

Consolidated Financial Statements
(Expressed in thousands of dollars)

PROVINCIAL HEALTH SERVICES AUTHORITY

Year ended March 31, 2007



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT

To the Board of Provincial Health Services Authority

We have audited the consolidated statement of financial position of Provincial Health Services Authority as at March 31, 2007 and the consolidated statements of revenue and expenses, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

May 4, 2007

PROVINCIAL HEALTH SERVICES AUTHORITY

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

March 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,388	\$ 72,598
Restricted cash	209	230
Short-term investments (note 3)	20,615	14,017
Accounts receivable (note 4)	127,975	131,179
Inventory	32,742	26,300
Prepaid expenses	3,928	4,069
	207,857	248,393
Long-term investments	30,854	41,169
Long-term disability assets (note 9(b))	40	-
Capital assets, net (notes 5 and 15)	714,499	682,029
	\$ 953,250	\$ 971,591


Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 175,887	\$ 211,474
Deferred operating revenue	13,486	6,728
Deferred contributions for designated purposes (note 7)	35,581	47,171
Current portion of obligations under capital leases (note 8)	221	247
	225,175	265,620
Accrued sick and severance liabilities (note 9(a))	40,181	39,449
Accrued long-term disability liabilities (note 9(b))	-	358
Other long-term benefit liabilities	-	328
Other long-term liabilities (note 15)	1,825	726
Long-term obligations under capital leases (note 8)	962	-
Deferred capital contributions (note 10)	611,082	591,730
	879,225	898,211
Net assets:		
Invested in capital assets (note 11(a))	108,601	108,662
Internally restricted	448	448
Unrestricted	(35,024)	(35,730)
	74,025	73,380
Commitments and contingencies (note 12)		
	\$ 953,250	\$ 971,591

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 Revenue and Expenses
(Expressed in thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Contributions:		
Ministry of Health Services grants	\$ 1,027,606	\$ 986,975
BC Health Authority operating grants	78,922	78,661
Ministry of Finance (note 4)	1,429	23,352
Patient/client revenue (note 13)	34,692	36,083
Medical Services Commission	90,562	83,037
Investment income	2,739	3,573
Other revenue	36,758	34,120
Contributions for designated purposes (note 7)	81,790	72,271
	<u>1,354,498</u>	<u>1,318,072</u>
Expenses:		
Compensation and benefits (note 14)	602,343	610,015
Supplies	283,258	262,446
Sundry	46,425	50,106
Equipment and building services	50,471	46,435
Loss on disposal of capital assets	26	31
Referred-out/contracted services	288,083	274,561
Accretion of asset retirement obligations (note 15)	112	-
Expenses for designated purposes (note 7)	81,790	72,271
	<u>1,352,508</u>	<u>1,315,865</u>
Excess of revenue over expenses before amounts related to capital assets	1,990	2,207
Amortization of investment in capital assets:		
Amortization of deferred capital contributions	52,685	46,799
Amortization of capital assets	(54,030)	(48,560)
	<u>(1,345)</u>	<u>(1,761)</u>
Excess of revenue over expenses	<u>\$ 645</u>	<u>\$ 446</u>

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Changes in Net Assets (Deficiency)
(Expressed in thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	Invested in capital assets	Internally restricted	Unrestricted	Total	
				2007	2006
Balance, beginning of the year	\$ 108,662	\$ 448	\$ (35,730)	\$ 73,380	\$ 72,934
Excess (deficiency) of revenue over expenses	(1,345)	-	1,990	645	446
Net change in capital assets (note 11(c))	1,284	-	(1,284)	-	-
Balance, end of year	\$ 108,601	\$ 448	\$ (35,024)	\$ 74,025	\$ 73,380

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 645	\$ 446
Items not involving cash:		
Amortization of capital assets	54,030	48,560
Amortization of deferred capital contributions	(52,685)	(46,799)
Loss on disposal of capital assets	26	31
	2,016	2,238
Changes in non-cash operating items (note 18)	(43,489)	(20,080)
	(41,473)	(17,842)
Financing:		
Additions to deferred capital contributions	72,037	87,227
Additions to capital lease obligations	1,232	-
Additions to other long term liabilities (note 15)	1,099	726
Repayment of obligations under capital leases	(296)	(461)
	74,072	87,492
Investments:		
Additions to capital assets (notes 11(c) and 15)	(86,526)	(103,221)
Net purchase of short-term investments	(6,598)	(10,712)
Net (purchase) disposal of long-term investments	10,315	(416)
	(82,809)	(114,349)
Decrease in cash and cash equivalents	(50,210)	(44,699)
Cash and cash equivalents, beginning of year	72,598	117,297
Cash and cash equivalents, end of year	\$ 22,388	\$ 72,598

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2007

1. Operations:

The Provincial Health Services Authority (PHSA or the Authority) was established on December 12, 2001 to manage the quality, coordination, accessibility, and cost of certain province wide health-care programs and services through the governance of selected provincial agencies and programs. The agencies/programs (individually and collectively the Agencies) of PHSA are:

- British Columbia Cancer Agency Branch;
- British Columbia Centre for Disease Control and Prevention Society Branch;
- British Columbia Drug and Poison Information Centre;
- British Columbia Mental Health Society (Riverview) Branch;
- British Columbia Provincial Renal Agency;
- British Columbia Transplant Society Branch;
- Children's & Women's Health Centre of British Columbia Branch;
- Forensic Psychiatric Services Commission;
- Women's Health Research Institute Society; and
- Red Cross Outpost Hospitals (until December 15, 2005)

On December 15, 2005, PHSA transferred the Red Cross Outpost Hospitals, which has an operating annual grant of \$2 million, to the Regional Health Authorities for a nominal amount. The results of operations have been included in these financial statements up to this date.

On March 22, 2006, PHSA obtained effective control of the Women's Health and Research Institute Society's operations. The financial position and results of operations have been consolidated into these financial statements since March 22, 2006.

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

PHSA is dependant on the Ministry of Health Services to provide sufficient funding to continue operations, replace equipment and complete capital projects.

PHSA is exempt from federal and provincial income and capital taxes.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2007

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements, management has made 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 the determination of useful lives of capital assets, the fair value of the asset retirement obligations, the estimation of amounts which may become payable to retiring employees, and accrued liabilities and related receivables resulting from implementing the Mental Health Plan. These consolidated financial statements do not include the assets, liabilities, revenue and expenses of Foundations and Auxiliaries and Societies of the PHSA branches (note 17).

(b) Revenue recognition:

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

Operating grants are recorded as revenue in the year to which they relate. Grants approved but not yet received at the end of the year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in that subsequent year.

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

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions externally restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

(c) Asset and service contributions:

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

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

(d) Cash and cash equivalents:

The Authority considers all short-term investments with a term to maturity of three months or less at the date of purchase to be cash and cash equivalents.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2007

2. Significant accounting policies (continued):

(e) Short-term investments:

Short-term investments include banker's acceptances, term deposits, and bonds and are recorded at the lower of cost and market value.

(f) Inventory:

Inventory, consisting of materials, supplies and pharmaceuticals, is recorded at the lower of weighted average cost and market value. Certain specific inventory items are purchased on consignment and are not included in inventory.

At March 31, 2007, inventory includes \$17,266 (2006 - \$10,401) of anti-viral vaccinations, which expire between fiscal years 2010 and 2011.

(g) Long-term investments:

Long-term investments are recorded at cost. Where the market value of long-term investments becomes lower than cost and this decline in value is considered to be other than temporary, the long-term investments are written down to market value.

(h) Capital assets:

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis over the assets' estimated useful lives or lease term at the following rates:

Asset	Rate
Buildings	20 - 50 years
Leased building	50 years
Leasehold improvements	Lease term to a maximum of 10 years
Equipment	3 - 20 years

Assets acquired under capital leases are amortized over the lesser of the estimated lives of the assets and the lease terms.

(i) 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.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2007

2. Significant accounting policies (continued):

(i) Employee future benefits (continued):

The average remaining service period of the active covered employees entitled to sick and severance benefits is 10 years (2006 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans is 10 years (2006 - 10 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

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

(j) Asset retirement obligations:

The Authority recognizes an asset retirement obligation liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed at the end of each period to reflect the passage of time and changes in the initial fair value assessment of the retirement obligation.

3. Short-term investments:

The carrying value of the short-term investments is \$20,615 (2006 - \$14,017), which approximates the market value.

4. Accounts receivable:

	2007	2006
BC Health Authorities	\$ 468	\$ 1,113
Ministry of Health Services	34,716	41,096
Medical Services Commission	39,087	22,377
Medical Services Plan	1,200	1,643
Ministry of Finance	-	23,352
Research grants	7,347	6,989
Foundations (note 17)	22,104	12,771
Other	25,296	24,103
	130,218	133,444
Allowance for doubtful accounts	(2,243)	(2,265)
	\$ 127,975	\$ 131,179

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Notes to Consolidated Financial Statements
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Year ended March 31, 2007

5. Capital assets:

2007	Cost	Accumulated amortization	Net book value
Land	\$ 113,100	\$ -	\$ 113,100
Buildings	398,765	76,208	322,557
Leased building	80,056	3,584	76,472
Leasehold improvements (note 15)	60,936	49,368	11,568
Equipment	377,710	245,233	132,477
Construction-in-progress	58,325	-	58,325
	\$ 1,088,892	\$ 374,393	\$ 714,499

2006	Cost	Accumulated amortization	Net book value
Land	\$ 113,100	\$ -	\$ 113,100
Buildings	357,945	64,224	293,721
Leased building	78,114	3,674	74,440
Leasehold improvements (note 15)	62,076	47,184	14,892
Equipment	322,544	209,220	113,324
Construction-in-progress	72,552	-	72,552
	\$ 1,006,331	\$ 324,302	\$ 682,029

The Children's & Women's Health Centre of British Columbia Branch began construction of the Child and Family Research Institute Building during 2006 with a total estimated construction cost of \$42,000 of which \$22,383 (2006 - \$4,412) is included in capital assets as construction in progress. Funding for this project has been committed by the PHSA and the British Columbia's Children's Hospital Foundation.

In fiscal 2005, the Children's & Women's Health Centre of British Columbia Branch began construction of the Child, Adolescent & Women's Mental Health Building with a total estimated construction cost of \$20,500 of which \$19,595 has been capitalized to buildings during the year and \$317 (2006 - \$14,355) is included in capital assets as construction in progress. Funding for this project has been committed by the PHSA and the British Columbia's Children's Hospital Foundation.

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

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Notes to Consolidated Financial Statements
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Year ended March 31, 2007

6. Accounts payable and accrued liabilities:

	2007	2006
Trade accounts payable and accrued liabilities	\$ 78,436	\$ 90,631
Accrued salaries, wages and benefits payable	31,106	51,313
Accrued vacation payable	29,598	28,057
Accrued Mental Health Plan costs (note 14)	32,470	38,219
Current portion of accrued sick and severance liabilities (note 9(a))	4,068	3,024
Patient trust funds	209	230
	<u>\$ 175,887</u>	<u>\$ 211,474</u>

7. Deferred contributions for designated purposes:

Deferred contributions for designated purposes represent unspent grants and donations for research and other specified purposes. These deferred contributions will be recorded as revenue in the statement of operations when the related expenses are incurred.

	2007	2006
Balance, beginning of year	\$ 47,171	\$ 41,768
Amount received for designated purposes	70,200	77,674
Amount recognized as revenue	(81,790)	(72,271)
Balance, end of year	<u>\$ 35,581</u>	<u>\$ 47,171</u>

8. Obligations under capital leases:

Certain agencies lease equipment over terms which expire between fiscal years 2008 and 2014. The following is a schedule of minimum lease payments under fixed rate capital leases, together with the balance of the obligations.

	2007
2008	\$ 274
2009	273
2010	271
2011	270
2012	209
Thereafter	39
Total minimum lease payments	1,336
Amount representing interest at a weighted average rate of 5.37%	(153)
Present value of capital lease payments	1,183
Current portion of obligations under capital leases	221
Long-term portion of obligations under capital leases	<u>\$ 962</u>

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

Year ended March 31, 2007

9. Employee benefits:

(a) Employee sick and severance benefits:

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

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

Information about employee sick and severance benefits is as follows:

	2007	2006
Accrued benefit obligation:		
Sick leave benefits	\$ 12,598	\$ 12,067
Severance benefits	30,990	26,820
Total unfunded obligation	43,588	38,887
Balance of unamortized amounts	661	3,586
Accrued sick and severance liabilities	44,249	42,473
Current portion of sick and severance liabilities	4,068	3,024
Long-term portion of sick and severance liabilities	\$ 40,181	\$ 39,449
Sick and severance plan expense	\$ 4,615	\$ 4,300
Benefits paid	2,840	3,310

The significant actuarial assumptions adopted in measuring the Authority's accrued sick and severance liabilities are as follows:

	2007	2006
Accrued benefit obligation as at March 31:		
Discount rate	5.00%	5.00%
Rate of compensation increase	3.25%	3.25%
Benefit costs for years ended March 31:		
Discount rate	5.00%	5.50%
Rate of compensation increase	3.25%	3.25%

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

Year ended March 31, 2007

9. Employee benefits (continued):

(b) Employee healthcare benefits:

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

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

The Authority's liabilities are based on an actuarial valuation using an early measurement date of December 31, 2006. The next required valuation will be as of December 31, 2007.

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

	2007	2006
Accrued benefit obligation	\$ 20,405	\$ 17,943
Fair value of plan assets	20,445	17,296
Net unfunded obligation (net asset)	(40)	647
Balance of unamortized amounts	1,375	813
Contributions to the plan during January to March	(1,375)	(1,102)
Accrued long-term disability liabilities (assets)	\$ (40)	\$ 358
Long-term disability plan expense	\$ 4,562	\$ 3,797
Benefits paid	3,083	3,379

Plan assets consist of:

	2007	2006
Debt securities	54%	51%
Canadian equity securities	20	23
Foreign equity securities	26	26
Total	100%	100%

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2007

9. Employee benefits (continued):

(b) Employee healthcare benefits (continued):

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

	2007	2006
Accrued benefit obligation as at March 31:		
Discount rate	5.0%	5.0%
Rate of benefit increase	2.5%	2.5%
Benefit cost for years ended March 31:		
Discount rate	5.0%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of benefit increase	2.5%	2.5%

The group life insurance, accidental death and dismemberment, extended health, dental, and pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multi-employer plan. Contributions to the Trust of \$10,370 (2006 - \$9,450) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2006 indicated a surplus of \$25,564 (December 31, 2005 - \$4,751). The plan covers approximately 74,724 active employees of which approximately 4,150 (2006 - 5,460) are employees of the Authority. The next required valuation will be as of December 31, 2007.

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

(c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$23,840 (2006 - \$21,270) 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, 2003 indicated an unfunded liability of \$789,000 for basic pension benefits. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 140,000 active employees of which approximately 6,272 are employees of the Authority. The next required valuation will be as of December 31, 2006 with results available in 2007.

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

Year ended March 31, 2007

9. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of \$6,792 (2006 - \$5,459) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2005 indicated an unfunded liability of \$767,000 for basic pension benefits. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 50,000 active employees of which approximately 1,567 are employees of the Authority. The next required valuation will be as of March 31, 2008.

10. Deferred capital contributions:

Deferred capital contributions represent the unamortized amounts and unspent amounts of grants and donations received for the purchase of capital assets. Amortization of deferred capital contributions is recorded as revenue in the Statements of Revenue and Expenses.

	2007	2006
Deferred capital contributions, beginning of year	\$ 591,730	\$ 553,131
Additional contributions received:		
Ministry of Health Services	38,615	67,100
Foundations (note 17)	18,289	11,838
Other	15,133	8,289
Less:		
Unamortized contributions related to assets retired	-	(1,829)
Amount amortized to revenue	(52,685)	(46,799)
Deferred capital contributions, end of year	\$ 611,082	\$ 591,730

The balance of deferred capital contributions related to capital assets consists of the following:

	2007	2006
Unamortized deferred capital contributions used to purchase capital assets	\$ 604,715	\$ 573,116
Unspent contributions	6,367	18,614
	\$ 611,082	\$ 591,730

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

Year ended March 31, 2007

11. Invested in capital assets:

(a) The amount invested in capital assets is calculated as follows:

	2007	2006
Capital assets	\$ 714,499	\$ 682,029
Amounts financed by:		
Deferred capital contributions	(604,715)	(573,116)
Obligations under capital leases	(1,183)	(247)
Unsecured loan	-	(4)
	<u>\$ 108,601</u>	<u>\$ 108,662</u>

(b) The deficiency of revenue over expenses related to capital assets is calculated as follows:

	2007	2006
Amortization of deferred capital contributions	\$ 52,685	\$ 46,799
Amortization of capital assets	(54,030)	(48,560)
	<u>\$ (1,345)</u>	<u>\$ (1,761)</u>

(c) The change in the amount invested in capital assets for the year is calculated as follows:

	2007	2006
Purchase of capital assets	\$ 85,540	\$ 102,495
Net book value of assets sold	(210)	(1,860)
Asset retirement obligation (note 15)	987	726
Amounts funded by:		
Deferred capital contributions	(84,284)	(102,483)
Capital Leases	(1,232)	-
Net book value of assets sold	184	1,829
Payment of obligations under capital leases and loan	299	465
	<u>\$ 1,284</u>	<u>\$ 1,172</u>

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

Year ended March 31, 2007

12. Commitments and contingencies:

(a) Operating lease commitments:

Certain agencies lease premises and equipment under operating leases. Minimum lease payments for each of the next five years and in total are as follows:

2008	\$ 22,788
2009	2,786
2010	2,465
2011	2,025
2012	814
	<hr/>
	\$ 30,878

The British Columbia Mental Health Society (Riverview) Branch, British Columbia Centre for Disease Control and Prevention Society Branch and Forensic Psychiatric Services Commission lease land and buildings through an operating lease with the Accommodation of Real Estate Services (ARES) of the Ministry of Labour and Citizens' Services of British Columbia. Lease payments shown are for base rent. The terms and conditions are negotiated annually. Included in the above is \$19,984 for lease payments to ARES for the year ending March 31, 2008.

(b) Legal contingencies:

In the ordinary course of the Authority's activities and the nature of these activities, there is potential or pending litigation at any given time. As at March 31, 2007, management believes the Authority has valid defenses and appropriate insurance coverage in place for all unsettled claims. Risk management and insurance services are provided by the BC Health Care Risk Management Society under the Health Care Protection Program. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Authority's financial position.

Specifically, in 2002, unions challenged the constitutionality of the *Health and Social Services Delivery Improvement Act* under which the Authority entered into contracts for services. The challenge was dismissed by the BC Supreme Court and an appeal of that decision was dismissed by the BC Court of Appeal. An appeal of the BC Court of Appeal decision was heard by the Supreme Court of Canada in early 2006 and as of this date, no decision has been rendered by that Court. Management believes that the risk of substantial damages arising from this litigation is relatively minimal and with appropriate specific defenses and insurance coverage, this litigation is not expected to have a material effect on the Authority's financial position.

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Notes to Consolidated Financial Statements
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13. Patient/client revenue:

	2007	2006
Patient/client revenue consists of:		
Medical Services Plan	\$ 18,576	\$ 19,953
Other Provincial Government	8,865	7,418
Non-residents of British Columbia	3,615	3,540
Non-residents of Canada	424	1,913
Self paying residents of British Columbia	2,098	1,864
Other	1,114	1,395
	<u>\$ 34,692</u>	<u>\$ 36,083</u>

14. Compensation and benefits:

The Authority is in the process of implementing the Mental Health Plan approved by the Ministry of Health Services. The purpose of the plan is to decentralize mental health care services throughout British Columbia. The plan will be substantially completed in the coming years and will culminate in significant downsizing of the operations of British Columbia Mental Health Society (Riverview) Branch. The anticipated costs of the plan consist of severance, benefits and related expenses.

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

In the prior year, the financial statements included accruals for the compensation, benefits and employment security expenses and the related funding of \$38,219. As at March 31, 2007, management has revised the estimated accrual due to timing changes in implementing the Mental Health Plan and revisions related to job security resulting from new employment contracts. This has resulted in a decrease in the accrual of \$5,025. During the year, costs of \$724 related to the provision were incurred. The total remaining accrual of \$32,470 is recorded in Accrued Mental Health Plan costs. These amounts represent management's best estimate of the expenses required to implement the plan. However, other expenses may be incurred and recorded in future years as the plan is implemented.

PROVINCIAL HEALTH SERVICES AUTHORITY

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

Year ended March 31, 2007

15. Asset retirement obligations:

The Authority has accrued asset retirement obligations of \$1,825 (2006 - \$726) representing the fair value of the legal obligations related to leased and owned premises after charges for accretion and depreciation. The settlement of these obligations will occur at the expiry of the leases and as owned premises undergo renovations. The fair value of the legal obligation was determined by discounting the estimated cash outflows of \$2,409 (2006 - \$1,025) over the respective lease terms and until renovations are undertaken at a credit-adjusted risk free rate of 5.26% (2006 - 4.06%). The asset retirement obligations have been capitalized as part of capital assets and will be amortized over the respective premise lease terms and over the time period until renovations are completed.

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

16. Financial instruments:

The Authority's financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, long-term investments, long-term disability liabilities and assets, accounts payable and accrued liabilities, accrued sick and severance liabilities, other long-term liabilities, and long-term obligations under capital leases. It is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these instruments approximate their carrying values, except for the fair value of accrued sick and severance liabilities and accrued long-term disability liabilities and assets, which are disclosed in note 9.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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17. Related entities:

(a) Foundations and Auxiliaries:

The following branches of the Authority have an economic interest in the Foundations and Auxiliaries and Societies listed under them:

British Columbia Cancer Agency Branch:
BC Cancer Foundation

British Columbia Transplant Society Branch:
British Columbia Transplant Foundation

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

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

At March 31, 2007, the Foundations and Auxiliaries held net assets of \$160,605 (2006 - \$139,900). During the year ended March 31, 2007, the Foundations granted \$54,538 (2006 - \$42,145) to their affiliated branches to fund certain expenditures.

(b) Abbotsford Regional Hospital and Cancer Centre:

During fiscal 2004, the Provincial Government directed Partnerships British Columbia Inc. to assume the construction of a new Abbotsford Regional Hospital and Cancer Centre using a public private partnerships approach. As a result, Abbotsford Regional Hospital and Cancer Centre Inc. (ARHCC Inc) was incorporated under the Company Act on September 2, 2003 and is registered as a not-for-profit organization under the Income Tax Act. ARHCC Inc is wholly owned by Partnerships British Columbia Inc., a Crown Corporation of the Province of British Columbia. It is anticipated that once the hospital and cancer centre is available for use, ownership will be transferred to the Fraser Health Authority and the Provincial Health Services Authority.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
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Year ended March 31, 2007

18. Cash flow supplemental information:

	2007	2006
Changes in non-cash operating items:		
Restricted cash	\$ 21	\$ 2
Accounts receivable	3,204	(11,082)
Inventory	(6,442)	(12,818)
Prepaid expenses	141	(345)
Accounts payable and accrued liabilities	(35,587)	37,294
Deferred operating revenue	6,758	(38,972)
Deferred contributions for designated purposes	(11,590)	5,403
Accrued sick and severance liabilities	732	1,167
Accrued long-term disability liabilities and assets	(398)	1
Other long-term benefit liabilities	(328)	(730)
	<hr/>	<hr/>
	\$ (43,489)	\$ (20,080)

19. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.