

Consolidated Financial Statements of

**FRASER HEALTH AUTHORITY**

Year ended March 31, 2011



## Statement of Management Responsibility

The Consolidated Financial Statements of Fraser Health Authority (the "Authority") for the year ended March 31, 2011, 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 consolidated 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 Finance and Audit Committee of the Board. The Finance and Audit Committee meets with management and the internal auditors at least four times a year and also with the external auditors two times a year.

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

On behalf of Fraser Health Authority

  

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**Brian Woods,**  
Vice President Corporate Services & CFO

  

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**Dr. Nigel Murray,**  
President and CEO

May 19, 2011



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## INDEPENDENT AUDITORS' REPORT

To the Board of Fraser Health Authority

We have audited the accompanying consolidated financial statements of the Fraser Health Authority ("the Entity"), which comprise the consolidated statement of financial position as at March 31, 2011 the consolidated statements of operations, changes in net assets (deficiency) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fraser Health Authority as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants

May 19, 2011

Burnaby, Canada

# FRASER HEALTH AUTHORITY

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

March 31, 2011, with comparative figures for 2010

	2011	2010
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 90,509	\$ 52,256
Short-term investments (note 2)	148,698	147,281
Accounts receivable (note 3)	79,320	60,238
Inventories of materials and supplies (note 4)	14,902	15,309
Prepaid expenses	22,548	22,403
	<u>355,977</u>	<u>297,487</u>
Long-term investments (note 2)	7,948	6,875
Capital assets (note 5)	1,258,181	1,163,991
Long-term disability benefits (note 9(b))	14,169	13,699
	<u>\$ 1,636,275</u>	<u>\$ 1,482,052</u>
<b>Liabilities and Net Assets (Deficiency)</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities (note 6)	\$ 221,183	\$ 186,080
Deferred operating contributions (note 7)	6,637	9,417
Current portion long-term debt (note 8)	904	72
Current portion of deferred gain on sale and leaseback	535	535
Current portion of retirement allowance (note 9(a))	10,887	12,225
	<u>240,146</u>	<u>208,329</u>
Long-term debt (note 8)	573,070	495,602
Deferred gain on sale and leaseback	8,139	8,674
Retirement allowance (note 9(a))	95,773	91,980
Deferred capital contributions (note 10)	822,346	781,302
Non-controlling interest in ARHCC Inc.	385	385
	<u>1,739,859</u>	<u>1,586,272</u>
<b>Net assets (deficiency):</b>		
Invested in capital assets (note 11(a))	(16,776)	875
Unrestricted	(86,808)	(105,095)
	<u>(103,584)</u>	<u>(104,220)</u>
Commitments and contingencies (note 12)		
	<u>\$ 1,636,275</u>	<u>\$ 1,482,052</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

# FRASER HEALTH AUTHORITY

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

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenues:		
Ministry of Health Services contributions	\$ 2,177,280	\$ 2,065,552
Medical Services Plan	141,286	142,351
Amortization of deferred capital contributions	77,268	76,630
Other contributions (note 14(a))	67,889	69,266
Patients, clients and residents (note 14(b))	67,021	66,696
Investment income	1,678	1,391
Other (note 14(c))	74,922	92,728
	<u>2,607,344</u>	<u>2,514,614</u>
Expenses:		
Compensation and benefits	1,544,219	1,494,736
Referred out and contracted services (note 14(d))	552,651	529,503
Supplies (note 14(e))	235,553	225,823
Depreciation of capital assets	98,795	97,387
Sundry (note 14(f))	88,951	80,470
Equipment and building services	57,645	57,313
Interest on long-term debt	28,950	28,766
	<u>2,606,764</u>	<u>2,513,998</u>
Excess of revenues over expenses	<u>\$ 580</u>	<u>\$ 616</u>

See accompanying notes to consolidated financial statements.

# FRASER HEALTH AUTHORITY

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

Year ended March 31, 2011, with comparative figures for 2010

	Invested in capital assets	Unrestricted	2011	2010
Balance beginning of year	\$ 875	\$ (105,095)	\$(104,220)	\$ (98,398)
Excess (deficiency) of revenues over expenses (note 11(b))	(21,673)	22,253	580	616
Change in market value of investments	-	56	56	(538)
Disposal of land	-	-	-	(5,900)
Transfer to invested in capital assets (note 11(c))	4,022	(4,022)	-	-
Balance end of year	\$ (16,776)	\$ (86,808)	\$(103,584)	\$ (104,220)

See accompanying notes to consolidated financial statements.

# FRASER HEALTH AUTHORITY

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

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 580	\$ 616
Items not involving cash:		
Depreciation of capital assets	98,795	97,387
Amortization of deferred capital contributions	(77,268)	(76,630)
Amortization of deferred gain on sale leaseback	(535)	(535)
Loss on disposal of capital assets	146	530
Accretion on long-term debt	1,560	1,947
Retirement allowance expense	11,859	9,462
Long-term disability expense	46,097	44,794
Net change in non-cash operating items (note 15(a))	13,503	9,524
	<u>94,737</u>	<u>87,095</u>
Cash flows from investing activities:		
Net change in short-term investments	(1,330)	(12,838)
Net change in long-term investments	-	47,876
Purchase of capital assets (note 15(b))	(116,376)	(110,762)
Proceeds from disposal of capital assets	1,166	274
	<u>(116,540)</u>	<u>(75,450)</u>
Cash flows from financing activities:		
Capital contributions	117,208	105,336
Retirement allowance contributions	(9,404)	(6,998)
Long-term disability contributions	(46,567)	(96,636)
Repayment of long-term debt	(1,181)	(70)
	<u>60,056</u>	<u>1,632</u>
Increase in cash and cash equivalents	38,253	13,277
Cash and cash equivalents, beginning of year	52,256	38,979
Cash and cash equivalents, end of year	<u>\$ 90,509</u>	<u>\$ 52,256</u>

Supplementary information (note 15)

See accompanying notes to consolidated financial statements.



# FRASER HEALTH AUTHORITY

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

Year ended March 31, 2011

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Fraser Health Authority (the "Authority") was created under the *Health Authorities Act of British Columbia* on December 12, 2001 with a Board of Directors (Board) appointed by the Ministry of Health Services (the "Ministry") and is one of six Health Authorities in British Columbia ("BC"). The Authority is dependent on the Ministry to provide sufficient funds to continue operations, replace essential equipment and complete its capital projects. The Authority is a registered charity under the *Income Tax Act* and, as such, is exempt from income and capital taxes.

The Authority has over 26,400 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 services.

## 1. Significant accounting policies:

### (a) Basis of presentation:

The consolidated financial statements include the operations of Fraser Health Authority and Abbotsford Regional Hospital and Cancer Centre Inc. ("ARHCC Inc.") which is 85% owned by the Authority and 15% owned by Provincial Health Services Authority. All significant balances and transactions between the entities have been eliminated.

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

These consolidated financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries (see note 17) that support the activities of the Authority and other organizations that provide services under contracts with the Authority.

### (b) Revenue recognition:

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

Under the *Hospital 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.

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

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## 1. Significant accounting policies (continued):

### (b) Revenue recognition (continued):

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

Externally restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis as the related capital assets are depreciated. Contributions restricted for the purchase of non-depreciable capital assets are recognized as a direct increase in net 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 consolidated 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 treated as cash and cash equivalents.

### (e) Short-term investments:

Short-term investments include bankers' acceptances and pooled money market funds, and are classified as available-for-sale and recorded at fair value.

### (f) Inventories of materials and supplies:

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

### (g) Long-term investments:

Long-term investments include floating rate notes that do not mature within the next fiscal year, and are classified as available-for-sale and recorded at fair value.

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

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## 1. Significant accounting policies (continued):

### (h) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. The Authority records depreciation on its capital assets on a straight-line basis over the useful life of the assets as follows:

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Land improvements	20 years
Buildings	20 - 50 years
Building service equipment	15 - 20 years
Equipment	4 - 20 years
Software license fees	3 - 5 years

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### (i) Capitalization of public-private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance and maintain the assets. The cost of the assets are estimated at fair value, based on progress billings verified by an independent certifier, and also includes other 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 received during the construction term. The interest rate used is the project internal rate of return. Upon completion, the project assets will be amortized over their estimated useful lives.

Correspondingly, an obligation net of the contributions received, during the construction period, is recorded as a liability and included in long-term debt. The obligation will be met as part of the monthly payments over the term of the Project Agreement.

Upon substantial completion, the private sector partner receives monthly payments to cover the partners' operating costs, financing costs and a return of their capital.

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

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## 1. Significant accounting policies (continued)

### (j) Employee future benefits:

- (i) Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple employer defined long-term disability benefits as employees render services to earn the benefits. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains and losses that exceed 10% of the benefit obligation are amortized over the average remaining service period of active covered employees. The average remaining service period of the active covered employees entitled to retirement allowance benefits is 10 years (2010 - 10 years). The average remaining service period of the active employees covered by the multiple employer defined long-term disability benefits is 10 years (2010 - 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.
- (ii) Defined contribution plan accounting is applied to multi-employer defined benefit plans and, accordingly, contributions are expensed.

### (k) Asset retirement obligations:

The Authority recognizes asset retirement obligations 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.

### (l) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of 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, fair value of long-term investments, recognition of asset retirement obligations, contingencies and, in particular, assumptions with respect to accrued retirement allowance benefits and long-term disability benefits. Actual results could differ from the estimates.

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

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## 1. Significant accounting policies (continued):

(m) Financial instruments:

The Authority has designated all non-derivative financial assets and liabilities as available-for-sale 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.
- Assets and liabilities classified as available-for-sale are measured at fair value and changes in fair value are recorded in the consolidated statement of changes in net assets or deferred capital contributions until the financial instruments are re-recognized or other than temporarily impaired at which time the amounts are recorded in the consolidated 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 disability liabilities and assets, accrued retirement allowance liabilities, 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 initial fair value of the instrument and are amortized to operations using the effective interest rate method.

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

The Authority's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, long-term investments, long-term disability liabilities and assets, accounts payable, long-term debt, accrued retirement allowance liabilities and asset retirement obligations. The fair values of these instruments approximate their carrying values, except for the fair values of accrued retirement allowance liabilities and accrued long-term disability liabilities and assets, which are disclosed in note 10.

Credit risk, liquidity risk and interest rate risk - the Authority has investments in pooled bond funds 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.

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 1. Significant accounting policies (continued):

(m) Financial instruments (continued):

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

(n) Future accounting framework:

Effective April 1, 2012, the Authority will be transitioning to Public Sector Accounting Standards (PSAB) on a retrospective basis. The Authority is reviewing the impact of this change on the financial statements.

## 2. Cash and cash equivalents and investments:

Cash and cash equivalents and investments are comprised of the following:

	2011	2010
Cash and cash equivalents	\$ 90,509	\$ 52,256
Short-term investments	148,698	147,281
Long-term investments	7,948	6,875
	247,155	206,412
Less amounts restricted for capital purposes	(102,179)	(96,068)
Less amounts restricted for patient comfort funds	(355)	(331)
Unrestricted cash and investments	\$ 144,621	\$ 110,013

The fair market value of cash equivalents and short-term investments approximates cost.

Long-term investments consist of floating rate notes which were originally acquired in fiscal 2008 as non-bank sponsored asset backed commercial paper (ABCP) with maturity values totaling \$13 million. None of the ABCP was redeemed at maturity and under a 2009 restructuring plan the Authority exchanged the ABCP for long term floating rate notes. There is uncertainty in estimating the amount and timing of cash flows from the restructuring and at March 31, 2011, limited market activity existed for the notes.

The estimated fair value recorded of \$7.9 million (2010 - \$6.9 million) is estimated based on the limited available information. In the current year, an increase in the fair value was recognized for \$1.1 million (2010 - \$2.2 million decrease).

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

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### 3. Accounts receivable:

	2011	2010
Federal and provincial commodity taxes	\$ 19,243	\$ 3,385
Other health authorities and BC government reporting entities	15,072	16,275
Medical Services Plan	14,416	12,640
Patients, clients and residents	13,670	12,364
Ministry of Health Services	10,211	5,303
Hospital foundations and auxiliaries	5,233	4,534
Other	5,627	9,815
	83,472	64,316
Less allowance for doubtful accounts	(4,152)	(4,078)
	\$ 79,320	\$ 60,238

### 4. Inventories of materials and supplies:

Inventories of materials and supplies are comprised of:

	2011	2010
Medical supplies	\$ 9,394	\$ 9,857
Pharmaceuticals	5,508	5,452
	\$ 14,902	\$ 15,309

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
 (Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 5. Capital assets:

2011	Cost	Accumulated depreciation	Net book value
Land	\$ 21,681	\$ -	\$ 21,681
Land improvements	7,988	4,917	3,071
Buildings	1,226,957	505,187	721,770
Building service equipment	33,007	26,528	6,479
Construction in progress	256,828	-	256,828
Leasehold improvements	20,149	4,550	15,599
Equipment	602,800	422,930	179,870
Equipment in progress	41,316	-	41,316
Software license fees	55,163	43,596	11,567
	\$ 2,265,889	\$ 1,007,708	\$ 1,258,181

2010	Cost	Accumulated depreciation	Net book value
Land	\$ 21,681	\$ -	\$ 21,681
Land improvements	7,633	4,685	2,948
Buildings	1,175,988	466,430	709,558
Building service equipment	28,129	25,652	2,477
Construction in progress	192,702	-	192,702
Leasehold improvements	10,976	3,817	7,159
Equipment	589,939	389,179	200,760
Equipment in progress	14,211	-	14,211
Software license fees	50,544	38,049	12,495
	\$ 2,091,803	\$ 927,812	\$ 1,163,991

During the year, \$9.8 million of interest has been capitalized to construction-in-progress (2010 - \$6.1 million).

Capital assets with a net book value of \$554.4 million (2010 - \$477.9 million) and constructed under P3 agreements have been financed by P3 debt (note 11(a)).



# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

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## 6. Accounts payable and accrued liabilities:

	2011	2010
Trade accounts payable and accrued liabilities	\$ 85,144	\$ 53,465
Salaries and benefits payable	69,807	67,895
Accrued vacation pay	66,232	64,720
	<hr/>	<hr/>
	\$ 221,183	\$ 186,080

## 7. Deferred operating contributions:

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

	2011	2010
Deferred operating contributions, beginning of year	\$ 9,417	\$ 9,289
Add amount received for specific purposes	3,758	6,687
Less amount recognized as revenue in the year	(6,538)	(6,559)
	<hr/>	<hr/>
Deferred operating contributions, end of year	\$ 6,637	\$ 9,417

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
 (Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 8. Long-term debt:

(a) Long-term debt consists of the following:

	2011	2010
Public-private partnership obligations:		
- Abbotsford Regional Hospital and Cancer Centre, 30 year contract to May, 2038 with Access Health Abbotsford Ltd., monthly payments including interest at 7.75% per annum, payable in accordance with the project agreement terms	\$ 375,555	\$ 373,995
- Jim Pattison Outpatient Care and Surgery Centre, 30 year contract to March 2041 with BCHS Healthcare (Surrey) Limited Partnership, monthly payments including interest estimated at 6.21% per annum, payable in accordance with the project agreement terms commencing April, 2011	171,877	120,498
- Surrey Memorial Hospital Redevelopment Project, 30 year contract to February 2044 with Integrated Team Solutions SMH Partnership, monthly payments including interest estimated at 6.50% per annum, payable in accordance with the project agreement terms commencing March, 2014.	26,542	-
Other	-	1,181
	573,974	495,674
Less current portion	(904)	(72)
	\$ 573,070	\$ 495,602

(b) Minimum principal amounts scheduled for repayment during the next five years and thereafter are included with public-private partnership commitments in note 12(b).

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
 (Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 9. 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 March 31, 2010, using an early measurement date of December 31, 2009. The next required valuation will be as of December 31, 2012.

Information about retirement allowance benefits is as follows:

	2011	2010
Accrued benefit obligation:		
Sick leave benefits	\$ 37,453	\$ 36,103
Severance benefits	59,215	56,336
Total unfunded obligation	96,668	92,439
Balance of unamortized amounts	9,992	11,766
Accrued retirement allowance benefits	106,660	104,205
Less current portion	10,887	12,225
Long-term portion	\$ 95,773	\$ 91,980
Retirement allowance expense	\$ 11,859	\$ 9,462
Benefits paid	(9,404)	(6,998)

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

	2011	2010
Accrued benefit obligation as at March 31:		
Discount rate	5.25%	6.25%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	6.25%	7.25%
Rate of compensation increase	2.50%	2.50%

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
 (Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 9. Employee benefits (continued):

### (b) Healthcare Benefit Trust 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 Authority and all other participating employers are responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

### (i) Long-term disability benefits:

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, 2010. The next valuation will be as of December 31, 2011.

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

	2011	2010
Accrued benefit obligation	\$ 217,819	\$ 198,884
Fair value of plan assets	178,988	137,835
Net unfunded obligation December 31	38,831	61,049
Balance of unamortized amounts	(41,888)	(43,111)
Contributions to the plan (January - March)	(11,112)	(31,637)
Accrued long-term disability benefits obligation (asset)	(14,169)	(13,699)
Long-term disability expense	\$ 46,097	\$ 44,794
Long-term disability plan contributions	(46,568)	(96,636)
Benefits paid	(36,969)	(30,512)

Plan assets consist of:

	2011	2010
Debt securities	54%	54%
Foreign equities	25%	25%
Equity securities and other	21%	21%
Total	100%	100%

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 9. Employee benefits (continued):

### (b) Healthcare Benefit Trust benefits (continued):

#### (i) Long-term disability benefits (continued):

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

	2011	2010
Accrued benefit obligation as at March 31:		
Discount rate	4.30%	4.90%
Rate of benefit increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	4.90%	7.00%
Expected long-term rate of return on plan assets	6.00%	6.25%
Rate of benefit increase	2.50%	2.50%

#### (ii) Other Trust benefits:

The group life insurance, accidental death and dismemberment, extended health, dental and pre-October 1, 1997 long-term disability claims administered by the Trust are structured as a multi-employer plan. Contributions to the Trust of \$44.4 million (2010 - \$41.4 million) were expensed during the year. The most recent actuarial valuation at December 31, 2010 indicated a surplus of \$17.3 million. The plan covers approximately 85,000 active members, of which approximately 17,000 are employees of the Authority. The next valuation will be as of December 31, 2011.

### (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 \$70.9 million (2010 - \$68.7 million) 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, 2009 indicated an unfunded liability of approximately \$1,024.0 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 173,000 active members, of which approximately 18,700 are employees of the Authority. The next required evaluation will be as of December 31, 2012 with results available in 2013.

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 9. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of \$2.9 million (2010 - \$2.9 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2008 indicated a surplus of approximately \$487 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 57,000 active members, of which approximately 510 are employees of the Authority. The next required valuation will be as of March 31, 2011 with results available in 2012.

## 10. Deferred capital contributions:

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

	2011	2010
Deferred capital contributions, beginning of year	\$ 781,302	\$ 755,289
Ministry of Health Services	93,643	63,049
Foundations and auxiliaries	13,395	10,104
Regional hospital district	7,740	22,409
Health authorities and BC government reporting entities	1,506	6,926
Other	924	2,848
	117,208	105,336
Amortization for the year	(77,268)	(76,630)
Change in market value of investments	1,104	(2,693)
Deferred capital contributions, end of year	\$ 822,346	\$ 781,302

Deferred capital contributions are comprised of the following:

	2011	2010
Contributions used to purchase capital assets	\$ 720,167	\$ 685,234
Unspent contributions	102,179	96,068
	\$ 822,346	\$ 781,302

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 11. Invested in capital assets:

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

	2011	2010
Capital assets	\$ 1,258,181	\$ 1,163,991
Amounts financed by:		
Deferred capital contributions	(720,167)	(685,234)
Long-term debt	(554,790)	(477,882)
	\$ (16,776)	\$ 875

(b) Deficiency of revenues over expenses:

	2011	2010
Amortization of deferred capital contributions	\$ 77,268	\$ 76,630
Depreciation of capital assets	(98,795)	(97,387)
Loss on disposal of capital assets	(146)	(30)
	\$ (21,673)	\$ (20,787)

(c) Transfer to invested in capital assets:

	2011	2010
Purchase of capital assets	\$ 194,297	\$ 173,771
Acquisition of land	-	1,295
Amounts funded by deferred capital contributions	(112,220)	(104,571)
Amounts funded by long-term debt	(78,055)	(65,603)
	\$ 4,022	\$ 4,892

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
 (Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 12. Commitments and contingencies:

### (a) Operating leases:

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

2012	\$ 18,676
2013	16,984
2014	14,328
2015	11,956
2016	10,984
Thereafter	109,078
	\$ 182,006

### (b) Public-private partnerships commitments:

The Authority has entered into multiple-year P3 contracts to design, build, finance and maintain the Abbotsford Regional Hospital and Cancer Centre, the Jim Pattison Outpatient Care and Surgery Centre and the Surrey Memorial Hospital Redevelopment Project. The information presented below shows the anticipated cash outflow for future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. As construction progresses the asset values are recorded as capital assets and the corresponding liabilities are recorded as long-term debt and disclosed in note 8. Payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

	Capital and Financing	FM and Lifecycle	Total Payments
2012	\$ 40,677	\$ 18,206	\$ 58,883
2013	42,949	18,578	61,527
2014	45,525	20,520	66,045
2015	58,914	28,661	87,575
2016	59,476	29,574	89,050
Thereafter	1,576,567	1,063,346	2,639,913
	\$ 1,824,108	\$ 1,178,885	\$ 3,002,993



# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

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## 12. Commitments and contingencies (continued):

(c) Capital commitments:

The Authority entered into a project agreement with Integrated Team Solutions SMH Partnership ("ITS") in December, 2010. Under the agreement, ITS will design, construct, finance and maintain the Surrey Memorial Hospital Redevelopment Project until the end of the term of the agreement, February, 2044. The total estimated capital cost of the project at completion in March, 2014 is \$511.5 million, of which \$318.3 million relates to the project agreement. Project costs and capitalized interest to March 31, 2011 of \$58.3 million have been included in construction in progress and corresponding long-term debt of \$26.5 million and deferred capital contributions of \$31.8 million.

(d) Litigation and claims:

The nature of the Authority's activities is such that there will be litigation pending or in progress at any time. With respect to claims at March 31, 2011, management is of the opinion that it has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

(e) Risk management:

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

(f) Asset retirement obligations:

The Authority has identified significant asset retirement obligations relating to asbestos removal in several of its other 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.

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 13. Capital management:

The Authority defines capital as net assets, long-term debt and deferred capital contributions. The Authority receives its principal source of capital through funding received from the Ministry.

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 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.

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 by the funding party. The Authority has complied with the external restrictions on the funding provided.

## 14. Statement of operations:

### (a) Other contributions:

	2011	2010
Provincial Health Services Authority	\$ 59,447	\$ 61,518
Other ministries	5,179	5,010
Other	3,263	2,738
	\$ 67,889	\$ 69,266

### (b) Patients, clients and residents revenue:

	2011	2010
Residents of BC self-pay	\$ 31,707	\$ 29,169
WorkSafe BC	10,876	10,397
Non-residents of BC	8,738	9,845
Non-residents of Canada	7,633	8,191
Federal government	3,451	2,882
Preferred accommodation	3,117	4,587
Other	1,499	1,625
	\$ 67,021	\$ 66,696

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 14. Statement of operations (continued):

### (c) Other revenues:

	2011	2010
Recoveries from other health authorities and BC government reporting entities	\$ 36,483	\$ 54,820
Compensation recoveries	10,789	9,539
Parking	9,448	8,996
Amortization of deferred gain on sale leaseback	535	535
Loss on disposal of assets	(146)	(530)
Other	17,813	19,368
	<u>\$ 74,922</u>	<u>\$ 92,728</u>

### (d) Referred out and contracted services:

	2011	2010
Residential care	\$ 331,186	\$ 326,678
Community care	72,009	71,379
Mental health	67,816	67,205
Housekeeping	23,389	23,672
Facilities management	19,558	17,368
Laundry	12,986	11,605
Other	25,707	11,596
	<u>\$ 552,651</u>	<u>\$ 529,503</u>

### (e) Supplies:

	2011	2010
Medical and surgical	\$ 104,596	\$ 98,019
Drugs and medical gases	59,025	55,940
Diagnostic	20,956	21,099
Plant operations	20,797	19,251
Food and dietary	13,069	13,743
Laundry and linen	9,025	9,819
Other	8,085	7,952
	<u>\$ 235,553</u>	<u>\$ 225,823</u>

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 14. Statement of operations (continued):

(f) Sundry:

	2011	2010
Rent	\$ 27,208	\$ 26,892
Professional fees	9,634	7,014
Patient transport	9,591	8,416
Travel	6,741	6,971
Communications and data processing	5,666	7,295
Other	30,111	23,882
	<b>\$ 88,951</b>	<b>\$ 80,470</b>

## 15. Statement of cash flows:

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

	2011	2010
Accounts receivable	\$ (19,082)	\$ 14,318
Inventories of materials and supplies	407	(562)
Prepaid expenses	(145)	(2,632)
Accounts payable and accrued liabilities	35,103	(1,008)
Deferred operating contributions	(2,780)	128
Asset retirement obligations	-	(720)
	<b>\$ 13,503</b>	<b>\$ 9,524</b>

(b) Purchase of capital assets:

Assets purchased or acquired through debt or other non-cash transactions are excluded from purchase of capital assets on the statement of cash flows.

	2011	2010
Purchase of capital assets (note 11 (c))	\$ 194,297	\$ 173,771
Acquisition of land	-	1,295
Jim Pattison Outpatient Care and Surgery Centre construction financed with long-term debt	(51,379)	(64,304)
Surrey Memorial Hospital Redevelopment Project construction financed with long-term debt	(26,542)	-
	<b>\$ 116,376</b>	<b>\$ 110,762</b>

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 15. Statement of cash flows (continued):

(c) Supplementary Information:

	2011	2010
Interest paid	\$ 27,425	\$ 26,820
Interest received	820	376
Non-cash transactions:		
Change in market value of investments capitalized to deferred capital contributions	1,104	(2,693)
Change in market value of investments credited to net assets	56	(538)

## 16. Related parties:

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 considered in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The financial statements include transactions with these parties in the following amounts:

	2011	2010
Revenue		
Ministry of Health Services contributions	\$ 2,177,280	\$ 2,065,552
Medical Services Plan	141,286	142,351
Other contributions	64,336	66,593
Amortization of deferred capital contributions	48,131	44,849
Patients, clients and residents	8,738	9,845
Other	41,583	59,112
	\$ 2,481,354	\$ 2,388,302
Expenses		
Referred out and contracted services	\$ 38,365	\$ 23,814
Sundry	22,529	23,405
	\$ 60,894	\$ 47,219

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 16. Related parties (continued):

	2011	2010
Accounts receivable		
Other health authorities and BC government reporting entities	\$ 15,958	\$ 17,380
Medical Services Plan	14,416	12,640
Ministry of Health Services	10,211	5,303
	<u>\$ 40,585</u>	<u>\$ 35,323</u>
Accounts payable and accrued liabilities	\$ 8,634	\$ 4,412
Deferred operating contributions	2,451	4,751
Deferred capital contributions	691,173	626,222

## 17. Foundations and Auxiliaries:

The following Foundations and Auxiliaries were established to raise funds for the respective hospitals and/or community health services within the Fraser Health Authority. The Foundations and the 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 the Auxiliaries are not included in the consolidated statements of the Authority.

(a) During the year, the Authority received the following contributions from:

	2011	2010
Burnaby Hospital Foundation	\$ 1,534	\$ 1,248
Delta Hospital Foundation	140	944
The Eagle Ridge Hospital Foundation	40	683
Fraser Valley Health Care Foundation	5,573	2,413
Langley Memorial Hospital Foundation	211	267
Peace Arch Hospital and Community Health Foundation	3,867	1,932
Queen's Park Healthcare Foundation	159	-
The Ridge Meadows Hospital Foundation	385	1,093
Royal Columbian Hospital Foundation	810	1,321
Surrey Memorial Hospital Foundation	577	511
	<u>\$ 13,296</u>	<u>\$ 10,412</u>

# FRASER HEALTH AUTHORITY

Notes to Consolidated Financial Statements (continued)  
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2011

## 17. Foundations and Auxiliaries (continued):

(b) Net assets of the Foundations as at March 31, 2010 were as follows:

Burnaby Hospital Foundation	\$	5,789
Delta Hospital Foundation		2,016
The Eagle Ridge Hospital Foundation		2,402
Fraser Valley Health Care Foundation		4,584
Langley Memorial Hospital Foundation		7,768
Peace Arch Hospital and Community Health Foundation		25,413
Queen's Park Healthcare Foundation		687
The Ridge Meadows Hospital Foundation		5,804
Royal Columbian Hospital Foundation		9,925
Surrey Memorial Hospital Foundation		11,092
	\$	75,480

Net assets of the Foundations as at March 31, 2011 have not been reported as they were not available.

(c) During the year, the Authority received the following contributions from:

	2011	2010
Delta Hospital Auxiliary Society	\$ 493	\$ 239
Langley Memorial Hospital Auxiliaries Council	389	525
Peace Arch Hospital Auxiliary Society	256	-
Auxiliary to Ridge Meadows Hospital	25	110
Royal Columbian Hospital Auxiliary	53	182
Surrey Memorial Hospital Auxiliary	99	97
Other auxiliaries	14	20
	\$ 1,329	\$ 1,173

Net assets of the Auxiliaries have not been reported as they were not available.

## 18. Comparative figures

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