

Consolidated Financial Statements
(Expressed in thousands of dollars)

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2008



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AUDITORS' REPORT

To the Board of Provincial Health Services Authority

We have audited the consolidated statement of financial position of Provincial Health Services Authority as at March 31, 2008 and the consolidated statements of operations, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

May 2, 2008

**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 May 2, 2008.

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
May 2, 2008

PROVINCIAL HEALTH SERVICES AUTHORITY

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

March 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Current assets:		
Cash	\$ 63,840	\$ 22,388
Restricted cash	194	209
Short-term investments (note 2)	15,748	20,615
Accounts receivable (note 3)	114,711	127,975
Inventories of materials and supplies	31,591	32,742
Prepays	5,237	3,928
	231,321	207,857
Long-term investments (note 2)	43,349	30,854
Long-term disability asset (note 9(b))	-	40
Capital assets (note 4)	734,649	714,499
	\$ 1,009,319	\$ 953,250

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 198,862	\$ 171,819
Deferred operating contributions (note 6)	25,660	17,620
Deferred contributions for designated purposes (note 7)	30,220	31,447
Current portion of obligations under capital leases (note 8)	244	221
Current portion of retirement allowance (note 9(a))	4,017	4,068
	259,003	225,175
Long-term obligations under capital leases (note 8)	789	962
Retirement allowance (note 9(a))	43,528	40,181
Long-term disability benefits (note 9(b))	1,000	-
Asset retirement obligations (note 12(c))	2,031	1,825
Deferred capital contributions (note 10)	628,485	611,082
	934,836	879,225
Net assets:		
Invested in capital assets (note 11(a))	122,450	108,601
Internally restricted	448	448
Unrestricted	(48,415)	(35,024)
	74,483	74,025
Commitments and contingencies (note 12)		
Subsequent event (note 20)		
	\$ 1,009,319	\$ 953,250

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, 2008, with comparative figures for 2007

	2008	2007
Revenues:		
Ministry of Health contributions	\$ 1,085,457	\$ 1,010,436
Medical Services Plan	137,242	127,153
Other contributions (note 13)	94,345	96,685
Amortization of deferred capital contributions	55,983	52,685
Other (note 14)	34,340	23,710
Patients, clients and residents (note 15)	8,235	7,250
Pharmacare	5,113	4,735
Investment income	3,435	2,739
Research and designated contributions	77,673	81,790
	<u>1,501,823</u>	<u>1,407,183</u>
Expenses:		
Compensation and benefits (note 16)	640,299	602,343
Referred-out and contracted services (note 17)	392,313	361,422
Supplies (note 18)	220,278	209,919
Depreciation of capital assets	57,189	54,030
Equipment and building services	57,549	50,471
Sundry (note 19)	55,971	46,425
Accretion of asset retirement obligations (note 12(c))	93	112
Loss on sale/disposal of capital assets	-	26
Research and designated expenses	77,673	81,790
	<u>1,501,365</u>	<u>1,406,538</u>
Excess of revenues over expenses	\$ 458	\$ 645

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, 2008, with comparative figures for 2007

	Invested in capital assets	Internally restricted	Unrestricted	Total	
				2008	2007
Balance, beginning of the year	\$ 108,601	\$ 448	\$ (35,024)	\$ 74,025	\$ 73,380
Excess (deficiency) of revenues over expenses	(1,206)	-	1,664	458	645
Transfer to invested in capital assets (note 11(c))	15,055	-	(15,055)	-	-
Balance, end of year	\$ 122,450	\$ 448	\$ (48,415)	\$ 74,483	\$ 74,025

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, 2008, with comparative figures for 2007

	2008	2007
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 458	\$ 645
Items not involving cash:		
Depreciation of capital assets	57,189	54,030
Amortization of deferred capital contributions	(55,983)	(52,685)
Loss on disposal of capital assets	-	26
Net change in non-cash operating items (note 21(a))	51,313	(43,489)
	52,977	(41,473)
Cash flows from investing activities:		
Net change in short-term investments	4,867	(6,598)
Net change in long-term investments	(12,495)	10,315
Purchase of capital assets (note 11(c))	(77,339)	(86,526)
	(84,967)	(82,809)
Cash flows from financing activities:		
Capital contributions	73,386	72,037
Additions to capital leases	79	1,232
Repayment of capital leases (note 8)	(229)	(296)
Additions to asset retirement obligations (note 12(c))	206	1,099
	73,442	74,072
Increase (decrease) in cash	41,452	(50,210)
Cash, beginning of year	22,388	72,598
Cash, end of year	\$ 63,840	\$ 22,388

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, 2008

Provincial Health Services Authority (PHSA or the Authority) was created under the *Health Authorities 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. 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*, and as such is exempt from income and capital taxes.

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

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

- British Columbia Cancer Agency Branch;
- British Columbia Centre for Disease Control and Prevention Society Branch;
- British Columbia Drug and Poison Information Centre;
- British Columbia Mental Health Society (Riverview) Branch;
- British Columbia Provincial Renal Agency;
- British Columbia Transplant Society Branch;
- Children's & Women's Health Centre of British Columbia Branch;
- Forensic Psychiatric Services Commission; and
- Women's Health Research Institute Society.

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.

These consolidated financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries (see note 22) and other organizations that provide services under contracts.

1. Significant accounting policies:

(a) Basis of presentation:

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

(b) Revenue recognition:

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2008

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Approved operating contributions are recorded as revenue in the period to which they relate and the related expenses are incurred. Where a portion of a contribution relates to a future period, it is deferred and recognized in that subsequent period.

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

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

(c) Asset and service contributions:

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

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

(d) Short-term investments:

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

(e) Inventories of materials and supplies

Inventories are recorded at the lower of weighted average cost and market value. Certain specific inventory items are purchased on consignment and are not included in inventory.

At March 31, 2008, inventories includes \$17,117 (2007 - \$16,883) of anti-viral vaccinations, which expire between fiscal years 2010 and 2011.

(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.

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Year ended March 31, 2008

1. Significant accounting policies (continued):

(g) Capital assets:

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

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

(h) Internally restricted net assets:

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

(i) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple-employer defined long-term disability benefits as employees render services to earn the benefits.

The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees, and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains and losses that exceed 10% of the benefit obligation are amortized over the average remaining service period of active covered employees. The average remaining service period of the active covered employees entitled to retirement allowance benefits is 10 years (2007 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined long-term disability benefits is 10 years (2007 - 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2008

1. Significant accounting policies (continued):

(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 and related receivables resulting from implementing the Mental Health Plan. Actual results could differ from the estimates.

(l) Financial instruments:

During the year, the Authority adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments - Disclosure and Presentation* to account for its financial assets and financial liabilities. These sections require that all non-derivative financial assets and liabilities be measured at fair value with the exception of (i) loans and receivables and held-to-maturity investments, which should be measured at amortized cost; and (ii) investments in equity instruments that do not have a quoted market price in an active market, which should be measured at cost, other than such instruments that are classified as held-for-trading.

Subsequent measurement and changes in fair value will depend on initial classification. Held for trading assets and liabilities are measured at fair value and changes in fair value are recognized in net earnings. Available for sale investments are measured at fair value with changes in fair value recorded in the statement of changes in net assets until the investment is re-recognized or other than temporarily impaired at which time the amounts would be recorded in net earnings.

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

Year ended March 31, 2008

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

These sections also require that gains and losses on financial instruments measured at fair value be recognized in net income in the periods in which they arise, with the exception of (i) unrealized gains and losses on financial assets classified as available-for-sale, which are recognized directly in net assets until the financial asset is derecognized or becomes impaired; and (ii) certain financial instruments that are part of a designated hedging relationship.

The adoption of these sections did not result in an adjustment to opening net assets.

(m) Future accounting changes:

On December 1, 2006, the Canadian Institute of Chartered Accountants (CICA) issued two new accounting standards: Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863). These new standards become effective for the Authority on April 1, 2008.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Authority is currently evaluating the impact of these accounting standards for fiscal year 2009.

2. Financial instruments:

The Authority's financial instruments include cash, restricted cash, short-term investments, accounts receivable, long-term investments, long-term disability liabilities and assets, accounts payable and accrued liabilities, accrued retirement allowance liabilities, asset retirement obligations, and obligations under capital leases. 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 accrued retirement allowance liabilities and accrued long-term disability liabilities and assets, which are disclosed in note 9, and short-term and long-term investments which are recorded at amortized cost.

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Notes to Consolidated Financial Statements
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Year ended March 31, 2008

3. Accounts receivable:

	2008	2007
Patients, clients and agencies	\$ 10,466	\$ 8,788
Ministry of Health	57,605	75,004
Hospital foundations	20,662	22,104
Federal government	5,785	-
Research grants	3,545	7,347
Goods and services tax	4,758	6,271
Other	14,246	10,704
	117,067	130,218
Less allowance for doubtful debts	(2,356)	(2,243)
	\$ 114,711	\$ 127,975

4. Capital assets:

2008	Cost	Accumulated depreciation	Net book value
Land	\$ 113,100	\$ -	\$ 113,100
Land improvements	2,083	1,812	271
Buildings	397,130	84,504	312,626
Leased buildings	80,633	5,188	75,445
Building service equipment	16,760	4,829	11,931
Construction in progress	60,438	-	60,438
Leasehold improvements	59,002	50,215	8,787
Equipment	380,917	263,323	117,594
Equipment under capital lease	1,311	321	990
Equipment in progress	32,940	-	32,940
Software licence fees	16,719	16,192	527
	\$ 1,161,033	\$ 426,384	\$ 734,649

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Notes to Consolidated Financial Statements
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Year ended March 31, 2008

4. Capital assets (continued):

2007	Cost	Accumulated depreciation	Net book value
Land	\$ 113,100	\$ -	\$ 113,100
Land improvements	2,083	1,612	470
Buildings	389,015	72,215	316,800
Leased buildings	80,056	3,584	76,472
Building service equipment	9,750	3,992	5,756
Construction in progress	42,193	-	42,193
Leasehold improvements	58,852	47,757	11,098
Equipment	358,762	229,512	129,250
Equipment under capital lease	2,419	1,238	1,182
Equipment in progress	16,133	-	16,132
Software licence fees	16,533	14,487	2,046
	\$ 1,088,896	\$ 374,397	\$ 714,499

The Children's & Women's Health Centre of British Columbia Branch began construction of the Child and Family Research Institute Building during 2006 with a budgeted construction cost of \$44,100 of which \$42,900 (2007 - \$22,383) is included in capital assets as construction in progress. Funding for this project has been committed by the PHSA and the British Columbia's Children's Hospital Foundation.

The British Columbia Cancer Agency Branch (the "Branch") has a lease agreement with the BC Cancer Foundation relating to the British Columbia Cancer Research Centre. The lease is for a 50-year term expiring 2055, at nominal annual rent, and the Branch is responsible for all operating costs. As the lease term represents the full economic life of the asset, the Research Centre building is included in the capital assets of the Branch.

5. Accounts payable and accrued liabilities:

	2008	2007
Trade accounts payable and accrued liabilities	\$ 98,892	\$ 78,436
Salaries and benefits payable	34,569	31,106
Accrued vacation pay	33,626	29,598
Accrued Mental Health Plan costs (note 16)	31,582	32,470
Patient trust funds	193	209
	\$ 198,862	\$ 171,819

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

Year ended March 31, 2008

6. Deferred operating contributions:

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

	2008	2007
Deferred operating contributions, beginning of year	\$ 17,620	\$ 9,907
Less amount recognized as revenue in the year	(4,667)	(670)
Add amount received for future periods	12,707	8,383
Deferred operating contributions, end of year	\$ 25,660	\$ 17,620

7. 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.

	2008	2007
Deferred contributions for designated purposes, beginning of year	\$ 31,447	\$ 43,993
Less amount recognized as revenue in the year	(77,673)	(81,790)
Add amount received for future periods	76,446	69,244
Deferred contributions for designated purposes, end of year	\$ 30,220	\$ 31,447

8. Obligations under capital leases:

Certain agencies lease equipment over terms which expire between fiscal years 2009 and 2014. The following is a schedule of minimum lease payments under fixed rate capital leases, together with the balance of the obligations.

2009	\$	295
2010		293
2011		291
2012		227
2013		40
Thereafter		16
Total minimum lease payments		1,162
Amount representing interest at a weighted average rate of 5.45%		(129)
Present value of capital lease payments		1,033
Current portion of obligations under capital leases		244
Long-term portion of obligations under capital leases	\$	789

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2008

9. Employee benefits:

(a) Retirement allowance:

Certain employees with ten or twenty years of service and having reached a certain age are entitled to receive special payments upon retirement or as specified by the collective agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service.

The Authority's liabilities are based on an actuarial valuation as at December 31, 2006. The next required valuation will be as of December 31, 2009.

Information about retirement allowance benefits is as follows:

	2008	2007
Accrued benefit obligation:		
Sick leave benefits	\$ 12,511	\$ 12,598
Severance benefits	30,605	30,990
Total unfunded obligation	43,116	43,588
Balance of unamortized amounts	4,429	661
Accrued retirement allowance benefits	47,545	44,249
Less current portion	4,017	4,068
Long-term portion	\$ 43,528	\$ 40,181
Retirement allowance expense	\$ 5,488	\$ 4,615
Benefits paid	2,190	2,840

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

	2008	2007
Accrued benefit obligation as at March 31:		
Discount rate	5.50%	5.00%
Rate of compensation increase	3.25%	3.25%
Benefit costs for years ended March 31:		
Discount rate	5.50%	5.00%
Rate of compensation increase	3.25%	3.25%

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

Year ended March 31, 2008

9. Employee benefits (continued):

(b) Long-term disability benefits:

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

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

The Authority's March 31, 2008 liabilities are based on an actuarial valuation using an early measurement date of December 31, 2007. The next required valuation will be as of December 31, 2008.

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

	2008	2007
Accrued benefit obligation	\$ 21,926	\$ 20,405
Fair value of plan assets	21,161	20,445
Net unfunded obligation (net asset), December 31	765	(40)
Balance of unamortized amounts	1,485	1,375
Contributions to the plan, January to March	(1,250)	(1,375)
Accrued long-term disability benefits	\$ 1,000	\$ (40)
Long-term disability expense	\$ 4,622	\$ 4,562
Benefits paid	3,214	3,083

The plan assets consist of:

	2008	2007
Debt securities	61%	54%
Foreign equities	20	26
Equity securities	19	20
Total	100%	100%

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Notes to Consolidated Financial Statements
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Year ended March 31, 2008

9. Employee benefits (continued):

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

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

	2008	2007
Accrued benefit obligation as at March 31:		
Discount rate	5.50%	5.00%
Rate of benefit increase	2.50%	2.50%
Benefit cost for years ended March 31:		
Discount rate	5.50%	5.00%
Expected long-term rate of return on plan assets	6.75%	6.75%
Rate of benefit increase	2.50%	2.50%

The group life insurance, accidental death and dismemberment, extended health, dental, and pre-October 1, 1997 long-term disability claims administered by the Trust are structured as a multi-employer plan. Contributions to the Trust of \$10,502 (2007 - \$10,370) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2007 indicated a surplus of \$41,089 (December 31, 2006 - \$25,564). The plan covers 77,289 active employees of which 4,109 (2007 - 4,150) are employees of the Authority. The next required valuation will be as of December 31, 2008.

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

(c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$25,835 (2007 - \$23,840) 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, 2006 indicated a surplus of \$438,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 145,000 active employees of which approximately 6,572 are employees of the Authority. The next required valuation will be as of December 31, 2009 with results available in 2010.

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Year ended March 31, 2008

9. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of \$6,412 (2007 - \$6,792) 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, 2005 indicated an unfunded liability of \$767,000. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 52,000 active employees of which approximately 1,439 are employees of the Authority. The next required valuation will be as of March 31, 2008, with results available in 2009.

10. Deferred capital contributions:

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

	2008	2007
Deferred capital contributions, beginning of year	\$ 611,082	\$ 591,730
Ministry of Health	54,051	38,615
Foundations	15,107	18,289
Other	4,228	15,133
	73,386	72,037
Less amortization for the year	(55,983)	(52,685)
Deferred capital contributions, end of year	\$ 628,485	\$ 611,082

Deferred capital contributions are comprised of the following:

	2008	2007
Contributions used to purchase capital assets	\$ 611,166	\$ 604,715
Unspent contributions	17,319	6,367
	\$ 628,485	\$ 611,082

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Year ended March 31, 2008

11. Invested in capital assets:

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

	2008	2007
Capital assets	\$ 734,649	\$ 714,499
Amounts financed by:		
Deferred capital contributions	(611,166)	(604,715)
Obligations under capital leases	(1,033)	(1,183)
	\$ 122,450	\$ 108,601

(b) Deficiency of revenues over expenses:

	2008	2007
Amortization of deferred capital contributions	\$ 55,983	\$ 52,685
Depreciation of capital assets	(57,189)	(54,030)
	\$ (1,206)	\$ (1,345)

(c) Transfer to invested in capital assets:

	2008	2007
Purchase of capital assets	\$ 77,226	\$ 85,539
Net book value of assets sold	-	(210)
Asset retirement obligation (note 12(c))	113	987
Amounts funded by:		
Deferred capital contributions	(62,434)	(84,280)
Capital Leases	(79)	(1,232)
Net book value of assets sold	-	184
Principal payments of obligations under capital leases	229	296
	\$ 15,055	\$ 1,284

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2008

12. Commitments and contingencies:

(a) Operating leases:

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

2009	\$	5,492
2010		2,900
2011		2,414
2012		1,028
2013		503
Thereafter		1,283
	\$	13,620

The British Columbia Mental Health Society (Riverview) Branch, British Columbia Centre for Disease Control and Prevention Society Branch and Forensic Psychiatric Services Commission lease land and buildings through an operating lease with the Accommodation of Real Estate Services (ARES) of the Ministry of Labour and Citizens' Services of British Columbia. Lease payments shown are for base rent. The terms and conditions are negotiated annually. Included in the above is \$2,598 for lease payments to ARES for the year ending March 31, 2009.

(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, 2008, management is of the opinion that it has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement. Risk management and insurance services for all Health Authorities in British Columbia are provided by the Risk Management Branch of the Ministry of Finance.

(c) Asset retirement obligations:

The Authority has accrued asset retirement obligations of \$2,031 (2007 - \$1,825) 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 \$2,560 (2007 - \$2,409) over the respective lease terms and until renovations are undertaken at a credit-adjusted risk free rate of 5.26% (2007 - 5.26%). 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2008

12. Commitments and contingencies (continued):

(c) Asset retirement obligations (continued):

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.

13. Other contributions:

	2008	2007
Other Health Authorities	\$ 78,941	\$ 78,881
Other ministries	4,064	5,667
Foundations	10,205	10,376
Other	1,135	1,761
	\$ 94,345	\$ 96,685

14. Other revenue:

	2008	2007
Recoveries from other Health Authorities and government reporting entities	\$ 9,101	\$ 8,900
Recoveries from sales of goods and services	11,568	6,323
Parking	3,602	3,505
Drug sales	1,886	1,648
Other	8,183	3,334
	\$ 34,340	\$ 23,710

15. Patients, clients and residents revenue:

	2008	2007
Federal government	\$ 623	\$ 550
Non-residents of British Columbia	4,107	3,615
Non-residents of Canada	902	424
Residents of British Columbia - self pay	884	1,062
Preferred accommodation	1,131	957
Other	588	642
	\$ 8,235	\$ 7,250

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2008

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.

During the year ended March 31, 2004, the Ministry of Health agreed to fund, through the Authority, the additional costs of providing employment security to certain employees of British Columbia Mental Health Society (Riverview) Branch until the Mental Health Plan was fully implemented.

In the prior year, the financial statements included accruals for the compensation, benefits and employment security expenses and the related funding of \$32,470. As at March 31, 2008, management has revised the estimated accrual due to timing changes in implementing the Mental Health Plan and revisions related to job security resulting from new employment contracts. This has resulted in an increase in the accrual of \$689. During the year, costs of \$1,577 related to the provision were incurred. The total remaining accrual of \$31,582 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. Referred out and contracted services:

	2008	2007
Other Health Authorities and government reporting entities	\$ 353,798	\$ 329,201
Private contractors	38,515	32,221
	<u>\$ 392,313</u>	<u>\$ 361,422</u>

18. Supplies:

	2008	2007
Drugs and medical gases	\$ 131,361	\$ 127,323
Food and dietary	5,085	5,688
Medical and surgical	43,673	40,999
Diagnostic	20,255	17,641
Printing, stationery and office	5,501	4,991
Housekeeping	690	632
Laundry and linen	551	457
Plant operation	6,353	6,092
Other	6,809	6,096
	<u>\$ 220,278</u>	<u>\$ 209,919</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2008

19. Sundry:

	2008	2007
Communication and data processing	\$ 4,282	\$ 4,368
Travel	6,981	6,519
Professional fees	23,076	21,535
Other	21,632	14,003
	\$ 55,971	\$ 46,425

20. Abbotsford Regional Hospital and Cancer Centre (ARHCC) project:

Partnerships British Columbia, Inc. (PBC), an entity controlled by the Province of British Columbia, is responsible for the construction of the ARHCC project through their wholly owned subsidiary, Abbotsford Regional Hospital and Cancer Center Inc. (ARHCC Inc.).

ARHCC Inc. entered into a project agreement with Access Health Abbotsford Ltd. (AHA) in December, 2004. Under the agreement, AHA will design, construct, finance, and maintain the facilities until the end of the term of the agreement in May 2038. All payment obligations of ARHCC Inc. to AHA, under the agreement, are supported by a payment guarantee from the Province to AHA.

Subsequent to year-end, on May 6, 2008, PBC transferred the ownership of ARHCC Inc. to the Fraser Health Authority and PHSA in accordance with Share Transfer Agreement whereby 102 common shares of ARHCC Inc. were transferred to the Fraser Health Authority and 18 common shares were transferred to PHSA for one dollar per share.

21. Statement of cash flows:

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

	2008	2007
Changes to non-cash operating items:		
Restricted cash	\$ 15	\$ 21
Accounts receivable	13,264	3,204
Inventories of materials and supplies	1,151	(6,442)
Prepays	(1,309)	141
Accounts payable and accrued liabilities	27,043	(36,631)
Deferred operating contributions	8,040	7,714
Deferred contributions for designated purposes	(1,227)	(12,546)
Retirement allowance	3,296	1,776
Long term disability benefits	1,040	(398)
Other long term benefit liabilities	-	(328)
	\$ 51,313	\$ (43,489)

(b) Interest:

Cash paid for interest on capital leases	\$ 58	\$ 14
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PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2008

22. Foundation and auxiliaries:

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

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

British Columbia Cancer Agency Branch:
BC Cancer Foundation

British Columbia Transplant Society Branch:
British Columbia Transplant Foundation

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

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

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

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

	2008	2007
Operations, net	\$ 1,211	\$ 2,335
Research	18,867	18,165
Other designated purposes	34,321	29,184
Capital	3,864	4,999
	<u>\$ 58,263</u>	<u>\$ 54,683</u>

At March 31, 2008, the foundations and auxiliaries held net assets of \$169,571 (2007 - \$160,611)

23. Comparative figures:

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