Financial Statements of

INTERIOR HEALTH AUTHORITY

Year ended March 31, 2011

Interior Health

Statement of Management Responsibility

The Financial Statements of Interior Health 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 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,
VP Residential Services & Chief Financial Officer

May 18, 2011

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To Board of Interior Health Authority

We have audited the accompanying financial statements of Interior Health Authority, which comprise the statement of financial position as at March 31, 2011 and the 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 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.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 our 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, we consider internal control relevant to the Authority'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 Authority'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 financial statements present fairly, in all material respects, the financial position of Interior 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**.**

KPMG LLP

Chartered Accountants
May 18, 2011
Kelowna, Canada

INTERIOR HEALTH AUTHORITY

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

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 74,528	$ 39,561
Short-term investments (note 2)	87,627	85,243
Accounts receivable (note 3)	64,647	47,230
Inventories of materials and supplies (note 4)	6,834	9,739
Prepaid expenses	6,093	4,408
	239,729	186,181
Capital assets (note 5)	1,059,208	896,571
Long-term disability benefits (note 9(b))	-	8,731
	$ 1,298,937	$ 1,091,483
Liabilities and Net Assets (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 174,640	$ 146,591
Deferred operating contributions (note 7)	8,769	12,092
Current portion of long-term debt (note 8)	3,343	2,581
Current portion of retirement allowance (note 9(a))	8,013	8,372
Current portion of long-term disability benefits (note 9(b))	3,516	5,322
	198,281	174,958
Long-term debt (note 8)	152,836	101,119
Retirement allowance (note 9(a))	81,237	78,567
Replacement reserves (note 10)	607	542
Deferred capital contributions (note 11)	839,591	724,506
Net assets (deficiency):		
Invested in capital assets (note 12(a))	91,865	89,287
Endowment fund	235	235
Internally restricted	107	313
Unrestricted	(65,822)	(78,044)
	26,385	11,791
Commitments and contingencies (note 13)		
	$ 1,298,937	$ 1,091,483

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, 2011, with comparative figures for 2010

	2011	2010
Revenues:		
Ministry of Health contributions	$ 1,329,902	$ 1,261,466
Medical Services Plan	126,923	126,310
Patient, clients and residents (note 15 (a))	81,042	75,040
Amortization of deferred capital contributions	70,871	69,782
Other (note 15 (b))	54,573	50,353
Other contributions (note 15 (c))	26,657	26,732
Pharmacare	2,579	1,900
Investment income	1,826	963
	1,694,373	1,612,546
Expenses:		
Compensation and benefits	1,081,065	1,053,186
Referred out and contracted services (note 15 (d))	243,270	222,965
Supplies (note 15 (e))	181,131	170,048
Depreciation of capital assets	73,334	72,607
Sundry (note 15 (f))	50,987	49,110
Equipment and building services	48,918	32,416
Interest on long-term debt	1,084	560
	1,679,789	1,600,892
Excess of revenues over expenses	$ 14,584	$ 11,654

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, 2011, with comparative figures for 2010

	Invested in capital assets	Endowment fund	Internally restricted	Unrestricted	2011	2010
Balance beginning of year	$ 89,287	$ 235	$ 313	$ (78,044)	$ 11,791	$ 1,222
Excess (deficiency) of revenues over expenses (note 12(b))	(3,215)	-	(84)	17,883	14,584	11,654
Externally restricted funds for future capital acquisitions	-	-	-	(869)	(869)	(2,224)
Transfer to invested in capital assets (note 12(c))	5,793	-	(122)	(4,792)	879	1,139
Balance, end of year	$ 91,865	$ 235	$ 107	$ (65,822)	$ 26,385	$ 11,791

See accompanying notes to financial statements

INTERIOR HEALTH AUTHORITY

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	$ 14,584	$ 11,654
Items not involving cash:		
Depreciation of capital assets	73,334	72,607
Amortization of deferred capital contributions	(70,871)	(69,782)
Loss on disposal of capital assets	752	385
Retirement allowance expense	8,202	7,350
Long-term disability expense	42,271	40,747
Net change in non-cash operating items (note 16(a))	8,530	(8,540)
	76,802	54,421
Cash flows from investing activities:		
Net change in short-term investments	(2,384)	10,770
Purchase of capital assets	(181,819)	(166,184)
Proceeds from disposal of capital assets	869	2,224
	(183,334)	(153,190)
Cash flows from financing activities:		
Capital contributions	185,087	117,030
Retirement allowance contributions	(5,891)	(5,762)
Long-term disability contributions	(35,346)	(36,188)
Contribution for land purchase	170	129
Increase in replacement reserves	65	59
Repayment of long-term debt	(2,586)	(838)
	141,499	74,430
Increase (decrease) in cash and cash equivalents	34,967	(24,339)
Cash and cash equivalents, beginning of year	39,561	63,900
Cash and cash equivalents, end of year (note 1(d))	$ 74,528	$ 39,561

Supplemental information (note 16)

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 (the "Ministry") and is one of six Health Authorities in British Columbia. 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 services.

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 ("NPO").

These financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries (see note 18) 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.

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.

Endowment contributions are recognized as direct increases in net assets.

1. Significant accounting policies (continued):

c) Asset and service contributions:

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

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

d) Cash and cash equivalents:

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

g) Capital assets:

Purchased capital assets are stated at cost. Contributed capital assets are recorded at fair value at the date of contribution. When management of the Authority determines that an asset no longer contributes to its ability to provide services, the asset is written down. The Authority records depreciation on its capital assets on a straight-line basis over the useful life 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%. Upon completion, the project assets will be amortized over their estimated useful lives.

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 met as part of the monthly performance payments over the term of the Project Agreement.

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 (2010 – 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans 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.

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. 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 the asset cost of the buildings and construction in progress as part of the Authority's P3 project (note 1(h)), determination of rates of depreciation of capital assets, 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.

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 disability assets and long term debt 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.

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. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in 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, long-term disability assets, 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, 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 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.

(Tabular amounts expressed in thousands of dollars)

1. Significant accounting policies (continued):

o) 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:

	2011	2010
Cash and cash equivalents	$ 74,528	$ 39,561
Short-term investments	87,627	85,243
	162,155	124,804
Less amounts restricted for capital purposes	(28,427)	(20,922)
Less amounts restricted for patient comfort funds	(262)	(273)
Less amounts restricted for replacement reserves	(607)	(542)
Unrestricted cash and investments	$ 132,859	$ 103,067

3. Accounts receivable:

	2011	2010
Other health authorities and BC government reporting entities	$ 8,834	$ 8,421
Medical Services Plan	14,459	12,506
Ministry of Health	6,027	4,941
Regional hospital districts	8,360	4,409
Patients, clients, and residents	8,062	6,428
Foundations and auxiliaries	8,307	3,888
Federal government	8,393	3,270
WorkSafe BC	1,807	3,799
Other	4,446	2,853
	68,695	50,515
Less allowance for doubtful accounts	(4,048)	(3,285)
	$ 64,647	$ 47,230

(Tabular amounts expressed in thousands of dollars)

4. Inventories of materials and supplies:

Inventories of materials and supplies are comprised of:

	2011	2010
Medical supplies	$ 4,429	$ 5,348
Pharmaceuticals	2,405	4,391
	$ 6,834	$ 9,739

5. Capital assets:

2011	Cost	Accumulated depreciation	Net book value
Land	$ 39,627	$ –	$ 39,627
Land improvements	21,459	9,980	11,479
Buildings	821,258	417,462	403,796
Building service equipment	68,690	28,688	40,002
Leasehold improvements	16,467	6,162	10,305
Major equipment	554,390	434,837	119,553
Construction in progress	434,446	-	434,446
	$ 1,956,337	$ 897,129	$ 1,059,208

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

During the year, $5,910,000 (2010 - $4,636,000) of interest has been capitalized to construction-in-progress.

Certain capital assets and assets constructed under P3 agreements have been financed by debt (note 12 (a)) totaling $156,179,000 as at March 31, 2011 (2010 - $103,700,000).

(Tabular amounts expressed in thousands of dollars)

6. Accounts payable and accrued liabilities:

	2011	2010
Salaries and benefits payable	$ 67,985	$ 61,367
Trade accounts payable and accrued liabilities	58,888	37,187
Accrued vacation pay	47,767	48,037
	$ 174,640	$ 146,591

The Authority has accrued $1,400,000 (2010 - $4,100,000) to provide for the current estimate of additional termination expenses expected in carrying out its deficit reduction strategy. This accrual represents management's best estimate of these restructuring costs.

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

	2011	2010
Balance, beginning of year	$ 4,100	$ 3,500
Cost incurred during the year	(2,700)	(1,927)
Update to new valuation	-	2,527
	$ 1,400	$ 4,100

7. Deferred operating contributions:

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

	2011	2010
Deferred operating contributions, beginning of year	$ 12,092	$ 12,064
Add amount received for specific purposes	3,599	3,344
Less amount recognized as revenue in the year	(6,922)	(3,316)
Deferred operating contributions, end of year	$ 8,769	$ 12,092

(Tabular amounts expressed in thousands of dollars)

8. Long-term debt:

a) Long-term debt consist of the following:

		2011		2010
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	$	1,054	$	1,076
Kimberley Special Care Home, payable $2,628 monthly including interest at 8.0% per annum, due September 1, 2026		282		291
Noric House, payable $14,457 monthly including interest at 10.0% per annum, due December 1, 2028		1,878		1,918
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		152,965		100,415
		156,179		103,700
Less current portion		(3,343)		(2,581)
	$	152,836	$	101,119

b) Minimum principal amounts scheduled for repayment during the next five years and thereafter are as follows:

2012	$	3,343
2013		2,792
2014		2,713
2015		3,083
2016		3,306
Thereafter		140,942

(Tabular amounts expressed in thousands of dollars)

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 independent actuarial valuation as at March 31, 2011, using an early measurement date of December 31, 2010. The next required valuation will be as of December 31, 2012.

Information about employee retirement allowance benefits is as follows:

		2011		2010
Accrued benefit obligation:				
Sick leave benefits	$	29,249	$	27,692
Severance benefits		44,513		41,564
		73,762		69,256
Balance of unamortized amounts		15,488		17,683
Accrued retirement allowance liabilities		89,250		86,939
Less current portion of retirement allowance		(8,013)		(8,372)
Long-term portion of accrued retirement allowance	$	81,237	$	78,567
Retirement allowance expense	$	8,202	$	7,350
Benefits paid	$	5,891	$	5,762

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 cost for years ended March 31:		
Discount rate	6.25%	7.25%
Rate of compensation increase	2.50%	2.50%

(Tabular amounts expressed in thousands of dollars)

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 required valuation will be as of December 31, 2011.

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

		2011		2010
Accrued benefit obligation	$	183,754	$	179,779
Fair value of plan assets		131,853		119,201
Net unfunded obligation, December 31		51,901		60,578
Balance of unamortized amounts		(39,296)		(54,704)
Contributions to the plan (January – March)		(9,089)		(9,283)
Accrued long-term disability benefits obligation (asset)	$	3,516	$	(3,409)
Long-term disability expense	$	42,271	$	40,747
Long-term disability plan contributions		(35,346)		(36,188)
Benefits paid		(31,351)		(28,497)

The net accrued long-term disability benefit obligation (asset) is included in the Authority's statement of financial position as follows:

		2011		2010
Long-term disability benefits	$	-	$	8,731
Current portion of long-term disability benefits		3,516		5,322
	$	3,516	$	(3,409)

(Tabular amounts expressed in thousands of dollars)

9. Employee benefits (continued):

b) Healthcare Benefit Trust benefits (continued):

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

Plan assets consist of:

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

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 cost 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 continue to be structured as a multiple-employer plan. Contributions to the Trust of $33,503,000 (2010 – $30,778,000) were expensed during the year. The most recent actuarial valuation at December 31, 2010 indicated a surplus of $17,300,000. The plan covers approximately 85,000 members of which approximately 12,500 are employees of the Authority. The next required valuation will be as of December 31, 2011.

(Tabular amounts expressed in thousands of dollars)

9. Employee benefits (continued):

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 $53,411,000 (2010 - $52,217,000) 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 a defict of $1,024,000,000. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 163,000 active employees, of which approximately 14,750 are employees of the Authority. The next required valuation will be as of December 31, 2012 with the results available in 2013.

Employer contributions to the Public Service Pension Plan of $1,693,000 (2010 - $1,825,000) 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 $487,000,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 58,000 active employees, of which approximately 350 are employees of the Authority. The next required valuation will be as of March 31, 2011 with results available in 2012.

10. 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:

	2011	2010
Balance, beginning of year	$ 542	$ 483
Provision for replacement reserve funding	52	52
Interest on replacement reserves	13	7
Expenses	-	-
	$ 607	$ 542

(Tabular amounts expressed in thousands of dollars)

10. Replacement reserves (continued):

The replacement reserves by facility are as follows:

Kimberley Special Care Home	$	341	$	325
Noric House		225		197
Columbia View Lodge		41		20
	$	607	$	542

11. 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.

		2011		2010
Deferred capital contributions, beginning of year	$	724,506	$	675,034
Ministry of Health		74,625		43,836
Health authorities and BC government reporting entities		34		753
Regional hospital districts		96,541		62,454
Foundations and auxiliaries		12,628		8,903
Other		1,259		1,084
		185,087		117,030
		909,593		792,064
Transfer of externally restricted funds for future capital acquisitions		869		2,224
Amortization for the year		(70,871)		(69,782)
Balance, end of year	$	839,591	$	724,506

Deferred capital contributions are comprised of the following:

		2011		2010
Contributions used to purchase capital assets	$	811,164	$	703,584
Unspent contributions		28,427		20,922
	$	839,591	$	724,506

(Tabular amounts expressed in thousands of dollars)

12. Invested in capital assets:

a) Invested in capital assets is calculated as follows:

	2011	2010
Capital assets	$ 1,059,208	$ 896,571
Amounts financed by:		
Deferred capital contributions	(811,164)	(703,584)
Long-term debt	(156,179)	(103,700)
	$ 91,865	$ 89,287

b) Deficiency of revenues over expenses:

	2011	2010
Amortization of deferred capital contributions	$ 70,871	$ 69,782
Depreciation of capital assets	(73,334)	(72,607)
Loss on disposal of capital assets	(752)	(385)
	$ (3,215)	$ (3,210)

c) Transfer to invested in capital assets:

	2011	2010
Purchase of capital assets	$ 236,884	$ 240,699
Amounts funded by deferred capital contributions	(178,452)	(139,576)
Repayment of long-term debt	2,586	838
Amounts funded by Public-private partnership obligation	(55,065)	(74,515)
Interfund transfer to deferred capital contributions	709	1,011
Proceeds from disposal of capital assets	(869)	(2,224)
	$ 5,793	$ 26,233

(Tabular amounts expressed in thousands of dollars)

13. Commitments and contingencies:

a) Operating leases:

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

2012	$	6,745
2013		4,626
2014		4,282
2015		3,908
2016		3,204
Thereafter		6,251
	$	29,016

b) Public private partnership commitments:

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 8. 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
2012	$ 10,409	$ 39,792	$ 50,201
2013	18,013	4,131	22,144
2014	21,969	-	21,969
2015	21,919	-	21,919
2016	22,023	-	22,023
Thereafter	664,249	-	664,249
	$ 758,582	$ 43,923	$ 802,505

13. 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 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 provided for based on management's best estimate of the ultimate settlement.

d) 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.

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, 2011 is $262,000 (2010 - $273,000). 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 $725,000 (2010 - $719,000) is for any health care purpose in the District of Sparwood. This trust fund has not been reflected in these financial statements.

14. Capital management:

The Authority defines capital to be 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.

(Tabular amounts expressed in thousands of dollars)

14. Capital management (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. The Authority has complied with the external restrictions on the funding provided.

15. Statement of operations:

(a) Patients, clients and residents:

	2011	2010
Residents of BC self-pay	$ 43,362	$ 38,914
Non-Residents of BC	18,242	17,498
WorkSafe BC	8,512	8,623
Non-Residents of Canada	6,767	6,569
Federal government	2,554	1,620
Preferred accommodation	559	916
Other	1,046	900
	$ 81,042	$ 75,040

(b) Other revenue:

	2011	2010
Recoveries from other health authorities and BC government reporting entities	$ 29,733	$ 26,767
Compensation recoveries	7,314	6,930
Parking	3,419	3,041
Other	14,107	13,615
	$ 54,573	$ 50,353

(c) Other contributions:

	2011	2010
Provincial Health Services Authority	$ 20,795	$ 17,397
Other BC government reporting entities	5,133	7,490
Other	729	1,845
	$ 26,657	$ 26,732

(Tabular amounts expressed in thousands of dollars)

15. Statement of operations (continued):

(d) Referred out and contracted services:

	2011	2010
Residential care	$ 143,444	$ 135,839
Community care	37,820	36,434
Mental health	27,422	26,827
Other	34,584	23,865
	$ 243,270	$ 222,965

(e) Supplies:

	2011	2010
Medical and surgical	$ 61,904	$ 59,065
Drugs and medical gases	49,932	44,819
Plant operations	19,061	18,052
Diagnostic	17,307	16,697
Food and dietary	13,947	14,275
Printing, stationery & office	4,861	4,909
Laundry and linen	5,393	3,796
Housekeeping	3,428	3,441
Other	5,298	4,994
	$ 181,131	$ 170,048

(f) Sundry:

	2011	2010
Rent	$ 10,585	$ 10,732
Communications and data processing	9,916	10,118
Patient Transport	7,962	8,526
Travel	7,838	7,244
Professional fees	2,390	2,581
Other	12,296	9,909
	$ 50,987	$ 49,110

(Tabular amounts expressed in thousands of dollars)

16. Supplementary information to statement of cash flows:

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

	2011	2010
Accounts receivable	$ (17,417)	$ 5,733
Inventories of materials and supplies	2,905	(2,196)
Prepaid expenses	(1,685)	1,412
Accounts payable and accrued liabilities	28,050	(13,517)
Deferred operating contributions	(3,323)	28
	$ 8,530	$ (8,540)

(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 12 (c))	$ 236,884	$ 240,699
Assets acquired through public-private partnership	(55,065)	(74,515)
	$ 181,819	$ 166,184
Supplementary information:		
Interest paid	$ 1,084	$ 560
Interest received	$ 2,353	$ 1,329

(Tabular amounts expressed in thousands of dollars)

17. Related party transactions:

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

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

	2011	2010
Revenues:		
Ministry of Health contributions	$ 1,329,902	$ 1,261,466
Medical Services Plan	126,923	126,310
Patient, clients and residents	19,288	18,398
Amortization of deferred capital contributions	39,145	38,511
Other contributions	25,928	24,887
Pharmacare	2,579	1,900
Other	29,733	26,767
	$ 1,573,498	$ 1,498,239
Expenses:		
Referred out and contracted services	$ 6,710	$ 585
Other	25,884	26,713
	$ 32,594	$ 27,298
Accounts receivable:		
Medical Services Plan	$ 14,459	$ 12,506
Ministry of Health	6,027	4,941
Other health authorities and BC government reporting entities	8,834	8,421
	$ 29,320	$ 25,868
Accounts payable and accrued liabilities	$ 4,483	$ 2,976
Deferred operating contributions	6,821	7,902
Deferred capital contributions	488,948	437,552

18. 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 $14,023,000 (2010 - $9,977,000) to various facilities within the Authority.

19. Comparative figures:

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