Financial Statements of

INTERIOR HEALTH AUTHORITY

Year ended March 31, 2010

Interior Health

Statement of Management Responsibility

The Financial Statements of Interior Health Authority for the year ended March 31, 2010, have been prepared by management in accordance with Canadian generally accepted accounting principles, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit and Finance Committee of the Board. The Audit and Finance Committee meets with management and the internal auditor six times a year and also with the external auditors a minimum of two times a year.

The Authority's internal auditor has the responsibility for assessing the management systems and practices of the authority.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Authority's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit and Finance Committee and meet with it on a regular basis.

On behalf of Interior Health Authority

Dr. Robert Halpenny, Chief Executive Officer	Donna Lommer, Chief Financial Officer

May 7, 2010

KPMG LLP
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AUDITORS' REPORT

We have audited the statement of financial position of Interior Health Authority as at March 31, 2010 and the statements of operations, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2010 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

Kelowna, Canada

May 7, 2010

INTERIOR HEALTH AUTHORITY

Statement of Financial Position
(Tabular amounts expressed in thousands of dollars)

March 31, 2010, with comparative figures for 2009

	2010	2009 (restated - note 17)
Assets		
Current assets:		
Cash and cash equivalents	$ 39,561	$ 63,900
Short-term investments	85,243	96,013
Accounts receivable (note 2)	47,230	52,963
Inventories of materials and supplies (note 3)	9,739	7,542
Prepaid expenses	4,408	5,820
	186,181	226,238
Other assets (note 8(b))	8,731	13,438
Capital assets (note 4)	896,571	730,078
	$ 1,091,483	$ 969,754
Liabilities and Net Assets (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$ 146,591	$ 160,107
Deferred operating contributions (note 6)	12,092	12,064
Current portion of long-term debt (note 7)	2,581	833
Current portion of retirement allowance (note 8(a))	8,372	7,004
Current portion of long-term disability benefits (note 8(b))	5,322	5,470
	174,958	185,478
Long-term debt (note 7)	101,119	29,190
Retirement allowance (note 8(a))	78,567	78,347
Replacement reserves (note 9)	542	483
Deferred capital contributions (note 10)	724,506	675,034
Net assets (deficiency):		
Invested in capital assets (note 11(a))	89,287	66,264
Endowment fund	235	235
Internally restricted	313	643
Unrestricted	(78,044)	(65,920)
	11,791	1,222
Commitments and contingencies (note 12)		
	$ 1,091,483	$ 969,754

See accompanying notes to financial statements.

Approved on behalf of the Board:

_____ Director _____ Director

INTERIOR HEALTH AUTHORITY

Statement of Operations
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009 (restated - note 17)
Revenues:		
Ministry of Health Services contributions	$ 1,261,466	$ 1,211,087
Medical Services Plan	126,310	117,201
Patient, clients and residents (note 14 (a))	76,940	73,340
Amortization of deferred capital contributions	69,782	67,196
Other (note 14 (b))	49,720	46,884
Other contributions (note 14 (c))	27,365	29,617
Investment income	963	6,559
	1,612,546	1,551,884
Expenses:		
Compensation and benefits	1,053,409	1,014,951
Referred out and contracted services (note 14 (d))	222,965	211,328
Supplies (note 14 (e))	170,048	173,205
Depreciation of capital assets	72,607	70,133
Sundry (note 14 (f))	48,502	51,902
Equipment and building services	32,416	32,203
Interest on long-term debt	560	452
Loss on disposal of capital assets	385	281
	1,600,892	1,554,455
Excess (deficiency) of revenues over expenses	$ 11,654	$ (2,571)

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

Statement of Changes in Net Assets (Deficiency)
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	Invested in capital assets	Endowment Fund	Internally Restricted	Unrestricted	2010	2009
						(restated - note 17)
Balance beginning of year	$ 66,264	$ 235	$ 643	$ (45,759)	$ 21,383	$21,921
Restatement of prior years (note 17)	-	-	-	(20,161)	(20,161)	(18,420)
Balance, beginning of year, as restated	66,264	235	643	(65,920)	1,222	3,501
Excess (deficiency) of revenues over expenses (note 11(b))	(3,210)	-	(132)	14,996	11,654	(2,571)
Externally restricted funds for future capital acquisitions	-	-	-	(2,224)	(2,224)	(168)
Transferred to invested in capital assets (note 11(c))	26,233	-	(198)	(24,896)	1,139	460
Balance, end of year	$ 89,287	$ 235	$ 313	$ (78,044)	$ 11,791	$ 1,222

See accompanying notes to financial statements

INTERIOR HEALTH AUTHORITY

Statement of Cash Flows
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
		(restated - note 17)
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	$ 11,654	$ (2,571)
Items not involving cash:		
Depreciation of capital assets	72,607	70,133
Amortization of deferred capital contributions	(69,782)	(67,196)
Loss on disposal of capital assets	385	281
Net change in non-cash operating items (note 15)	(2,393)	17,147
	12,471	17,794
Cash flows from investing activities:		
Purchase of capital assets	(166,184)	(152,883)
Net change in short-term investments	10,770	57,380
Proceeds from disposal of capital assets	2,224	595
	(153,190)	(94,908)
Cash flows from financing activities:		
Capital contributions (note 10)	117,030	118,746
Contribution for land purchase	129	386
Increase (decrease) in replacement reserves	59	(2,965)
Repayment of long-term debt	(838)	(14,594)
	116,380	101,573
Increase (decrease) in cash and cash equivalents	(24,339)	24,459
Cash and cash equivalents, beginning of year	63,900	39,441
Cash and cash equivalents, end of year (note 1(d))	$ 39,561	$ 63,900
Non-cash financing and investing activities:		
Capital asset construction financed through public-private partnership obligation	$ 74,515	$ 26,672

Supplemental information (note 15)

See accompanying notes to financial statements.

Interior Health Authority (the "Authority") was created under the *Health Authorities Act* of British Columbia on December 12, 2001 with a Board of Directors (the "Board") appointed by the Ministry of Health Services (the "Ministry"). 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 registered charity under the *Income Tax Act*, and as such, is exempt from income and capital taxes.

The Authority has over 18,000 active employees and provides services including: inpatient hospital care, outpatient diagnostics and treatments, rehabilitation care, residential care, specialized children's services and programs, community, home care and home support services, and environmental and public health including promotion and protection.

1. Significant accounting policies:

a) Basis of presentation:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

The Authority is a member of the BC Health Authorities SSO Administration Society (SSO – Shared Services Organization) which is a non-profit society exempt from federal and provincial income taxes. Its purpose is to find opportunities where the Health Authorities can improve cost effectiveness by working collaboratively on common services. The Society was incorporated on October 15, 2008 and operations under the SSO mandate officially commenced April 1, 2009. The assets, liabilities, revenues and expenses of SSO are not consolidated in the Authority's financial statements. All material transactions have been disclosed in the notes as related party transactions. In the 2010/11 fiscal year, the SSO will no longer be a separate entity and its operations will be absorbed within the Provincial Health Services Authority.

These financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries (see note 16 (b)), which were established to raise funds for their respective hospitals and/or community health services, and other organizations that provide services to the Authority under contracts.

b) Revenue recognition:

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

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

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.

1. Significant accounting policies (continued):

b) Revenue recognition (continued):

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 into revenue on the same basis as the related capital assets are depreciated. Contributions restricted for the purchase of non-depreciable capital assets are recognized as a direct increase in net assets.

Endowment contributions are recognized as direct increases in net assets.

c) Asset and service contributions:

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

All short-term investments, with a term to maturity of three months or less at the date of purchase, are classified as cash and cash equivalents.

e) Short-term investments:

Short-term investments, which consist of pooled money market and short-term bond funds, are classified as held for trading and are, therefore, measured at fair value.

f) Inventories of materials and supplies:

Inventories are recorded at the lower of average cost and net realizable value.

g) Capital assets:

Purchased capital assets are stated at cost. Contributed capital assets are recorded at fair value at the date of contribution. Depreciation is provided on a period basis up until the date of disposal and on a straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	5 – 25 years
Buildings	10 – 50 years
Building service equipment	5 – 25 years
Leasehold improvements	5 – 25 years
Major equipment	3 – 20 years

1. Significant accounting policies (continued):

h) Capitalization of public-private partnership project:

The public-private partnership project (P3) is delivered by the private sector partner (Infusion Health KVH General Partnership) selected to design, build, finance and maintain the asset. The project is made up of three main buildings: the UBC Okanagan Medical School, the Vernon Diagnostics and Treatment Building and the Kelowna Ambulatory Care Centre (collectively known as the Kelowna and Vernon Hospitals Project). The cost of the asset is estimated at fair value, incurred as progress billings verified by an independent certifier, and also includes owner's costs incurred by the Authority. Included in the asset costs are 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 from the two Regional hospital districts, the Kelowna General Hospital Foundation and the Authority (collectively known as the Authority Funding) paid during the construction term. The interest rate used is the project internal rate of return of 7.77%.

Correspondingly, an obligation net of the Authority Funding payments made during the construction period is recorded as a liability and included in long-term debt. The obligation will be repaid as part of the monthly performance payments. Upon completion, the project assets will be amortized over their estimated useful lives.

Upon service commencement of each site, the private sector partner will receive monthly payments based upon specified performance criteria. These payments will cover the partner operating costs, financing costs and a return of their capital costs.

i) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee retirement allowance 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 retirement allowance benefits is 10 years (2009 – 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans is 10 years (2009 - 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 contributions plan accounting is applied to multi-employer defined benefit plans and, accordingly, contributions are expensed.

1. Significant accounting policies (continued):

j) Asset retirement obligations:

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

k) Externally restricted net assets:

Externally restricted net assets are comprised of endowment contributions which are externally restricted in their use. Endowment contributions are recorded as direct increases to externally restricted net assets. The uses include staff training and the enhancement of the comfort or life of the residents of Deni House and Cariboo Lodge. Use of these funds is limited to the terms of reference.

l) Internally restricted net assets:

The Authority has internally restricted certain funds for a variety of uses. These uses include repairs and maintenance, capital asset acquisitions, staff training and other sundry uses. Use of these funds is limited to the related terms of reference as approved by the Board.

m) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews all significant estimates affecting its financial statements on a recurring basis and records the effect of any necessary adjustments. Significant areas requiring the use of estimates include determination of rates of depreciation of capital assets, write downs of capital assets, restructuring accrual, accrued liabilities, uncollectible accounts and, in particular, accrued retirement allowance benefits and long-term disability. Actual results could differ from these estimates.

n) Financial instruments:

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

- The Authority initially records all non-derivative financial assets and liabilities at fair value.

1. Significant accounting policies (continued):

n) Financial instruments (continued):

- Assets and liabilities classified as held for trading are measured at fair value and changes in fair value are recognized in the statement of operations.
- Loans and receivables are measured at amortized cost using the effective interest rate method.
- Other liabilities which include the Authority's long-term debt, and obligations under capital leases, are recorded at amortized cost.
- All transaction costs incurred on loans, receivables, and other liabilities are incorporated in the fair value of the instrument and are amortized to operations using the effective interest rate method.

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

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

The Authority's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities and long-term debt. The fair values of these instruments approximate their carrying values. Short-term investments have been designated as held-for-trading.

Credit risk, liquidity risk and interest rate risk – The Authority has investments in pooled bond funds and accounts receivable from patients, clients and residents and as such is subject to risks arising from the credit worthiness of the underlying assets, the liquidity of the underlying assets and general interest rate fluctuations. The maximum credit risk exposure of the Authority's financial assets is the carrying value of the assets.

The Authority has elected to defer applying Sections 3862, *Financial Instruments – Disclosure* and 3863, *Financial Instruments – Presentation.* Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Authority has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

1. Significant accounting policies (continued):

o) New accounting pronouncements:

i) Accounting pronouncements issued and effective for the current fiscal year:

Effective April 1, 2009, the Authority adopted the amendments to the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 4400, *Financial Statement Presentation by Not-for Profit Organizations* and Section 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments removed the requirement to disclose net assets invested in capital assets, clarify capital asset recognition criteria and amortization, and added a requirement for disclosure of allocated fundraising and general support expenses by not-for-profit organizations, and a requirement to follow Handbook Section 1540, *Cash Flow Statements*. The application of these amendments did not have any impact on the Authority's financial statements.

Effective April 1, 2009, the Authority adopted the amendments in CICA Handbook Section 1000, *Financial Statement Concepts*. The amendments clarify the relationship between incurring expenditures and creating assets and clarifies that items which do not meet the definition of assets or liabilities, are not eligible for recognition. The application of the amendments did not have an impact on the financial statements.

ii) Future accounting framework:

The Authority is currently classified as a government not-for-profit organization. Under the direction of the Public Sector Accounting Standards Board ("PSAB"), the Authority adheres to the standards for not-for-profit ("NPO") organizations in the CICA Handbook.

PSAB proposes to incorporate into the PSA Handbook, the current NPO Sections (4400 Standards) of the CICA Handbook to deal with areas not currently addressed by the PSAB framework. PSAB has decided not to make any further substantive changes to the Sections at this time. The exposure draft proposes to amend the Introduction so that the PSAB standards will be applicable to all government not-for-profit organizations, for fiscal periods beginning on or after January 1, 2012.

The Authority intends to continue applying the existing NPO's standards and is awaiting the finalization of the new standards. Once the new standards are finalized, the Authority will determine the impact on the financial statements.

(Tabular amounts expressed in thousands of dollars)

2. Accounts receivable:

		2010		2009
Medical Services Plan	$	12,506	$	12,906
Other health authorities and related parties		8,421		8,829
Regional hospital districts		4,409		7,802
Patients, clients, and residents		6,428		6,956
Ministry of Health Services		4,941		5,995
Foundations and auxiliaries		3,888		4,327
Federal government		3,270		3,740
WorkSafe BC		3,799		1,241
Other		2,853		3,764
		50,515		55,560
Allowance for doubtful accounts		(3,285)		(2,597)
	$	47,230	$	52,963

3. Inventories of materials and supplies:

		2010		2009
Medical supplies	$	5,357	$	3,673
Pharmaceuticals		4,382		3,869
	$	9,739	$	7,542

4. Capital assets:

		Cost		Accumulated depreciation		2010 Net book value		2009 Net book value
Land	$	39,277	$	–	$	39,277	$	36,976
Land improvements		19,156		8,945		10,211		9,735
Buildings		738,566		390,095		348,471		338,340
Building service equipment		62,746		24,887		37,859		26,504
Leasehold improvements		14,241		4,656		9,585		9,595
Major equipment		536,599		415,120		121,479		117,355
Construction in progress		329,689		–		329,689		191,573
	$	1,740,274	$	843,703	$	896,571	$	730,078

(Tabular amounts expressed in thousands of dollars)

5. Accounts payable and accrued liabilities:

		2010		2009
Salaries and benefits payable	$	61,367	$	60,484
Trade accounts payable and accrued liabilities		37,187		53,174
Accrued vacation pay		48,037		46,449
	$	146,591	$	160,107

Trade accounts payable and accrued liabilities includes $327,000 (2009 - $2,372,000) owed to related parties (as described in note 16 (c)).

The Authority has accrued $4,100,000 (2009 - $3,500,000) to provide for the current estimate of additional termination expenses expected in carrying out its anticipated deficit reduction plan. This accrual represents management's best estimate of these restructuring costs. However, other expenses may be incurred and recorded in future periods as the deficit reduction plan is implemented.

Termination benefits are included in salaries and benefits payable and are as follows:

		2010		2009
Balance, beginning of year	$	3,500	$	2,370
Cost incurred during the year		(1,927)		(39)
Update to new valuation		2,527		1,169
	$	4,100	$	3,500

6. Deferred operating contributions:

Deferred operating contributions represent externally restricted operating funding received for specific purposes. $7,902,000 (2009 - $8,519,000) of these funds have been received from the Ministry of Health Services, or other related parties (as described in note 16 (c)).

		2010		2009
Deferred operating contributions, beginning of year	$	12,064	$	13,859
Less amount recognized as revenue in the year		(3,316)		(6,226)
Add amount received for future periods		3,344		4,431
Deferred operating contributions, end of year	$	12,092	$	12,064

(Tabular amounts expressed in thousands of dollars)

7. Long-term debt:

		2010		2009
Canada Mortgage and Housing Corporation, an entity under common control:				
Columbia View Lodge, payable $8,552 monthly including interest at 10.5% per annum, due December 1, 2027	$	1,076	$	1,097
Kimberley Special Care Home, payable $2,628 monthly including interest at 8.0% per annum, due September 1, 2026		291		299
Noric House, payable $14,457 monthly including interest at 10.0% per annum, due December 1, 2028		1,918		1,955
Public-private partnership obligation:				
Kelowna and Vernon Hospitals Project, 30 year contract term with Infusion Health KVH General Partnership, monthly payments including interest at 7.77% per annum, payable in accordance with the project agreement terms		100,415		26,672
		103,700		30,023
Less current portion		(2,581)		(833)
	$	101,119	$	29,190

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

2011	$	2,581
2012		3,338
2013		2,787
2014		2,708
2015		3,078

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits:

a) Retirement allowance:

Certain employees with ten or twenty years of service and having reached a certain age are entitled to receive special payments upon retirement or as specified by 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, 2009. The next required valuation will be as of December 31, 2012.

Information about employee retirement allowance benefits is as follows:

		2010		2009
Accrued benefit obligation:				
Sick leave benefits	$	27,692	$	25,571
Severance benefits		41,564		37,940
		69,256		63,511
Balance of unamortized amounts		17,683		21,840
Accrued retirement allowance liabilities		86,939		85,351
Less current portion of retirement allowance		(8,372)		(7,004)
Long-term portion of accrued retirement allowance	$	78,567	$	78,347
Retirement allowance expense	$	7,350	$	8,630
Benefits paid	$	5,762	$	6,251

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

	2010	2009
Accrued benefit obligation as at March 31:		
Discount rate	6.25%	7.25%
Rate of compensation increase	2.50%	3.20%
Benefit cost for years ended March 31:		
Discount rate	6.25%	7.25%
Rate of compensation increase	2.50%	3.20%

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits (continued):

b) Long-term disability benefits:

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

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

The Authority's liabilities are based on an actuarial valuation using an early measurement date of December 31, 2009. The next required valuation will be as of December 31, 2010.

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

		2010		2009
				(restated - note 17)
Accrued benefit obligation	$	179,779	$	155,562
Fair value of plan assets		119,201		90,614
Net unfunded obligation, December 31		60,578		64,948
Less:				
Balance of unamortized amounts		(54,704)		(64,806)
Contributions to the plan (January – March)		(9,283)		(8,110)
Net assets as at March 31	$	3,409	$	7,968
Long-term disability expense	$	40,747	$	32,348
Benefits paid	$	28,497	$	26,162

The net accrued benefit asset is included in the Authority's statement of financial position as follows:

		2010		2009
Other assets	$	8,731	$	13,438
Current portion of long-term disability benefits		(5,322)		(5,470)
	$	3,409	$	7,968

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits (continued):

b) Long-term disability benefits (continued):

Plan assets consist of:

	2010	2009
Debt securities	54%	58%
Foreign equities	25%	24%
Equity securities	20%	18%
Other	1%	0%
	100%	100%

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

	2010	2009
Accrued benefit obligation as at March 31:		
Discount rate	4.90%	7.00%
Rate of benefit increase	2.50%	2.50%
Benefit cost for years ended March 31:		
Discount rate	7.00%	5.50%
Expected long-term rate of return on plan assets	6.25%	6.75%
Rate of benefit increase	2.50%	2.50%

The group life insurance, accidental death and dismemberment, extended health, dental and pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multiple-employer plan. Contributions to the Trust of $30,778,000 (2009 – $28,433,000) were expensed during the year. The most recent actuarial valuation at December 31, 2009 indicated a surplus of $42,133,000. The plan covers approximately 80,000 members of which approximately 13,000 are employees of the Authority. The next required valuation will be as of December 31, 2010.

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*.

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits (continued):

c) Employee pension benefits:

The Authority's employer contributions to the Municipal Pension Plan of $52,217,000 (2009 - $49,480,000) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2006 indicated a surplus of $438,000,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 157,000 active plan members of which approximately 13,000 are employees of the Authority. The next required valuation will be as of December 31, 2009: the results are not yet available.

The Authority's employer contributions to the Public Service Pension Plan of $1,825,000 (2009 - $1,895,000) were expensed during the year. The most recent actuarial valuation for the plan at March 31, 2009 indicated a surplus of $487,000,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 55,000 active plan members of which approximately 300 are employees of the Authority.

9. Replacement reserves:

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

The change in the replacement reserves is calculated as follows:

	2010	2009
Balance, beginning of year	$ 483	$ 3,448
Provision for replacement reserve funding	52	87
Interest on replacement reserves	7	1
Expenses	-	(3,053)
	$ 542	$ 483

The replacement reserves by facility are as follows:

Kimberley Special Care Home	$ 325	$ 312
Noric House	197	171
Columbia View Lodge	20	-
	$ 542	$ 483

(Tabular amounts expressed in thousands of dollars)

10. Deferred capital contributions:

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

		2010		2009
Balance, beginning of year	$	675,034	$	623,316
Capital funding receipts:				
Ministry of Health Services		44,239		59,967
Regional Hospital Districts		62,454		40,727
Foundations and auxiliaries		9,009		12,261
Other		1,328		5,791
		117,030		118,746
		792,064		742,062
Transfer of externally restricted funds for future capital acquisitions		2,224		168
Amortization for the year		(69,782)		(67,196)
Balance, end of year	$	724,506	$	675,034

Deferred capital contributions are comprised of the following:

		2010		2009
Contributions used to purchase capital assets	$	703,584	$	633,791
Unspent contributions		20,922		41,243
	$	724,506	$	675,034

(Tabular amounts expressed in thousands of dollars)

11. Invested in capital assets:

a) Invested in capital assets is calculated as follows:

	2010	2009
Capital assets	$ 896,571	$ 730,078
Amounts financed by:		
Deferred capital contributions	(703,584)	(633,791)
Long-term debt	(103,700)	(30,023)
	$ 89,287	$ 66,264

b) Deficiency of revenues over expenses:

	2010	2009
Amortization of deferred capital contributions	$ 69,782	$ 67,196
Depreciation of capital assets	(72,607)	(70,133)
Loss on disposal of capital assets	(385)	(281)
	$ (3,210)	$ (3,218)

c) Transferred to invested in capital assets:

	2010	2009
Capital asset additions	$ 240,699	$ 179,555
Amounts funded by deferred capital contributions	(139,576)	(150,695)
Principal payments on long-term debt	838	14,594
Public-private partnership obligation	(74,515)	(26,672)
Interfund transfer to deferred capital contributions	1,011	73
Proceeds from disposal of capital assets	(2,224)	(595)
	$ 26,233	$ 16,260

(Tabular amounts expressed in thousands of dollars)

12. Commitments and contingencies:

a) Operating leases:

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

2011	$	4,249
2012		3,251
2013		2,561
2014		2,337
2015		2,293
Thereafter		7,775
	$	22,466

b) Public private partnership commitments and contingencies:

The Authority has entered into a multiple-year public private partnership contract with Infusion Health KVH General Partnership (P3 partner) to design, build, finance and maintain the Kelowna and Vernon Hospitals Project, expiring August, 2042. The information presented below shows the anticipated cash outflow for all future obligations under, and defined in, this contract including the remaining Authority funding payments and the annual service payments for lifecycle capital maintenance, hard facility maintenance costs and P3 costs. As construction proceeds, the asset values are recorded as construction in progress and the corresponding liabilities are reported in the Authority’s balance sheet and disclosed in note 7. The P3 partner is also undertaking the hard facility maintenance costs for the existing buildings at the Kelowna General Hospital and Vernon Jubilee Hospital sites in advance of delivering the first new building; the costs associated with this service is included in the annual service payment values. Payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

	Annual service payments	Authority funding payments	Total future obligation
2011	$ 6,993	$ 66,895	$ 73,888
2012	10,409	32,156	42,565
2013	18,013	5,237	23,250
2014	21,969	-	21,969
2015	21,919	-	21,919
Future payments	686,272	-	686,272
	$ 765,575	$ 104,288	$ 869,863

12. Commitments and contingencies:

c) Litigation and claims:

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, 2010, management is of the opinion that the Authority 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 Authority's financial position.

d) 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 Finance.

e) Asset retirement obligations:

The Authority has identified significant asset retirement obligations relating to asbestos removal in several of its facilities. At this time, the Authority has not recognized these asset retirement obligations as there is an indeterminate settlement date of the future demolition or renovation of the facilities and therefore the fair value cannot be reasonably estimated. The asset retirement obligations will be recognized as a liability in the period when the fair value can be reasonably estimated.

f) Resident comfort funds:

Various facilities operated by the Authority hold resident comfort funds in trust for the residents. The amount held in trust as at March 31, 2010 is $273,000 (2009 - $323,000). These amounts are not included in the Authority's statement of financial position.

g) Trust funds:

A trust fund from the Estate of the late Anton Svec is held by the Minister of Finance for the District of Sparwood. The trust fund valued at $719,000 (2009 - $715,000) is for any health care purpose in the District of Sparwood. This trust fund has not been reflected in these financial statements.

13. Capital disclosures:

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

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

(Tabular amounts expressed in thousands of dollars)

13. Capital disclosures (continued):

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. Non-compliance with external restrictions may result in reductions of future funding for designated purposes.

14. Statement of operations:

(a) Patients, clients and residents:

		2010		2009
Residents of BC – self pay	$	38,914	$	36,586
Non-Residents of BC		17,498		15,804
WorkSafe BC		8,623		8,898
Non-Residents of Canada		6,569		5,843
Federal Government of Canada		1,620		1,894
Preferred accommodation		916		954
Other		2,800		3,361
	$	76,940	$	73,340

(b) Other revenue:

		2010		2009
Recoveries from other Health Authorities and related parties	$	26,947	$	25,181
Compensation Recoveries		6,930		7,221
Parking		3,041		2,677
Fees and licenses		1,228		1,255
Other		11,574		10,550
	$	49,720	$	46,884

(c) Other contributions:

		2010		2009
Health Authorities	$	18,151	$	16,263
Other ministries		6,736		6,571
Other		2,478		6,783
	$	27,365	$	29,617

(Tabular amounts expressed in thousands of dollars)

14. Statement of operations (continued):

(d) Referred out and contracted services:

		2010		2009
Referred out residential care	$	135,839	$	126,789
Referred out community care		36,434		37,488
Referred out mental health		26,827		26,534
Other		23,865		20,517
	$	222,965	$	211,328

(e) Supplies:

		2010		2009
Medical and surgical	$	59,065	$	58,001
Drugs and medical gases		44,819		45,453
Plant and facilities		18,052		20,762
Diagnostic and therapeutic		18,378		17,835
Food and dietary		14,275		13,791
Other		15,459		17,363
	$	170,048	$	173,205

(f) Sundry:

		2010		2009
Rent	$	10,732	$	10,014
Communications and data processing		10,118		10,480
Travel – Staff		7,244		10,274
Travel - Patient		8,526		8,851
Professional, management and membership fees		2,581		3,809
Other		9,301		8,474
	$	48,502	$	51,902

Sundry expenses include $9,627,000 (2009 - $7,569,000) paid to related parties (as described in note 16 (c)).

15. Supplemental cash flow information:

a) Interest paid:

During the year the Authority paid interest of $560,000 (2009 - $452,000).

(Tabular amounts expressed in thousands of dollars)

15. Supplemental cash flow information (continued):

b) Net change in non-cash operating items:

		2010		2009
Accounts receivable	$	5,733	$	(5,212)
Inventories of materials and supplies		(2,197)		314
Prepaid expenses		1,412		(998)
Other assets		4,707		(3,480)
Accounts payable, accrued liabilities and retirement allowance		(12,076)		28,318
Deferred operating contributions		28		(1,795)
	$	(2,393)	$	17,147

16. Related party transactions:

(a) BC Health Authorities SSO Administration Society:

The Authority is a member of the BC Health Authorities SSO Administration Society (SSO – Shared Services Organization – see the description of the SSO in Note 1(a)). The Authority's financial statements include the following balances and transactions with the SSO:

		2010		2009
Expenses				
Referred out and contracted services	$	433	$	-
Accounts receivable				
Other health authorities and related parties	$	71	$	-

(b) Foundations and auxiliaries:

Within the Authority, there are 68 separate health care foundations and auxiliaries, which were established to raise funds for their respective hospitals and/or community health services. 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 net assets and results from operations of the foundations and auxiliaries are not included in the statements of the Authority. During the year, the foundations and auxiliaries granted $9,977,000 (2009 - $12,777,000) to various facilities within the Authority.

16. Related party transactions (continued):

(c) Other agency operations:

The Authority is related through common ownership to all Province of British Columbia 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 recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Routine related party transactions and balances are previously disclosed in the notes to the financial statements.

17. Restatement:

During the year, management ascertained that long-term disability benefits did not include extended health, dental, life, accidental death and dismemberment, and 50% of Medical Services Plan premiums related to employees on long-term disability. As a result, the financial statements have been restated on a retrospective basis. The effect of the restatement has been to decrease other assets at March 31, 2009 by $20,161,000, reduce unrestricted net assets by an equivalent amount and reduce the excess (deficiency) of revenues over expenses for the year ended March 31, 2009 by $1,741,000.

18. Comparative figures:

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