded at the lower of weighted average cost and replacement cost and consist of biological, pharmaceutical, medical/surgical, and other materials and supplies. During the year, \$200,874 (2009 - \$168,025) of inventories were expensed by the Authority.

At March 31, 2010, inventories includes \$18,438 (2009 - \$17,106) of pandemic biologicals inventory which expire between fiscal years 2011 to 2012 and \$17,908 (2009 - \$367) which expire between fiscal years 2013 to 2017.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

7. Capital assets:

2010	Cost	Accumulated depreciation	Net book value
Land	\$ 141,250	\$ -	\$ 141,250
Land improvements	2,083	2,022	61
Buildings	547,206	119,227	427,979
Building service equipment	29,518	7,396	22,122
Construction in progress	52,086	-	52,086
Leasehold improvements	59,839	53,639	6,200
Equipment	466,852	328,047	138,805
Equipment under capital lease	1,282	850	432
Equipment in progress	17,181	-	17,181
Software licence fees	16,994	16,750	244
	\$ 1,334,291	\$ 527,931	\$ 806,360

2009	Cost	Accumulated depreciation	Net book value
Land	\$ 141,250	\$ -	\$ 141,250
Land improvements	2,083	2,012	71
Buildings	526,506	103,758	422,748
Building service equipment	21,086	5,981	15,105
Construction in progress	39,239	-	39,239
Leasehold improvements	58,639	52,276	6,363
Equipment	404,823	290,939	113,884
Equipment under capital lease	1,311	592	719
Equipment in progress	44,393	-	44,393
Software licence fees	16,972	16,600	372
	\$ 1,256,302	\$ 472,158	\$ 784,144

The British Columbia Cancer Agency Branch (BCCA) entered into a multi-year public-private-partnership contract with Plenary Health on December 18, 2009 to build the BC Cancer Agency Centre for the North (Cancer Centre) in Prince George, British Columbia. Under the agreement, Plenary Health will design, construct, finance and maintain the facilities until the end of the term of the agreement in September 2042. The planned completion date for the Cancer Centre is fall 2012, and the planned completion date for the parkade is summer 2010.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

7. Capital assets (continued):

The total construction budget for the Cancer Centre project is \$69,912, with Plenary Health contributing funding of \$13,618 (approximately 20%) into the project. The balance of the funding has been committed by the Ministry of Health Services. In addition, the Ministry of Health Services will provide \$22,760 of capital funds for equipment and information technology, planning and procurement, and other capital expenditures. As at March 31, 2010, there was \$25,135 included in construction in progress related to this project.

8. Accounts payable and accrued liabilities:

	2010	2009
Trade accounts payable and accrued liabilities	\$ 119,358	\$ 120,341
Salaries and benefits payable	39,568	37,081
Accrued vacation pay	38,550	36,223
Accrued Mental Health Plan costs (note 20)	18,252	31,416
Patient trust funds	167	179
	<hr/>	<hr/>
	\$ 215,895	\$ 225,240

9. Deferred operating contributions:

Deferred operating contributions represent externally restricted operating funding received for specific purposes.

	2010	2009
Deferred operating contributions, beginning of year	\$ 29,063	\$ 25,660
Less amount recognized as revenue in the year	(7,502)	(4,230)
Add amount received for future periods	13,440	7,633
	<hr/>	<hr/>
Deferred operating contributions, end of year	\$ 35,001	\$ 29,063

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

10. Deferred contributions for designated purposes:

Deferred contributions for designated purposes represent unspent contributions for research and other specified purposes. These deferred contributions will be recorded as revenue in the statement of operations when the related expenses are incurred.

	2010	2009
Deferred contributions for designated purposes, beginning of year	\$ 27,860	\$ 30,220
Less amount recognized as revenue in the year	(71,533)	(72,514)
Add amount received for future periods	73,783	70,154
Deferred contributions for designated purposes, end of year	\$ 30,110	\$ 27,860

11. Obligations under capital leases:

Certain agencies lease equipment over terms which expire between fiscal years 2012 and 2014. The following is a schedule of minimum lease payments under fixed rate capital leases, together with the balance of the obligations.

	2010	2009
2010	\$ -	\$ 286
2011	274	286
2012	213	223
2013	33	38
2014	10	15
Total minimum lease payments	530	848
Amount representing interest at a weighted average rate of 4.71% (2009 - 4.89%)	(25)	(59)
Present value of capital lease payments	505	789
Current portion of obligations under capital leases	256	255
Long-term portion of obligations under capital leases	\$ 249	\$ 534

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Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

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

The Authority's liabilities are based on an actuarial valuation as at December 31, 2009. The next required valuation will be as of December 31, 2012.

Information about retirement allowance benefits is as follows:

	2010	2009
Accrued benefit obligation:		
Sick leave benefits	\$ 10,931	\$ 10,978
Severance benefits	29,630	26,625
Total unfunded obligation	40,561	37,603
Balance of unamortized amounts	11,276	12,294
Accrued retirement allowance benefits	51,837	49,897
Less current portion	5,247	4,095
Long-term portion	\$ 46,590	\$ 45,802
Retirement allowance expense	\$ 4,236	\$ 5,226
Benefits paid	2,296	2,877

The significant actuarial assumptions adopted in measuring the Authority's retirement allowance liabilities are as follows:

	2010	2009
Accrued benefit obligation as at March 31:		
Discount rate	6.25%	7.25%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	7.25%	5.50%
Rate of compensation increase	2.50%	2.50%

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

12. Employee benefits (continued):

(b) Long-term disability 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 Authority and other provincially-funded organizations.

The Trust is a multiple-employer plan with respect to long-term disability benefits initiated after September 30, 1997. The Authority's assets and liabilities for these long-term disability benefits have been segregated. Accordingly, the Authority's net liabilities are reflected in these consolidated financial statements.

The Authority's March 31, 2010 liabilities are based on an actuarial valuation using an early measurement date of December 31, 2009. The next required valuation will be as of December 31, 2010.

Information about the employee long-term disability benefits is as follows:

	2010	2009 (Restated - note 2)
Accrued benefit obligation	\$ 41,117	\$ 32,344
Fair value of plan assets	36,154	19,705
Net unfunded obligation, December 31	4,963	12,639
Balance of unamortized amounts	(5,238)	(6,281)
Contributions to the plan, January to March	(2,386)	(2,055)
Accrued long-term disability (asset) benefits	\$ (2,661)	\$ 4,303
Long-term disability expense	\$ 8,841	\$ 7,911
Benefits paid	6,392	5,785

The plan assets consist of:

	2010	2009
Debt securities	54%	58%
Foreign equities	25	24
Equity securities	20	18
Other	1	-
Total	100%	100%

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2010

12. Employee benefits (continued):

(b) Long-term disability benefits (continued):

The significant actuarial assumptions adopted in measuring the Authority's accrued long-term disability benefits are as follows:

	2010	2009
Accrued benefit obligation as at March 31:		
Discount rate	4.90%	7.00%
Rate of benefit increase	2.50%	2.50%
Benefit cost for years ended March 31:		
Discount rate	7.00%	5.50%
Expected long-term rate of return on plan assets	6.25%	6.75%
Rate of benefit increase	2.50%	2.50%

The group life insurance, accidental death and dismemberment, extended health, dental, and pre-October 1, 1997 long-term disability claims administered by the Trust are structured as a multi-employer plan. Contributions to the Trust of \$13,250 (2009 - \$11,899) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2009 indicated a surplus of \$42,133 (December 31, 2008 - \$30,294). The plan covers approximately 80,000 active employees of which 5,890 (2009 - 5,897) are employees of the Authority. The next required valuation will be as of December 31, 2010.

While the Trust has been restructured, the Authority and all other participating employers continue to be responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

(c) Employee pension benefits:

The Authority and its employees contribute to the Municipal Pension Plan and the Public Service Pension Plan, multi-employer defined benefit pension plans governed by the *BC Public Sector Pension Plans Act*.

Employer contributions to the Municipal Pension Plan of \$32,317 (2009 - \$28,984) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2006 indicated a surplus of \$438,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 157,000 active members of which 7,163 are employees of the Authority. The next required valuation will be as at December 31, 2009. The results are not yet available.

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Notes to Consolidated Financial Statements
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Year ended March 31, 2010

12. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of \$6,318 (2009 - \$6,047) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2008 indicated an actuarial surplus of \$487,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 58,000 active members of which 1,401 are employees of the Authority. The next valuation will be as at March 31, 2011 with results available in early 2012.

13. Long-term debt:

Public private partnership obligation:

Northern Cancer Centre, 30 year contract term with
Plenary Health, interest at 8.37% per annum,
construction completion fiscal 2013

\$ 13,365

Required principal repayments on long-term debt for the years ending March 31 are:

2011	\$	-
2012		-
2013		-
2014		69
2015		75
Thereafter		13,221
	\$	13,365

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Notes to Consolidated Financial Statements
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14. Deferred capital contributions:

Deferred capital contributions represent externally restricted contributions and other funding received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations.

	2010	2009
Deferred capital contributions, beginning of year	\$ 658,393	\$ 628,485
Ministry of Health Services	59,510	69,841
Foundations	4,143	4,786
Other	10,813	12,642
	74,466	87,269
Transfer of deferred capital contributions	(6,783)	-
Less amortization for the year	(67,172)	(57,361)
Deferred capital contributions, end of year	\$ 658,904	\$ 658,393

Deferred capital contributions are comprised of the following:

	2010	2009
Contributions used to purchase capital assets	\$ 644,155	\$ 633,902
Unspent contributions	14,749	24,491
	\$ 658,904	\$ 658,393

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Notes to Consolidated Financial Statements
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15. Invested in capital assets:

(a) Invested in capital assets is calculated as follows:

	2010	2009
Capital assets	\$ 806,360	\$ 784,144
Amounts financed by:		
Deferred capital contributions	(644,155)	(633,902)
Obligations under capital leases	(505)	(789)
Long-term debt	(13,365)	-
	(658,025)	(634,691)
	\$ 148,335	\$ 149,453

(b) Deficiency of revenues over expenses:

	2010	2009
Amortization of deferred capital contributions	\$ 67,172	\$ 57,361
Amortization of capital assets	(68,078)	(58,522)
	\$ (906)	\$ (1,161)

(c) Transfer to invested in capital assets:

	2010	2009
Purchase of capital assets	\$ 90,297	\$ 108,337
Asset retirement obligations (note 16(c))	16	(320)
Amounts funded by:		
Deferred capital contributions	(77,425)	(80,097)
Long-term debt	(13,365)	-
Net book value of assets sold	(19)	-
Principal payments of obligations under capital leases	284	244
	\$ (212)	\$ 28,164

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2010

16. Commitments and contingencies:

(a) Operating leases:

The aggregate minimum future annual rentals under operating leases are as follows:

2011	\$	6,456
2012		2,624
2013		2,170
2014		1,734
2015		919
Thereafter		801
	\$	14,704

The British Columbia Mental Health Society (Riverview) Branch, British Columbia Centre for Disease Control and Prevention Society Branch and Forensic Psychiatric Services Commission lease land and buildings through an operating lease with the Accommodation of Real Estate Services (ARES) of the Ministry of Labour and Citizens' Services of British Columbia. Lease payments shown are for base rent. The terms and conditions are negotiated annually. Included in the above is \$2,598 for lease payments to ARES for the year ending March 31, 2011.

(b) Litigation and claims:

The nature of the Authority's activities is such that there will be litigation pending or in progress at any time. With respect to claims at March 31, 2010, management is of the opinion that it has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement. Risk management and insurance services for all Health Authorities in British Columbia are provided by the Risk Management Branch of the Ministry of Finance.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2010

16. Commitments and contingencies (continued):

(c) Asset retirement obligations:

The Authority has accrued asset retirement obligations of \$1,919 (2009 - \$1,815) representing the fair value of the legal obligations related to leased and owned premises after charges for accretion and depreciation. The settlement of these obligations will occur at the expiry of the leases and as owned premises undergo renovations. The fair value of the legal obligation was determined by discounting the estimated cash outflows of \$2,219 (2009 - \$2,257) over the respective lease terms and until renovations are undertaken at a credit-adjusted risk free rate of 5.26% for existing obligations and 4.02% for new obligations in 2010 (2009 - 4.90%). The asset retirement obligations have been capitalized as part of capital assets and will be amortized over the respective premise lease terms and over the time period until renovations are completed.

The Authority has not accrued asset retirement obligations for buildings that were previously acquired and may contain asbestos that require special handling procedures where there is no current plan for significant renovation, as the fair value of the retirement obligations cannot be reasonably estimated until there is a reasonably determinate settlement date for the major renovation or demolition of the buildings. These asset retirement obligations will be recognized as a liability in the period when the fair value can be reasonably estimated.

(d) Service payments:

As disclosed in note 1(m), the Authority has signed an agreement with Plenary Health to make periodic payments for facility rehabilitation and maintenance services of the BC Cancer Agency Centre for the North commencing in fiscal 2013 until the end of the agreement in fiscal 2043.

The aggregate payments under the agreement are as follows:

2011	\$	-
2012		-
2013		491
2014		986
2015		1,012
Thereafter		36,824
	\$	39,313

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Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2010

17. Other contributions:

	2010	2009
Other Health Authorities	\$ 78,941	\$ 79,113
Other Ministries	5,107	6,706
Foundations	16,031	18,468
Federal government	16,012	343
Other	1,551	3,759
	\$ 117,642	\$ 108,389

18. Other revenues:

	2010	2009
Recoveries from other Health Authorities and government reporting entities	\$ 12,082	\$ 10,248
Recoveries from sales of goods and services	16,553	15,397
Parking	3,901	3,701
Drug sales	1,684	1,818
Other	219	169
	\$ 34,439	\$ 31,333

19. Patients, clients and residents revenue:

	2010	2009
Federal government	\$ 921	\$ 687
Non-residents of British Columbia	5,319	5,584
Non-residents of Canada	948	525
Residents of British Columbia - self pay	1,187	498
Preferred accommodation	2,481	1,387
Other	527	594
	\$ 11,383	\$ 9,275

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2010

20. Compensation and benefits:

The Authority is in the process of implementing the Mental Health Plan approved by the Ministry of Health Services. The purpose of the plan is to decentralize mental health care services throughout British Columbia. The plan will be substantially completed in the coming years and will culminate in significant downsizing of the operations of British Columbia Mental Health Society (Riverview) Branch. The anticipated costs of the plan consist of severance, benefits and related expenses.

In the prior year, the financial statements included accruals for the compensation, benefits and employment security expenses of \$31,416. As at March 31, 2010, management has revised the estimated accrual due to timing changes in implementing the Mental Health Plan and revisions related to associated employment assumptions. This has resulted in a decrease in the accrual of \$12,879. During the year, costs of \$285 related to the provision were incurred. The total remaining accrual of \$18,252 is recorded in Accrued Mental Health Plan costs. These amounts represent management's best estimate of the expenses required to implement the plan. However, other expenses may be incurred and recorded in future years as the plan is implemented.

21. Referred out and contracted services:

	2010	2009
Other Health Authorities and government reporting entities	\$ 435,282	\$ 400,080
Private contractors	68,906	45,739
	<u>\$ 504,188</u>	<u>\$ 445,819</u>

22. Supplies:

	2010	2009
Drugs and medical gases	\$ 189,229	\$ 153,374
Food and dietary	4,969	5,315
Medical and surgical	44,265	44,040
Diagnostic	23,031	20,875
Printing, stationery and office	4,051	5,104
Housekeeping	849	794
Laundry and linen	640	556
Plant operation	7,022	7,551
Other	6,013	6,543
	<u>\$ 280,069</u>	<u>\$ 244,152</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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23. Sundry:

	2010	2009
Communication and data processing	\$ 4,613	\$ 4,615
Travel	6,558	8,671
Professional fees	18,353	28,554
Other	18,421	27,886
	<u>\$ 47,945</u>	<u>\$ 69,726</u>

24. Abbotsford Regional Hospital and Cancer Centre:

The Abbotsford Regional Hospital and Cancer Centre (ARHCC) commenced providing services in August 2008. Under the terms of an agreement, Access Health Abbotsford Ltd. (AHA) will maintain the ARHCC until May 2038. Payment guarantees have been provided by the Province of British Columbia for the payment obligations to AHA.

The PHSA and the Fraser Health Authority own Abbotsford Regional Hospital and Cancer Centre Inc. (ARHCC Inc.) in accordance with the Share Transfer Agreement whereby 102 common shares of ARHCC Inc. are held by the Fraser Health Authority and 18 common shares are held by the PHSA. The shares were acquired at a cost of one dollar per share. The investment has been recorded at cost.

25. Statement of cash flows:

	2010	2009
Changes to non-cash operating items:		
Restricted cash	\$ 12	\$ 15
Accounts receivable	(20,775)	39,357
Inventories	(22,984)	(3,396)
Prepaid expenses	(92)	(494)
Accounts payable and accrued liabilities	(9,345)	26,378
Deferred operating contributions	5,938	3,403
Deferred contributions for designated purposes	2,250	(2,360)
	<u>\$ (44,996)</u>	<u>\$ 62,903</u>
Supplementary information:		
Cash paid for interest on capital leases	\$ 31	\$ 46
Non-cash transactions:		
Additions (reductions) to asset retirement obligations	16	(320)
Capital asset additions funded through Plenary Health (note 7)	13,365	-

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Notes to Consolidated Financial Statements
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Year ended March 31, 2010

26. Related parties:

(a) Foundations and auxiliaries:

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

The following branches of the Authority have an economic interest in the foundations and auxiliaries listed under them:

British Columbia Cancer Agency Branch:
BC Cancer Foundation

British Columbia Transplant Society Branch:
British Columbia Transplant Foundation

Children's & Women's Health Centre of British Columbia Branch:
British Columbia's Children's Hospital Foundation
Sunny Hill Foundation for Children
British Columbia's Women's Hospital and Health Centre Foundation
The Auxiliary to British Columbia's Children's Hospital
British Columbia's Women's Hospital and Health Centre Auxiliary
Auxiliary to Sunny Hill Centre for Children
Women's Health Research and Policy of C.E.W.H Society

British Columbia Mental Health Society (Riverview) Branch:
British Columbia Mental Health Foundation

British Columbia Centre for Disease Control and Prevention Society Branch:
BCCDC Foundation for Population and Public Health

During the year, the Authority received the following contributions from the foundations:

	2010	2009
Operations, net	\$ 2,356	\$ 2,320
Research	14,042	17,824
Other designated purposes, net	26,990	36,387
Capital	3,098	3,238
	<u>\$ 46,486</u>	<u>\$ 59,769</u>

At March 31, 2010, the foundations and auxiliaries held net assets of \$169,388 (2009 - \$136,899)

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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26. Related parties (continued):

(b) SSO Administration Society

The Authority is a member of the SSO Administration Society (the Society). The Authority's financial statements include the following balances and transactions with the Society:

Revenue:	
Recovery of administrative services and compensation	\$ 359
Expenses:	
Referred out to the Society	1,363
Capital contributions:	
The Authority received \$6,000 capital contributions on behalf of the Society which was transferred to the Society during the year.	

At March 31, 2010, the Society had a net receivable from the Authority of \$4,903.

(c) Acquisition of land:

On March 31, 2009, the Authority acquired a parcel of land located in Vancouver, British Columbia, from a related party. The land was recorded at \$28,150 which included other costs of \$1,000 attributable to the acquisition. The value of the land was supported by an independent third party valuation.

27. Capital management:

PHSA receives its principal source of capital through funding received from the Ministry of Health Services. The Authority defines capital to be net assets.

The Authority's objective when managing capital is to fund its operations and capital asset additions, and to conduct research in the field of health care. PHSA manages the capital structure in conjunction with the Ministry of Health Services and makes adjustments based on available government funding and economic conditions. Currently, the Authority's strategy is to monitor expenditures to preserve capital in accordance with budgeted funding granted by the Ministry of Health Services.

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

28. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.