

Consolidated Financial Statements of

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2014

**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 the financial reporting framework disclosed in note 1(a) to these consolidated financial statements, and include amounts based upon management's best estimates and judgments. The accounting principles of the financial reporting framework were consistently applied. 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 26, 2014.

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, comprising 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 statement 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 PricewaterhouseCoopers, 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, comply with the *Budget Transparency and Accountability Act* of the Province of British Columbia in presenting the Authority's financial position, results of operations, changes in net debt and cash flows in accordance with the financial reporting framework disclosed in note 1(a) to these consolidated financial statements. Their Auditor's Report, which follows, outlines the scope of their examination and their opinion.



Carl Roy
President and Chief Executive Officer



Thomas Chan
Chief Financial Officer

Vancouver, BC
June 26, 2014



June 26, 2014

Independent Auditor's Report

To the Board of Provincial Health Services Authority and Minister of Health, Province of British Columbia

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, 2014 and the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia, 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.

Auditor's 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation 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 is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and the related notes, are prepared, in all material respects, in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

Emphasis of matter

Without modifying our opinion, we draw your attention to note 1 to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 21 to the consolidated financial statements discloses the impact of these differences.

PricewaterhouseCoopers LLP

Chartered Accountants

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Financial Position
(Amounts expressed in thousands of dollars)

As at March 31, 2014

	2014	2013
Financial assets		
Cash and cash equivalents (note 2)	\$ 103,168	\$ 95,566
Portfolio investments	65,122	76,928
Accounts receivable (note 3)	197,936	192,906
Inventories held for sale (note 4)	14,473	12,228
Long-term disability benefits (note 10(b)(i))	20,299	11,145
BC Public Service Long-term Disability Plan (note 10(c))	-	1,273
	<u>400,998</u>	<u>390,046</u>
Liabilities		
Accounts payable and accrued liabilities (note 5)	343,230	343,494
Deferred operating contributions (note 6)	17,003	9,849
Deferred research and designated contributions (note 7)	43,767	50,495
Asset retirement obligations (note 8)	3,480	5,067
Debt (note 9)	73,056	73,093
Retirement allowance (note 10(a))	78,277	71,751
BC Public Service Long-term Disability Plan (note 10(c))	195	-
Deferred capital contributions (note 11)	818,293	784,917
	<u>1,377,301</u>	<u>1,338,666</u>
Net debt	<u>\$ (976,303)</u>	<u>\$ (948,620)</u>
Non-financial assets		
Tangible capital assets (note 12)	\$ 988,093	\$ 958,838
Inventories held for use (note 13)	46,645	51,062
Prepaid expenses	13,059	9,694
	<u>1,047,797</u>	<u>1,019,594</u>
Accumulated surplus	<u>\$ 71,494</u>	<u>\$ 70,974</u>

Commitments and contingencies (note 14)

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 and Accumulated Surplus
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

	2014 Budget (note 1(o))	2014	2013
Revenues:			
Ministry of Health contributions	\$ 1,747,246	\$ 1,769,694	\$ 1,818,660
Recoveries from other health authorities and BC government reporting entities	253,442	458,509	217,891
Medical Services Plan	175,678	176,226	174,426
Other contributions (note 15(a))	89,767	99,556	98,959
Research and designated contributions (note 7)	106,500	93,624	80,749
Amortization of deferred capital contributions (note 11)	75,196	85,438	77,752
Other (note 15(b))	22,822	36,615	30,760
Patients, clients and residents (note 15(c))	12,312	15,992	17,389
Pharmacare	6,224	6,390	5,808
Investment income	2,206	1,821	2,101
	<u>2,491,393</u>	<u>2,743,865</u>	<u>2,524,495</u>
Expenses (note 15(d)):			
Acute	1,810,828	1,801,677	1,744,859
Corporate	251,806	492,385	289,321
Population health and wellness	195,590	189,560	208,251
Mental health and substance use	108,136	129,875	161,205
Community care	123,378	128,093	118,422
Residential care	1,655	1,755	1,655
	<u>2,491,393</u>	<u>2,743,345</u>	<u>2,523,713</u>
Annual surplus	\$ -	\$ 520	\$ 782
Accumulated surplus, beginning of year	70,974	70,974	70,192
Accumulated surplus, end of year	\$ 70,974	\$ 71,494	\$ 70,974

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Changes in Net Debt
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

	2014 Budget (note 1(o))	2014	2013
Annual surplus	\$ -	\$ 520	\$ 782
Acquisition of tangible capital assets	(97,100)	(116,052)	(103,940)
Asset retirement obligations	-	4	(583)
Amortization of tangible capital assets	76,418	89,197	82,318
Contributed tangible capital assets	-	(2,405)	-
Capitalized interest	-	-	(285)
	(20,682)	(28,736)	(21,708)
Acquisition of inventories held for use	-	(200,829)	(196,435)
Acquisition of prepaid expenses	-	(70,049)	(52,878)
Consumption of inventories held for use	-	203,836	192,797
Use of prepaid expenses	-	66,685	51,807
Write-off of inventories held for use	-	1,410	-
	-	1,053	(4,709)
Increase in net debt	(20,682)	(27,683)	(26,417)
Net debt, beginning of year	(948,620)	(948,620)	(922,203)
Net debt, end of year	\$ (969,302)	\$ (976,303)	\$ (948,620)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Cash Flows
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

	2014	2013
Cash flows from (used in) operating activities:		
Annual surplus	\$ 520	\$ 782
Items not involving cash:		
Amortization of deferred capital contributions	(85,438)	(77,752)
Accretion of asset retirement obligations	33	250
Amortization of tangible capital assets	89,197	82,318
Fair value of transferred land	(366)	-
Write-off of inventory held for use	1,410	-
Reduction of asset retirement obligations	(1,388)	(1,237)
Transfer of HealthCare Pool Surplus	(4,322)	-
Retirement allowance expense	11,528	7,614
Long-term disability benefits expense	7,114	8,934
BC Public Service Long-term Disability Plan expense (income)	1,557	(365)
Interest expense	5,728	5,417
Interest income	(1,821)	(2,101)
	23,752	23,860
Net change in non-cash operating items (note 17(a))	(10,548)	68,889
Interest received	2,916	2,911
Interest paid	(5,707)	(5,736)
Net change in cash from operating activities	10,413	89,924
Capital activities:		
Asset retirement costs paid	(228)	(535)
Acquisition of tangible capital assets (note 17(b))	(105,264)	(103,851)
Net change in cash from capital activities	(105,492)	(104,386)
Investing activities:		
Proceeds from disposal and redemption of portfolio investments	15,631	27,815
Purchase of portfolio investments	(4,920)	(41,264)
Net change in cash from investing activities	10,711	(13,449)
Financing activities:		
Retirement allowance benefits paid	(5,002)	(4,796)
Long-term disability benefits contributions	(11,946)	(12,073)
Contributions to BC Public Service Long-term Disability Plan	(89)	(12,438)
Repayment of debt	(58)	(47)
Capital contributions	109,065	100,083
Net change in cash from financing activities	91,970	70,729
Increase in cash and cash equivalents	7,602	42,818
Cash and cash equivalents, beginning of year	95,566	52,748
Cash and cash equivalents, end of year	\$ 103,168	\$ 95,566

Supplementary cash flow information (note 17)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

Provincial Health Services Authority (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 (the “Ministry”) and is one of six health authorities in British Columbia (“BC”). The Authority is dependent on the Ministry 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* 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 (collectively referred to as “Agencies”) of the Authority are:

- British Columbia Cancer Agency Branch;
- British Columbia Centre for Disease Control and Prevention Society Branch;
- British Columbia Emergency Health Services Corporation;
- British Columbia Mental Health Society (Riverview) Branch;
- British Columbia Provincial Renal Agency;
- British Columbia Transplant Society Branch;
- Cardiac Services British Columbia;
- Children’s & Women’s Health Centre of British Columbia Branch;
- Forensic Psychiatric Services Commission; and
- Health Shared Services BC.

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.

On April 1, 2013 according to Bill 7 – 2013, *Emergency and Health Services Amendment Act, 2013*, the Emergency Health Services Commission (“EHSC”) was established as a corporation, with the name changed to the British Columbia Emergency Health Services Corporation.

During the year ended March 31, 2013, operations of British Columbia Mental Health Society (Riverview) Branch ceased. The patients and relevant staff were transferred to regional health authorities.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies:

(a) Basis of accounting:

The consolidated financial statements have been prepared in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of BC supplemented by Regulations 257/2010 and 198/2011 issued by the Province of BC Treasury Board, referred to as the financial reporting framework (the “framework”).

The *Budget Transparency and Accountability Act* requires that the consolidated financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards (“PSAS”) issued by the Canadian Public Sector Accounting Board (“PSAB”) without any PS 4200 series.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions, and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal periods during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.
- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions or deferred research and designated contributions, and recognized in revenue in the year in which the stipulation or restriction on the contributions has been met by the Authority.

For BC tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of PSAS which requires that:

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS 3410, *Government Transfers*;
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified, in accordance with PS 3100, *Restricted Assets and Revenues*; and
- deferred contributions meet liability criteria in accordance with PS 3200, *Liabilities*.

As a result, revenue recognized in the consolidated statement of operations and certain deferred capital contributions would be recorded differently under PSAS. The impact of accounting for restricted contributions in accordance with Regulation 198/2011 is disclosed in note 21.

(b) Basis of consolidation:

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of Agencies which are controlled by the Authority. The Agencies are fully consolidated in these financial statements. Inter-Agency transactions, balances and activities have been eliminated on consolidation.

The Authority, acting on behalf of the British Columbia Cancer Agency Branch ("BCCA"), and the Fraser Health Authority own Abbotsford Regional Hospital and Cancer Centre Inc. ("ARHCC Inc.") in accordance with the Share Transfer Agreement whereby 102 (85%) common shares of ARHCC Inc. are held by the Fraser Health Authority and 18 (15%) common shares are held by the Authority. BCCA's interest in ARHCC Inc. is recorded on a proportional consolidation basis in these consolidated financial statements.

The Authority has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Authority and/or provide services under contracts. As the Authority does not control these organizations, the consolidated financial statements do not include the assets, liabilities, and results of operations of these entities (see note 18(b)).

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These investments generally have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(d) Portfolio investments:

Portfolio investments include money market instruments, banker's acceptances, pooled money market funds, treasury bills and bonds and are recorded at cost adjusted for any write-downs. Transaction costs are recorded using the effective interest rate method.

Write-downs of investments are recognized when the loss in value is determined to be other-than-temporary. Write-downs are not reversed in the future if circumstances change.

(e) Accounts receivable:

Accounts receivable are recorded at amortized cost less an amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and the net recoverable value when risk of loss exists. Changes in valuation allowance are recognized in the consolidated statement of operations.

(f) Inventories held for sale:

Inventories held for sale are recorded at the lower of weighted average cost or net realizable value. Cost includes the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition. Net realizable value is the estimated selling price less any costs to sell.

Inventories held for sale include pharmaceutical, medical/surgical, and other materials and supplies.

(g) Asset retirement obligations:

The Authority recognizes an asset retirement obligation in the period in which it incurs a legal or constructive obligation associated with the retirement of a tangible capital asset, including leasehold improvements resulting from the acquisition, construction, development, and/or normal use of the asset.

The obligation is measured at the best estimate of the future cash flows required to settle the liability, discounted at estimated credit-adjusted risk-free discount rates. The estimated amount of the asset retirement cost is capitalized as part of the carrying value of the related tangible capital asset and is amortized over the life of the asset.

The liability is accreted to reflect the passage of time. At each reporting date, the Authority reviews its asset retirement obligations to reflect current best estimates. Asset retirement obligations are adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or discount rates, with the offsetting amount recorded to the carrying amount of the related asset.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(h) Employee benefits:

(i) Defined benefit obligations, including multiple employer benefit plans:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple employer defined long-term disability benefit plans 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. Plan assets are measured at fair value.

The cumulative unrecognized actuarial gains and losses on retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefits is 10 years (2013 - 10 years). Actuarial gains and losses on event-driven benefits such as long-term disability benefits are recognized immediately.

The discount rate used to measure the obligations is based on the Province of BC's cost of borrowing if there are no plan assets. Where there are plan assets, the discount rate is the rate of return on plan assets. The cost of a plan amendment or the crediting of past service is accounted for entirely in the year that the plan change is implemented.

(ii) Defined contribution plans and multi-employer benefit plans:

Defined contribution plan accounting is applied to multi-employer defined benefit plans and, accordingly, contributions are expensed when they become payable.

(iii) Accumulating, non-vesting benefit plans:

Benefits that accrue to employees, which do not vest, such as sick leave banks for certain employee groups, are accrued as the employees render services to earn the benefits, based on estimates of the expected future settlements.

(iv) Non-accumulating, non-vesting benefit plans:

For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the Authority to pay benefits occurs.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(i) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset and overhead directly attributable to construction and development. Interest is capitalized over the development period whenever external debt is issued to finance the construction and development of tangible capital assets.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Basis
Land improvements	20 years
Buildings	15 – 50 years
Equipment	3 – 20 years
Information systems	3 – 5 years
Leasehold improvements	Lease term to a maximum of 20 years
Vehicles	4 – 7 years

Assets under construction or development are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. The write-downs of tangible capital assets are recorded in the consolidated statement of operations. Write-downs are not subsequently reversed.

Contributed tangible capital assets are recorded at their fair value on the date of contribution. Such fair value becomes the cost of the contributed asset. When fair value of a contributed asset cannot be reliably determined, the asset is recorded at nominal value.

(ii) Inventories held for use:

Inventories held for use are recorded at the lower of weighted average cost and replacement cost. Cost includes the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition. Replacement cost is the estimated current price to replace the items. Certain specific inventory items are purchased on consignment and are not included in inventory.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(iii) Prepaid expenses:

Prepaid expenses are recorded at cost and amortized over the period during which the service benefits are received.

(j) Revenue recognition:

Under the *Hospital Insurance Act and Regulation* thereto, the Authority is funded primarily by the Province of BC in accordance with budget management plans and performance agreements established and approved by the Ministry.

Revenues are recognized on an accrual basis in the period in which the transactions or events occurred that gave rise to the revenues, the amounts are considered to be collectible and can be reasonably estimated.

Revenues related to fees or services received in advance of the fees being earned or the services being performed are deferred and recognized when the fees are earned or services are performed.

Unrestricted contributions are recognized as revenue when receivable if the amounts can be estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue depending on the nature of the restrictions on the use of the funds by the contributors as described in note 1(a).

Volunteers contribute a significant amount of their 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 consolidated 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.

Contributions for the acquisition of land, or contributions of land, are recorded as revenue in the period of acquisition or transfer of title.

(k) Measurement uncertainty:

The preparation of consolidated 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.

Significant areas requiring the use of estimates include the valuation of accounts receivable, the estimated useful lives of tangible capital assets, amounts to settle asset retirement obligations, contingent liabilities, the future costs to settle employee benefit obligations and accrued liabilities resulting from implementing the Mental Health Plan (see note 16).

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(k) Measurement uncertainty (continued):

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from the estimates.

(l) Foreign currency translation:

The Authority's functional currency is the Canadian dollar. Foreign currency transactions are translated at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Any gain and loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the consolidated statement of operations.

(m) Financial instruments:

Financial instrument classification is determined upon inception and financial instruments are not reclassified into another measurement category for the duration of the period they are held.

Financial assets and financial liabilities, other than derivatives, equity instruments quoted in an active market and financial instruments designated at fair value, are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are measured at cost. Accounts receivable are recorded at cost less any amount for valuation allowance. Portfolio investments, other than equity investments quoted in an active market, are reported at cost less any write-downs associated with a loss in value that is other than a temporary decline. All debt and other financial liabilities are recorded using cost or amortized cost.

Interest and dividends attributable to financial instruments are reported in the consolidated statement of operations.

All financial assets recorded at amortized cost are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Transaction costs for financial instruments measured using cost or amortized cost are added to the carrying value of the financial instrument. Transaction costs for financial instruments measured at fair value are expensed when incurred.

A financial liability or its part is derecognized when it is extinguished.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(m) Financial instruments (continued):

Management evaluates contractual obligations for the existence of embedded derivatives and elects to either designate the entire contract for fair value measurement or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. Contracts to buy or sell non-financial items for the Authority's normal purchase, sale or usage requirements are not recognized as financial assets or financial liabilities.

(n) 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 under construction is estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred by the Authority.

The asset cost includes 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 and amounts repaid, during the construction term. The interest rate used is the project internal rate of return. When available for operations, the project assets are amortized over their estimated useful lives.

Correspondingly, an obligation for the cost of capital and financing received to date, net of contributions received, is recorded as a liability and included in debt. Upon substantial completion, the private sector partner receives monthly payments over the term of the project agreement to cover the partner's operating costs, financing costs and a return of their capital.

(o) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2013/2014 Budget approved by the Board of Directors on August 21, 2013 and published in the Authority's Service Plan. The budget is reflected in the consolidated statement of operations and accumulated surplus and the consolidated statement of changes in net debt.

(p) Future accounting standards:

In June 2010, PSAB issued PS 3260, *Liability for Contaminated Sites*. PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments. The main features of the standard are as follows:

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(p) Future accounting standards (continued):

- A liability should be recognized when contamination of a site or part of a site not in productive use exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for the damage;
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

PS 3260 is effective for the Authority's fiscal year ending March 31, 2015. Management is continuously assessing the potential impact of adoption of PS 3260 on the consolidated financial statements of the Authority. The magnitude of the impact of PS 3260 on the consolidated financial statements will depend on the existence of contaminated sites as at March 31, 2015, if any.

2. Cash and cash equivalents:

	2014	2013
Cash and cash equivalents	\$ 102,990	\$ 95,418
Restricted cash	178	148
	<u>\$ 103,168</u>	<u>\$ 95,566</u>

Restricted cash is related to patient trust accounts.

3. Accounts receivable:

	2014	2013
Other health authorities and BC government reporting entities	\$ 79,960	\$ 57,425
Medical Services Plan	37,660	45,526
Ministry of Health	16,786	27,374
Other grantors	14,853	15,100
Foundations and auxiliaries	10,484	12,150
Patients, clients and residents	10,331	8,768
Federal government	5,492	9,959
Other	30,656	22,600
	<u>206,222</u>	<u>198,902</u>
Allowance for doubtful accounts	(8,286)	(5,996)
	<u>\$ 197,936</u>	<u>\$ 192,906</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2014

4. Inventories held for sale:

	2014	2013
Medical supplies	\$ 14,006	\$ 11,658
Pharmaceuticals	467	570
	<u>\$ 14,473</u>	<u>\$ 12,228</u>

During the year, \$191,274 (2013 – \$8,047) of inventories were sold by the Authority.

As at March 31, 2013, the Authority assumed ownership of medical supplies inventory. The medical supplies inventory is held in the shared services facility warehouse managed by Health Shared Services BC. This inventory is distributed to Lower Mainland health authorities.

5. Accounts payable and accrued liabilities:

	2014	2013
Trade accounts payable and accrued liabilities	\$ 197,499	\$ 194,896
Salaries and benefits payable	82,680	87,252
Accrued vacation pay	58,310	55,671
Long-term accounts payable	3,775	3,774
Accrued Mental Health Plan costs (note 16)	788	1,753
Patient trust funds	178	148
	<u>\$ 343,230</u>	<u>\$ 343,494</u>

Long-term accounts payable are long-term payment obligations in relation to construction of Abbotsford Regional Hospital and Cancer Centre.

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Notes to Consolidated Financial Statements
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Year ended March 31, 2014

6. Deferred operating contributions:

Deferred operating contributions represent government transfers from the Ministry, other ministries and the federal government in the form of externally restricted operating funding received for various programs including Riverview site closure and evaluation costs, the pandemic drug inventory initiative, funding the e-Health and Panorama data conversion projects and the Clinical Systems Transformation Initiative.

	2014	2013
Deferred operating contributions, beginning of year	\$ 9,849	\$ 13,049
Contributions received during the year	9,329	729
Amounts recognized as revenue in the year	(2,175)	(3,929)
Deferred operating contributions, end of year	\$ 17,003	\$ 9,849

7. Deferred research and designated contributions:

Deferred research and designated contributions represent unspent contributions received to fund research and other activities. Contributions are received from Canadian Institute of Health Research, Canadian Cancer Society Research Institute, Genome Canada, Terry Fox Research Institute, National Institutes of Health, foundations, pharmaceutical companies and other donors, for various research projects in the fields of diagnostics, treatment and prevention, clinical trials, health promotion, and other special purpose initiatives.

Government transfers	2014	2013
Deferred research and designated contributions, beginning of year	\$ 5,703	\$ 4,590
Contributions received during the year	19,149	14,664
Amounts recognized as revenue in the year	(20,376)	(15,175)
Amounts to be received in future periods	2,876	1,624
Deferred research and designated contributions, end of year	\$ 7,352	\$ 5,703

PROVINCIAL HEALTH SERVICES AUTHORITY

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Year ended March 31, 2014

7. Deferred research and designated contributions (continued):

Other contributions	2014	2013
Deferred research and designated contributions, beginning of year	\$ 44,792	\$ 46,741
Contributions received during the year	57,570	63,735
Transferred to deferred capital contributions	(4,086)	(9,277)
Amounts recognized as revenue in the year	(73,248)	(65,574)
Amounts recognized in revenue from operations	(600)	(2,835)
Amounts to be received in future periods	11,987	12,002
Deferred research and designated contributions, end of year	\$ 36,415	\$ 44,792
	2014	2013
Government transfers	\$ 7,352	\$ 5,703
Other contributions	36,415	44,792
Balance, end of year	\$ 43,767	\$ 50,495

8. Asset retirement obligations:

	2014	2013
Asset retirement obligations, beginning of year	\$ 5,067	\$ 6,006
New obligations	248	204
Incurred costs	(228)	(535)
Change in estimates	(1,640)	(858)
Accretion	33	250
Asset retirement obligations, end of year	\$ 3,480	\$ 5,067

The Authority has accrued asset retirement obligations representing the estimated cost to settle obligations related to leased and owned premises and land at future dates. The settlement of these obligations will occur at the expiry of the leases and as owned premises undergo renovations, or as land reclamation activities occur.

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8. Asset retirement obligations (continued):

The value of the obligations is management's best estimate of the obligations, determined by discounting the estimated cash outflows of \$3,711 (2013 – \$5,197) over the term to expected settlement, at a credit-adjusted risk-free rate of 1.50% (2013 – 1.02% – 1.60%). Estimated future cash flows are adjusted for an inflation factor of 2.00% (2013 – 2.00%).

The asset retirement obligations have been capitalized as part of related tangible capital assets. The asset retirement obligations capitalized in respect of leasehold improvements are amortized over the term until settlements are completed. The asset retirement obligations capitalized in respect of land are not amortized.

The Authority has certain asset retirement obligations relating to several of its facilities that may contain asbestos which may require special handling procedures. The Authority has not recognized asset retirement obligations where there are no current approved plans and the timing of the future demolition or renovation of the facilities is unknown and therefore the value of the future obligations cannot be reasonably estimated. These asset retirement obligations will be recognized as a liability in the period when their value can be reasonably estimated.

9. Debt:

	2014	2013
P3:		
Abbotsford Regional Hospital and Cancer Centre, 30 year contract to May 2038 with Access Health Abbotsford Ltd., payable in accordance with the project agreement terms including annual interest of 7.75%	\$ 56,623	\$ 56,602
Northern Cancer Centre, 30 year contract to September 2042 with Plenary Health, payable in monthly payments of \$117 including annual interest of 8.09% in accordance with the project agreement terms	16,433	16,491
	<u>\$ 73,056</u>	<u>\$ 73,093</u>

Required principal repayments on P3 debt for the years ending March 31 are disclosed in note 14(d).

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Notes to Consolidated Financial Statements
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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 collective 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 actuarial valuation as at the early measurement date of December 31, 2012 and extrapolated to March 31, 2014 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2014 are derived. The next expected valuation will be as of December 31, 2015.

Information about retirement allowance benefits is as follows:

	2014	2013
Accrued benefit obligation:		
Severance benefits	\$ 49,310	\$ 45,113
Sick leave benefits	25,690	21,703
	75,000	66,816
Unamortized actuarial gain	3,277	4,935
Accrued benefit obligation	\$ 78,277	\$ 71,751

The accrued benefit obligation for retirement allowance reported on the consolidated statement of financial position is as follows:

	2014	2013
Accrued benefit obligation, beginning of year	\$ 71,751	\$ 68,933
Net benefit expense:		
Current service cost	5,581	5,282
Plan amendment	3,329	243
Interest expense	3,145	2,976
Amortization of actuarial gain	(527)	(386)
Net benefit expense	11,528	8,115
Benefits paid	(5,002)	(4,796)
Accrued benefit obligation transferred to other health authorities	-	(501)
Accrued benefit obligation, end of year	\$ 78,277	\$ 71,751

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2014

10. Employee benefits (continued):

(a) Retirement allowance (continued):

The significant actuarial assumptions adopted in measuring the Authority's accrued retirement benefit obligation are as follows:

	2014	2013
Accrued benefit obligation as at March 31:		
Discount rate	4.26%	4.41%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	4.41%	4.44%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

(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.

The Authority and all other participating employers are jointly responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

(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 Trust (assets) liabilities are reflected in these consolidated financial statements.

The Authority's (assets) liabilities are based on the actuarial valuation at December 31, 2013, with the next expected valuation as of December 31, 2014.

The long-term disability benefits (asset) obligation reported on the consolidated statement of financial position is as follows:

	2014	2013
Accrued benefit obligation	\$ 50,652	\$ 43,549
Fair value of plan asset	(70,951)	(54,694)
Net funded asset	\$ (20,299)	\$ (11,145)

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2014

10. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

	2014	2013
Long-term disability benefits asset, beginning of year	\$ (11,145)	\$ (8,006)
Net benefit expense:		
Long-term disability expense	12,347	12,325
Interest expense	2,709	2,445
Employee payments	(1,088)	(855)
Expected return on assets	(3,170)	(2,729)
Actuarial gain	(6,837)	(2,252)
Net benefit expense	3,961	8,934
Contributions to the plan	(11,946)	(12,073)
Transfer of HealthCare Pool Surplus	(4,322)	-
Effect of change in plan valuation date	3,153	-
Long-term disability benefits asset, end of year	\$ (20,299)	\$ (11,145)
Benefits paid to claimants	\$ 8,176	\$ 7,330
Plan assets consist of:		
	2014	2013
Debt securities	44%	52%
Foreign equities	40	27
Equity securities and other	16	21
Total	100%	100%

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

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 long-term disability benefit (asset) liabilities are as follows:

	2014	2013
Accrued benefit asset as at March 31:		
Discount rate	5.80%	5.60%
Rate of benefit increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	5.60%	5.50%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%
Expected long-term rate of return on plan assets	5.60%	5.50%

Actual long-term rate of return on plan assets was 14.30% for the year ended December 31, 2013 (December 31, 2012 – 6.00%).

(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 \$20,962 (2013 – \$19,343) were expensed during the year. The most recent actuarial valuation at December 31, 2013 indicated a surplus of \$62,476 (December 31, 2012 – \$62,476). The plan covers approximately 90,000 active members, of which approximately 7,300 are employees of the Authority. The next expected actuarial valuation will be as of December 31, 2014.

(c) BC Public Service Long-term Disability Plan:

The BC Public Service administers the Long-term Disability Plan (the "Plan") for the former employees of British Columbia Mental Health Society (Riverview) Branch, the Forensics Psychiatric Services Commission and other provincially-funded organizations. The Plan is a multiple employer plan. The Authority's assets and liabilities for these long-term disability benefits have been segregated. Accordingly, the Authority's net plan (assets) liabilities are reflected in these consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2014

10. Employee benefits (continued):

(c) BC Public Service Long-term Disability Plan (continued):

The Authority's (assets) liabilities are based on the actuarial valuation at September 30, 2013, with the next expected valuation as of September 30, 2014.

The BC Public Service Long-term Disability Plan (asset) obligation reported on the consolidated statement of financial position is as follows:

	2014	2013
Accrued benefit obligation	\$ 2,575	\$ 875
Fair value of plan asset	(2,380)	(2,148)
Net funded obligation (asset)	\$ 195	\$ (1,273)
	2014	2013
Long-term disability benefits (asset) obligation, beginning of year	\$ (1,273)	\$ 11,530
Net benefit expense:		
Actuarial loss (gain)	191	(3,065)
Administration expense	71	77
Long-term disability expense	60	1,854
Expected return on assets	(77)	326
Contributions to other employee benefit plans	-	579
Net benefit expense (income)	245	(229)
Effect of change in plan valuation date	81	-
Contributions to the Plan	(89)	(12,438)
Assumption of Plan asset	-	(136)
Transfer of BC Public Service Long-term Disability Plan to the Province	1,231	-
Long-term disability benefits obligation (asset), end of year	\$ 195	\$ (1,273)

(d) 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*, and to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Amounts expressed in thousands of dollars)

Year ended March 31, 2014

10. Employee benefits (continued):

(d) Employee pension benefits (continued):

Employer contributions to the Municipal Pension Plan of \$56,852 (2013 – \$43,596) 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 December 31, 2012 indicated an unfunded liability of approximately \$1,370,000. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 179,000 active members, of which approximately 10,400 are employees of the Authority (2013 – 10,200). The next expected valuation will be as of December 31, 2015.

Employer contributions to the Public Service Pension Plan of \$19,721 (2013 – \$18,878) 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, 2011 indicated an unfunded liability of approximately \$226,000. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 56,000 active members, of which approximately 4,100 are employees of the Authority (2013 – 4,100). The next actuarial valuation was as of March 31, 2014. The results of this valuation are not yet available.

The Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan is a single employer defined contribution plan. Employer contributions to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan of \$2,753 were expensed during the year (2013 - \$2,646). As at March 31, 2014, the plan covered approximately 1,400 active members, all of which are employees of the Authority.

11. Deferred capital contributions:

Deferred capital contributions represent externally restricted contributions and other funding received for the purchase of tangible capital assets.

	2014	2013
Deferred capital contributions, beginning of year	\$ 784,917	\$ 762,586
Capital contributions received:		
Ministry of Health	109,165	87,428
Foundations and auxiliaries	6,150	5,496
Other	3,499	7,159
	118,814	100,083
Amortization for the year	(85,438)	(77,752)
Deferred capital contributions, end of year	\$ 818,293	\$ 784,917

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11. Deferred capital contributions (continued):

Deferred capital contributions comprise the following:

	2014	2013
Contributions used to purchase tangible capital assets	\$ 781,264	\$ 749,830
Unspent contributions	37,029	35,087
	<u>\$ 818,293</u>	<u>\$ 784,917</u>

12. Tangible capital assets:

Cost	2013	Additions	Disposals	Transfers	2014
Land	\$ 141,943	\$ 1,375	\$ -	\$ -	\$ 143,318
Land improvements	2,339	-	-	-	2,339
Buildings	804,476	4,067	-	18,848	827,391
Equipment	398,098	12,448	(10,288)	10,931	411,189
Information systems	198,268	6,282	-	17,581	222,131
Leasehold improvements	23,465	1,103	(251)	10,389	34,706
Vehicles	76,845	8,013	(8,735)	-	76,123
Construction in progress	37,746	53,618	-	(39,485)	51,879
Equipment and information systems in progress	20,588	31,798	-	(18,264)	34,122
Total	\$1,703,768	\$ 118,704	\$ (19,274)	\$ -	\$1,803,198

Accumulated amortization	2013	Amortization	Disposals	2014
Land improvements	\$ 2,090	\$ 14	\$ -	\$ 2,104
Buildings	237,499	24,266	-	261,765
Equipment	293,183	29,811	(10,287)	312,707
Information systems	151,403	24,150	-	175,553
Leasehold improvements	14,544	3,049	-	17,593
Vehicles	46,211	7,907	(8,735)	45,383
Total	\$ 744,930	\$ 89,197	\$ (19,022)	\$ 815,105

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12. Tangible capital assets (continued):

Cost	2012	Additions	Disposals	Transfers	2013
Land	\$ 141,943	\$ -	\$ -	\$ -	\$ 141,943
Land improvements	2,339	-	-	-	2,339
Buildings	710,145	196	-	94,135	804,476
Equipment	370,250	12,590	(7,948)	23,206	398,098
Information systems	181,027	1,817	(24,680)	40,104	198,268
Leasehold improvements	23,168	636	(1,279)	940	23,465
Vehicles	68,643	10,645	(2,443)	-	76,845
Construction in progress	104,665	52,669	-	(119,588)	37,746
Equipment and information systems in progress	33,130	26,255	-	(38,797)	20,588
Total	\$1,635,310	\$ 104,808	\$ (36,350)	\$ -	\$ 1,703,768

Accumulated amortization	2012	Amortization	Disposals	2013
Land improvements	\$ 2,076	\$ 14	\$ -	\$ 2,090
Buildings	214,638	22,861	-	237,499
Equipment	270,924	30,217	(7,958)	293,183
Information systems	156,864	19,209	(24,670)	151,403
Leasehold improvements	13,527	2,296	(1,279)	14,544
Vehicles	40,933	7,721	(2,443)	46,211
Total	\$ 698,962	\$ 82,318	\$ (36,350)	\$ 744,930

Net book value	2014	2013
Land	\$ 143,318	\$ 141,943
Land improvements	235	249
Buildings	565,626	566,977
Equipment	98,482	104,915
Information systems	46,578	46,865
Leasehold improvements	17,113	8,921
Vehicles	30,740	30,634
Construction in progress	51,879	37,746
Equipment and information systems in progress	34,122	20,588
Total	\$ 988,093	\$ 958,838

Contributed tangible capital assets total \$9,683 (2013 – \$nil).

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12. Tangible capital assets (continued):

Tangible capital assets are funded as follows:

	2014	2013
Deferred capital contributions	\$ 781,264	\$ 749,830
Internally funded	129,998	132,141
Debt	76,831	76,867
Tangible capital assets	\$ 988,093	\$ 958,838

13. Inventories held for use:

	2014	2013
Medical supplies	\$ 32,731	\$ 37,217
Pharmaceuticals	13,914	13,845
	\$ 46,645	\$ 51,062

At March 31, 2014, inventories held for use include \$5,514 of pandemic biologicals inventory which expires in fiscal year 2016 and \$16,349 which expires in fiscal year 2017.

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Notes to Consolidated Financial Statements
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Year ended March 31, 2014

14. Commitments and contingencies:

- (a) Construction, equipment and information systems in progress:

As at March 31, 2014, the Authority had outstanding commitments for construction, equipment and information systems in progress of \$624,148 (2013 – \$47,455).

- (b) Contractual obligations:

The Authority has entered into various contracts for services within the normal course of operations. The estimated contractual obligations under these contracts are as follows:

	Contract term	2015	2016	2017	2018	2019
Air transportation services	2011-2015	\$ 12,561	\$ -	\$ -	\$ -	-
Ambulance transportation	2013-2015	4,773	-	-	-	-
Information Management & Technology	2012-2024	21,395	14,235	2,485	2,485	2,485
Physician service	2012-2015	23,909	-	-	-	-
Food	2010-2015	1,557	-	-	-	-
Housekeeping	2010-2015	3,268	-	-	-	-
Other	2013-2018	3,434	2,753	2,753	2,738	-
		\$ 70,897	\$ 16,988	\$ 5,238	\$ 5,223	\$ 2,485

- (c) Operating leases:

The aggregate minimum future annual rentals under operating leases for the years ending March 31 are as follows:

2015	\$ 20,907
2016	16,091
2017	10,599
2018	9,563
2019	9,313
Thereafter	83,866
	\$ 150,339

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14. Commitments and contingencies (continued):

(d) Public-private partnerships commitments:

ARHCC Inc. entered into a multi-year P3 contract with the private sector partner Access Health Abbotsford Ltd. ("AHA"). Under the agreement, AHA designed, constructed, financed and will maintain the Abbotsford Regional Hospital and Cancer Centre facilities until the end of the term of the agreement in May 2038. Payment guarantees have been provided by the Province of BC for the payment obligations to AHA.

BCCA entered into a multi-year P3 contract with the private sector partner Plenary Health Prince George GP ("Plenary Health") to build the BC Cancer Agency Centre for the North in Prince George, BC. Under the agreement, Plenary Health designed, constructed, financed and will maintain the facilities until the end of the term of the agreement in September 2042. Payment guarantees have been provided by the Province of BC for the payment obligations to Plenary Health.

The information presented below shows the anticipated cash outflow for future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. The asset values are recorded as tangible capital assets and the corresponding liabilities are recorded as debt and disclosed in note 9. FM and lifecycle payments to the private partners are contingent on specified performance criteria and include an estimation of inflation, where applicable.

	Capital and financing	FM and lifecycle	Total payments
2015	\$ 6,158	\$ 2,498	\$ 8,656
2016	6,235	2,720	8,955
2017	6,325	3,186	9,511
2018	6,417	2,832	9,249
2019	6,511	3,086	9,597
Thereafter	157,661	90,830	248,491
	<u>\$ 189,307</u>	<u>\$ 105,152</u>	<u>\$ 294,459</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2014

14. Commitments and contingencies (continued):

(d) Public-private partnerships commitments (continued):

Required principal repayments on P3 debt for the years ending March 31 included in capital and financing commitments above are as follows:

2015	\$	151
2016		236
2017		350
2018		470
2019		603
Thereafter		71,246
	\$	73,056

(e) Litigation and claims:

Risk management and insurance services for all health authorities in BC are provided by the Risk Management and Government Security Branch of the Ministry of Finance.

The nature of the Authority's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2014, management is of the opinion that the Authority 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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15. Statement of operations:

(a) Other contributions:

	2014	2013
Other health authorities	\$ 78,941	\$ 78,941
Foundations and auxiliaries	13,967	12,269
Other ministries	4,188	4,574
Federal government	516	208
Other	1,944	2,967
	\$ 99,556	\$ 98,959

(b) Other revenues:

	2014	2013
Recoveries from sales of goods and services	\$ 23,730	\$ 23,367
Parking	4,488	4,162
Drug sales	1,528	1,664
Other	6,869	1,567
	\$ 36,615	\$ 30,760

(c) Patients, clients and residents:

	2014	2013
Non-residents of BC	\$ 8,448	\$ 7,840
Preferred accommodation	2,499	2,746
Non-residents of Canada	2,138	2,850
Federal government	735	1,152
Workers' Compensation Board	601	686
Residents of BC self pay	527	1,224
Other	1,044	891
	\$ 15,992	\$ 17,389

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2014

15. Statement of operations (continued):

(d) The following is a summary of expenses by object:

	2014	2013
Compensation:		
Compensation	\$ 1,015,814	\$ 956,584
Employee benefits	209,200	187,742
Gain on event-driven employee benefits	(6,646)	(2,252)
	1,218,368	1,142,074
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	486,793	530,025
Health and support services providers	106,920	137,733
	593,713	667,758
Supplies:		
Drugs and medical gases	194,167	184,998
Medical and surgical	59,539	55,123
Diagnostic	21,184	20,482
Printing, stationery and office	4,623	4,715
Food and dietary	4,040	3,536
Laundry and linen	2,155	2,030
Housekeeping	825	733
Other	17,867	18,234
	304,400	289,851
Cost of inventories sold to other health authorities	183,189	-
Equipment and building services:		
Equipment	114,063	104,202
Rent	44,068	44,427
Plant operations (utilities)	8,366	6,409
Building and grounds service contracts	5,325	10,822
	171,822	165,860
Research and designated expenses	91,604	81,102
Amortization of tangible capital assets	89,197	82,318
Sundry:		
Professional fees	37,010	37,534
Travel	9,114	10,582
Communication and data processing	8,617	7,535
Patient transport	626	628
Other	29,924	32,804
	85,291	89,083
Interest on debt	5,728	5,417
Accretion of asset retirement obligations	33	250
	\$ 2,743,345	\$ 2,523,713

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Year ended March 31, 2014

16. Compensation and benefits:

The Authority is in the process of implementing the Mental Health Plan (the "Plan") approved by the Ministry. The purpose of the Plan is to decentralize mental health care services throughout BC. The Plan culminated in cessation of the operations of British Columbia Mental Health Society (Riverview) Branch during the year ended March 31, 2013. Plan costs consist of severance, benefits and related expenses.

In the prior year, the consolidated financial statements included accruals for the compensation, benefits and employment security expenses of \$1,753. As at March 31, 2014, management has revised the estimated accrual to account for the reduction in the number of eligible employees, which resulted in a decrease in the accrual of \$490. During the year, \$475 was paid out as severance, benefits and related expenses. The total remaining accrual of \$788 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. Supplementary cash flow information:

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

	2014	2013
Accounts receivable	\$ (5,030)	\$ 44,875
Inventories held for sale	(2,245)	(11,651)
Accounts payable and accrued liabilities	(263)	44,410
Deferred operating contributions	4,075	(3,200)
Deferred research and designated contributions	(6,728)	(836)
Inventories held for use	3,007	(3,638)
Prepaid expenses	(3,364)	(1,071)
	\$ (10,548)	\$ 68,889

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17. Supplementary cash flow information (continued):

(b) Acquisition of tangible capital assets:

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

	2014	2013
Contributed tangible capital assets	\$ 12,088	\$ -
Tangible capital asset additions at ARHCC Inc.	-	89
(Reductions) additions to asset retirement obligations (note 8)	(4)	583
Tangible capital asset additions funded through Plenary Health (note 12)	-	285
	\$ 12,084	\$ 957

18. Related parties and other agencies:

(a) BC government reporting entities:

The Authority is related through common control to all Province of BC 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 to be 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.

The consolidated financial statements include transactions and balances with these parties in the following amounts:

	2014	2013
Revenues:		
Ministry of Health contributions	\$ 1,769,694	\$ 1,818,660
Recoveries from other health authorities and BC government reporting entities	458,509	217,891
Medical Services Plan	176,226	174,426
Other contributions	83,129	83,682
Amortization of deferred capital contributions	68,352	62,864
Research and designated contributions	15,573	11,777
Patients, clients and residents	8,448	7,840
Pharmacare	6,390	5,808
Other	659	674
	\$ 2,586,980	\$ 2,383,622

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18. Related parties and other agencies (continued):

(a) BC government reporting entities (continued):

	2014	2013
Expenses:		
Referred-out and contracted services	\$ 484,806	\$ 530,025
Compensation and benefits	26,479	27,823
Equipment and building services	24,045	39,432
Supplies	15,756	9,075
Research and designated expenses	8,620	8,543
Sundry	7,980	9,191
	<u>\$ 567,686</u>	<u>\$ 624,089</u>
Accounts receivable:		
Other health authorities and BC government reporting entities	\$ 79,960	\$ 57,425
Medical Services Plan	37,660	45,526
Ministry of Health	16,786	27,374
	<u>\$ 134,406</u>	<u>\$ 130,325</u>
Accounts payable and accrued liabilities	\$ 68,721	\$ 71,552
Deferred operating contributions	13,350	5,222
Deferred research and designated contributions	1,721	2,015
Deferred capital contributions	609,169	579,590
	<u>\$ 692,961</u>	<u>\$ 658,379</u>

(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 auxiliaries are separate legal entities incorporated under the *Society Act of British Columbia* with separate governance structures. The foundations and some of the auxiliaries are registered charities under the provisions of the *Income Tax Act of Canada*. The financial and non-financial assets and liabilities and results from operations of the foundations and auxiliaries are not included in the consolidated financial statements of the Authority.

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18. Related parties and other agencies (continued):

(b) Foundations and auxiliaries (continued):

The following branches of the Authority have economic relationships with the foundations and auxiliaries listed under them:

British Columbia Cancer Agency Branch:
BC Cancer Foundation

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

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 Foundation

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

	2014	2013
Operations, net	\$ 27,779	\$ (8,111)
Research	10,021	11,719
Other designated purposes	34,779	45,862
Capital	4,789	7,940
	<u>\$ 77,368</u>	<u>\$ 57,410</u>

19. Risk management:

The Authority is exposed to credit risk, liquidity risk and foreign exchange risk from its financial instruments. Qualitative and quantitative analysis of the significant risks from the Authority's financial instruments is provided below by type of risk.

(a) Credit risk:

Credit risk primarily arises from the Authority's cash and cash equivalents, accounts receivable and portfolio investments. The risk exposure is limited to their varying amounts at the date of the statement of financial position.

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19. Risk management (continued):

(a) Credit risk (continued):

The Authority manages credit risk by holding balances of cash and cash equivalents with reputable top rated financial institution. The portfolio investments are in low risk instruments with varying maturities held with top rated financial institution. The Authority periodically reviews its investments and is satisfied with the credit rating of the financial institution and the investment grade of its portfolio investments.

Accounts receivable primarily consist of amounts receivable from the Ministry, other health authorities and BC government reporting entities, patients, clients and agencies, hospital foundations and auxiliaries, grantors etc. To reduce the risk, the Authority periodically reviews the collectibility of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2014, the amount of allowance for doubtful accounts was \$8,286 (2013 - \$5,996).

The Authority is not exposed to significant credit risk with respect to the amounts receivable from the Ministry, other health authorities and BC government reporting entities. At March 31, the following accounts receivable were past due but not impaired:

	2014	2013
30 days	\$ 897	\$ 3,478
60 days	268	1,072
90 days	1,145	2,336
Over 120 days	11	205

(b) Liquidity risk:

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. It is the Authority's intention to meet its financial obligations through the collection of current accounts receivable, cash on hand and future funding from the Ministry. If the current funding and cash on hand were insufficient to satisfy its current obligations, the Authority has the option to sell its portfolio investments, which can be liquidated without additional cost.

The Authority's principal source of funding is from the Ministry. 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 or grant documentation. The Authority has complied with the external restrictions on the funding provided.

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19. Risk management (continued):

(b) Liquidity risk (continued):

The tables below show when various financial assets and liabilities mature:

2014				
Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 103,168	\$ -	\$ -	\$ 103,168
Portfolio investments	9,650	55,472	-	65,122
Accounts receivable	195,483	2,453	-	197,936
Total financial assets	\$ 308,301	\$ 57,925	\$ -	\$ 366,226

2014				
Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 338,900	\$ 239	\$ 4,091	\$ 343,230
Debt	151	1,659	71,246	73,056
Total financial liabilities	\$ 339,051	\$ 1,898	\$ 75,337	\$ 416,286

2013				
Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 95,566	\$ -	\$ -	\$ 95,566
Portfolio investments	15,051	61,877	-	76,928
Accounts receivable	191,799	81	1,026	192,906
Total financial assets	\$ 302,416	\$ 61,958	\$ 1,026	\$ 365,400

2013				
Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 339,204	\$ 144	\$ 4,146	\$ 343,494
Debt	69	1,197	71,827	73,093
Total financial liabilities	\$ 339,273	\$ 1,341	\$ 75,973	\$ 416,587

Debt pertaining to P3 projects is funded through the ongoing annual operating grants received from the Ministry.

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Notes to Consolidated Financial Statements
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19. Risk management (continued):

(c) Foreign exchange risk:

The Authority's operating results and financial position are reported in Canadian dollars. As the Authority operates in an international environment, some of the Authority's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Authority's operations are subject to currency transaction and translation risks.

The Authority makes payments denominated in US dollars, British pounds and other currencies. The currencies most contributing to the foreign exchange risk are the US dollar and the British pound.

Comparative foreign exchange rates as at March 31 are as follows:

		2014		2013
US dollar per Canadian dollar	\$	0.905	\$	0.984
British pound per Canadian dollar	\$	0.542	\$	0.649

The Authority has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks, as management believes that the foreign exchange risk derived from currency conversions is not significant. The foreign currency financial instruments are short-term in nature and do not give rise to significant foreign currency risk.

20. Comparative figures:

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

21. Impact of accounting for restricted contributions in accordance with Restricted Contributions Regulation 198/2011:

As disclosed in the significant accounting policies note 1(a), Regulation 198/2011 requires the Authority to recognize revenue from restricted contributions for the purpose of acquiring or developing a depreciable tangible capital asset on the same basis as the related amortization expense of the tangible capital asset. As these transfers do not contain stipulations or restrictions creating a liability over the term of the expected useful life of a related tangible capital asset, PSAS would require these contributions to be recognized in revenue as a tangible capital asset is acquired or development and construction of a tangible capital asset is complete.

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21. Impact of accounting for restricted contributions in accordance with Restricted Contributions Regulation 198/2011 (continued):

The impact of the departure from PSAS on the consolidated financial statements of the Authority is as follows:

As at March 31, 2012	
Increase in accumulated surplus	\$ 724,084
Decrease in deferred capital contributions	(724,084)
For the year ended March 31, 2013	
Increase in annual surplus	25,746
As at March 31, 2013	
Increase in accumulated surplus	749,830
Decrease in deferred capital contributions	(749,830)
For the year ended March 31, 2014	
Increase in annual surplus	31,434
As at March 31, 2014	
Increase in accumulated surplus	781,264
Decrease in deferred capital contributions	(781,264)
