

Consolidated Financial Statements
(Expressed in thousands of dollars)

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2011



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 June 23, 2011.

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
June 23, 2011



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INDEPENDENT AUDITORS' REPORT

To the Board of Provincial Health Services Authority

We have audited the accompanying consolidated financial statements of Provincial Health Services Authority which comprise the consolidated statement of financial position as at March 31, 2011, the consolidated statements of operations, changes in net assets (deficiency) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Provincial Health Services Authority as at March 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

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

June 23, 2011
Vancouver, Canada

PROVINCIAL HEALTH SERVICES AUTHORITY

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

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	\$ 72,213	\$ 48,557
Restricted cash	189	167
Short-term investments (note 2)	19,983	16,328
Accounts receivable (note 3)	124,545	95,908
Inventories of materials and supplies (note 4)	47,336	57,971
Prepaid expenses	8,149	5,823
	<u>272,415</u>	<u>224,754</u>
Long-term investments (note 2)	35,727	46,260
Capital assets (note 5)	811,273	806,360
Long-term disability benefits (note 10(b)(i))	2,098	2,661
	<u>\$ 1,121,513</u>	<u>\$ 1,080,035</u>


Liabilities and Net Assets (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 242,872	\$ 215,895
Deferred operating contributions (note 7)	21,215	35,001
Deferred contributions for designated purposes (note 8)	39,592	30,110
Current portion of obligations under capital leases (note 9)	207	256
Current portion of retirement allowance (note 10(a))	5,139	5,247
	<u>309,025</u>	<u>286,509</u>
Long-term obligations under capital leases (note 9)	43	249
Retirement allowance (note 10(a))	54,159	46,590
Asset retirement obligations (note 14(d))	1,928	1,919
Long-term debt (note 11)	14,356	13,365
Deferred capital contributions (note 12)	668,929	658,904
	<u>1,048,440</u>	<u>1,007,536</u>
Net assets (deficiency):		
Invested in capital assets (note 13(a))	148,754	148,335
Internally restricted	448	448
Unrestricted	(76,129)	(76,284)
	<u>73,073</u>	<u>72,499</u>
	<u>\$ 1,121,513</u>	<u>\$ 1,080,035</u>


Commitments and contingencies (note 14)
Subsequent event (note 22)

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, 2011, with comparative figures for 2010

	2011	2010
Revenues:		
Ministry of Health contributions	\$ 1,351,171	\$ 1,282,456
Medical Services Plan	162,935	170,319
Other contributions (note 15(a))	109,779	117,642
Other (note 15(c))	88,086	34,439
Amortization of deferred capital contributions	69,425	67,172
Patients, clients and residents (note 15(b))	13,742	11,383
Pharmacare	6,072	5,511
Investment income	2,365	2,620
Research and designated contributions	78,593	71,533
	<u>1,882,168</u>	<u>1,763,075</u>
Expenses:		
Compensation and benefits (note 16)	785,341	720,570
Referred-out and contracted services (note 15(d))	537,099	504,188
Supplies (note 15(e))	276,318	280,069
Equipment and building services	73,221	70,024
Amortization of capital assets	70,482	68,078
Sundry (note 15(f))	60,450	47,945
Accretion of asset retirement obligations	90	88
Research and designated expenses	78,593	71,533
	<u>1,881,594</u>	<u>1,762,495</u>
Excess of revenues over expenses	\$ 574	\$ 580

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, 2011, with comparative figures for 2010

	Invested capital assets	Internally restricted	Unrestricted	Total	
				2011	2010
Balance, beginning of the year	\$ 148,335	\$ 448	\$ (76,284)	\$ 72,499	\$ 71,919
Excess (deficiency) of revenues over expenses	(1,057)	-	1,631	574	580
Transfer to invested in capital assets (note 13(c))	1,476		(1,476)	-	-
Balance, end of year	\$ 148,754	\$ 448	\$ (76,129)	\$ 73,073	\$ 72,499

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, 2011, with comparative figures for 2010

	2011	2010
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 574	\$ 580
Items not involving cash:		
Amortization of capital assets	70,482	68,078
Amortization of deferred capital contributions	(69,425)	(67,172)
Accretion of asset retirement obligations	90	88
Transfer of deferred capital contributions	-	(6,783)
Retirement allowance expense	11,103	4,236
Long-term disability benefits expense	10,101	8,841
Net change in non-cash operating items (note 18)	2,323	(44,996)
	25,248	(37,128)
Cash flows from investing activities:		
Purchase of investments	(10,799)	(15,485)
Proceeds from redemption of investments	17,677	27,650
Purchase of capital assets	(74,485)	(76,932)
Proceeds from disposal of capital assets	-	19
	(67,607)	(64,748)
Cash flows from financing activities:		
Capital contributions	79,450	74,466
Repayment of capital leases	(255)	(284)
Retirement allowance benefits paid	(3,642)	(2,296)
Long-term disability benefits contributions	(9,538)	(15,805)
	66,015	56,081
Increase (decrease) in cash	23,656	(45,795)
Cash, beginning of year	48,557	94,352
Cash, end of year	\$ 72,213	\$ 48,557

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, 2011

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 and is one of six Health Authorities in British Columbia ("BC"). The Authority is dependent on the Ministry of Health 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;
- Health Shared Services BC;
- 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 BC 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 19(c). On September 17, 2010, the Society transferred all assets and liabilities to Health Shared Services BC, a division of PHSA.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

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.

The consolidated financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries (see note 19(b)) that support the activities of the Authority and other organizations that provide services under contracts with the Authority.

(b) Revenue recognition:

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

Under the *Hospital 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.

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. Contributions restricted for the purchase of non-depreciable capital assets are recognized as a direct increase in net assets.

(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, 2011

1. Significant accounting policies (continued):

(e) Inventories of materials and supplies:

Inventories are recorded at the lower of weighted average cost and replacement cost. 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
Leasehold improvements	Lease term to a maximum of 20 years
Building service equipment	15 - 20 years
Equipment	3 - 20 years
Software license fees	3 - 5 years
Equipment 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.

(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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

1. Significant accounting policies (continued):

(i) Employee future benefits (continued):

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 (2010 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined long-term disability benefits is 10 years (2010 - 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 (see note 16). Actual results could differ from the estimates.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

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 consolidated 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 benefits, 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 consolidated statement of changes in net assets until the financial instruments are de-recognized or other than temporarily impaired at which time the amounts are recorded in the consolidated 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's financial instruments include cash, restricted cash, short-term investments, accounts receivable, long-term investments, accounts payable and accrued liabilities, and long-term debt. 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 2.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

The Authority has elected not to apply 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.

(m) Capitalization of public private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets are estimated at fair value, based on progress billings verified by an independent certifier, and also includes other costs incurred by the Authority. 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 during construction is also included in the asset cost and is calculated on the P3 asset value, less contributions received during the construction term. The interest rate used is the project internal rate of return. Upon completion, the project assets will be amortized over their estimated useful lives.

Correspondingly, an obligation net of the contributions received, during the construction period, is recorded as a liability and included in the long-term debt. The obligation will be met as part of the monthly payments over the term of the Project Agreement.

Upon substantial completion, the private sector partner receives monthly payments to cover the partners' operating costs, financing costs and a return of their capital.

(n) Future accounting framework:

Effective April 1, 2012, the Authority will be transitioning to Public Sector Accounting Standards ("PSAB") on a retrospective basis. The Authority is reviewing the impact of this change on the financial statements.

2. 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

2. Investments (continued):

The cost and quoted market value of the investments are as follows:

2011	Amortized cost	Market value
Short-term bonds	\$ 19,983	\$ 20,153
Long-term bonds	35,727	35,912
	\$ 55,710	\$ 56,065

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

3. Accounts receivable:

	2011	2010
Other health authorities and BC government reporting entities	\$ 31,154	\$ 5,407
Medical Services Plan	2,159	2,071
Patients, clients and agencies	4,630	5,090
Ministry of Health	43,325	48,308
Hospital foundations and auxiliaries	18,456	11,679
Research grants	3,749	4,566
Federal and provincial sales taxes	6,023	2,753
Other	16,950	18,181
	126,446	98,055
Less allowance for doubtful accounts	(1,901)	(2,147)
	\$ 124,545	\$ 95,908

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

4. Inventories of materials and supplies:

The Authority's inventories of \$47,336 (2010 - \$57,971) 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, \$200,993 (2010 - \$200,874) of inventories were expensed by the Authority.

At March 31, 2011, inventories includes \$3,996 (2010 - \$18,438) of pandemic biologicals inventory which expire between fiscal years 2012 to 2013 and \$21,863 (2010 - \$17,908) which expire between fiscal years 2014 to 2017.

5. Capital assets:

2011	Cost	Accumulated depreciation	Net book value
Land	\$ 141,250	\$ -	\$ 141,250
Land improvements	2,083	2,031	52
Buildings	614,390	179,594	434,796
Building service equipment	33,936	10,167	23,769
Construction in progress	53,216	-	53,216
Leasehold improvements	19,045	10,994	8,051
Equipment	489,331	358,000	131,331
Equipment under capital lease	1,282	1,118	164
Equipment in progress	18,465	-	18,465
Software license fees	17,098	16,919	179
	\$ 1,390,096	\$ 578,823	\$ 811,273

2010	Cost	Accumulated depreciation	Net book value
Land	\$ 141,250	\$ -	\$ 141,250
Land improvements	2,083	2,022	61
Buildings	588,437	163,443	424,994
Building service equipment	29,518	7,396	22,122
Construction in progress	52,086	-	52,086
Leasehold improvements	18,608	9,423	9,185
Equipment	466,852	328,047	138,805
Equipment under capital lease	1,282	850	432
Equipment in progress	17,181	-	17,181
Software license fees	16,994	16,750	244
	\$ 1,334,291	\$ 527,931	\$ 806,360

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

Year ended March 31, 2011

5. Capital assets (continued):

The British Columbia Cancer Agency Branch ("BCCA") entered into a multi-year public-private-partnership contract with the private sector partner Plenary Health Prince George GP ("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 parkade was completed in summer 2010 and is in use.

The cost of the asset is estimated at fair value, based on progress billings verified by an independent certifier, and also includes costs incurred by the Authority. 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 amounts repaid during the construction term. The interest rate used is 8.37%. During the year, \$679 (2010 - \$58) of interest has been capitalized to construction in progress.

The total construction budget for the Cancer Centre project is \$69,912, with Plenary Health contributing funding of \$13,618 (approximately 22%) into the project. The balance of the funding has been committed by the Ministry of Health. In addition, the Ministry of Health will provide \$22,760 of capital funds for equipment and information technology, planning and procurement, and other capital expenditures. As at March 31, 2011, there was \$36,024 (2010 - \$25,135) included in construction in progress related to this project and \$11,756 (2010 - nil) included in buildings related to this project.

6. Accounts payable and accrued liabilities:

	2011	2010
Trade accounts payable and accrued liabilities	\$ 128,059	\$ 119,358
Salaries and benefits payable	55,209	39,568
Accrued vacation pay	44,202	38,550
Accrued Mental Health Plan costs (note 16)	15,213	18,252
Patient trust funds	189	167
	<u>\$ 242,872</u>	<u>\$ 215,895</u>

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

Year ended March 31, 2011

7. Deferred operating contributions:

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

	2011	2010
Deferred operating contributions, beginning of year	\$ 35,001	\$ 29,063
Less amount recognized as revenue in the year	(16,385)	(7,502)
Add amount received for future periods	2,599	13,440
Deferred operating contributions, end of year	\$ 21,215	\$ 35,001

8. 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.

	2011	2010
Deferred contributions for designated purposes, beginning of year	\$ 30,110	\$ 27,860
Less amount recognized as revenue in the year	(78,593)	(71,533)
Add amount received for future periods	88,075	73,783
Deferred contributions for designated purposes, end of year	\$ 39,592	\$ 30,110

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Notes to Consolidated Financial Statements
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Year ended March 31, 2011

9. 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.

	2011	2010
2011	\$ -	\$ 274
2012	216	213
2013	33	33
2014	10	10
Total minimum lease payments	259	530
Amount representing interest at a weighted average rate of 3.52% (2010 - 4.71%)	(9)	(25)
Present value of capital lease payments	250	505
Current portion of obligations under capital leases	207	256
Long-term portion of obligations under capital leases	\$ 43	\$ 249

10. 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 or employee 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 independent actuarial valuation performed as at the early measurement date of December 31, 2009 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2011 are derived, and an extrapolation of the valuation performed as at December 31, 2009, from which the March 31, 2011 accrued benefit obligations are derived. The next required valuation will be as of December 31, 2012.

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

Year ended March 31, 2011

10. Employee benefits (continued):

(a) Retirement allowance (continued):

Information about retirement allowance benefits is as follows:

	2011	2010
Accrued benefit obligation:		
Sick leave benefits	\$ 14,926	\$ 10,931
Severance benefits	35,670	29,630
Total unfunded obligation	50,596	40,561
Balance of unamortized amounts	8,702	11,276
Accrued retirement allowance benefits	59,298	51,837
Current portion	5,139	5,247
Long-term portion	\$ 54,159	\$ 46,590
Retirement allowance expense	\$ 11,103	\$ 4,236
Benefits paid	3,642	2,296

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

	2011	2010
Accrued benefit obligation as at March 31:		
Discount rate	5.25%	6.25%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	6.25%	7.25%
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, 2011

10. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits:

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

(i) Long-term disability benefits:

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, 2011 liabilities are based on an actuarial valuation using an early measurement date of December 31, 2010. The next required valuation will be as of December 31, 2011.

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

	2011	2010
Accrued benefit obligation	\$ 49,852	\$ 41,117
Fair value of plan assets	41,510	36,154
Net unfunded obligation, December 31	8,342	4,963
Balance of unamortized amounts	(7,546)	(5,238)
Contributions to the plan, January to March	(2,894)	(2,386)
Accrued long-term disability (asset) benefits	\$ (2,098)	\$ (2,661)
Long-term disability expense	\$ 10,101	\$ 8,841
Benefits paid	6,999	6,392

The plan assets consist of:

	2011	2010
Debt securities	54%	54%
Foreign equities	25	25
Equity securities	20	20
Other	1	1
	100%	100%

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

Year ended March 31, 2011

10. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

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

	2011	2010
Accrued benefit obligation as at March 31:		
Discount rate	4.30%	4.90%
Rate of benefit increase	2.50%	2.50%
Benefit cost for years ended March 31:		
Discount rate	4.90%	7.00%
Expected long-term rate of return on plan assets	6.00%	6.25%
Rate of benefit increase	2.50%	2.50%

(ii) Other Trust benefits:

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 \$15,685 (2010 - \$13,250) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2010 indicated a surplus of \$17,300 (December 31, 2009 - \$42,133). The plan covers approximately 85,000 active employees of which 7,149 (2010 - 5,890) are employees of the Authority. The next required valuation will be as of December 31, 2011.

The Authority and all other participating employers are 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 \$36,411 (2010 - \$32,317) 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, 2009 indicated an unfunded liability of \$1,024,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 163,000 active members of which 8,674 are employees of the Authority. The next required valuation will be as at December 31, 2012, with results available in 2013.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

10. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of \$5,944 (2010 - \$6,318) 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 1,317 are employees of the Authority. The next valuation will be as at March 31, 2011 with results available in early 2012.

11. Long-term debt:

	2011	2010
Public private partnership obligation: Northern Cancer Centre, 30 year contract term with Plenary Health, interest at 8.37% per annum, construction completion fiscal 2013	\$ 14,356	\$ 13,365

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

2013	\$	-
2014		-
2015		69
2016		75
2017		82
Thereafter		14,130
	\$	14,356

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

12. 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 consolidated statement of operations.

	2011	2010
Deferred capital contributions, beginning of year	\$ 658,904	\$ 658,393
Ministry of Health	65,390	59,510
Foundations and auxiliaries	7,265	4,143
Other	6,795	10,813
	79,450	74,466
Transfer of deferred capital contributions	-	(6,783)
Amortization for the year	(69,425)	(67,172)
Deferred capital contributions, end of year	\$ 668,929	\$ 658,904

Deferred capital contributions are comprised of the following:

	2011	2010
Contributions used to purchase capital assets	\$ 647,913	\$ 644,155
Unspent contributions	21,016	14,749
	\$ 668,929	\$ 658,904

13. Invested in capital assets:

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

	2011	2010
Capital assets	\$ 811,273	\$ 806,360
Amounts financed by:		
Deferred capital contributions	(647,913)	(644,155)
Obligations under capital leases	(250)	(505)
Long-term debt	(14,356)	(13,365)
	(662,519)	(658,025)
	\$ 148,754	\$ 148,335

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

13. Invested in capital assets (continued):

(b) Deficiency of revenues over expenses:

	2011	2010
Amortization of deferred capital contributions	\$ 69,425	\$ 67,172
Amortization of capital assets	(70,482)	(68,078)
	\$ (1,057)	\$ (906)

(c) Transfer to invested in capital assets:

	2011	2010
Purchase of capital assets	\$ 75,476	\$ 90,297
Asset retirement obligations (note 14(d))	(81)	16
Amounts funded by:		
Deferred capital contributions	(73,183)	(77,425)
Long-term debt	(991)	(13,365)
Net book value of assets sold	-	(19)
Principal payments of obligations under capital leases	255	284
	\$ 1,476	\$ (212)

14. Commitments and contingencies:

(a) Operating leases:

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

2012	\$ 6,948
2013	3,731
2014	2,369
2015	1,872
2016	1,027
Thereafter	8
	\$ 15,955

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

14. Commitments and contingencies (continued):

(a) Operating leases (continued):

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 Shared Services BC ("SSBC") of the Ministry of Labour, Citizens' Services & Open Government. Lease payments shown are for base rent. The terms and conditions are negotiated annually. Included in the above is \$2,685 for lease payments to SSBC for the year ending March 31, 2012.

(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, 2011, 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.

(c) Risk management:

Risk management and insurance services for all Health Authorities in British Columbia are provided by the Risk Management Branch of the Ministry of Finance.

(d) Asset retirement obligations:

The Authority has accrued asset retirement obligations of \$1,928 (2010 - \$1,919) 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 \$2,243 (2010 - \$2,219) over the respective lease terms and until renovations are undertaken at a credit-adjusted risk free rate of 5.26% for existing obligations and 4.81% for new obligations (2010 - 4.02%). 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

14. Commitments and contingencies (continued):

(e) 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:

2013	\$	543
2014		1,098
2015		1,162
2016		1,307
2017		1,426
Thereafter		58,509
	\$	64,045

15. Statement of operations:

(a) Other contributions:

	2011	2010
Other health authorities	\$ 78,941	\$ 78,941
Foundations and auxiliaries	14,555	16,031
Federal government	7,729	16,012
Other Ministries	5,720	5,107
Other	2,834	1,551
	\$ 109,779	\$ 117,642

(b) Patients, clients and residents revenue:

	2011	2010
Non-residents of BC	\$ 5,398	\$ 5,319
Preferred accommodation	2,508	2,481
Residents of BC - self pay	2,334	1,187
Federal government	1,433	921
Non-residents of Canada	1,348	948
Other	721	527
	\$ 13,742	\$ 11,383

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

15. Statement of operations (continued):

(c) Other revenues:

	2011	2010
Recoveries from other health authorities and BC government reporting entities	\$ 63,528	\$ 12,082
Recoveries from sales of goods and services	17,833	16,553
Parking	4,207	3,901
Drug sales	1,655	1,684
Other	863	219
	\$ 88,086	\$ 34,439

(d) Referred out and contracted services:

	2011	2010
Other health authorities and BC government reporting entities	\$ 459,676	\$ 435,282
Private contractors	77,423	68,906
	\$ 537,099	\$ 504,188

(e) Supplies:

	2011	2010
Drugs and medical gases	\$ 186,186	\$ 189,229
Medical and surgical	48,192	44,265
Diagnostic	20,258	23,031
Plant operation	7,391	7,022
Food and dietary	3,743	4,969
Printing, stationery and office	3,599	4,051
Laundry and linen	650	640
Housekeeping	522	849
Other	5,777	6,013
	\$ 276,318	\$ 280,069

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

15. Statement of operations (continued):

(f) Sundry:

	2011	2010
Professional fees	\$ 23,502	\$ 18,353
Travel	6,997	6,558
Communication and data processing	4,017	4,613
Other	25,934	18,421
	<hr/>	<hr/>
	\$ 60,450	\$ 47,945

16. Compensation and benefits:

The Authority is in the process of implementing the Mental Health Plan approved by the Ministry of Health. 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 \$18,252. As at March 31, 2011, management has revised the estimated accrual to account for the reduction in the number of eligible employees. This has resulted in a decrease in the accrual of \$1,172. During the year, \$1,867 was paid out as severance, benefits and related expenses. The total remaining accrual of \$15,213 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.

17. 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2011

18. Statement of cash flows:

(a) Net change in non-cash operating items:

	2011	2010
Net change in non-cash operating items:		
Restricted cash	\$ (22)	\$ 12
Accounts receivable	(28,637)	(20,775)
Inventories	10,635	(22,984)
Prepaid expenses	(2,326)	(92)
Accounts payable and accrued liabilities	26,977	(9,345)
Deferred operating contributions	(13,786)	5,938
Deferred contributions for designated purposes	9,482	2,250
	\$ 2,323	\$ (44,996)

(b) Purchase of capital assets:

Assets purchased or acquired through debt or other non-cash transactions are excluded from purchase of capital assets on the statement of cash flows.

	2011	2010
Purchase of capital assets (note 13(c))	\$ 75,476	\$ 90,297
Supplementary information:		
Cash paid for interest on capital leases	\$ 17	\$ 31
Non-cash transactions:		
Additions (reductions) to asset retirement obligations	(81)	16
Capital asset additions funded through Plenary Health (note 5)	991	13,365

19. Related parties:

The Authority is related through common ownership to all Province of British Columbia ministries, agencies, Crown corporations, school districts, health authorities, hospital societies, universities, and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are considered in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2011

19. Related parties (continued):

(a) The financial statements include transactions with these parties in the following amounts:

	2011	2010
Revenues:		
Ministry of Health contributions	\$ 1,351,171	\$ 1,282,456
Medical Services Plan	162,935	170,319
Other contributions	84,286	84,048
Amortization of deferred capital contributions	69,425	67,172
Other	61,750	10,302
Pharmacare	6,072	5,511
Patients, clients and residents	5,398	5,319
	\$ 1,741,037	\$ 1,625,127
Expenses:		
Referred out and contracted services	\$ 461,623	\$ 443,682
Compensation and benefits	34,972	33,428
Equipment and building services	32,068	15,634
Research and designated expenses	8,586	4,468
Sundry	8,224	4,472
Supplies	6,682	6,307
	\$ 552,155	\$ 507,991
Accounts receivable:		
Other health authorities and BC government reporting entities	\$ 31,154	\$ 5,407
Medical Services Plan	2,159	2,071
Ministry of Health	43,325	48,308
	\$ 76,638	\$ 55,786
Accounts payable and accrued liabilities	\$ 52,637	\$ 42,013
Deferred operating contributions	\$ 14,680	\$ 21,209
Deferred capital contributions	\$ 472,682	\$ 463,934

(b) Foundations and auxiliaries:

The following foundations and auxiliaries were established to raise funds for the respective hospitals and/or health services within the 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 consolidated statements of the Authority.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

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19. Related parties (continued):

(b) Foundations and auxiliaries (continued):

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
British Columbia Centre of Excellence for Women's Health 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:

	2011	2010
Operations, net	\$ 2,049	\$ 2,356
Research	13,953	14,042
Other designated purposes, net	39,320	26,990
Capital	8,708	3,098
	<u>\$ 64,030</u>	<u>\$ 46,486</u>

At March 31, 2011, the foundations and auxiliaries held net assets of \$199,501 (2010 - \$169,388).

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2011

19. Related parties (continued):

(c) 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:

	2011	2010
Revenues:		
Recovery of administrative services and compensation	\$ 210	\$ 359
Expenses:		
Referred out to the Society	\$ 2,045	\$ 1,363

On September 17, 2010, the Society transferred all assets and liabilities to Health Shared Services BC, which is a division of PHSA.

20. Capital management:

PHSA receives its principal source of capital through funding received from the Ministry of Health. The Authority defines capital to be net assets, long-term debt and deferred capital contributions.

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 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.

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.

21. Comparative figures:

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

22. Subsequent event:

Effective April 1, 2011, the financial operations of the Emergency and Health Services Commission ("EHSC") were transferred to PHSA to align BC's pre-hospital services with the health care system. The fiscal 2012 annual operating budget of EHSC is approximately \$300 million.