

Financial Statements of

**VANCOUVER COASTAL
HEALTH AUTHORITY**

Years Ended March 31, 2005 and 2004



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AUDITORS' REPORT

To the Board of
Vancouver Coastal Health Authority

We have audited the balance sheet of the Vancouver Coastal Health Authority as at March 31, 2005 and the statements of operations, equity (deficit) and cash flow for the year then ended. These financial statements are the responsibility of the Health 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 financial statements present fairly, in all material respects, the financial position of the Health Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

May 20, 2005

VANCOUVER COASTAL HEALTH AUTHORITY

Balance Sheet

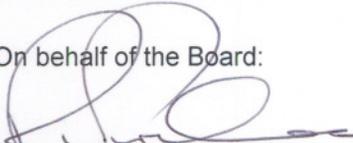
(Amounts expressed in thousands of dollars)

March 31, 2005 and 2004

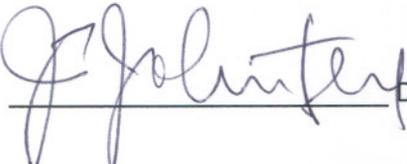
	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,006	\$ 0
Short-term investments	146,086	185,126
Accounts receivable (note 3)	95,598	61,210
Inventories of materials and supplies	9,263	9,134
Prepaid expenses	18,454	17,359
	<u>316,407</u>	<u>272,829</u>
Capital assets (note 4)	741,049	677,785
	<u>\$ 1,057,456</u>	<u>\$ 950,614</u>
LIABILITIES AND DEFICIT		
Current liabilities:		
Cheques issued in excess of funds on deposit	\$ 0	\$ 14,637
Accounts payable and accrued liabilities (note 5)	175,428	170,862
Current portion of long-term debt (note 6)	26,554	22,161
Current portion of retirement allowance (note 8(a))	6,264	7,802
Deferred operating revenue (note 1(i))	71,213	7,941
Deferred research revenue	12,244	12,926
	<u>291,703</u>	<u>236,329</u>
Long-term debt (note 6)	41,225	28,264
Replacement reserves (note 7)	1,078	1,019
Health Care Benefit Trust (note 8(b))	34,932	33,344
Retirement allowance (note 8(a))	75,029	69,052
Deferred capital revenue (note 9)	689,162	654,812
	<u>1,133,129</u>	<u>1,022,820</u>
Deficit:		
Investment in capital assets (note 10)	20,503	20,227
Internally restricted	3,677	4,652
Unrestricted	(99,853)	(97,085)
	<u>(75,673)</u>	<u>(72,206)</u>
Commitments and contingencies (note 11 and 15)		
	<u>\$ 1,057,456</u>	<u>\$ 950,614</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Operations

(Amounts expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

	2005	2004
Revenues:		
Ministry of Health grants	\$ 1,689,859	\$ 1,682,747
Patient and community program fees	125,357	118,346
Medical compensation recoveries	101,891	78,924
Amortization of deferred capital revenue	52,310	49,279
Other	48,518	56,849
Research grants	16,984	15,987
	<u>2,034,919</u>	<u>2,002,132</u>
Expenses:		
Salaries and benefits (notes 5 and 8(b))	770,932	831,120
Distributions to affiliated organizations	382,979	361,925
Distributions to community support agencies	321,825	330,771
Medical compensation	139,430	128,343
Facility and equipment costs	102,449	78,501
Medical and diagnostic supplies	77,021	69,664
Depreciation of buildings and equipment	67,352	61,336
Administration and support	52,798	47,411
Patient support	52,017	28,476
Drugs	42,591	39,861
Research	16,984	15,987
Retirement allowance (note 8(a))	9,247	9,646
	<u>2,035,625</u>	<u>2,003,041</u>
Deficiency of revenues over expenses	\$ (706)	\$ (909)

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Equity (Deficit)

(Amounts expressed in thousands of dollars)

March 31, 2005 and 2004

	Invested in			2005	2004
	capital	Internally	Unrestricted	Total	Total
	assets	restricted			
Balance, beginning of year	\$ 20,227	\$ 4,652	\$ (97,085)	\$ (72,206)	\$ (71,297)
Excess (deficiency) of revenues over expenses (note 10(b))	(15,042)	96	14,240	(706)	(909)
Loss on disposition of land (note 4)	0	0	(2,761)	(2,761)	0
Transfers	0	(1,071)	1,071	0	0
Net change in investment in capital assets (note 10(c))	15,318	0	(15,318)	0	0
Balance, end of year	\$ 20,503	\$ 3,677	\$ (99,853)	\$ (75,673)	\$ (72,206)

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Cash Flow

(Amounts expressed in thousands of dollars)

March 31, 2005 and 2004

	2005	2004
Cash flow from operating activities:		
Deficiency of revenues over expenses	\$ (706)	\$ (909)
Items not involving cash:		
Amortization of deferred capital revenue	(52,310)	(49,279)
Depreciation of buildings and equipment	67,352	61,336
	14,336	11,148
Change in non-cash operating items:		
Accounts receivable	(34,388)	(966)
Inventories of materials and supplies	(129)	(186)
Prepaid expenses	(1,095)	(6,011)
Accounts payable and accrued liabilities	4,566	(35,803)
Deferred operating revenue	63,272	(673)
Deferred research revenue	(682)	(681)
Replacement reserves	59	70
Health Care Benefit Trust	1,588	7,858
Retirement allowance	4,439	2,130
	37,630	(34,262)
	51,966	(23,114)
Cash flow from financing activities:		
Capital funding	86,660	68,042
Capital lease obligations (note 12)	(4,821)	(3,931)
Repayment of long-term debt	(7,025)	(946)
	74,814	63,165
Cash flow from investing activities:		
Net change in short-term investments	39,040	(9,494)
Capital asset acquisitions (note 12)	(104,177)	(73,759)
	(65,137)	(83,253)
Increase (decrease) in cash	61,643	(43,202)
Cash (cheques issued in excess of funds on deposit), beginning of year	(14,637)	28,565
Cash (cheques issued in excess of funds on deposit), end of year	\$ 47,006	\$ (14,637)

Supplemental information (note 12)

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

As part of the implementation of health care reform initiatives in British Columbia, the Ministry of Health Services (the "Ministry") announced the creation of the Vancouver Coastal Health Authority (the "VCHA") as one of six health authorities in the Province effective December 12, 2001. The role of the VCHA is to promote and provide for the physical, mental and social well being of people who live in the Vancouver Coastal region and through referral from outside the region.

The VCHA is incorporated under the Health Authorities Act of British Columbia.

1. Significant accounting policies:

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates include: valuation of accounts receivable and inventory; the determination of obsolescence and useful lives of capital assets for depreciation and revenue from capital contributions; accrued liabilities; long term disability and retirement allowance; and accrued restructuring costs. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Affiliated organizations:

Within the Vancouver Coastal area, there are three denominational health care organizations, Providence Health Care ("PHC"), Bella Coola General Hospital ("Bella Coola") and R.W. Large Memorial Hospital in Bella Bella ("R.W. Large") (collectively the "Affiliates") which have the responsibility to manage the administration of certain health care facilities under affiliation agreements with the VCHA. These Affiliates are separate legal entities with separate boards of directors and, accordingly, these financial statements do not include their assets, liabilities or results of operations. However, the funds received from the Ministry on behalf of these Affiliates are recorded as Ministry of Health grants revenue, and funds transferred to the Affiliates are recorded as expenses in the statement of operations. As VCHA's performance agreement with the Ministry includes the performance of these Affiliates, information on the equity and results of operations of the Affiliates is provided in Note 14(b) of these financial statements.

(b) Cash and cash equivalents:

Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, are not subject to significant risk of change in value and mature within 90 days of the inception date. Cheques issued in excess of funds on deposit in the bank will be covered by liquidation of short term investments as required.

(c) Short-term investments:

Short-term investments are recorded at cost. When there has been a decline in value of an investment that is other than temporary, the investment is written down to recognize the loss. As at March 31, 2005, the quoted market value of the investments is \$151.0 million (2004 - \$191.2 million).

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

1. Significant accounting policies (continued):

(d) Inventories:

Inventories of materials and supplies are recorded at the lower of average cost and replacement cost.

(e) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Betterments which extend the estimated life or enhance the service potential of an asset are capitalized. When a capital asset no longer contributes to the VCHA's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Buildings	2% - 20%
Major equipment	5% - 33%

Depreciation is not provided on projects in progress until the assets are in use.

Pursuant to a transfer agreement with the University of British Columbia, the VCHA leases the buildings at UBC Hospital for \$10 per year for a term expiring March 31, 2007.

(f) Asset retirement obligations:

Effective April 1, 2004, the VCHA adopted Section 3110 of the CICA Handbook, "Asset Retirement Obligations". This section requires that the fair value of a contracted or statutory liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and depreciated over the life of the asset. At this time, the VCHA has determined that there are no significant asset retirement obligations associated with its assets.

(g) Internally restricted equity:

Internally restricted funds consist of amounts set aside by the VCHA for use in specific programs, education or capital projects.

(h) Revenue recognition:

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

Under the Health Insurance Act and Regulations thereto, the VCHA is funded primarily by the Province of British Columbia in accordance with budget arrangements established and approved by the Ministry. Approved operating grants are provided to the VCHA by the Ministry and are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant received relates to a future period, it is deferred and recognized in that subsequent period.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

1. Significant accounting policies (continued):

(h) Revenue recognition (continued):

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

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

(i) Deferred operating revenue:

Deferred operating revenue represents funding that has been received for future years' expenses.

(j) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee sick and severance benefits and multiple-employer defined 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). 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 sick and severance benefits is 10 years (2004 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans is 10 years (2004 - 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 multiemployer defined benefit plans and, accordingly, contributions are expensed.

(k) Income taxes:

The VCHA is exempt from federal and provincial income and capital taxes.

(l) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty in determining fair value, contributed services are not recognized in the financial statements.

(m) Comparative figures:

Certain of the comparative figures have been re-classified in order to conform with the current year's presentation.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

2. Financial instruments:

(a) Fair value:

The VCHA's financial instruments include cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, Health Care Benefit Trust, retirement allowance and long-term debt. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short term nature of these financial assets and liabilities.

The fair value of long-term debt is based on management estimates and is determined by discounting cash flows required at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair values of the VCHA's long term debt as at March 31, 2005 are not significantly different from their carrying values.

The fair value of short-term investments is disclosed in note 1(c) and the fair value of the retirement allowance and Health Care Benefit Trust are disclosed in notes 8(a) and 8(b), respectively.

(b) Interest rate risk:

As described in note 6, a portion of the VCHA's long-term debt bear interest at a floating rate. Fluctuations in interest rates will impact the cost of financing incurred in the future.

(c) Credit risk:

The VCHA faces credit risk with respect to the collection of its accounts receivable and recovery of short term investments. There is a concentration of credit risk from the collection of receivables from the Ministry and recovery of bond principals invested with the Government of Canada. Management does not perceive these concentrations of credit risk to be significant based on the nature of the debtors and historical collection experience.

3. Accounts receivable:

	2005	2004
Province of British Columbia	\$ 42,046	\$ 23,137
Federal government	4,446	3,650
Other provinces	2,338	1,677
Patient fees	10,587	11,907
Hospital foundations	6,804	3,530
Other	35,434	21,776
	101,655	65,677
Less provision for doubtful accounts	6,057	4,467
	\$ 95,598	\$ 61,210

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

4. Capital assets:

			2005	2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 22,133	\$ 0	\$ 22,133	\$ 20,340
Buildings	789,183	308,965	480,218	472,959
Equipment	516,546	384,433	132,113	134,508
Equipment under capital lease	36,933	21,668	15,265	2,806
Information systems projects			0	
in progress	44,913	0	44,913	25,423
Construction projects				
in progress	46,407	0	46,407	21,749
	\$ 1,456,115	\$ 715,066	\$ 741,049	\$ 677,785

During the year, the VCHA sold land with a book value of \$2.8 million to the British Columbia Building Corporation for nominal value. The land had been acquired by a contribution from the MOH and, as land is a non-depreciable asset, the contribution had been recorded as an increase to net assets. Therefore, the loss on disposal of \$2.8 million was recorded as a decrease to net assets.

5. Accounts payable and accrued liabilities:

		2005	2004
Accounts payable and accrued liabilities	\$	78,377	\$ 67,353
Accrued salaries and benefits		51,183	47,126
Accrued vacation pay		39,871	40,635
Accrued restructuring costs		5,997	15,748
	\$	175,428	\$ 170,862

In the current year, \$3.5 million of accrued restructuring costs were paid out and the remaining accrual was reduced by \$6.8 million due to revised estimates of the prior year accrual. As of March 31, 2005, \$5.5 million of the prior year accrual remains to be paid out. In addition, a further \$0.5 million was recorded relating to severance and related costs that are anticipated to result from further restructuring of the VCHA. The restructuring will result in a reduction of the work force and a reorganization of the delivery of services. The restructuring plan was approved in March 2005 and will be substantially completed over the next year.

The current year additional amount of \$0.5 million, together with the remaining \$5.5 million of the March 31, 2004 balance to be paid, is recorded as accrued restructuring costs. This amount represents management's best estimate of the restructuring costs to be incurred using information available at the balance sheet date. Events occurring subsequent to year-end may materially impact the amounts recorded.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

6. Long-term debt:

	2005	2004
Royal Bank term loan, 6.41% interest, payable in blended payments of \$568,149 per month expiring March, 2009	\$ 23,999	\$ 29,100
Mortgages payable to CMHC, at interest varying from 5.35% to 7.88%, secured by first charges on properties, payable in blended payments of \$137,000 per month, with maturity dates ranging to July, 2025	14,427	16,031
Demand loan, interest at the prime rate, evidenced by a promissory note, payable in blended payments of \$34,682 per month	2,030	2,350
Obligation on construction in progress of the Academic Ambulatory Care Centre (note 15)	11,700	0
Obligations under capital lease, with weighted average interest rate of 4.3% and maturities to 2009	15,623	2,944
	67,779	50,425
Less current portion of long-term debt	26,554	22,161
	\$ 41,225	\$ 28,264

Debt maturing in the subsequent fiscal year and debt with demand features has been classified as current as at March 31, 2005 and 2004, irrespective of scheduled repayment terms.

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

2006	\$	26,554
2007		12,248
2008		9,864
2009		8,117
2010		620
Thereafter		10,376
	\$	67,779

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

7. Replacement reserves:

Under the terms of mortgage agreements with Canada Mortgage and Housing Corporation ("CMHC") and BC Housing Management Commission ("BC Housing"), VCHA is required to set aside certain amounts each year as a replacement reserve. Use of the funds requires approval of CMHC or BC Housing, respectively.

The change in the replacement reserves is calculated as follows:

	2005	2004
Balance, beginning of year	\$ 1,019	\$ 1,090
Provision for replacement reserve funding	85	81
Interest on replacement reserves	23	32
Expenditures	(49)	(184)
	\$ 1,078	\$ 1,019

The replacement reserves by facility are as follows:

	2005	2004
Olive Devaud Residence	\$ 323	\$ 295
Lions Park Senior Citizens Housing	309	285
Shorncliffe Intermediate Care	208	228
Hilltop House	89	82
Kiwanis Intermediate Care	86	79
Cederview Lodge	63	50
	\$ 1,078	\$ 1,019

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

8. Employee future benefits:

(a) Employee retirement allowance:

Certain employees with ten years of service and having reached a certain age are entitled to receive special payments upon retirement or as specified by collective agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service. The VCHA's liabilities are based on an actuarial valuation as at December 31, 2003 updated to March 31, 2005. The next required valuation will be as of December 31, 2006.

Information about employee retirement allowance benefits is as follows:

	2005	2004
Total unfunded retirement allowance obligation	\$ 69,960	\$ 67,072
Unamortized amounts	11,333	9,782
Accrued retirement allowance liabilities	\$ 81,293	\$ 76,854
Retirement allowance benefits paid	\$ 4,808	\$ 7,516

The accumulated unamortized actuarial gain of \$11.3 million exceeds 10% of the unfunded retirement allowance obligation by \$4.3 million. This amount is being amortized over 10 years (note 1(j)).

The significant actuarial assumptions adopted in measuring VCHA's accrued retirement allowance are as follows:

	2005	2004
Accrued benefit obligation as at March 31:		
Discount rate	5.50%	5.75%
Rate of compensation increase	3.25%	3.25%
Benefit costs for years ended March 31:		
Discount rate	5.75%	6.25%
Rate of compensation increase	3.25%	5.20%

(b) Employee healthcare benefits:

The Health Employers Association of British Columbia 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 VCHA.

Effective March 31, 2004, the Trust was restructured from a multi-employer to a multiple-employer plan only with respect to long-term disability benefits initiated after September 30, 1997. The VCHA's assets and liabilities for these long-term disability benefits have been segregated. Accordingly, the VCHA's net liabilities are reflected in these consolidated financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

8. Employee future benefits (continued):

(b) Employee healthcare benefits (continued):

The VCHA's liabilities are based on an actuarial valuation, using an early measurement date, as at December 31, 2004. The next required valuation will be as of December 31, 2005.

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

	2005	2004
Accrued benefit obligation	\$ 66,181	\$ 60,377
Fair value of plan assets	29,943	27,033
Net unfunded obligation	36,238	33,344
Contributions to plan (January - March)	(4,061)	0
Balance of unamortized amounts	2,755	0
Accrued long-term disability liabilities	\$ 34,932	\$ 33,344
Long term disability plan expense	\$ 16,942	\$ n/a*
Benefits paid	\$ 12,552	\$ n/a*

*Comparative figures are not available because the long-term disability benefit plan was a multi-employer plan throughout 2004 and, consequently, VCHA does not have sufficient information about the long-term disability plan expense or benefit payments in 2004.

Plan assets consist of:

	2005	2004
Debt securities	45%	48%
Equity securities	41%	39%
Other	14%	13%
Net unfunded obligation	100%	100%

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

8. Employee future benefits (continued):

(b) Employee healthcare benefits (continued):

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

	2005	2004
Accrued benefit obligation as at March 31:		
Discount rate	6.0%	7.5%
Rate of benefit increase	1.5%	1.5%
Benefit cost for years ended March 31:		
Discount rate	7.5%	7.5%
Expected long-term rate of return on plan assets	7.5%	7.5%
Rate of benefit increase	1.5%	1.5%

The group life insurance, accidental death and dismemberment and pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multi-employer plan and accounted for on a defined contribution basis. Contributions to the plan of \$1.0 million were expensed during the year. The most recent actuarial valuation at December 31, 2004 indicated a deficit of \$6 million. The plan covers approximately 76,000 employees of which approximately 11,000 are employees of the VCHA. The next required valuation will be as of December 31, 2005.

While the Trust has been restructured, the VCHA 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 VCHA and its employees contribute to the Municipal Pension Plan, a multi-employer defined benefit pension plan governed by the *BC Public Sector Pension Plans Act*.

Employer contributions to the Municipal Pension Plan of \$35.6 million (2004 - \$36.9 million) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2003 indicated an unfunded liability of \$789 million. The plan covers approximately 128,000 employees of which approximately 20,000 are employees of the VCHA. The next required valuation will be as of December 31, 2006.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

9. Deferred capital revenue:

Deferred capital revenue represents the unamortized and unspent amounts of contributions received for the purchase of capital assets. The amortization of deferred capital revenue is recorded as revenue in the statement of operations on the same basis as the related assets are depreciated.

	2005	2004
Balance, beginning of year	\$ 654,812	\$ 636,049
Capital funding receipts:		
Ministry of Health	53,531	57,891
Hospital foundations	8,940	7,741
Other	24,189	2,410
	<u>86,660</u>	<u>68,042</u>
	741,472	704,091
Less amortization for year	<u>52,310</u>	<u>49,279</u>
Balance, end of year	\$ 689,162	\$ 654,812

The balance is comprised of:

	2005	2004
Contributions used to purchase capital assets	\$ 652,767	\$ 607,133
Unspent contributions	<u>36,395</u>	<u>47,679</u>
Balance, end of year	\$ 689,162	\$ 654,812

10. Investment in capital assets:

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

	2005	2004
Capital assets	\$ 741,049	\$ 677,785
Amount financed by:		
Deferred capital revenue	(652,767)	(607,133)
Long-term debt	<u>(67,779)</u>	<u>(50,425)</u>
	<u>(720,546)</u>	<u>(657,558)</u>
	\$ 20,503	\$ 20,227

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

10. Investment in capital assets (continued):

(b) Deficiency of revenue over expenses:

	2005	2004
Amortization of deferred capital revenue	\$ 52,310	\$ 49,279
Depreciation of buildings and equipment	(67,352)	(61,336)
	\$ (15,042)	\$ (12,057)

(c) Net change in investment in capital assets:

	2005	2004
Purchase of capital assets	\$ 133,377	\$ 75,464
Disposition of capital assets	(2,761)	0
Amounts funded by deferred capital revenue	(97,944)	(62,071)
Amounts funded by long-term debt	(29,200)	(1,720)
Repayment of long-term debt	11,846	4,877
	\$ 15,318	\$ 16,550

11. Commitments and contingencies:

(a) Operating leases:

The following future minimum lease payments under operating leases are due for the years ending March 31:

2006	\$ 12,784
2007	11,044
2008	8,727
2009	7,013
2010	6,578
Thereafter	11,293
	\$ 57,439

(b) Litigation and claims:

The nature of the VCHA's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2005, management is of the opinion that the VCHA has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims will not have a material effect on the VCHA's financial position.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

11. Commitments and contingencies (continued):

(c) Risk management:

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

12. Statement of cash flow:

The following information pertains to the statement of cash flow for the year ended March 31.

(a) Assets acquired under capital lease:

Assets acquired or construction projects in progress under capital lease of \$29.2 million (2004 - \$1.7 million) are non-cash transactions and are excluded from the statement of cash flow.

(b) Interest paid:

During the year the VCHA paid interest of \$3.4 million (2004 - \$3.5 million).

13. Funding and payments to other organizations:

During the year, the VCHA received and distributed cash on behalf of the Ministry to Provincial Health Services Authority of \$78.6 million (2004 - \$78.5 million) and the B.C. Interns and Residents Paying Agency of \$Nil (2004 - \$32.7 million). These amounts are not included in the VCHA's statement of operations as VCHA is the disbursement agent only.

14. Related party and other agency operations:

(a) Hospital foundations:

The following hospital foundations raise funds for patient care for various facilities within the VCHA:

- Lions Gate Hospital Foundation
- Pemberton and District Health Care Foundation
- Powell River Hospital Foundation
- Richmond Hospital Foundation
- St. Mary's Hospital Foundation
- Squamish Health Care Foundation
- VGH and UBC Hospital Foundation
- Whistler Health Care Foundation

The financial statements of the foundations have not been consolidated with those of the VCHA. As at March 31, 2005, the foundations, in aggregate, held net assets of \$87.1 million (2004 - \$76.5 million). During the year, the foundations granted \$19.0 million (2004 - \$17.0 million) to various VCHA facilities.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2005 and 2004

14. Related party and other agency operations (continued):

(b) Affiliated organizations:

The financial statements of the Affiliates are not consolidated with the VCHA. The excess (deficiency) of revenue over expenses and net equity (deficit) of these affiliates is as follows:

	2005	2004
Excess (deficiency) of revenue over expenses:		
Providence Health Care	\$ 1,094	\$ (9,210)
Bella Coola General Hospital	64	85
R.W. Large Memorial Hospital	68	17
	<hr/>	<hr/>
	\$ 1,226	\$ (9,108)
Net equity (deficit):		
Providence Health Care	\$ (35,578)	\$ (36,672)
Bella Coola General Hospital	767	703
R.W. Large Memorial Hospital	724	656
	<hr/>	<hr/>
	\$ (34,087)	\$ (35,313)

Included in accounts payable is \$7.5 million (2004 - \$9.4 million) due to PHC.

15. Academic Ambulatory Care Centre:

During the year, VCHA entered into an agreement with Access Health Vancouver ("Access") for the design, construction, financing, operation and maintenance the Academic Ambulatory Care Centre ("AACC") Under this agreement, VCHA will lease the entire AACC facility to Access and Access will lease back to VCHA a majority of the space in the facility. Construction of the AACC commenced in September, 2004 and is projected to be completed by August, 2006. VCHA capitalizes the present value of the future minimum lease payments under the terms of the agreement, which amounts to approximately \$117 million. The construction in progress is recorded in VCHA's accounts based on the percentage of completion. As at March 31, 2005, the facility was deemed to be 10% complete which resulted in \$11.7 million being capitalized in VCHA's accounts with a corresponding amount of obligation under capital lease.