

Consolidated Financial Statements of

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2021

**Provincial Health Services Authority
Management Report**

The consolidated financial statements of the Provincial Health Services Authority (the “Authority”) were prepared by management in accordance with the financial reporting framework disclosed in note 1(a) to these consolidated financial statements, and include amounts based upon management’s best estimates and judgments. The accounting principles of the financial reporting framework were consistently applied. In management’s opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at June 2, 2021.

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 Audit Committee, comprising directors who are not employees, meets with management, internal assurance staff and external auditors with regard to the proper discharge of management’s responsibilities with respect to consolidated financial statement presentation, disclosure and recommendations on internal control.

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

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



Dr. David Byres
Interim President and Chief Executive Officer



Michael Lord
Vice President, Finance and
Chief Financial Officer

Vancouver, BC

June 2, 2021



Independent auditor's report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements of Provincial Health Services Authority and its subsidiaries (together, the Authority) as at March 31, 2021 and for the year then ended are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

What we have audited

The Authority's consolidated financial statements comprise:

- the consolidated statement of financial position as at March 31, 2021;
- the consolidated statement of operations and accumulated operating surplus for the year then ended;
- the consolidated statement of changes in net debt for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of remeasurement gains and losses for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
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Emphasis of matter – basis of accounting

We draw attention to note 1 to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 20 to the consolidated financial statements discloses the impact of these differences. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by the British Columbia Societies Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 2, 2021

PROVINCIAL HEALTH SERVICES AUTHORITY

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

As at March 31, 2021

	2021	2020
Financial assets		
Cash and cash equivalents (note 2)	\$ 179,582	\$ 217,682
Portfolio investments (note 3)	556	281
Accounts receivable (note 4)	520,616	394,774
Inventories held for sale (note 5)	260,143	25,276
Long-term disability and health and welfare benefits (note 11(b))	327	-
	961,224	638,013
Liabilities		
Accounts payable and accrued liabilities (note 6)	616,146	526,186
Deferred operating contributions (note 7)	34,261	39,636
Deferred research and designated contributions (note 8)	53,266	47,616
Short-term debt (note 10(a))	30,500	-
Long-term debt (note 10(b))	247,306	250,721
Retirement allowance (note 11(a))	111,843	106,746
Long-term disability and health and welfare benefits (note 11(b))	-	9,503
Deferred capital contributions (note 12)	1,421,599	1,278,856
	2,514,921	2,259,264
Net debt	\$ (1,553,697)	\$ (1,621,251)
Non-financial assets		
Tangible capital assets (note 13)	\$ 1,720,201	\$ 1,627,858
Inventories held for use (note 14)	45,742	37,450
Prepaid expenses	122,090	22,444
	1,888,033	1,687,752
Accumulated surplus		
Accumulated operating surplus	\$ 333,867	\$ 66,422
Accumulated remeasurement gains	469	79
	\$ 334,336	\$ 66,501

Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director and Chair of the Board



Director

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Operations and Accumulated Operating Surplus
(Amounts expressed in thousands of dollars)

Year ended March 31, 2021

	2021 Budget (note 1(n))	2021	2020
Revenues:			
Ministry of Health contributions	\$ 2,715,911	\$ 3,274,101	\$ 2,642,643
Recoveries from other health authorities and BC government reporting entities	561,403	712,812	614,793
Medical Services Plan	216,612	227,988	212,533
Other contributions (note 16(a))	107,918	124,075	116,004
Amortization of deferred capital contributions (note 12)	101,605	96,757	91,136
Research and designated contributions (note 8)	101,377	87,288	100,727
Other (note 16(b))	35,145	42,409	54,691
Patients, clients and residents (note 16(c))	15,652	17,370	21,775
Pharmacare	5,550	4,799	6,794
Investment income	2,238	1,173	2,825
	<u>3,863,411</u>	<u>4,588,772</u>	<u>3,863,921</u>
Expenses (note 16(d)):			
Acute	2,568,001	2,628,455	2,510,210
Corporate	683,636	983,380	735,453
Population health and wellness	210,935	269,258	213,579
Community care	199,120	218,749	205,456
Mental health and substance use	194,651	211,230	192,093
Residential care	7,068	10,255	6,755
	<u>3,863,411</u>	<u>4,321,327</u>	<u>3,863,546</u>
Annual operating surplus (note 22)	\$ -	\$ 267,445	\$ 375
Accumulated operating surplus, beginning of year	66,422	66,422	66,047
Accumulated operating surplus, end of year	\$ 66,422	\$ 333,867	\$ 66,422

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

	2021 Budget (note 1(n))	2021	2020
Annual operating surplus	\$ -	\$ 267,445	\$ 375
Acquisition of tangible capital assets	(133,595)	(211,145)	(209,164)
Amortization of tangible capital assets	112,807	106,454	100,814
Net book value of tangible capital assets transferred to other Health Authorities	-	12,162	-
Net book value of disposed tangible capital assets	-	186	396
	(20,788)	175,102	(107,579)
Acquisition of inventories held for use	-	(289,357)	(274,969)
Acquisition of prepaid expenses	-	(256,044)	(160,012)
Consumption of inventories held for use	-	281,065	271,027
Use of prepaid expenses	-	156,398	153,488
	-	(107,938)	(10,466)
Net remeasurement gains	-	390	18
(Increase) decrease in net debt	(20,788)	67,554	(118,027)
Net debt, beginning of year	(1,621,251)	(1,621,251)	(1,503,224)
Net debt, end of year	\$ (1,642,039)	\$ (1,553,697)	\$ (1,621,251)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

	2021	2020
Cash flows from (used in) operating activities:		
Annual operating surplus	\$ 267,445	\$ 375
Items not involving cash:		
Amortization of deferred capital contributions	(96,757)	(91,136)
Amortization of tangible capital assets	106,454	100,814
Net book value of disposed tangible capital assets	186	396
Retirement allowance expense	13,137	12,613
Long-term disability and health and welfare benefits expense	41,093	45,216
Interest income	(1,173)	(2,825)
	330,385	65,453
Net change in non-cash operating items (note 17)	(373,186)	72,010
Retirement allowance benefits paid	(8,040)	(7,527)
Long-term disability and health and welfare benefits contributions	(50,923)	(46,062)
Interest received	1,288	2,829
Net change in cash from (used in) operating activities	(100,476)	86,703
Capital activities:		
Acquisition of tangible capital assets	(211,145)	(209,164)
Net change in cash used in capital activities	(211,145)	(209,164)
Financing activities:		
Proceeds on issuance of debt	30,500	-
Repayment of debt	(3,415)	(3,063)
Capital contributions	246,436	188,494
Net change in cash from financing activities	273,521	185,431
(Decrease) increase in cash and cash equivalents	(38,100)	62,970
Cash and cash equivalents, beginning of year	217,682	154,712
Cash and cash equivalents, end of year	\$ 179,582	\$ 217,682

Supplementary cash flow information (note 17)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Remeasurement Gains and Losses

(Amounts expressed in thousands of dollars)

Year ended March 31, 2021

	2021	2020
Accumulated remeasurement gains, beginning of year	\$ 79	\$ 61
Unrealized gains attributable to portfolio investments	390	18
Accumulated remeasurement gains, end of year	\$ 469	\$ 79

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

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

The Authority programs provide care and services through specialized hospitals and centres across BC. The Authority is also responsible for specialized health services, which are delivered across the province in collaboration with regional health authorities.

1. Significant accounting policies:

(a) Basis of accounting:

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

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

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

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

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset, in each case for use in providing services, are recorded and referred to as deferred capital contributions, and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal periods during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions or deferred research and designated contributions, and recognized in revenue in the year in which the stipulation or restriction on the contributions has been met by the Authority.

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

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

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

As a result, revenue recognized in the consolidated statement of operations and certain deferred capital contributions would be recorded differently under PSAS. The impact of accounting for restricted contributions in accordance with Regulation 198/2011 is disclosed in note 20.

(b) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, revenues and expenses of Forensic Psychiatric Services Commission and BC Emergency Health Services. These entities are controlled by the Authority and are fully consolidated in these consolidated financial statements. Inter-entity transactions, balances and activities have been eliminated on consolidation.

The Authority and the Fraser Health Authority own Abbotsford Regional Hospital and Cancer Centre Inc. ("ARHCC Inc.") in accordance with the Share Transfer Agreement whereby 102 (85%) common shares of ARHCC Inc. are held by the Fraser Health Authority and 18 (15%) common shares are held by the Authority. The Authority's interest in ARHCC Inc. is recorded on a proportional consolidation basis in these consolidated financial statements (note 9(a)).

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

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

(d) Portfolio investments:

Portfolio investments are shares of publicly traded companies. Shares of publicly traded companies are recorded at fair value. These shares were received by the Authority at \$nil cost as consideration in intellectual property licensing transactions. Any changes in fair value are recognized in the consolidated statement of remeasurement gains and losses.

(e) Accounts receivable:

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

(f) Inventories held for sale:

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

(g) Employee benefits:

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

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

The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

The cumulative unrecognized actuarial gains and losses on retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefits is 11 years (2020 – 11 years). Actuarial gains and losses on event-driven benefits such as long-term disability and health and welfare benefits are recognized immediately.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

1. Significant accounting policies (continued):

(g) Employee benefits (continued):

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

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

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

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

(iii) Accumulating, non-vesting benefit plans:

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

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

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

(h) Non-financial assets:

(i) Tangible capital assets:

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

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

1. Significant accounting policies (continued):

(h) Non-financial assets (continued):

(i) Tangible capital assets (continued):

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

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

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

(ii) Inventories held for use:

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

(iii) Prepaid expenses:

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

(i) Revenue recognition:

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

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

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

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

1. Significant accounting policies (continued):

(i) Revenue recognition (continued):

Volunteers contribute a significant amount of their time each year to assist the Authority in carrying out its programs and services. Contributed services are not recognized in these financial statements.

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

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

(j) Measurement uncertainty:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of estimates include the valuation of accounts receivable and inventory, the estimated useful lives of tangible capital assets, contingent liabilities, the future costs to settle employee benefit obligations, and certain amounts in public-private partnership projects.

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

(k) Foreign currency translation:

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

(l) Financial instruments:

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

Financial assets and financial liabilities, other than derivatives, equity instruments quoted in an active market and financial instruments designated at fair value, are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are measured at cost. Accounts receivable are recorded at cost less any amount

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

for valuation allowance. All debt and other financial liabilities are recorded using cost or amortized cost.

Unrealized gains and losses from changes in the fair value of equity instruments are recognized in the consolidated statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the consolidated statement of remeasurement gains and losses and recognized in the consolidated statement of operations.

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

All financial assets except derivatives are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated statement of operations.

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

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

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

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

(m) Capitalization of public-private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets under construction is estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred by the Authority.

The asset cost includes development and financing fees estimated at fair value, which requires the extraction of cost information from the financial model embedded in the project agreement. Interest during construction is also included in the asset cost and is calculated on the P3 asset value, less contributions received and amounts repaid, during the construction term. The interest rate used is the project internal rate of return. When available for operations, the project assets are amortized over their estimated useful lives.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

1. Significant accounting policies (continued):

(m) Capitalization of public-private partnership projects (continued):

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

(n) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2020/2021 Budget approved by the Board of Directors. The budget is reflected in the consolidated statement of operations and accumulated operating surplus and the consolidated statement of changes in net debt.

2. Cash and cash equivalents:

	2021	2020
Cash and cash equivalents	\$ 178,805	\$ 217,290
Restricted cash	777	392
	<u>\$ 179,582</u>	<u>\$ 217,682</u>

Restricted cash is related to patient trust accounts.

3. Portfolio investments:

Portfolio investments consist of shares of publicly traded companies recorded at fair value. Fair value of shares is determined with reference to the market price quoted in an active market. These shares were received by the Authority at \$nil cost as consideration in intellectual property licensing transactions.

4. Accounts receivable:

	2021	2020
Drug rebates	\$ 166,586	\$ 121,160
Other health authorities and BC government reporting entities	132,666	107,181
Ministry of Health	126,595	72,471
Patients, clients and residents	24,617	23,688
Other grantors	23,887	20,750
Medical Services Plan	23,449	23,201
Foundations and auxiliaries	17,341	32,175
Federal government	12,185	9,209
Other	22,098	10,004
	<u>549,424</u>	<u>419,839</u>
Allowance for doubtful accounts	(28,808)	(25,065)
	<u>\$ 520,616</u>	<u>\$ 394,774</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

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Year ended March 31, 2021

5. Inventories held for sale:

(a) Sales:

Inventories held for sale consists of pharmaceuticals, medical supplies and personal protective equipment (PPE). During the year, \$348,979 (2020 – \$251,803) of inventories were sold by the Authority to other Health Authorities or entities under the common control of the Province.

(b) Inventory write down:

During the year ended March 31, 2021, the Authority wrote off \$64,660 of inventories consisting of various Personal Protective Equipment (PPE) and supplies, in order to revalue the inventories to their net realizable values. Included in this write-down is \$7,400 related to inventories that were purchased by other health authorities, which are related parties to the Authority, during the year and transferred to the Authority. The transferred inventories were recorded at the exchange amount of \$7,600, which is the amount of consideration established and agreed to by the related parties, and then subsequently written down to net realizable value upon transfer to the Authority. Also included in this write-down is \$27,000 of inventories purchased from the provincial government as part of the Asset Purchase and Services Agreements (see note 18(c)).

6. Accounts payable and accrued liabilities:

	2021	2020
Trade accounts payable and accrued liabilities	\$ 395,840	\$ 327,223
Salaries and benefits payable	134,720	115,411
Accrued vacation pay	81,259	79,387
Long-term accounts payable	3,550	3,773
Patient trust funds	777	392
	<u>\$ 616,146</u>	<u>\$ 526,186</u>

Long-term accounts payable are obligations related to the construction of Abbotsford Regional Hospital and Cancer Centre.

7. Deferred operating contributions:

Deferred operating contributions represent government transfers from the Ministry of Health and other sources in the form of externally restricted operating funding received for various programs and initiatives. These include funding to support costs arising from Digital Health projects, Surgical Expansion project, eHealth/Panorama initiatives, the Centre for Mental Health and Addictions development project, the Stroke Strategy initiative, the BC Provincial Blood Coordinating Office initiatives, the Forensic Greenhouse project, and other Ministry directed initiatives.

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7. Deferred operating contributions (continued):

	2021	2020
Deferred operating contributions, beginning of year	\$ 39,636	\$ 57,353
Contributions received during the year	-	750
Transferred to deferred capital contributions	(5,226)	(1,058)
Amounts recognized as revenue in the year	(149)	(17,409)
Deferred operating contributions, end of year	\$ 34,261	\$ 39,636

8. Deferred research and designated contributions:

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

Government transfers	2021	2020
Deferred research and designated contributions, beginning of year	\$ 5,510	\$ 2,231
Contributions received during the year	16,496	19,814
Amounts to be received in future periods	3,163	4,141
Transferred to deferred capital contributions	(60)	(181)
Amounts recognized as revenue in the year	(17,040)	(20,495)
Deferred research and designated contributions, end of year	\$ 8,069	\$ 5,510

Other contributions	2021	2020
Deferred research and designated contributions, beginning of year	\$ 42,106	\$ 36,137
Contributions received during the year	56,431	71,525
Amounts to be received in future periods	22,689	19,123
Transferred to deferred capital contributions	(5,781)	(4,447)
Amounts recognized as revenue in the year	(70,248)	(80,232)
Deferred research and designated contributions, end of year	\$ 45,197	\$ 42,106

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8. Deferred research and designated contributions (continued):

	2021	2020
Government transfers	\$ 8,069	\$ 5,510
Other contributions	45,197	42,106
Balance, end of year	\$ 53,266	\$ 47,616

9. Government Partnerships:

(a) ARHCC Inc.:

As described in note 1(b), the Authority has a 15% interest in ARHCC Inc., which is recorded on a proportional consolidation basis in the Authority's consolidated financial statements. The following is the condensed supplementary financial information of ARHCC Inc. as at and for the years ended March 31:

	2021	2020
Financial assets	\$ 161,729	\$ 158,573
Liabilities	414,021	420,489
Net debt	252,292	261,916
Non-financial assets	254,873	264,495
Accumulated surplus	2,585	2,579
Revenues	62,142	60,958
Expenses	62,142	60,958

(b) Clinical & Systems Transformation (CST)

CST is a multi-year project designed to improve the safety, quality and consistency of patient care across three British Columbia health organizations: Vancouver Coastal Health (VCH), Providence Health Care (PHC) and PHSA. CST will support the health organizations in establishing common clinical and process standards, including workflows, order sets, clinical guidelines, integrated plans of care and a common electronic health record.

The project is jointly controlled by VCH and PHSA, whereby capital and operating costs are allocated between VCH and PHSA based on identifiable cost drivers. If no cost drivers can be identified, then 75% of the shared costs will be allocated to VCH and 25% of the shared costs will be allocated to PHSA. This arrangement is considered "Assets under shared control" under *PS 3060 – Interest in Partnerships*, and therefore, PHSA records its proportionate share of CST costs based on its 25% allocation where costs are not specifically identifiable to PHSA.

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Notes to Consolidated Financial Statements
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9. Government Partnerships (continued):

(b) Clinical & Systems Transformation (CST) (continued):

As at March 31, 2021, \$134,000 representing PHSA's allocated capital costs is recorded in Equipment and information systems in progress (note 13), and \$131,000 representing PHSA's portion of deferred capital funding from the Ministry of Health is recorded in Deferred Capital Contributions (note 12). PHSA has not started amortizing the system asset as of March 31, 2021 as the project is not yet substantially complete.

Included in other expenses for the year ended March 31, 2021 is \$31,000 related to project operating costs.

10. Debt:

(a) Short Term Debt:

During the year ended March 31, 2021, PHSA entered into a Loan Agreement with the Province to fund the purchase of PPE and supplies in relation to the Asset Purchase and Services Agreements ("APSAs") (note 18(c)). These loans have been issued in multiple tranches and are comprised of short term promissory note borrowings.

	2021
APSA Tranche #1, Canadian short term promissory note, refinanced on March 16, 2021 with a 49 day term and CAD yield of 0.07%, maturity date on May 4, 2021	\$ 8,400
APSA Tranche #2, Canadian short term promissory note, issued on February 2, 2021 with a 91 day term and CAD yield of 0.03%; maturity date on May 4, 2021	16,000
APSA Tranche #3, Canadian short term promissory note, issued on March 23, 2021 with a 42 day term and CAD yield of 0.07%; maturity date on May 4, 2021	6,100
	<hr/> \$ 30,500 <hr/>

On May 4, 2021, these borrowings were refinanced for an aggregate value of \$28,549 with a maturity date of July 7, 2021.

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10. Debt (continued):

(b) Long Term Debt:

	2021	2020
P3:		
Abbotsford Regional Hospital and Cancer Centre, 30 year contract to May 2038 with Access Health Abbotsford Ltd., payable in accordance with the project agreement terms including annual interest of 7.75%	\$ 53,851	\$ 54,632
BC Cancer Centre for the North, 30 year contract to September 2042 with Plenary Health Prince George GP, payable in monthly payments of \$117 including annual interest of 8.09% in accordance with the project agreement terms	15,722	15,852
Phase 2 BC Children's and BC Women's Redevelopment Project, 30 year contract to June 2047 with Affinity Partnerships, payable in monthly payments of \$1,195 including annual interest of 6.61% in accordance with the project agreement terms	177,733	180,237
	<hr/> \$ 247,306	<hr/> \$ 250,721

Required principal repayments on P3 debt for the years ending March 31 are disclosed in note 15(d).

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

The Authority's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2020 and extrapolated to March 31, 2021 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2021 are derived. The next expected valuation will be as of December 31, 2021.

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Year ended March 31, 2021

11. Employee benefits (continued):

(a) Retirement allowance (continued):

Information about retirement allowance benefits is as follows:

	2021	2020
Accrued benefit obligation:		
Severance benefits	\$ 82,188	\$ 75,491
Sick leave benefits	42,652	39,276
	124,840	114,767
Unamortized actuarial loss	(12,997)	(8,021)
Accrued benefit liability	\$ 111,843	\$ 106,746

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

	2021	2020
Accrued benefit liability, beginning of year	\$ 106,746	\$ 101,660
Net benefit expense:		
Current service cost	7,817	7,449
Interest expense	4,434	4,342
Amortization of actuarial loss	886	822
Net benefit expense	13,137	12,613
Benefits paid	(8,040)	(7,527)
Accrued benefit liability, end of year	\$ 111,843	\$ 106,746

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11. Employee benefits:

(a) Retirement allowance:

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

	2021	2020
Accrued benefit obligation as at March 31:		
Discount rate	3.14%	3.79%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	3.79%	4.01%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

(b) Healthcare Benefit Trust benefits:

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

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

The Trust is a multiple employer plan, with the Authority's assets and liabilities being segregated with regards to long-term disability benefits after September 30, 1997 and health and welfare benefits after December 31, 2014. Accordingly, the Authority's net Trust liabilities (assets) are reflected in these consolidated financial statements.

The Authority's (assets) liabilities as of March 31, 2021 are based on the actuarial valuation at December 31, 2020, extrapolated to March 31, 2021. The next expected valuation will be as of December 31, 2021.

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11. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

	2021	2020
Accrued benefit obligation	\$ 101,380	\$ 92,512
Fair value of plan assets	(101,707)	(83,009)
Net (asset)/liability	\$ (327)	\$ 9,503

	2021	2020
Long-term disability and health and welfare benefits obligation, beginning of year	\$ 9,503	\$ 10,349
Net benefit expense:		
Health and welfare benefit expense	31,668	29,625
Actuarial (gain)/loss	(2,929)	4,933
Long-term disability expense	12,433	10,605
Interest expense	5,316	4,733
Non-employer contributions	(463)	(401)
Expected return on assets	(4,932)	(4,279)
Net benefit expense	41,093	45,216
Contributions to the plan	(50,923)	(46,062)
Long-term disability and health and welfare benefits (asset)/liability, end of year	\$ (327)	\$ 9,503

Benefits paid to claimants	\$ 39,299	\$ 44,092
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Plan assets consist of:

	2021	2020
Debt securities	39%	39%
Foreign equities	35	36
Canadian equities and other	26	25
Total	100%	100%

PROVINCIAL HEALTH SERVICES AUTHORITY

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11. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

The significant actuarial assumptions adopted in measuring the Authority's long-term disability benefit (asset) liabilities are as follows:

	2021	2020
Accrued benefit obligation as at March 31:		
Discount rate	5.30%	5.60%
Rate of benefit increase	2.00%	2.00%
Benefit costs for years ended March 31:		
Discount rate	5.30%	5.60%
Rate of compensation increase	2.00%	2.00%
Expected future inflationary increases	2.00%	2.00%
Expected long-term rate of return on plan assets	5.30%	5.60%

Actual rate of return on plan assets was 9.17% (2020 – 12.40%).

(c) Joint benefit trusts:

Effective April 1, 2017, management of the long-term disability and health and welfare benefits being provided to Health Science Professionals Bargaining Association, Community Bargaining Association, and Facilities Bargaining Association employees transitioned to joint benefit trusts. Employer contributions to the joint benefit trusts are based on a specified percentage of payroll costs. During the year ended March 31, 2021, the Authority made contributions to these joint benefit trusts totaling \$31,718 (2020 - \$30,530).

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Year ended March 31, 2021

11. Employee benefits (continued):

(d) Employee pension benefits:

The Authority and its employees contribute to the Municipal Pension Plan and the Public Service Pension Plan, multi-employer defined benefit pension plans governed by the *BC Public Sector Pension Plans Act*, and to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan.

Employer contributions to the Municipal Pension Plan of \$97,117 (2020 – \$88,857) 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, 2018 indicated a funding surplus of approximately \$2,866 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 213,000 active members, of which approximately 14,200 are employees of the Authority (2020 – 13,700). The next expected valuation will be as of December 31, 2021, with results available in 2022.

Employer contributions to the Public Service Pension Plan of \$24,628 (2020 – \$24,629) 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, 2020 indicated a funding surplus of approximately \$2,667 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 67,000 active members, of which approximately 4,300 are employees of the Authority (2020 – 4,300). The next actuarial valuation will be as of March 31, 2023, with results available in 2024.

The Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan is a single employer defined contribution plan. Employer contributions to the Ambulance Paramedics of British Columbia – C.U.P.E. Local 873 Supplemental Pension Plan of \$3,939 were expensed during the year (2020 – \$3,495). As at March 31, 2021, the plan covered approximately 1,910 (2020 – 1,700) active members, all of which are employees of the Authority.

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12. Deferred capital contributions:

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

	2021	2020
Deferred capital contributions, beginning of year	\$ 1,278,856	\$ 1,181,498
Capital contributions received:		
Ministry of Health	228,344	165,792
Foundations and auxiliaries	21,762	20,187
Other	1,556	2,515
	251,662	188,494
Transfer of tangible capital assets to other Health Authorities	(12,162)	-
Amortization for the year	(96,757)	(91,136)
Deferred capital contributions, end of year	\$ 1,421,599	\$ 1,278,856

Deferred capital contributions comprise the following:

	2021	2020
Contributions used to purchase tangible capital assets	\$ 1,339,925	\$ 1,231,497
Unspent contributions	81,674	47,359
	\$ 1,421,599	\$ 1,278,856

13. Tangible capital assets:

Cost	2020	Additions	Disposals	Transfers	2021
Land	\$ 143,780	\$ -	\$ -	\$ -	\$ 143,780
Land improvements	8,598	-	-	-	8,598
Buildings	1,299,644	259	-	107,526	1,407,429
Equipment	556,644	39,078	(15,627)	16,747	596,842
Information systems	290,183	5,499	(107)	13,819	309,394
Leasehold improvements	56,938	-	-	4,468	61,406
Vehicles	88,347	11,939	(2,627)	-	97,659
Construction in progress	188,220	107,424	-	(139,843)	155,801
Equipment and information systems in progress (note 9(b))	147,889	46,946	-	(14,916)	179,919
Total	\$2,780,243	\$ 211,145	\$ (18,361)	\$ (12,199)	\$2,960,828

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13. Tangible capital assets (continued):

Accumulated amortization	2020	Amortization	Disposals	Transfers	2021
Land improvements	\$ 3,880	\$ 626	\$ -	\$ -	\$ 4,506
Buildings	414,776	36,225	-	-	451,001
Equipment	390,451	39,805	(15,493)	(37)	414,726
Information systems	256,297	18,055	(108)	-	274,244
Leasehold improvements	33,025	3,104	-	-	36,129
Vehicles	53,956	8,639	(2,574)	-	60,021
Total	\$1,152,385	\$ 106,454	\$ (18,175)	\$ (37)	\$1,240,627

Cost	2019	Additions	Disposals	Transfers	2020
Land	\$ 143,780	\$ -	\$ -	\$ -	\$ 143,780
Land improvements	8,598	-	-	-	8,598
Buildings	1,293,196	182	(149)	6,415	1,299,644
Equipment	519,179	18,211	(10,918)	30,172	556,644
Information systems	266,281	1,767	(238)	22,373	290,183
Leasehold improvements	41,131	65	-	15,742	56,938
Vehicles	84,345	8,752	(7,349)	2,599	88,347
Construction in progress	114,001	126,804	-	(52,585)	188,220
Equipment and information systems in progress	119,222	53,383	-	(24,716)	147,889
Total	\$2,589,733	\$ 209,164	\$ (18,654)	\$ -	\$2,780,243

Accumulated amortization	2019	Amortization	Disposals	Transfers	2020
Land improvements	\$ 3,254	\$ 626	\$ -	\$ -	\$ 3,880
Buildings	379,469	35,376	(69)	-	414,776
Equipment	365,524	35,695	(10,768)	-	390,451
Information systems	238,675	17,860	(238)	-	256,297
Leasehold improvements	30,624	2,401	-	-	33,025
Vehicles	52,283	8,856	(7,183)	-	53,956
Total	\$1,069,829	\$ 100,814	\$ (18,258)	\$ -	\$1,152,385

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13. Tangible capital assets (continued):

Net book value	2021	2020
Land	\$ 143,780	\$ 143,780
Land improvements	4,092	4,718
Buildings	956,428	884,868
Equipment	182,116	166,193
Information systems	35,150	33,886
Leasehold improvements	25,277	23,913
Vehicles	37,638	34,391
Construction in progress	155,801	188,220
Equipment and information systems in progress	179,919	147,889
Total	\$ 1,720,201	\$ 1,627,858

Tangible capital assets are funded as follows:

	2021	2020
Deferred capital contributions	\$ 1,339,925	\$ 1,231,497
Debt	250,856	254,494
Internally funded	129,420	141,867
Tangible capital assets	\$ 1,720,201	\$ 1,627,858

14. Inventories held for use:

	2021	2020
Pharmaceuticals	\$ 44,855	\$ 36,420
Medical supplies	887	1,030
	\$ 45,742	\$ 37,450

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15. Commitments and contingencies:

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

As at March 31, 2021, the Authority had outstanding commitments for construction, equipment and information systems in progress of \$154,064 (2020 – \$107,884).

(b) Contractual obligations:

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

2022	\$	140,435
2023		41,557
2024		21,351
2025		18,103
2026		7,613
Thereafter		220,584
	\$	449,643

(c) Operating leases:

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

2022	\$	40,666
2023		31,991
2024		22,788
2025		16,730
2026		15,637
Thereafter		74,926
	\$	202,738

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15. Commitments and contingencies (continued):

(d) Public-private partnerships commitments:

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

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

Children’s & Women’s Health Centre of British Columbia entered into a multi-year P3 contract with the private sector partner Affinity Partnerships. Under the agreement, Affinity Partnerships will design, construct, partially finance and maintain the Teck Acute Care Centre until the end of the term of the agreement in June 2047. Payment guarantees have been provided by the Province for the payment obligations to Affinity Partnerships.

The information presented below shows the anticipated cash outflow for future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance (“FM”) and the lifecycle costs. The asset values are recorded as tangible capital assets and the corresponding liabilities are recorded as debt and disclosed in note 10. FM and lifecycle payments to the private partners are contingent on specified performance criteria and include an estimation of inflation, where applicable.

	Capital and financing	FM and lifecycle	Total payments
2022	\$ 21,197	\$ 13,702	\$ 34,899
2023	21,299	14,323	35,622
2024	21,410	15,147	36,557
2025	21,433	15,258	36,691
2026	21,534	16,384	37,918
Thereafter	408,773	471,455	880,228
	\$ 515,646	\$ 546,269	\$ 1,061,915

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15. Commitments and contingencies (continued):

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

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

2022	\$	3,748
2023		4,117
2024		4,480
2025		4,940
2026		5,402
Thereafter		224,619
	\$	247,306

(e) Litigation and claims:

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

The nature of the Authority's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2021, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

16. Statement of operations:

(a) Other contributions:

	2021	2020
Other health authorities	\$ 78,971	\$ 78,958
Foundations and auxiliaries	28,628	29,282
Federal government	10,010	1,534
Other ministries	3,990	3,714
Other	2,476	2,516
	\$ 124,075	\$ 116,004

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16. Statement of operations (continued):

(b) Other revenues:

	2021	2020
Recoveries from sales of goods and services (note 18(c))	\$ 38,835	\$ 35,284
Drug sales	1,494	1,139
Parking	-	5,875
Other	2,080	12,393
	\$ 42,409	\$ 54,691

(c) Patients, clients and residents:

	2021	2020
Non-residents of Canada	\$ 3,300	\$ 7,711
Non-residents of BC	9,827	8,495
Residents of BC self pay	1,347	1,494
Federal government	1,307	735
Preferred accommodation	315	1,191
Workers' Compensation Board	61	135
Other	1,213	2,014
	\$ 17,370	\$ 21,775

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16. Statement of operations (continued):

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

	2021	2020
Compensation:		
Compensation	\$ 1,528,701	\$ 1,410,024
Employee benefits	339,350	326,109
Actuarial (gain)/loss on event-driven employee benefits	(2,929)	4,933
	<u>1,865,122</u>	<u>1,741,066</u>
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	617,461	605,913
Health and support services providers and other	273,648	205,255
	<u>891,109</u>	<u>811,168</u>
Supplies:		
Drugs and medical gases	318,304	311,982
Medical and surgical	89,536	82,075
Diagnostic	42,433	30,805
Food and dietary	4,794	5,640
Printing, stationery and office	4,528	4,594
Laundry and linen	3,989	2,150
Housekeeping	1,557	1,095
Other	24,529	23,267
	<u>489,670</u>	<u>461,608</u>
Cost of inventories sold to other health authorities	343,031	242,228
Equipment and building services:		
Equipment	216,741	167,676
Rent	63,197	60,975
Plant operations (utilities)	10,871	10,970
Building and grounds service contracts	9,109	5,213
	<u>299,918</u>	<u>244,834</u>
Sundry:		
Professional fees	80,114	85,605
Travel	5,800	11,797
Communication and data processing	9,582	9,006
Patient transport	998	1,121
Other	59,864	35,398
	<u>156,358</u>	<u>142,927</u>
Amortization of tangible capital assets	106,454	100,814
Research and designated expenses	87,288	100,727
Interest on debt	17,531	17,778
Net book value of disposed tangible capital assets	186	396
Write-down of inventory held for sale (note 5(b))	64,660	-
	<u>\$ 4,321,327</u>	<u>\$ 3,863,546</u>

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2021

17. Supplementary cash flow information:

Net change in non-cash operating items:

	2021	2020
Accounts receivable	\$ (125,842)	\$ 63,769
Inventories held for sale	(234,867)	(6,729)
Accounts payable and accrued liabilities	89,960	33,905
Deferred operating contributions	(149)	(17,717)
Deferred research and designated contributions	5,650	9,248
Inventories held for use	(8,292)	(3,942)
Prepaid expenses	(99,646)	(6,524)
	<hr/>	<hr/>
	\$ (373,186)	\$ 72,010

18. Related parties and other agencies:

(a) BC government reporting entities:

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

Referred out and contracted services expenses, as outlined in note 16(d) are measured at the exchange amount, which is the amount established and agreed to by the related parties, and differs from fair market value.

The health authorities provide various services to each other relating to the provision of healthcare and other support services. The related revenues and expenses are reflected in the consolidated statement of operations and accumulated operating surplus and are recorded on a cost recovery basis, as the entities would have otherwise delivered the services themselves. As a result, the values recorded in the consolidated financial statements approximate fair value.

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18. Related parties and other agencies (continued):

(b) Foundations and auxiliaries:

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

The Authority has the economic relationships with the following foundations and auxiliaries:

BC Cancer Foundation
BCCDC Foundation for Population and Public Health
British Columbia's Children's Hospital Foundation
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
British Columbia Centre of Excellence for Women's Health Society

During the year, the Authority received contributions of \$97 million (2020 – \$79 million) from the various foundations and auxiliaries.

(c) Asset Purchase and Services Agreement

During the year ended March 31, 2021, PHSA entered into three APSAs with the Province, a related party. The purpose of these agreements was to transfer PPE and supplies procured by the Province to PHSA in order to sell these goods to “Eligible Organizations” on the B.C. Supply Hub webpage. Examples of Eligible Organizations include first responders, local governments, and public and private social services providers.

In aggregate, PHSA recorded \$30,050 in PPE and supplies purchased from the Province as inventory on the consolidated statement of financial position at the exchange value, which is the amount of consideration established and agreed to by the related parties. Of the total purchases for the year, PHSA recorded \$27,000 in write-downs related to these inventories (note 5(b)).

During the year ended March 31, 2021, PHSA also entered into a Loan Agreement with the Province to fund the purchase of PPE and supplies in relation to the APSAs (note 10(a)).

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Year ended March 31, 2021

19. Risk management:

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

(a) Credit risk:

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

The Authority manages credit risk by holding balances of cash and cash equivalents with a reputable top rated financial institution.

Accounts receivable primarily consist of amounts receivable from the Ministry, other health authorities and BC government reporting entities, patients, clients and agencies, hospital foundations and auxiliaries, grantors, etc. To reduce the risk, the Authority periodically reviews the collectibility of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2021, the amount of allowance for doubtful accounts was \$28,808 (2020 – \$25,065).

The Authority is not exposed to significant credit risk with respect to the amounts receivable from the Ministry, other health authorities and BC government reporting entities.

(b) Liquidity risk:

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

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

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2021

19. Risk management (continued):

(b) Liquidity risk (continued):

All of the Authority's financial assets mature within one year. The tables below show when various financial liabilities mature:

2021				
Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 591,327	\$ 24,819	\$ -	\$ 616,146
Short-term debt	30,500	-	-	30,500
Long-term debt	3,748	18,939	224,619	247,306
Total financial liabilities	\$ 625,575	\$ 43,758	\$ 224,619	\$ 893,952

2020				
Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 509,215	\$ 13,980	\$ 2,991	\$ 526,186
Long-term debt	3,406	17,284	230,031	250,721
Total financial liabilities	\$ 512,621	\$ 31,264	\$ 233,022	\$ 776,907

Long-term debt pertaining to P3 projects is funded through the ongoing annual operating grants received from the Ministry.

(c) Foreign exchange risk:

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

The Authority makes payments denominated in US dollars and other currencies. The currency most contributing to the foreign exchange risk is the US dollar.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2021

19. Risk management (continued):

(c) Foreign exchange risk (continued):

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

	2021	2020
US dollar per Canadian dollar	\$ 0.795	\$ 0.705

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

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

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

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

As at March 31, 2019	
Increase in accumulated operating surplus	1,127,329
Decrease in deferred capital contributions	(1,127,329)
For the year ended March 31, 2020	
Increase in annual operating surplus	104,168
As at March 31, 2020	
Increase in accumulated operating surplus	1,231,497
Decrease in deferred capital contributions	(1,231,497)
For the year ended March 31, 2021	
Increase in annual operating surplus	108,428
As at March 31, 2021	
Increase in accumulated operating surplus	1,339,925
Decrease in deferred capital contributions	(1,339,925)

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2021

21. BC Societies Act:

Under the Societies Act of British Columbia, the Authority is subject to certain financial statement disclosure requirements. These disclosure requirements include: (a) remuneration paid to the Society's directors, (b) remuneration paid to the ten most highly paid employees and contractors of the Society who were paid at least seventy-five thousand dollars during the period, and (c) any financial assistance provided by the Society during the period that was outside the ordinary course of activities.

(a) Remuneration paid to Directors:

The following table sets out remuneration paid to each member of the Board of Directors for the year ended March 31, 2021:

Board Position	2021
Board Chair	\$ 41
Chair – Audit	19
Chair – People and Governance	18
Chair – Research	18
Chair – Finance	17
Chair – Quality and Access	17
Chair – Cultural Safety and Humility	12
Member	16
Member	15
Member	15
Member	15
Member	12
	\$ 215

(b) Remuneration paid to highest paid employees and contractors:

The ten most highly remunerated persons whose remuneration was at least seventy-five thousand dollars during the year ended March 31, 2021 received an aggregate of \$6,848 from the Authority during that period. Most of these individuals are physicians.

(c) Financial assistance:

The Authority did not provide any financial assistance outside the ordinary course of activities during the year ended March 31, 2021.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2021

22. Annual Operating Surplus

During the year ended March 31, 2021, the Ministry of Health provided the Authority funding for the purchase of PPE and supplies to ensure a healthy stockpile of inventory is on hand to keep health care workers and British Columbians safe during the COVID-19 pandemic. The resulting surplus for Fiscal 2020/21 is largely due to this funding, which was recognized as revenue in the consolidated statement of operations.

23. Significant Event:

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. BC's Provincial Health Officer declared a public health emergency on March 17, 2020; the following day the Province declared a provincial state of emergency. Both declarations continue at the financial statement date. On July 10, 2020, the COVID-19 Related Measures Act came into force.

The financial statements of the Authority reflect its response to the pandemic. Events that occurred and affected health authorities' operations in 2020/21 were addressed through collaboration with and direction from the Ministry of Health; health authorities will continue to respond appropriately to ongoing COVID-19 related issues as long as necessary as directed by provincial authorities.