

Financial Statements of

**VANCOUVER COASTAL
HEALTH AUTHORITY**

Year Ended March 31, 2012

Statement of Management Responsibility

The Financial Statements 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 Committee of the Board. The Audit Committee meets with management and the internal auditors no fewer than four times a year and the external auditors two times a year.

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

The external auditors, KPMG LLP, conduct an independent examination, in accordance with 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 Committee of the Board and meet with it on a regular basis.

On behalf of Vancouver Coastal Health Authority



Dr. David Ostrow
President & Chief Executive Officer



Duncan Campbell
Chief Financial Officer & Vice President
System Development & Performance

Vancouver, BC
June 6, 2012



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INDEPENDENT AUDITORS' REPORT

To the Board of Vancouver Coastal Health Authority
To the Minister of Health

We have audited the accompanying financial statements of the Vancouver Coastal Health Authority, which comprise the statement of financial position as at March 31, 2012, 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 an 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Vancouver Coastal Health Authority as at March 31, 2012 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

June 6, 2012

Vancouver, Canada

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Financial Position

(Amounts expressed in thousands of dollars)

March 31, 2012, with comparative figures for 2011

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 139,098 | \$ 104,552 |
| Short-term investments | 19,939 | 0 |
| Accounts receivable (note 2) | 100,193 | 87,491 |
| Inventories of materials and supplies (note 3) | 7,972 | 14,828 |
| Prepaid expenses | 16,606 | 21,452 |
| | <u>283,808</u> | <u>228,323</u> |
| Loan receivable (note 4) | 5,521 | 5,695 |
| Capital assets (note 5) | 953,908 | 989,604 |
| Long-term disability benefits (note 10(b)(i)) | 11,171 | 15,260 |
| | <u>\$ 1,254,408</u> | <u>\$ 1,238,882</u> |
| Liabilities and Net Assets (Deficiency) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 6) | \$ 287,709 | \$ 267,415 |
| Deferred research contributions (note 7) | 13,762 | 16,834 |
| Deferred operating contributions (note 8) | 4,185 | 11,891 |
| Current portion of long-term debt (note 9) | 1,648 | 1,629 |
| Current portion of retirement allowance (note 10(a)) | 9,800 | 9,496 |
| | <u>317,104</u> | <u>307,265</u> |
| Long-term debt (note 9) | 119,821 | 122,040 |
| Retirement allowance (note 10(a)) | 97,834 | 91,917 |
| Replacement reserves (note 11) | 756 | 849 |
| Deferred capital contributions (note 12) | 872,186 | 876,444 |
| | <u>1,407,701</u> | <u>1,398,515</u> |
| Net assets (deficiency): | | |
| Invested in capital assets (note 13) | 27,984 | 27,626 |
| Unrestricted | (181,277) | (187,259) |
| | <u>(153,293)</u> | <u>(159,633)</u> |
| Commitments and contingencies (note 14) | | |
| | <u>\$ 1,254,408</u> | <u>\$ 1,238,882</u> |

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

 Director

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Operations

(Amounts expressed in thousands of dollars)

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

| | 2012 | 2011 |
|--|------------------|------------------|
| Revenues: | | |
| Ministry of Health contributions | \$ 2,304,432 | \$ 2,217,409 |
| Medical Services Plan | 198,426 | 190,304 |
| Other contributions (note 17(a)) | 196,410 | 185,391 |
| Other (note 17(b)) | 125,608 | 77,636 |
| Amortization of deferred capital contributions | 105,407 | 107,777 |
| Patients, clients and residents (note 17(c)) | 80,821 | 79,499 |
| Research contributions | 19,448 | 17,822 |
| | <u>3,030,552</u> | <u>2,875,838</u> |
| Expenses: | | |
| Compensation and benefits | 1,337,833 | 1,265,073 |
| Distributions to affiliated organizations (note 16(b)) | 604,081 | 574,682 |
| Referred out and contracted services (note 17(d)) | 590,698 | 508,881 |
| Supplies (note 17(e)) | 198,836 | 196,294 |
| Depreciation of capital assets | 113,664 | 124,749 |
| Equipment and building services | 86,611 | 103,137 |
| Sundry (note 17(f)) | 66,809 | 68,175 |
| Research | 19,426 | 17,837 |
| Interest | 6,254 | 6,509 |
| | <u>3,024,212</u> | <u>2,865,337</u> |
| Excess of revenues over expenses | \$ 6,340 | \$ 10,501 |

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Changes in Net Assets (Deficiency)

(Amounts expressed in thousands of dollars)

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

| | Invested in capital assets (Note 13) | Unrestricted | 2012 | 2011 |
|--|---|--------------|--------------|--------------|
| Balance, beginning of year, as previously reported | \$ 27,626 | \$ (187,259) | \$ (159,633) | \$ (168,690) |
| Excess (deficiency) of revenues over expenses | (8,257) | 14,597 | 6,340 | 10,501 |
| Disposal of land (note 13(c)) | 0 | 0 | 0 | (1,444) |
| Transfer to invested in capital assets (note 13(c)) | 8,615 | (8,615) | 0 | 0 |
| Balance, end of year | \$ 27,984 | \$ (181,277) | \$ (153,293) | \$ (159,633) |

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Cash Flows

(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 | \$ 6,340 | \$ 10,501 |
| Items not involving cash: | | |
| Amortization of deferred capital contributions | (105,407) | (107,777) |
| Depreciation of capital assets | 113,664 | 124,749 |
| Retirement allowance expense | 8,959 | 8,912 |
| Long-term disability expense | 32,314 | 34,079 |
| Assets written down | 1,878 | 3,598 |
| Increase in capital lease obligation (note 15) | 0 | 2,142 |
| | 57,748 | 76,204 |
| Net change in non-cash operating items (note 15) | 12,954 | 48,718 |
| | 70,702 | 124,922 |
| Cash flows from investing activities: | | |
| Net change in short-term investments | (19,939) | 0 |
| Loan receivable | 174 | (5,695) |
| Purchase of capital assets (note 13) | (79,846) | (80,894) |
| Proceeds on sale of land | 0 | 2,400 |
| | (99,611) | (84,189) |
| Cash flows from financing activities: | | |
| Capital contributions | 101,149 | 85,958 |
| Retirement allowance contributions | (7,269) | (5,981) |
| Long-term disability contributions | (28,225) | (60,505) |
| Repayment of capital lease obligations | (1,131) | (7,980) |
| Repayment of long-term debt | (1,069) | (1,043) |
| | 63,455 | 10,449 |
| Increase (decrease) in cash and cash equivalents | 34,546 | 51,182 |
| Cash and cash equivalents, beginning of year | 104,552 | 53,370 |
| Cash and cash equivalents, end of year | \$ 139,098 | \$ 104,552 |

Supplemental information (note 15)

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

Vancouver Coastal Health Authority (the "Authority") was created under the *Health Authorities Act of British Columbia* on December 12, 2001 with a Board of Directors appointed by the Ministry of Health (the "Ministry") and is one of six Health Authorities in British Columbia ("B.C."). 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 role of the Authority is to promote and provide for the physical, mental and social well being of people who live in the Vancouver Coastal region and those referred from outside the region.

1. Significant accounting policies:

(a) Affiliated organizations:

Within the Vancouver Coastal area, there are three denominational health care organizations, Providence Health Care ("PHC"), Bella Coola General Hospital ("Bella Coola") and R.W. Large Memorial Hospital in Bella Bella ("R.W. Large") (collectively the "Affiliates") which have the responsibility to manage the administration of certain health care facilities under affiliation agreements with the Authority. These Affiliates are separate legal entities with separate boards of directors and accordingly, these financial statements do not include their assets, liabilities or results of operations. However, the funds received from the Ministry on behalf of these Affiliates are recorded as Ministry of Health contributions, and funds transferred to the Affiliates are recorded as expenses in the statement of operations. As the Authority's performance agreement with the Ministry includes the performance of these Affiliates, information on the equity and results of operations of the Affiliates is provided in Note 16(b) of these financial statements.

(b) 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 16(b)) and other organizations that provide services under contracts.

(c) Cash and cash equivalents:

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

(d) Short-term investments:

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

1. Significant accounting policies (continued):

(e) Inventories of materials and supplies:

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

(f) Capital assets:

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

| | |
|-----------------------------------|--------------|
| Buildings | 5 – 50 years |
| Equipment and information systems | 3 – 20 years |

(g) Asset retirement obligations:

The Authority recognizes asset retirement obligations in the period in which it incurs a legal obligation associated with the retirement of a long-lived asset, including leased premises, resulting from the acquisition, construction, development, and/or normal use of the asset, provided the fair value of the obligation can be reasonably estimated. The fair value of the asset retirement obligation 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. These changes are recorded as expenses of the related periods.

(h) Revenue recognition:

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

Under the Hospital Insurance Act and Regulations thereto, the Authority is funded primarily by the Province of B.C. 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 established 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 to 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.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

1. Significant accounting policies (continued):

(i) Employee benefits:

(i) Liabilities, net of plan assets, are recorded for employee retirement allowance benefits, long-term disability and multiple-employer defined benefit plans as employees render services to earn 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 greater of the benefit obligation or the fair value of plan assets, 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.

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

(j) Asset and service contributions:

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

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

(k) Measurement uncertainty:

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews all significant estimates affecting its financial statements on a recurring basis and records the effect of any necessary adjustments. Significant areas requiring the use of estimates include: valuation of accounts receivable and inventory; the determination of obsolescence and useful lives for depreciation of capital assets and amortization of deferred capital contributions; accrued liabilities and contingent liabilities; and the assumptions with respect to long-term disability benefits and retirement allowance. Actual results could differ from the estimates.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

1. Significant accounting policies (continued):

(l) Financial instruments:

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

- The Authority initially records all non-derivative financial assets and liabilities at fair value.
- 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.
- Other liabilities which include the Authority's long-term disability liabilities and assets, accrued retirement allowance liabilities, long-term debt, and obligations under capital leases, are recorded at amortized cost.
- All transaction costs incurred on loans, receivables, and other liabilities are incorporated in the 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.

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

The Authority's financial instruments include cash, restricted cash, accounts receivable, long-term disability liabilities and assets, accounts payable and accrued liabilities, and accrued retirement allowance liabilities. It is management's opinion that the Authority is not exposed to significant interest rate, currency or credit risks arising from these financial instruments. The fair values of instruments carried at amortized cost approximate their carrying values, except for the fair value of accrued retirement allowance liabilities and accrued long-term disability liabilities and assets, which are disclosed in note 10.

The Authority has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

1. Significant accounting policies (continued):

(m) Future accounting framework:

Effective April 1, 2012, the Authority will transition to a new accounting framework which will include Public Sector Accounting Board 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. Accounts receivable:

| | 2012 | 2011 |
|---|------------|-----------|
| Other health authorities and B.C. government reporting entities | \$ 41,678 | \$ 34,582 |
| Ministry of Health | 28,455 | 13,421 |
| Other | 9,968 | 11,347 |
| Hospital foundations | 6,519 | 12,644 |
| Patient fees | 6,102 | 5,625 |
| Medical Services Plan | 5,768 | 6,214 |
| Federal government | 3,219 | 4,087 |
| Other provinces | 2,498 | 3,110 |
| WorkSafeBC | 1,618 | 1,975 |
| | 105,825 | 93,005 |
| Less provision for doubtful accounts | 5,632 | 5,514 |
| | \$ 100,193 | \$ 87,491 |

3. Inventories of materials and supplies:

Inventories of materials and supplies are comprised of:

| | 2012 | 2011 |
|------------------|----------|-----------|
| Pharmaceuticals | \$ 5,648 | \$ 5,126 |
| Medical supplies | 2,324 | 9,702 |
| | \$ 7,972 | \$ 14,828 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

4. Loan receivable:

The loan consists of funds advanced for the repayment of a debt related to the Vancouver General Hospital ("VGH") Parkade. The debt was repaid on behalf of 578583 BC Ltd., a corporation which is the trustee of the VGH Parkade Trust (the "Trust") and is wholly owned by the VGH & UBC Hospital Foundation.

The Trust was created by agreement between the Authority and 578583 BC Ltd. In its capacity as the trustee of the Trust, 578583 BC Ltd. holds beneficial ownership in the VGH Parkade and earns the associated revenue.

The loan receivable from 578583 BC Ltd. earns interest at a variable rate which equals the RBC prime rate, currently 3.0%, and will mature in February 2016.

5. Capital assets:

| 2012 | Cost | Accumulated Depreciation | Net book value |
|---|---------------------|-----------------------------|-------------------|
| Land | \$ 19,984 | \$ 0 | \$ 19,984 |
| Buildings | 1,185,703 | 562,900 | 622,803 |
| Equipment and information systems | 913,434 | 758,579 | 154,855 |
| Equipment under capital lease | 78,365 | 77,048 | 1,317 |
| Buildings under capital lease | 111,955 | 12,508 | 99,447 |
| Information systems projects in progress | 2,875 | 0 | 2,875 |
| Construction projects in progress | 52,627 | 0 | 52,627 |
| | <u>\$ 2,364,943</u> | <u>\$ 1,411,035</u> | <u>\$ 953,908</u> |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

5. Capital assets (continued):

| 2011 | Cost | Accumulated Depreciation | Net book value |
|---|---------------------|-----------------------------|-------------------|
| Land | \$ 19,984 | \$ 0 | \$ 19,984 |
| Buildings | 1,145,590 | 521,083 | 624,507 |
| Equipment and information systems | 891,776 | 705,996 | 185,780 |
| Equipment under capital lease | 78,365 | 74,301 | 4,064 |
| Buildings under capital lease | 111,955 | 10,254 | 101,701 |
| Information systems projects in progress | 5,418 | 0 | 5,418 |
| Construction projects in progress | 48,150 | 0 | 48,150 |
| | <u>\$ 2,301,238</u> | <u>\$ 1,311,634</u> | <u>\$ 989,604</u> |

6. Accounts payable and accrued liabilities:

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Trade accounts payable and accrued liabilities | \$ 158,057 | \$ 149,549 |
| Salaries and benefits payable | 71,592 | 59,970 |
| Accrued vacation pay | 58,060 | 57,896 |
| | <u>\$ 287,709</u> | <u>\$ 267,415</u> |

7. Deferred research contributions:

Deferred research contributions represent unspent contributions received to fund research activities. These deferred contributions will be recorded as revenue in the statement of operations when the related expenses are incurred.

| | 2012 | 2011 |
|--|------------------|------------------|
| Deferred research contributions, beginning of year | \$ 16,834 | \$ 16,524 |
| Add amount received for research purposes | 16,376 | 18,132 |
| Less amount recognized as revenue in the year | (19,448) | (17,822) |
| Deferred research contributions, end of year | <u>\$ 13,762</u> | <u>\$ 16,834</u> |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

8. Deferred operating contributions:

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

| | 2012 | 2011 |
|---|-----------|-----------|
| Deferred operating contributions, beginning of year | \$ 11,891 | \$ 15,471 |
| Add amount received for specific purposes | 22,628 | 16,484 |
| Less amount recognized as revenue in the year | (30,334) | (20,064) |
| Deferred operating contributions, end of year | \$ 4,185 | \$ 11,891 |

9. Long-term debt:

| | 2012 | 2011 |
|--|------------|------------|
| Gordon & Leslie Diamond Health Care Centre capital lease obligation, 5.37% interest maturing August 2036 | \$ 113,434 | \$ 113,791 |
| Equipment under capital lease obligations, with weighted average interest rate of 9.85% and maturities to 2013 | 6 | 778 |
| Mortgages payable to CMHC, 2.86% interest, secured by first charges on properties, payable in blended payments of \$110,000 per month, renewable December 2013 | 8,029 | 9,100 |
| | 121,469 | 123,669 |
| Less current portion of long-term debt | 1,648 | 1,629 |
| | \$ 119,821 | \$ 122,040 |

Required principal repayments on mortgages for the years ending March 31 are as follows:

| | |
|------------|----------|
| 2013 | \$ 1,104 |
| 2014 | 1,134 |
| 2015 | 1,166 |
| 2016 | 1,178 |
| 2017 | 1,023 |
| Thereafter | 2,424 |
| | \$ 8,029 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

9. Long-term debt (continued):

Future minimum lease payments for the years ending March 31 are as follows:

| | | |
|-------------------------------|----|-----------|
| 2013 | \$ | 6,496 |
| 2014 | | 6,651 |
| 2015 | | 6,817 |
| 2016 | | 6,986 |
| 2017 | | 7,170 |
| Thereafter | | 180,578 |
| | | 214,698 |
| Amounts representing interest | | (101,258) |
| | \$ | 113,440 |

10. 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 liability related to this benefit is based on an actuarial valuation as of 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 | \$ 88,417 | \$ 79,105 |
| Unamortized amounts | 19,217 | 22,308 |
| Retirement allowance liability | 107,634 | 101,413 |
| Less current portion of retirement allowance | 9,800 | 9,496 |
| Long-term portion of retirement allowance | \$ 97,834 | \$ 91,917 |
| Retirement allowance liability transfers (to)/from other Health Organizations | \$ 4,531 | \$ (2,637) |
| Retirement allowance benefits paid | \$ 7,269 | \$ 5,981 |
| Retirement allowance expense | \$ 8,959 | \$ 8,912 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

10. Employee benefits (continued):

(a) Retirement allowance (continued):

The significant actuarial assumptions adopted in measuring the Authority's 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 costs 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 continue to be responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

(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 liability or asset is reflected in these financial statements.

The Authority's liability is based on an actuarial valuation using an early measurement date as at December 31, 2011. The next expected valuation will be as of December 31, 2012.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

10. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

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

| | 2012 | 2011 |
|---|-------------|-------------|
| Accrued benefit obligation | \$ 159,834 | \$ 153,691 |
| Fair value of plan assets | 154,724 | 126,990 |
| Net unfunded obligation, December 31 | 5,110 | 26,701 |
| Balance of unamortized amounts | (11,749) | (18,402) |
| Contributions to plan (January - March) | (4,532) | (23,559) |
| Accrued long-term disability benefits asset | \$ (11,171) | \$ (15,260) |
| Long-term disability expense | \$ 32,314 | \$ 34,079 |
| Long-term disability plan contributions | \$ (28,225) | \$ (60,505) |
| Benefits paid | \$ (24,201) | \$ (24,827) |

Plan assets consist of:

| | 2012 | 2011 |
|-------------------|------|------|
| Debt securities | 55% | 54% |
| Foreign equities | 25% | 25% |
| Equity securities | 20% | 20% |
| Other | 0% | 1% |
| | 100% | 100% |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

10. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

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

| | 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 are structured as a multi-employer plan. As a result, the Authority accounts for these components as a defined contribution plan. Contributions to the Trust of \$1.6 million (2011 - \$2.0 million) were expensed during the year. The most recent actuarial valuation as of December 31, 2011 indicated a surplus of \$30.9 million. The plan covers approximately 86,000 active employees of which approximately 16,000 are employees of the Authority. The next expected valuation will be as of December 31, 2012.

(c) Employee pension benefits:

The Authority and its employees contribute to the Municipal Pension Plan, a multi-employer defined benefit pension plan governed by the *B.C. Public Sector Pension Plans Act*.

The Authority's contributions to the Municipal Pension Plan of \$69.8 million (2011 - \$61.4 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan as of December 31, 2009 indicated an unfunded liability of \$1,024 million. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 173,000 active employees, of which approximately 17,000 are employees of the Authority. The next required valuation will be as of December 31, 2012.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

11. Replacement reserves:

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

The change in the replacement reserves is calculated as follows:

| | 2012 | 2011 |
|---|--------|--------|
| Balance, beginning of year | \$ 849 | \$ 849 |
| Provision for replacement reserve funding | 59 | 68 |
| Interest on replacement reserves | 9 | 7 |
| Expenses | (161) | (75) |
| | \$ 756 | \$ 849 |

The replacement reserves by facility are as follows:

| | 2012 | 2011 |
|------------------------------------|--------|--------|
| Olive Devaud Residence | \$ 340 | \$ 324 |
| Kiwanis Intermediate Care | 140 | 134 |
| Shorncliffe Intermediate Care | 115 | 156 |
| Cedarview Lodge | 79 | 78 |
| Lions Park Senior Citizens Housing | 44 | 124 |
| Hilltop House | 38 | 33 |
| | \$ 756 | \$ 849 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

12. Deferred capital contributions:

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

| | 2012 | 2011 |
|---|------------|------------|
| Deferred capital contributions, beginning of year | \$ 876,444 | \$ 895,863 |
| Ministry of Health | 79,750 | 46,250 |
| Hospital foundations | 11,278 | 16,263 |
| Canada Foundation for Innovation | 5,425 | 20,887 |
| Regional health districts | 2,527 | 424 |
| Other | 2,169 | 3,142 |
| Canada Health Infoway | 0 | 1,392 |
| | 101,149 | 88,358 |
| | 977,593 | 984,221 |
| Amortization for year | (105,407) | (107,777) |
| Deferred capital contributions, end of year | \$ 872,186 | \$ 876,444 |

Deferred capital contributions are comprised of the following:

| | 2012 | 2011 |
|---|------------|------------|
| Contributions used to purchase capital assets | \$ 806,597 | \$ 840,451 |
| Unspent contributions | 65,589 | 35,993 |
| | \$ 872,186 | \$ 876,444 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

13. Invested in capital assets:

(a) Invested in capital assets is calculated as follows:

| | 2012 | 2011 |
|--------------------------------|------------|------------|
| Capital assets | \$ 953,908 | \$ 989,604 |
| Amounts financed by: | | |
| Deferred capital contributions | (806,597) | (840,451) |
| Long-term debt | (119,327) | (121,527) |
| | \$ 27,984 | \$ 27,626 |

(b) Deficiency of revenues over expenses:

| | 2012 | 2011 |
|--|------------|-------------|
| Amortization of deferred capital contributions | \$ 105,407 | \$ 107,777 |
| Depreciation of capital assets | (113,664) | (124,749) |
| | \$ (8,257) | \$ (16,972) |

(c) Transfer to invested in capital assets:

| | 2012 | 2011 |
|--|-----------|-----------|
| Purchase of capital assets | \$ 79,846 | \$ 80,894 |
| Disposition of capital assets | 0 | (1,444) |
| Amounts funded by deferred capital contributions | (71,553) | (72,742) |
| Amounts written down | (1,878) | (3,598) |
| Repayment of long-term debt | 2,200 | 9,023 |
| | \$ 8,615 | \$ 12,133 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

14. Commitments and contingencies:

(a) Operating leases:

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

| | | |
|------------|----|---------|
| 2013 | \$ | 26,063 |
| 2014 | | 20,579 |
| 2015 | | 19,380 |
| 2016 | | 14,962 |
| 2017 | | 11,562 |
| Thereafter | | 87,133 |
| | \$ | 179,679 |

(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 unsettled claims at March 31, 2012, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

(c) Risk management:

Risk management and insurance services for all Health Authorities in B.C. are provided by the Risk Management and Government Security Branch of the Ministry of Finance.

(d) Asset retirement obligations:

The Authority has accrued asset retirement obligations for certain buildings on the Vancouver General Hospital site that are contractually required to be demolished as part of a zoning agreement with the City of Vancouver. The aggregate amount of the liability relating to the demolition of these buildings can be reasonably determined as of March 31, 2012 as \$5.7 million (2011 – \$4.7 million). During the year, the obligation was increased by \$0.8 million and accreted by \$0.2 million.

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 obligation will be recognized as a liability in the period when the fair value can be reasonably estimated.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

15. Statement of cash flows:

(a) As a result of the Province of B.C. adopting the Harmonized Sales Tax ("HST") on July 1, 2010, leases of real property were subject to an additional 7% HST on payments. The changes resulted in an increase to capital lease obligations of \$2.142 million.

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

| | 2012 | 2011 |
|--|------------|------------|
| Accounts receivable | \$ (8,171) | \$ (4,141) |
| Inventories of materials and supplies | 6,856 | (126) |
| Prepaid expenses | 4,846 | 344 |
| Accounts payable and accrued liabilities | 20,294 | 55,911 |
| Deferred research contributions | (3,072) | 310 |
| Deferred operating contributions | (7,706) | (3,580) |
| Replacement reserves | (93) | 0 |
| | <hr/> | <hr/> |
| | \$ 12,954 | \$ 48,718 |

Retirement allowance transferred (to)/from other Health Organizations (Note 10a) has been offset against non-cash operating items. The effect for 2012 is net outflow from Accounts receivable has been reduced by \$4,531; the effect for 2011 is net inflow of Accounts payable and accrued liabilities has been reduced by \$2,637.

(c) Interest paid:

During the year the Authority paid interest of \$6.3 million (2011 - \$6.5 million).

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

16. Related party and other agency operations:

(a) Related parties:

The Authority is related through common control to all Province of B.C. ministries, Crown corporations, school districts, Health Authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are considered 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.

(i) The financial statements include transactions and balances with these parties in the following amounts:

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Revenue | | |
| Ministry of Health Services contributions | \$ 2,304,432 | \$ 2,217,409 |
| Medical Services Plan | 198,426 | 190,304 |
| Other Contributions | 190,432 | 179,009 |
| Amortization of deferred capital contributions | 74,597 | 76,895 |
| Other | 107,349 | 55,317 |
| | \$ 2,875,236 | \$ 2,718,934 |
| Expenses | | |
| Distributions to affiliated organizations | \$ 588,239 | \$ 565,420 |
| Referred out and contracted services | 86,700 | 41,919 |
| Supplies | 41,918 | 15,655 |
| Compensation and benefits | 12,877 | 12,105 |
| Sundry | 11,972 | 10,543 |
| Equipment and building services | 4,227 | 2,930 |
| | \$ 745,933 | \$ 648,572 |
| Accounts receivable | | |
| Other health authorities and B.C. government reporting entities | \$ 41,678 | \$ 34,582 |
| Ministry of Health Services | 28,455 | 13,421 |
| Medical Services Plan | 5,768 | 6,214 |
| | \$ 75,901 | \$ 54,217 |
| Accounts payable and accrued liabilities | \$ 51,685 | \$ 14,899 |
| Deferred operating contributions | \$ 842 | \$ 8,563 |

(ii) In fiscal year 2011, the Authority sold a parcel of land to Provincial Rental Housing Corporation. The land was sold for \$2.4 million resulting in a gain on the transaction, which has been deferred as a capital contribution.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

16. Related party and other agency operations (continued):

(b) Affiliated organizations:

The financial statements of the Affiliates are not consolidated with the Authority. The excess (deficiency) of revenues over expenses and net equity (deficit) of these affiliates are as follows:

| | 2012 | 2011 |
|--|--------------------|--------------------|
| Excess (deficiency) of revenues over expenses: | | |
| Providence Health Care | \$ 198 | \$ 2,053 |
| Bella Coola General Hospital | 25 | 97 |
| R.W. Large Memorial Hospital | 479 | (111) |
| | <u>\$ 702</u> | <u>\$ 2,039</u> |
| Net assets (deficiency): | | |
| Providence Health Care | \$ (71,564) | \$ (71,762) |
| Bella Coola General Hospital | 20 | (77) |
| R.W. Large Memorial Hospital | (674) | (1,153) |
| | <u>\$ (72,218)</u> | <u>\$ (72,992)</u> |

Included in accounts receivable is \$1.3 million (2011 - \$5.3 million) due from PHC, \$1.2 million (2011 - \$1.4 million) due from R.W. Large, and \$0.5 million (2011 - \$0.5 million) due from Bella Coola. Included in accounts payable is \$23.3 million (2011 - \$6.2 million) due to PHC.

(c) Hospital foundations:

The following hospital foundations raise funds for patient care for various facilities within the Authority:

- Lions Gate Hospital Foundation
- Pemberton and District Health Care Foundation
- Powell River Hospital Foundation
- Richmond Hospital Foundation
- St. Mary's Hospital Foundation
- Squamish Health Care Foundation
- VGH & UBC Hospital Foundation
- Whistler Health Care Foundation

The financial statements of the foundations have not been consolidated with those of the Authority. As at March 31, 2012, the foundations, in aggregate, held net assets of \$175.6 million (2011 - \$153.3 million). During the year, the foundations granted \$33.6 million (2011 - \$33.5 million) to various facilities within the Authority.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

17. Statement of operations:

(a) Other contributions:

| | 2012 | 2011 |
|--------------------------------------|------------|------------|
| Provincial Health Services Authority | \$ 176,865 | \$ 165,809 |
| Other B.C. government entities | 13,567 | 13,200 |
| Other entities | 5,978 | 6,382 |
| | \$ 196,410 | \$ 185,391 |

(b) Other revenue:

| | 2012 | 2011 |
|--|------------|-----------|
| Recoveries from B.C. government entities | \$ 107,349 | \$ 55,317 |
| Other | 18,259 | 22,319 |
| | \$ 125,608 | \$ 77,636 |

(c) Patients, clients and residents:

| | 2012 | 2011 |
|-----------------------------|-----------|-----------|
| Long-term and extended care | \$ 32,440 | \$ 29,972 |
| Non-residents of Canada | 13,944 | 14,377 |
| Non-residents of B.C. | 13,779 | 14,579 |
| WorkSafe BC | 8,538 | 8,481 |
| Preferred accommodation | 5,038 | 5,210 |
| Residents of B.C. self pay | 4,407 | 3,957 |
| Other | 2,675 | 2,923 |
| | \$ 80,821 | \$ 79,499 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

17. Statement of operations (continued):

(d) Referred out and contracted services:

| | 2012 | 2011 |
|-----------------------------|------------|------------|
| Residential care | \$ 268,619 | \$ 250,299 |
| Community care | 162,202 | 158,779 |
| Other referred out services | 82,761 | 27,820 |
| Food services | 31,212 | 29,257 |
| Housekeeping | 23,931 | 23,049 |
| Laundry | 13,884 | 12,409 |
| Security | 8,089 | 7,268 |
| | <hr/> | <hr/> |
| | \$ 590,698 | \$ 508,881 |

(e) Supplies:

| | 2012 | 2011 |
|-------------------------------|------------|------------|
| Medical, surgical and patient | \$ 91,569 | \$ 88,275 |
| Drugs and medical gases | 56,949 | 56,844 |
| Other | 29,357 | 28,960 |
| Diagnostic | 16,804 | 16,419 |
| Office | 4,157 | 5,796 |
| | <hr/> | <hr/> |
| | \$ 198,836 | \$ 196,294 |

(f) Sundry:

| | 2012 | 2011 |
|--|-----------|-----------|
| Rent | \$ 19,833 | \$ 17,581 |
| Professional, management and membership fees | 12,835 | 14,233 |
| Communications and data processing | 12,380 | 10,495 |
| Other | 11,499 | 16,213 |
| Staff travel | 5,733 | 5,460 |
| Patient transport | 4,529 | 4,193 |
| | <hr/> | <hr/> |
| | \$ 66,809 | \$ 68,175 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

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

18. Capital management:

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

The Authority's objective when managing capital is to fund its operations and capital asset additions, and to conduct research in the field of health care. 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.

19. Comparative figures:

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