

Consolidated Financial Statements
(Expressed in thousands of dollars)

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2009

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 1, 2009.

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

Vancouver, BC
May 1, 2009



Chief Financial Officer



KPMG LLP
Chartered Accountants
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AUDITORS' REPORT

To the Board of Provincial Health Services Authority

We have audited the consolidated statement of financial position of Provincial Health Services Authority as at March 31, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Vancouver, Canada

May 1, 2009

PROVINCIAL HEALTH SERVICES AUTHORITY

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

March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 94,352	\$ 63,840
Restricted cash	179	194
Short-term investments (note 3)	27,953	15,969
Accounts receivable (note 4)	75,133	114,490
Inventories (note 5)	34,987	31,591
Prepays	5,731	5,237
	238,335	231,321
Long-term investments (note 3)	46,800	43,349
Capital assets (note 6)	784,144	734,649
	\$ 1,069,279	\$ 1,009,319

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 225,240	\$ 198,862
Deferred operating contributions (note 8)	29,063	25,660
Deferred contributions for designated purposes (note 9)	27,860	30,220
Current portion of obligations under capital leases (note 10)	255	244
Current portion of retirement allowance (note 11(a))	4,095	4,017
	286,513	259,003
Long-term obligations under capital leases (note 10)	534	789
Retirement allowance (note 11(a))	45,802	43,528
Long-term disability benefits (note 11(b))	1,180	1,000
Asset retirement obligations (note 14(c))	1,815	2,031
Deferred capital contributions (note 12)	658,393	628,485
	994,237	934,836
Net assets:		
Invested in capital assets (note 13(a))	149,453	122,450
Internally restricted	448	448
Unrestricted	(74,859)	(48,415)
	75,042	74,483
	\$ 1,069,279	\$ 1,009,319

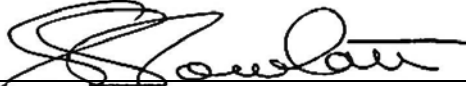
Commitments and contingencies (note 14)

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
(Expressed in thousands of dollars)

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Revenues:		
Ministry of Health contributions	\$ 1,195,303	\$ 1,085,457
Medical Services Plan	146,613	137,242
Other contributions (note 15)	108,389	103,269
Amortization of deferred capital contributions	57,361	55,983
Other (note 16)	31,333	35,953
Patients, clients and residents (note 17)	9,275	8,249
Pharmacare	5,711	5,113
Investment income	4,012	3,569
Research and designated contributions	72,514	66,988
	<u>1,630,511</u>	<u>1,501,823</u>
Expenses:		
Compensation and benefits (note 18)	678,342	640,623
Referred-out and contracted services (note 19)	443,561	398,972
Supplies (note 20)	244,152	220,657
Amortization of capital assets	58,522	57,189
Equipment and building services	60,773	58,028
Sundry (note 21)	71,984	58,815
Accretion of asset retirement obligations (note 14c)	104	93
Research and designated expenses	72,514	66,988
	<u>1,629,952</u>	<u>1,501,365</u>
Excess of revenues over expenses	\$ 559	\$ 458

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, 2009, with comparative figures for 2008

	Invested in capital assets	Internally restricted	Unrestricted	Total	
				2009	2008
Balance, beginning of the year	\$ 122,450	\$ 448	\$ (48,415)	\$ 74,483	\$ 74,025
Excess (deficiency) of revenues over expenses	(1,161)	-	1,720	559	458
Transfer to invested in capital assets (note 13(c))	28,164	-	(28,164)	-	-
Balance, end of year	\$ 149,453	\$ 448	\$ (74,859)	\$ 75,042	\$ 74,483

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, 2009, with comparative figures for 2008

	2009	2008
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 559	\$ 458
Items not involving cash:		
Amortization of capital assets	58,522	57,189
Amortization of deferred capital contributions	(57,361)	(55,983)
Net change in non-cash operating items (note 23(a))	65,435	51,534
	67,155	53,198
Cash flows from investing activities:		
Net change in short-term investments	(11,984)	4,646
Net change in long-term investments	(3,451)	(12,495)
Purchase of capital assets (note 13 (c))	(108,017)	(77,339)
	(123,452)	(85,188)
Cash flows from financing activities:		
Capital contributions	87,269	73,386
Additions to capital leases	-	79
Repayment of capital leases (note 10)	(244)	(229)
Additions (reductions) to asset retirement obligations (note 14(c))	(216)	206
	86,809	73,442
Increase in cash	30,512	41,452
Cash, beginning of year	63,840	22,388
Cash, end of year	\$ 94,352	\$ 63,840

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, 2009

Provincial Health Services Authority (PHSA or the Authority) was created under the *Societies 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;
- Women's Health Research Institute Society;
- Mental Health and Addictions Research Institute; and
- Cardiac Services British Columbia.

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

These consolidated financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries (see note 24) 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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.

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:

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

At March 31, 2009, inventories includes \$17,106 (2008 - \$17,117) of anti-viral vaccinations, which expire between fiscal years 2010 to 2012 and \$367 (2008 - \$nil) which expire in fiscal year 2016.

(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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

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 (2008 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined long-term disability benefits is 10 years (2008 - 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
(Expressed in thousands of dollars)

Year ended March 31, 2009

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:

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

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

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

(m) New accounting pronouncements:

(i) Inventories:

Effective April 1, 2008, the Authority adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, *Inventories*. Under this new standard, inventories are required to be measured at the lower of cost and current replacement cost. The standard also provides more extensive guidance on the measurement and disclosure requirements for inventories; significantly, the new standard allows the reversals of previous write-downs to the net realizable value when there is a subsequent increase in the value of inventories.

The adoption of this new standard resulted in no impact to opening balances at April 1, 2008.

(ii) Assessing going concern:

Effective April 1, 2008, the Authority implemented Handbook Section 1400, *General Standards of Financial Statement Presentation*, which includes requirements for management to assess and disclose an entity's ability to continue as a going concern. Management has made its assessment and concluded there is no issue regarding the Authority's ability to continue as a going concern based on the assumption that the current funding levels are maintained and any committed additional future funding is received. If there are significant declines in funding, expenditures will be adjusted to match committed funding.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

1. Significant accounting policies (continued):

(m) New accounting pronouncements (continued):

(iii) Capital disclosures:

Effective April 1, 2008, the Authority adopted Handbook Section 1535, *Capital Disclosures*. Under this new standard, the Authority is required to disclose both qualitative and quantitative information that enables users of the financial statements to evaluate the Authority's objectives, policies, and processes for managing capital. It also includes disclosure regarding what the Authority regards as capital, whether the Authority has complied with any external requirements and in the event of non-compliance, the consequences of not complying with these capital requirements (note 25).

(n) Future accounting pronouncements:

(i) Financial instruments:

During the Authority's 2009 fiscal year, the CICA announced that not-for-profit organizations could elect to continue to apply Handbook Section 3861, *Financial Instruments – Disclosure and Presentation* in place of Handbook Sections 3862, *Financial Instruments – Disclosure* and 3863, *Financial Instruments – Presentation*. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Authority has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

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

In September 2008, the CICA issued amendments to Handbook Sections 4400, *Financial Statement Presentation by Not-for-Profit Organizations* and 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments are effective for the Authority's fiscal year commencing April 1, 2009 and remove the requirement to disclose net assets invested in capital assets, clarify capital asset recognition criteria and amortization, expand interim financial statement requirements to not-for-profit organizations that prepare interim financial statements, require disclosure of allocated fundraising and general support expenses by not-for-profit organizations, and include the requirement to follow Handbook Section 1540, *Cash Flow Statements*. The Authority does not believe it will have a material impact on its financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

1. Significant accounting policies (continued):

(n) Future accounting pronouncements (continued):

(iii) Changes in accounting framework:

The CICA has decided to transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS) effective January 1, 2011. The Authority is classified as a not-for-profit organization and currently is not required to adopt IFRS. The Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) have jointly issued an Invitation to Comment to invite feedback on the future of financial reporting by not-for-profit organizations. In addition, PSAB has issued an Invitation to comment on the future financial reporting of government organizations. The Authority is in the process of reviewing the impact of these documents on its reporting framework and financial statements.

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, 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 11, and short-term and long-term investments which are disclosed in note 3.

3. Investments:

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

March 31, 2009	Cost	Market value
Short-term bonds	\$ 27,953	\$ 28,096
Long-term bonds	46,800	48,161
	\$ 74,753	\$ 76,257

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

3. Investments (continued):

March 31, 2008	Cost	Market value
Money-market instruments	\$ 5,684	\$ 5,879
Short-term bonds	10,285	10,110
Long-term bonds	43,349	43,486
	\$ 59,318	\$ 59,475

4. Accounts receivable:

	2009	2008
Patients, clients and agencies	\$ 5,269	\$ 8,387
Ministry of Health	31,505	57,605
Hospital foundations	13,492	20,662
Federal government	-	5,785
Research grants	7,583	3,545
Goods and services tax	2,886	4,758
Other	14,398	13,748
	\$ 75,133	\$ 114,490

5. Inventories:

The Authority's inventories of \$34,987 (2008 - \$31,591) are recorded at the lower of weighted average cost and replacement cost and consist of biological, pharmaceutical, medical/surgical and other materials and supplies. During the year, \$162,182 (2008 - \$140,688) of inventories were expensed by the Authority.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

6. Capital assets:

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

6. Capital assets (continued):

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. In 2008, there was \$42,900 included in capital assets as construction in progress. This amount was capitalized in May 2008 and usage of the building began at that time. In 2009, there was still some ongoing construction (budget of \$9,600) including fit-outs of which \$2,713 is included in capital assets as construction in progress. Funding for this project has been committed by the PHSA, the British Columbia's Children's Hospital Foundation, the University of British Columbia, and the Canadian Foundation for Innovation.

7. Accounts payable and accrued liabilities:

	2009	2008
Trade accounts payable and accrued liabilities	\$ 120,341	\$ 98,892
Salaries and benefits payable	37,081	34,569
Accrued vacation pay	36,223	33,626
Accrued Mental Health Plan costs (note 18)	31,416	31,582
Patient trust funds	179	193
	<u>\$ 225,240</u>	<u>\$ 198,862</u>

8. Deferred operating contributions:

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

	2009	2008
Deferred operating contributions, beginning of year	\$ 25,660	\$ 17,620
Less amount recognized as revenue in the year	(4,230)	(4,667)
Add amount received for future periods	7,633	12,707
Deferred operating contributions, end of year	<u>\$ 29,063</u>	<u>\$ 25,660</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

9. 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.

	2009	2008
Deferred contributions for designated purposes, beginning of year	\$ 30,220	\$ 31,447
Less amount recognized as revenue in the year	(72,514)	(66,988)
Add amount received for future periods	70,154	65,761
Deferred contributions for designated purposes, end of year	\$ 27,860	\$ 30,220

10. Obligations under capital leases:

Certain agencies lease equipment over terms which expire between fiscal years 2010 and 2014. The following is a schedule of minimum lease payments under fixed rate capital leases, together with the balance of the obligations.

2010	\$	286
2011		286
2012		223
2013		38
2014		15
Thereafter		-
Total minimum lease payments		848
Amount representing interest at a weighted average rate of 4.89%		(59)
Present value of capital lease payments		789
Current portion of obligations under capital leases		255
Long-term portion of obligations under capital leases	\$	534

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

11. Employee benefits:

(a) Retirement allowance:

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

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

Information about retirement allowance benefits is as follows:

	2009	2008
Accrued benefit obligation:		
Sick leave benefits	\$ 10,978	\$ 12,511
Severance benefits	26,625	30,605
Total unfunded obligation	37,603	43,116
Balance of unamortized amounts	12,294	4,429
Accrued retirement allowance benefits	49,897	47,545
Less current portion	4,095	4,017
Long-term portion	\$ 45,802	\$ 43,528
Retirement allowance expense	\$ 5,226	\$ 5,488
Benefits paid	2,877	2,190

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

	2009	2008
Accrued benefit obligation as at March 31:		
Discount rate	7.25%	5.50%
Rate of compensation increase	2.50%	3.25%
Benefit costs for years ended March 31:		
Discount rate	5.50%	5.50%
Rate of compensation increase	2.50%	3.25%

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

11. 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, 2009 liabilities are based on an actuarial valuation using an early measurement date of December 31, 2008. The next required valuation will be as of December 31, 2009.

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

	2009	2008
Accrued benefit obligation	\$ 27,817	\$ 21,926
Fair value of plan assets	19,872	21,161
Net unfunded obligation, December 31	7,945	765
Balance of unamortized amounts	(5,196)	1,485
Contributions to the plan, January to March	(1,569)	(1,250)
Accrued long-term disability benefits	\$ 1,180	\$ 1,000
Long-term disability expense	\$ 6,755	\$ 4,622
Benefits paid	4,591	3,214

The plan assets consist of:

	2009	2008
Debt securities	58%	61%
Foreign equities	24	20
Equity securities	18	19
Total	100%	100%

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

11. 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:

	2009	2008
Accrued benefit obligation as at March 31:		
Discount rate	7.00%	5.50%
Rate of benefit increase	2.50%	2.50%
Benefit cost for years ended March 31:		
Discount rate	5.50%	5.50%
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 \$11,899 (2008 - \$10,502) were expensed during the year. The most recent actuarial valuation for the plan at 2008 indicated a surplus of \$30,294 (December 31, 2007 - \$31,042). The plan covers 77,948 active employees of which 5,897 (2008 - 4,109) are employees of the Authority. The next required valuation will be as of December 31, 2009.

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 \$28,984 (2008 - \$25,835) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2006 indicated a surplus of \$438,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 150,000 active members of which approximately 6,941 are employees of the Authority. The next required valuation will be as at December 31, 2009 with results available in 2010.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2009

11. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of \$6,047 (2008 - \$6,412) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2008 indicated an actuarial surplus of \$487,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 55,000 active members of which approximately 1,418 are employees of the Authority. The next valuation will be as at March 31, 2011 with results available in early 2012.

12. Deferred capital contributions:

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

	2009	2008
Deferred capital contributions, beginning of year	\$ 628,485	\$ 611,082
Ministry of Health	69,841	54,051
Foundations	4,786	15,107
Other	12,642	4,228
	87,269	73,386
Less amortization for the year	(57,361)	(55,983)
Deferred capital contributions, end of year	\$ 658,393	\$ 628,485

Deferred capital contributions are comprised of the following:

	2009	2008
Contributions used to purchase capital assets	\$ 633,902	\$ 611,166
Unspent contributions	24,491	17,319
	\$ 658,393	\$ 628,485

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2009

13. Invested in capital assets:

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

	2009	2008
Capital assets	\$ 784,144	\$ 734,649
Amounts financed by:		
Deferred capital contributions	(633,902)	(611,166)
Obligations under capital leases	(789)	(1,033)
	\$ 149,453	\$ 122,450

(b) Deficiency of revenues over expenses:

	2009	2008
Amortization of deferred capital contributions	\$ 57,361	\$ 55,983
Amortization of capital assets	(58,522)	(57,189)
	\$ (1,161)	\$ (1,206)

(c) Transfer to invested in capital assets:

	2009	2008
Purchase of capital assets	\$ 108,337	\$ 77,226
Asset retirement obligation (note 14(c))	(320)	113
Amounts funded by:		
Deferred capital contributions	(80,097)	(62,434)
Capital leases	-	(79)
Principal payments of obligations under capital leases	244	229
	\$ 28,164	\$ 15,055

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2009

14. Commitments and contingencies:

(a) Operating leases:

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

2009	\$	6,286
2010		3,477
2011		2,070
2012		1,374
2013		1,174
Thereafter		1,391
	\$	15,772

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 \$2,790 for lease payments to ARES for the year ending March 31, 2010.

(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, 2009, management is of the opinion that it has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement. Risk management and insurance services for all Health Authorities in British Columbia are provided by the Risk Management Branch of the Ministry of Finance.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

14. Commitments and contingencies (continued):

(c) Asset retirement obligations:

The Authority has accrued asset retirement obligations of \$1,815 (2008 - \$2,031) 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 \$2,257 (2008 - \$2,560) over the respective lease terms and until renovations are undertaken at a credit-adjusted risk free rate of 5.26% (2008 - 5.26%) for existing obligations and 4.90% for new obligations in 2009 (2008 - 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.

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

(d) Bill 29:

A settlement agreement was signed on January 25, 2008 between the Government of the Province of British Columbia and the Health Employers Association of British Columbia. This agreement provides for \$75,000 of compensation for health care workers impacted by Bill 29 - B.C.'s Health and Social Services Delivery Improvement Act. The Authority received a total of \$3,292, which was paid out to the union members in accordance with the agreement. There was no impact on the Authority's financial statements as the payment to the workers was accounted for as a flow-through arrangement.

15. Other contributions:

	2009	2008
Other Health Authorities	\$ 79,113	\$ 78,941
Other Ministries	6,706	4,064
Foundations	18,468	18,030
Other	4,102	2,234
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	\$ 108,389	\$ 103,269

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

16. Other revenues:

	2009	2008
Recoveries from other Health Authorities and government reporting entities	\$ 10,248	\$ 9,162
Recoveries from sales of goods and services	15,397	13,120
Parking	3,701	3,602
Drug sales	1,818	1,886
Other	169	8,183
	\$ 31,333	\$ 35,953

17. Patients, clients and residents revenue:

	2009	2008
Federal government	\$ 687	\$ 623
Non-residents of British Columbia	5,584	4,107
Non-residents of Canada	525	902
Residents of British Columbia - self pay	498	884
Preferred accommodation	1,387	1,131
Other	594	602
	\$ 9,275	\$ 8,249

18. 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. During the year ended March 31, 2009, the Ministry of Health provided funding of \$29,977 towards the Mental Health Plan liability.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

18. Compensation and benefits (continued):

In the prior year, the financial statements included accruals for the compensation, benefits and employment security expenses and the related funding of \$31,582. As at March 31, 2009, 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 \$769. During the year, costs of \$935 related to the provision were incurred. The total remaining accrual of \$31,416 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.

19. Referred out and contracted services:

	2009	2008
Other Health Authorities and government reporting entities	\$ 400,080	\$ 354,466
Private contractors	43,481	44,506
	\$ 443,561	\$ 398,972

20. Supplies:

	2009	2008
Drugs and medical gases	\$ 153,374	\$ 131,358
Food and dietary	5,315	5,106
Medical and surgical	44,040	43,675
Diagnostic	20,875	20,305
Printing, stationery and office	5,104	5,653
Housekeeping	794	715
Laundry and linen	556	551
Plant operation	7,551	6,353
Other	6,543	6,941
	\$ 244,152	\$ 220,657

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2009

21. Sundry:

	2009	2008
Communication and data processing	\$ 4,615	\$ 4,337
Travel	8,671	7,153
Professional fees	30,390	24,167
Other	28,308	23,158
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	\$ 71,984	\$ 58,815

22. Abbotsford Regional Hospital and Cancer Centre (ARHCC):

Partnerships British Columbia, Inc. (PBC), an entity controlled by the Province of British Columbia, was 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 designed, constructed, and financed the facilities, and will maintain them 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.

On May 6, 2008, PBC transferred the ownership of ARHCC Inc. to the Fraser Health Authority and PHSA in accordance with the 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.

The Abbotsford Regional Hospital and Cancer Center commenced providing services in August 2008.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

23. Statement of cash flows:

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

	2009	2008
Changes to non-cash operating items:		
Restricted cash	\$ 15	\$ 15
Accounts receivable	39,357	13,485
Inventories	(3,396)	1,151
Prepays	(494)	(1,309)
Accounts payable and accrued liabilities	26,378	27,043
Deferred operating contributions	3,403	8,040
Deferred contributions for designated purposes	(2,360)	(1,227)
Retirement allowance	2,352	3,296
Long term disability benefits	180	1,040
	<hr/>	<hr/>
	\$ 65,435	\$ 51,534

(b) Interest:

	2009	2008
Cash paid for interest on capital leases	\$ 46	\$ 58

24. Related parties:

(a) Foundations and auxiliaries:

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

(a) Foundations and auxiliaries (continued):

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

British Columbia Cancer Agency Branch:
BC Cancer Foundation

British Columbia Transplant Society Branch:
British Columbia Transplant Foundation

Children's & Women's Health Centre of British Columbia Branch:
British Columbia's Children's Hospital Foundation
Sunny Hill Foundation for Children
British Columbia's Women's Hospital and Health Centre Foundation
The Auxiliary to British Columbia's Children's Hospital
British Columbia's Women's Hospital and Health Centre Auxiliary
Auxiliary to Sunny Hill Centre for Children
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:

	2009	2008
Operations, net	\$ 2,320	\$ 1,211
Research	17,824	18,867
Other designated purposes	36,387	34,321
Capital	3,238	3,864
	<u>\$ 59,769</u>	<u>\$ 58,263</u>

At March 31, 2009, the foundations and auxiliaries held net assets of \$136,899 (2008 - \$169,571)

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2009

24. Related parties (continued):

(b) Shared Services Organization:

The British Columbia Health Authorities Shared Services Organization is an initiative that was launched at the beginning of 2008 and includes all six Health Authorities in British Columbia. Its purpose is to find opportunities where the Health Authorities can improve cost effectiveness by working collaboratively on common services. The Shared Services Organization is governed by a Board of Directors consisting of the Chief Executive Officers of the six Health Authorities, the Chief Operating Officer of the Ministry of Health, and two external members.

(c) Acquisition of land:

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

25. Capital management:

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

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

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

26. Comparative figures:

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