

Financial Statements of

**INTERIOR HEALTH AUTHORITY**

Year ended March 31, 2012



Interior Health

## Statement of Management Responsibility

The Financial Statements of Interior Health Authority for the year ended March 31, 2012, 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 30, 2012



**KPMG LLP**  
**Chartered Accountants**  
300 – 1674 Bertram Street  
Kelowna, BC V1Y 9G4  
Canada

Telephone (250) 979-7150  
Telefax (250) 763-0044  
www.kpmg.ca

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of Interior Health Authority, and

To the Minister of Health, Province of British Columbia

We have audited the accompanying financial statements of Interior Health Authority, which comprise the statement of financial position as at March 31, 2012 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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants  
May 30, 2012  
Kelowna, Canada

# INTERIOR HEALTH AUTHORITY

## Statement of Financial Position

(Tabular amounts expressed in thousands of dollars)

March 31, 2012, with comparative figures for 2011

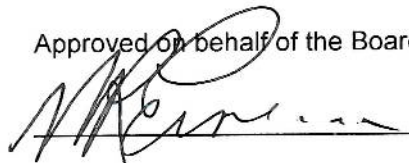
	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 51,879	\$ 74,528
Short-term investments (note 2)	90,184	87,627
Accounts receivable (note 3)	72,127	64,647
Inventories of materials and supplies (note 4)	6,428	6,834
Prepaid expenses	4,673	6,093
	<u>225,291</u>	<u>239,729</u>
Capital assets (note 5)	1,121,298	1,059,208
Long-term disability benefits (note 9(b))	5,464	-
	<u>\$ 1,352,053</u>	<u>\$ 1,298,937</u>

## Liabilities and Net Assets (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 168,614	\$ 174,640
Deferred operating contributions (note 7)	9,115	8,769
Current portion of long-term debt (note 8)	2,792	3,343
Current portion of retirement allowance (note 9(a))	8,303	8,013
Current portion of long-term disability benefits (note 9(b))	3,212	3,516
	<u>192,036</u>	<u>198,281</u>
Long-term debt (note 8)	151,944	152,836
Retirement allowance (note 9(a))	83,661	81,237
Replacement reserves (note 10)	679	607
Deferred capital contributions (note 11)	891,715	839,591
Net assets (deficiency):		
Invested in capital assets (note 12(a))	93,566	91,865
Endowment fund	235	235
Internally restricted	25	107
Unrestricted	(61,808)	(65,822)
	<u>32,018</u>	<u>26,385</u>
Commitments and contingencies (note 13)		
	<u>\$ 1,352,053</u>	<u>\$ 1,298,937</u>

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, 2012, with comparative figures for 2011

	2012	2011
<b>Revenues:</b>		
Ministry of Health contributions	\$ 1,393,630	\$ 1,330,197
Medical Services Plan	130,640	126,923
Patient, clients and residents (note 15 (a))	82,253	81,042
Amortization of deferred capital contributions	67,612	70,871
Other (note 15 (b))	55,455	54,573
Other contributions (note 15 (c))	27,690	26,362
Investment income	2,515	1,826
Pharmacare	1,234	2,579
	<u>1,761,029</u>	<u>1,694,373</u>
<b>Expenses:</b>		
Compensation and benefits	1,135,554	1,081,065
Referred out and contracted services (note 15 (d))	263,868	243,270
Supplies (note 15 (e))	169,470	165,788
Depreciation of capital assets	72,191	73,334
Equipment and building services	58,438	64,261
Sundry (note 15 (f))	52,237	50,987
Interest on long-term debt	3,638	1,084
	<u>1,755,396</u>	<u>1,679,789</u>
<b>Excess of revenues over expenses</b>	<b>\$ 5,633</b>	<b>\$ 14,584</b>

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, 2012, with comparative figures for 2011

	Invested in capital assets	Endowment fund	Internally restricted	Unrestricted	2012	2011
Balance beginning of year	\$ 91,865	\$ 235	\$ 107	\$ (65,822)	\$ 26,385	\$ 11,791
Excess (deficiency) of revenues over expenses (note 12(b))	(4,812)	-	(38)	10,483	5,633	14,584
Externally restricted funds for future capital acquisitions	-	-	-	(469)	(469)	(869)
Transfer to invested in capital assets (note 12(c))	6,513	-	(44)	(6,000)	469	879
Balance, end of year	\$ 93,566	\$ 235	\$ 25	\$ (61,808)	\$ 32,018	\$ 26,385

See accompanying notes to financial statements

# INTERIOR HEALTH AUTHORITY

## Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 5,633	\$ 14,584
Items not involving cash:		
Depreciation of capital assets	72,191	73,334
Amortization of deferred capital contributions	(67,612)	(70,871)
Loss on disposal of capital assets	233	752
Retirement allowance expense	8,516	8,202
Long-term disability expense	42,191	42,271
Net change in non-cash operating items (note 16(a))	(11,334)	8,530
	49,818	76,802
Cash flows from investing activities:		
Net change in short-term investments	(2,557)	(2,384)
Purchase of capital assets (note 16(b))	(132,646)	(181,819)
Proceeds from disposal of capital assets	469	869
	(134,734)	(183,334)
Cash flows from financing activities:		
Capital contributions	119,267	185,087
Retirement allowance contributions	(5,803)	(5,891)
Long-term disability contributions	(47,959)	(35,346)
Contribution for land purchase	33	170
Increase in replacement reserves	72	65
Repayment of long-term debt	(3,343)	(2,586)
	62,267	141,499
Increase (decrease) in cash and cash equivalents	(22,649)	34,967
Cash and cash equivalents, beginning of year	74,528	39,561
Cash and cash equivalents, end of year (note 1(d))	\$ 51,879	\$ 74,528

Supplemental information (note 16(c))

See accompanying notes to financial statements.

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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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.

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.



# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 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:

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Land improvements	5 – 25 years
Buildings	10 – 50 years
Building service equipment	5 – 25 years
Leasehold improvements	5 – 15 years
Major equipment	3 – 20 years

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# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 1. Significant accounting policies (continued):

### h) 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 performance payments over the term of the Project Agreement.

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

### 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 (2011 – 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans is 10 years (2011 - 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.

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 1. Significant accounting policies (continued):

j) Asset retirement obligations:

The Authority recognizes an 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.

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 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 are 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, 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.

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 1. Significant accounting policies (continued):

### o) Future accounting framework:

Effective April 1, 2012, the Authority will transition to a new accounting framework which will include Public Sector Accounting Standards supplemented by directives from the Government of British Columbia's Treasury Board.

The transition to the new accounting framework will be applied on a retrospective basis. The Authority is reviewing the impact of these changes on the financial statements.

## 2. Cash and cash equivalents and investments:

	2012	2011
Cash and cash equivalents	\$ 51,879	\$ 74,528
Short-term investments	90,184	87,627
	142,063	162,155
Less amounts restricted for capital purposes	(18,719)	(28,427)
Less amounts restricted for patient comfort funds	(328)	(262)
Less amounts restricted for replacement reserves	(679)	(607)
Unrestricted cash and investments	\$ 122,337	\$ 132,859

## 3. Accounts receivable:

	2012	2011
Ministry of Health	\$ 15,185	\$ 6,027
Medical Services Plan	13,974	14,459
Federal government	10,405	8,393
Other health authorities and BC government reporting entities	9,009	8,834
Patients, clients, and residents	7,929	8,062
Regional hospital districts	6,080	8,360
Foundations and auxiliaries	5,332	8,307
WorkSafe BC	1,474	1,807
Other	5,905	4,446
	75,293	68,695
Less allowance for doubtful accounts	(3,166)	(4,048)
	\$ 72,127	\$ 64,647

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 4. Inventories of materials and supplies:

Inventories of materials and supplies are comprised of:

	2012	2011
Medical supplies	\$ 4,054	\$ 4,429
Pharmaceuticals	2,374	2,405
	\$ 6,428	\$ 6,834

## 5. Capital assets:

2012	Cost	Accumulated depreciation	Net book value
Land	\$ 39,537	\$ -	\$ 39,537
Land improvements	21,782	11,007	10,775
Buildings	1,006,199	446,812	559,387
Building service equipment	73,069	31,681	41,388
Leasehold improvements	16,846	7,507	9,339
Major equipment	590,970	457,374	133,596
Construction in progress	327,276	-	327,276
	\$ 2,075,679	\$ 954,381	\$ 1,121,298

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

During the year, \$5,942,000 (2011 - \$5,910,000) 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 \$154,736,000 as at March 31, 2012 (2011 - \$156,179,000).

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 6. Accounts payable and accrued liabilities:

	2012	2011
Salaries and benefits payable	\$ 76,517	\$ 67,985
Trade accounts payable and accrued liabilities	42,143	58,888
Accrued vacation pay	49,954	47,767
	<u>\$ 168,614</u>	<u>\$ 174,640</u>

## 7. Deferred operating contributions:

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

	2012	2011
Deferred operating contributions, beginning of year	\$ 8,769	\$ 12,092
Add amount received for specific purposes	3,504	3,599
Less amount recognized as revenue in the year	(3,158)	(6,922)
Deferred operating contributions, end of year	<u>\$ 9,115</u>	<u>\$ 8,769</u>

## 8. Long-term debt:

a) Long-term debt consists of the following:

	2012	2011
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	\$ 1,029	\$ 1,054
Kimberley Special Care Home, payable \$2,628 monthly including interest at 8.0% per annum, due September 1, 2026	272	282
Noric House, payable \$14,457 monthly including interest at 10.0% per annum, due December 1, 2028	1,833	1,878
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	151,602	152,965
	<u>154,736</u>	<u>156,179</u>
Less current portion	(2,792)	(3,343)
	<u>\$ 151,944</u>	<u>\$ 152,836</u>

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 8. Long-term debt (continued):

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

2013	\$	2,792
2014		2,713
2015		3,083
2016		3,306
2017		3,313
Thereafter		139,529

## 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, 2012, using an early measurement date of December 31, 2011. The next required valuation will be as of December 31, 2012.

Information about employee retirement allowance benefits is as follows:

	2012	2011
Accrued benefit obligation:		
Sick leave benefits	\$ 30,772	\$ 29,249
Severance benefits	47,226	44,513
	77,998	73,762
Balance of unamortized amounts	13,966	15,488
Accrued retirement allowance liabilities	91,964	89,250
Less current portion of retirement allowance	(8,303)	(8,013)
Long-term portion of accrued retirement allowance	\$ 83,661	\$ 81,237
Retirement allowance expense	\$ 8,516	\$ 8,202
Benefits paid	\$ 5,803	\$ 5,891



# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 9. Employee benefits (continued):

### a) Retirement allowance (continued):

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

	2012	2011
Accrued benefit obligation as at March 31:		
Discount rate	4.30%	5.25%
Rate of compensation increase	2.50%	2.50%
Benefit cost for years ended March 31:		
Discount rate	5.25%	6.25%
Rate of compensation increase	2.50%	2.50%

### 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, 2011. The next required valuation will be as of December 31, 2012.

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 9. Employee benefits (continued):

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

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

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

	2012	2011
Accrued benefit obligation	\$ 189,537	\$ 183,754
Fair value of plan assets	141,305	131,861
Net unfunded obligation, December 31	48,232	51,893
Balance of unamortized amounts	(30,015)	(39,288)
Adjustment for non-taxable pool	(568)	0
Contributions to the plan (January – March)	(19,901)	(9,089)
Accrued long-term disability benefits obligation (asset)	\$ (2,252)	\$ 3,516
Long-term disability expense	\$ 42,191	\$ 42,271
Long-term disability plan contributions	(47,959)	(35,346)
Benefits paid	(29,673)	(31,351)

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

	2012	2011
Long-term disability benefits	\$ (5,464)	\$ -
Current portion of long-term disability benefits	3,212	3,516
	\$ (2,252)	\$ 3,516

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 9. Employee benefits (continued):

b) Healthcare Benefit Trust benefits (continued):

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

Plan assets consist of:

	2012	2011
Debt securities	55%	54%
Foreign equities	25%	25%
Equity securities and other	20%	21%
	100%	100%

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

	2012	2011
Accrued benefit obligation as at March 31:		
Discount rate	3.70%	4.30%
Rate of benefit increase	2.00%	2.50%
Benefit cost for years ended March 31:		
Discount rate	4.30%	4.90%
Expected long-term rate of return on plan assets	5.50%	6.00%
Rate of benefit increase	2.00%	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 multi-employer plan. Contributions to the Trust of \$32,823,000 (2011 – \$33,503,000) were expensed during the year. The most recent actuarial valuation at December 31, 2011 indicated a surplus of \$30,853,000. The plan covers approximately 86,000 members of which approximately 13,000 are employees of the Authority. The next required valuation will be as of December 31, 2012.

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 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 \$60,817,000 (2011 - \$53,411,000) 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 deficit of \$1,024,000,000. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 173,000 active employees, of which approximately 15,700 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 \$1,568,000 (2011 - \$1,693,000) 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, 2011 indicated a deficit of \$275,401,000. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 57,000 active employees, of which approximately 300 are employees of the Authority. The next required valuation will be as of March 31, 2014 with results available in 2015.

## 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:

	2012	2011
Balance, beginning of year	\$ 607	\$ 542
Provision for replacement reserve funding	53	52
Interest on replacement reserves	19	13
Expenses	-	-
	\$ 679	\$ 607

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 10. Replacement reserves (continued):

The replacement reserves by facility are as follows:

	2012	2011
Kimberley Special Care Home	\$ 360	\$ 341
Noric House	256	225
Columbia View Lodge	63	41
	\$ 679	\$ 607

## 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.

	2012	2011
Deferred capital contributions, beginning of year	\$ 839,591	\$ 724,506
Ministry of Health	58,084	74,625
Health authorities and BC government reporting entities	348	34
Regional hospital districts	50,585	96,541
Foundations and auxiliaries	8,980	12,628
Other	1,270	1,259
	119,267	185,087
	958,858	909,593
Transfer of externally restricted funds for future capital acquisitions	469	869
Amortization for the year	(67,612)	(70,871)
Balance, end of year	\$ 891,715	\$ 839,591

Deferred capital contributions are comprised of the following:

	2012	2011
Contributions used to purchase capital assets	\$ 872,996	\$ 811,164
Unspent contributions	18,719	28,427
	\$ 891,715	\$ 839,591

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 12. Invested in capital assets:

a) Invested in capital assets is calculated as follows:

	2012	2011
Capital assets	\$ 1,121,298	\$ 1,059,208
Amounts financed by:		
Deferred capital contributions	(872,996)	(811,164)
Long-term debt	(154,736)	(156,179)
	\$ 93,566	\$ 91,865

b) Deficiency of revenues over expenses:

	2012	2011
Amortization of deferred capital contributions	\$ 67,612	\$ 70,871
Depreciation of capital assets	(72,191)	(73,334)
Loss on disposal of capital assets	(233)	(752)
	\$ (4,812)	\$ (3,215)

c) Transfer to invested in capital assets:

	2012	2011
Purchase of capital assets	\$ 134,547	\$ 236,884
Amounts funded by deferred capital contributions	(129,444)	(178,452)
Repayment of long-term debt	3,343	2,586
Amounts funded by Public-private partnership obligation	(1,901)	(55,065)
Interfund transfer to deferred capital contributions	437	709
Proceeds from disposal of capital assets	(469)	(869)
	\$ 6,513	\$ 5,793

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 13. Commitments and contingencies:

a) Operating leases:

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

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2013	\$	8,333
2014		4,687
2015		4,364
2016		3,629
2017		2,371
Thereafter		4,110
	\$	27,494

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b) 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, 2012, 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.

c) 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.

d) 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.

e) 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, 2012 is \$328,000 (2011 - \$262,000). These amounts are not included in the Authority's statement of financial position.

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## 13. Commitments and contingencies:

f) 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 \$732,000 (2011 - \$725,000) 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.

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:

	2012	2011
Residents of BC self-pay	\$ 46,344	\$ 43,362
Non-Residents of BC	16,738	18,242
WorkSafe BC	8,684	8,512
Non-Residents of Canada	6,330	6,767
Federal government	2,561	2,554
Preferred accommodation	577	559
Other	1,019	1,046
	<u>\$ 82,253</u>	<u>\$ 81,042</u>



# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 15. Statement of operations (continued):

(b) Other revenue:

	2012	2011
Recoveries from other health authorities and BC government reporting entities	\$ 31,281	\$ 29,733
Compensation recoveries	7,532	7,314
Parking	3,425	3,419
Other	13,217	14,107
	\$ 55,455	\$ 54,573

(c) Other contributions:

	2012	2011
Provincial Health Services Authority	\$ 22,756	\$ 20,795
Other BC government reporting entities	3,781	4,838
Other	1,153	729
	\$ 27,690	\$ 26,362

(d) Referred out and contracted services:

	2012	2011
Residential care	\$ 142,582	\$ 143,444
Community care	40,534	37,820
Mental health	27,772	27,422
Other	52,980	34,584
	\$ 263,868	\$ 243,270

(e) Supplies:

	2012	2011
Medical and surgical	\$ 65,859	\$ 61,551
Drugs and medical gases	49,066	49,932
Diagnostic	17,708	17,307
Food and dietary	14,438	13,947
Printing, stationery & office	5,246	4,861
Laundry and linen	4,346	5,393
Plant operations	4,031	3,717
Housekeeping	3,411	3,428
Other	5,365	5,652
	\$ 169,470	\$ 165,788

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 15. Statement of operations (continued):

(f) Sundry:

	2012	2011
Rent	\$ 11,083	\$ 10,585
Communications and data processing	9,151	9,916
Travel	8,962	7,838
Patient transport	8,174	7,962
Professional fees	3,733	2,390
Other	11,134	12,296
	<u>\$ 52,237</u>	<u>\$ 50,987</u>

## 16. Supplementary information to statement of cash flows:

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

	2012	2011
Accounts receivable	\$ (7,480)	\$ (17,417)
Inventories of materials and supplies	406	2,905
Prepaid expenses	1,420	(1,685)
Accounts payable and accrued liabilities	(6,026)	28,050
Deferred operating contributions	346	(3,323)
	<u>\$ (11,334)</u>	<u>\$ 8,530</u>

(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.

	2012	2011
Purchase of capital assets (note 12 (c))	\$ 134,547	\$ 236,884
Assets acquired through public-private partnership	(1,901)	(55,065)
	<u>\$ 132,646</u>	<u>\$ 181,819</u>

(c) Supplementary information:

	2012	2011
Interest paid	\$ 3,638	\$ 1,084
Interest received	\$ 3,183	\$ 2,353

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

## 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:

	2012	2011
<b>Revenues:</b>		
Ministry of Health contributions	\$ 1,393,630	\$ 1,330,197
Medical Services Plan	130,640	126,923
Patient, clients and residents	17,757	19,288
Amortization of deferred capital contributions	37,407	39,145
Other contributions	26,537	25,634
Pharmacare	1,234	2,579
Other	31,281	29,733
	<u>\$ 1,638,486</u>	<u>\$ 1,573,499</u>
<b>Expenses:</b>		
Referred out and contracted services	\$ 10,678	\$ 6,710
Other	25,458	25,884
	<u>\$ 36,136</u>	<u>\$ 32,594</u>
<b>Accounts receivable:</b>		
Ministry of Health	\$ 15,185	\$ 6,027
Medical Services Plan	13,974	14,459
Other health authorities and BC government reporting entities	9,009	8,834
	<u>\$ 38,168</u>	<u>\$ 29,320</u>
Accounts payable and accrued liabilities	\$ 6,534	\$ 4,483
Deferred operating contributions	7,684	6,821
Deferred capital contributions	510,120	488,948

# INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2012

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## **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 \$10,048,000 (2011 - \$14,023,000) 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.