Financial Statements of

INTERIOR HEALTH AUTHORITY

Years ended March 31, 2013 and 2012

Interior Health

Statement of Management Responsibility

The Financial Statements of Interior Health Authority (the "Authority) for the years ended March 31, 2013, and 2012, have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") issued by the Public Sector Accounting Board ("PSAB"), except for the requirements of Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia which provide guidance in regard to the accounting for restricted contributions which is based on the Restricted Contributions Regulation 198/211. 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 fulfills 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 based on their audit. Their examination considers 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 purposes of expressing an opinion on the effectiveness of the Authority's internal control. 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 28, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board 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 statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations, changes in net debt and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 of these financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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 audits. We conducted our audits 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation 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

KPMG

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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of Interior Health Authority as at March 31, 2013, March 31, 2012 and April 1, 2011 and for the years ended March 31, 2013 and March 31, 2012 are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1(a) to the financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

May 28, 2013
Kelowna, Canada

INTERIOR HEALTH AUTHORITY

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

As at March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
Financial assets:			
Cash and cash equivalents (note 3)	$ 24,015	$ 51,879	$ 74,528
Portfolio investments (note 3)	142,354	89,949	87,392
Accounts receivable (note 4)	59,292	72,127	64,647
	225,661	213,955	226,567
Liabilities:			
Accounts payable and accrued liabilities (note 5)	169,438	168,614	174,640
Deferred operating contributions (note 6)	7,316	9,115	8,769
Debt (note 7)	173,815	154,736	156,179
Retirement allowance (note 8(a))	101,856	96,732	91,405
Long-term disability benefits (note 8(b)(i))	20,803	20,615	36,476
Replacement reserves (note 9)	743	679	607
Deferred capital contributions (note 10)	891,807	891,715	839,591
	1,365,778	1,342,206	1,307,667
Net debt	(1,140,117)	(1,128,251)	(1,081,100)
Non-financial assets:			
Tangible capital assets (note 11)	1,140,671	1,121,298	1,059,208
Inventories held for use (note 12)	6,482	6,428	6,834
Prepaid expenses	6,012	4,673	6,093
Restricted assets (endowments) (note 13)	235	235	235
	1,153,400	1,132,634	1,072,370
Accumulated surplus (deficit) (note 2(e))	$ 13,283	$ 4,383	$ (8,730)

Commitments and contingencies (note 14)

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

INTERIOR HEALTH AUTHORITY

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

Years ended March 31, 2013 and 2012

	Budget	2013	2012
	(Note 1(n))		(Note 2)
Revenues:			
Ministry of Health contributions	$ 1,459,909	$ 1,467,441	$ 1,393,630
Medical Services Plan	126,578	132,650	130,640
Patients, clients and residents (note 15(a))	82,436	85,842	82,253
Amortization of deferred capital contributions	75,747	76,189	67,612
Other (note 15(b))	50,338	61,573	56,722
Other contributions (note 15(c))	26,458	31,595	27,690
Investment income	2,294	1,837	2,515
	1,823,760	1,857,127	1,761,062
Expenses (note 15(d)):			
Acute	977,042	1,014,515	948,306
Residential care	350,867	356,672	340,099
Community care	181,030	183,579	172,677
Corporate	143,857	131,225	124,447
Mental health & substance use	114,602	107,784	108,407
Population health & wellness	56,362	54,452	54,013
	1,823,760	1,848,227	1,747,949
Annual surplus	-	8,900	13,113
Accumulated surplus (deficit) at beginning of year	4,383	4,383	(8,730)
Accumulated surplus at end of year	$ 4,383	$ 13,283	$ 4,383

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

Statements of Change in Net Debt
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2013 and 2012

	Budget (Note 1(n))	2013	2012
Annual surplus	$ -	$ 8,900	$ 13,113
Acquisition of tangible capital assets	(142,800)	(104,391)	(134,547)
Proceeds from disposal of tangible capital assets	-	50	-
Amortization of tangible capital assets	82,407	84,571	72,191
Loss on disposal of tangible capital assets	-	397	266
	(60,393)	(19,373)	(62,090)
Acquisition of inventories held for use	-	(81,548)	(78,049)
Consumption of inventories held for use	-	81,494	78,455
Acquisition of prepaid expenses	-	(19,456)	(18,714)
Use of prepaid expenses	-	18,117	20,134
	-	(1,393)	1,826
(Increase) decrease in net debt	(60,393)	(11,866)	(47,151)
Net debt, beginning of year	(1,128,251)	(1,128,251)	(1,081,100)
Net debt, end of year	$ (1,188,644)	$ (1,140,117)	$ (1,128,251)

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

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

Years ended March 31, 2013 and 2012

	2013	2012 (Note 2)
Cash flows from (used in) operating activities:		
Annual surplus (deficit)	$ 8,900	$ 13,113
Items not involving cash:		
Amortization of deferred capital contributions	(76,189)	(67,612)
Amortization of tangible capital assets	84,571	72,191
Loss on disposal of tangible capital assets	397	266
Retirement allowance expense	11,066	11,130
Long-term disability benefits expense	36,568	32,098
Net change in non-cash operating items (note 16(a))	10,531	(11,263)
Net change in cash from operating activities	75,844	49,923
Capital activities:		
Proceeds from disposal of tangible capital assets	50	-
Acquisition of tangible capital assets (note 16(b))	(82,520)	(132,646)
Net change in cash from capital activities	(82,470)	(132,646)
Investing activities:		
Proceeds from disposals and redemptions of portfolio investments	-	-
Purchase of portfolio investments	(52,405)	(2,557)
Net change in cash from investing activities	(52,405)	(2,557)
Financing activities:		
Retirement allowance benefits paid	(5,942)	(5,803)
Long-term disability benefits contributions	(36,380)	(47,959)
Repayment of debt	(2,792)	(3,343)
Capital contributions	76,281	119,736
Net change in cash from financing activities	31,167	62,631
Increase (decrease) in cash and cash equivalents	(27,864)	(22,649)
Cash and cash equivalents, beginning of year	51,879	74,528
Cash and cash equivalents, end of year	$ 24,015	$ 51,879

Supplementary cash flow information (note 16 (c))

See accompanying notes to financial statements.

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

The role of the Authority is to promote and provide for the physical, mental and social well being of people who live in the Interior region and those referred from outside the region.

1. Significant accounting policies:

The financial statements of the Authority are prepared by management in accordance with the basis of accounting described below. Significant accounting policies are as follows:

(a) Basis of accounting:

The financial statements have been prepared in accordance with Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board (referred to as the financial reporting framework (“the framework”)).

The *Budget Transparency and Accountability Act* requires that the financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards without any PS4200 elections effective for their first fiscal year commencing after January 1, 2012.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as described in note 1(h).

For British Columbia tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which requires that :

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS3410; and
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with PS3100.

1. Significant accounting policies:

(a) Basis of accounting (continued):

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards, as a result, revenue recognized in the statement of operations and certain related deferred capital contributions would be recorded differently under Canadian public sector accounting standards.

(b) Foundations and auxiliaries:

The Authority has collaborative relationships with certain foundations and auxiliaries, which support the activities of the Authority and/or provide services under contracts. As the Authority does not control these organizations, these financial statements do not include the assets, liabilities and results of operations of these entities (see note 17(b)).

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These investments generally have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing.

(d) Portfolio investments:

Portfolio investments include banker's acceptances, treasury bills and bonds and are recorded at cost adjusted for any write-downs. Transaction costs are recorded using the effective interest rate method.

Write-downs of investments are recognized when the loss in value is determined to be other-than-temporary. Write-downs are not reversed in the future if circumstances change.

(e) Asset retirement obligations:

The Authority recognizes an asset retirement obligation in the period in which it incurs a legal or constructive obligation associated with the retirement of a tangible capital asset, including leasehold improvements resulting from the acquisition, construction, development, and/or normal use of the asset.

The obligation is measured at the best estimate of the future cash flows required to settle the liability, discounted at estimated credit-adjusted risk-free discount rates. The estimated amount of the asset retirement cost is capitalized as part of the carrying value of the related tangible capital asset and is amortized over the life of the asset.

1. Significant accounting policies (continued):

(e) Asset retirement obligations (continued):

The liability is accreted to reflect the passage of time. At each reporting date, the Authority reviews its asset retirement obligations to reflect current best estimates. Asset retirement obligations are adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or discount rates, with the offsetting amount recorded to the carrying amount of the related asset.

(f) Employee benefits:

(i) Defined benefit obligations, including multiple employer benefit plans:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple employer defined long-term disability benefits 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). Plan assets are measured at fair value.

The actuarial gains and losses on event-driven employee benefits are recognized in the statement of operations when they arise. The actuarial gains and losses on employee benefits that are not event-driven, such as retirement benefits, are deferred and amortized over the expected average remaining service period of active covered employees. The expected average remaining service period of the active covered employees entitled to retirement allowance benefit is 10 years (2012 – 10 years).

Where there are plan assets, the new discount rate is the rate of return on plan assets. If there are no plan assets, the discount rate is the Province's cost of borrowing.

The cost of a plan amendment or the crediting of past service is accounted for entirely in the year that the plan change is implemented.

(ii) Defined contribution plans and multi-employer benefit plans:

Defined contribution plan accounting is applied to multi-employer defined benefit plans and, accordingly, contributions are expensed when due and payable.

(iii) Accumulating, non-vesting benefit plans:

Benefits that accrue to employees, which do not vest, such as sick leave banks for certain employee groups, are accrued as the employees render services to earn the benefits, based on estimates of the expected future settlements.

1. Significant accounting policies (continued):

(f) Employee benefits (continued):

(iv) Non-accumulating, non-vesting benefit plans:

For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the Authority to pay benefits occurs.

(g) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Costs include overhead directly attributable to construction and development. Interest is capitalized over the development period whenever external debt is issued to finance the construction and development of tangible capital assets.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight line basis over their estimated useful lives as follows:

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

Assets under construction or development are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The write-downs of tangible capital assets are recorded in the statement of operations. Write downs are not subsequently reversed.

Contributed tangible capital assets are recorded at their fair value on the date of contribution. When fair value of a contributed asset cannot be reliably determined, the asset is recorded at nominal value.

(ii) Inventories held for use:

Inventories held for use are recorded at the lower of weighted average cost and replacement cost.

1. Significant accounting policies (continued):

(h) Revenue recognition:

Under the *Hospital Insurance Act* and *Regulation* 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.

Revenues are recognized on an accrual basis in the period in which the transactions or events occurred that gave rise to the revenues, the amounts are considered to be collectible and can be reasonably estimated.

Revenue related to fees or services received in advance of the fee being earned or the service being performed is deferred and recognized when the fee is earned or service performed.

Under the framework described in note 1(a), externally restricted contributions are recognized as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset in the form of a depreciable tangible capital asset are recorded in accordance with Regulation 198/2011, which requires that they be recorded and, referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(ii) Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

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.

Contributions for the acquisition of land, or the contribution of land, are recorded as revenue in the period of acquisition or transfer of title.

1. Significant accounting policies (continued):

(i) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of estimates include the estimated useful lives of tangible capital assets, contingent liabilities, and the future costs to settle employee benefit obligations.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from the estimates.

(j) 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 revenue in the period of acquisition. Use of these funds is limited to the terms of reference.

(k) Foreign currency translation:

The Authority's functional currency is the Canadian dollar. Foreign currency transactions are translated at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or statement of financial position date is recognized in the statement of operations.

(l) Financial instruments:

The Authority has implemented PS section 3450, Financial Instruments section as of April 1, 2012 and the section has been applied on prospective basis. For the year ended March 31, 2012, the Authority applied the financial instrument disclosure and presentation standards in accordance with Section 3861 of the Canadian Institute of Chartered Accountant Handbook.

Financial instrument classification is determined upon inception and financial instruments are not reclassified into another measurement category for the duration of the period they are held.

Upon inception and subsequent to initial recognition, equity instruments quoted in an active market and any designated financial instruments are measured at fair value. The Authority does not have any financial instruments that are recorded at fair value.

All other financial assets and financial liabilities are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

measured at cost. Accounts receivable are recorded at amortized cost less any valuation allowance. All debt and other financial liabilities are recorded using cost or amortized cost.

Interest and dividends attributable to financial instruments are reported in the statement of operations.

All financial assets recorded at amortized cost are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs for financial instruments measured using cost or amortized cost are added to the carrying value of the financial instrument.

A financial liability or its part is derecognized when it is extinguished.

Contracts to buy or sell non-financial items for the Authority's normal purchase, sale or usage requirements are not recognized as financial assets or financial liabilities.

(m) 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 under construction are estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred directly by the Authority.

The asset cost includes development and financing fees estimated at fair value, which require 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 and amounts repaid, during the construction term. The interest rate used is the project internal rate of return. When available for operations, the project assets are amortized over their estimated useful lives.

Correspondingly, an obligation net of the contributions received is recorded as a liability and included in debt. The obligation will be met via the monthly payments over the term of the project agreement.

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

1. Significant accounting policies (continued):

(n) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2012/2013 Budget approved by the Board of Directors on May 29, 2012 and published in the Authority's Service Plan. The budget is reflected in the statement of operations and accumulated operating surplus and the statement of changes in net debt. Note 19 reconciles the approved budget to the budget information reported in these financial statements.

(o) Future accounting standards:

In June 2010, PSAB issued PS 3260, *Liability for Contaminated Sites*. PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments. The main features of the standard are as follows:

- A liability should be recognized when contamination exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for the damage.
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

Management is assessing the impact of PS 3260, which will be adopted for fiscal year ending March 31, 2015.

2. Adoption of new accounting framework:

Effective April 1, 2012, the Authority has adopted the framework described in note 1(a). These financial statements are the first financial statements for which the Authority has applied the framework. Previously, the Authority's financial statements were prepared in accordance with Part V of Canadian generally accepted accounting principles ("Part V Canadian GAAP").

Subject to certain transitional elections disclosed below and the adoption of PS 3450, *Financial Instruments*, the Authority has consistently applied the same accounting policies in its statement of financial position as at April 1, 2011, the date of transition to the framework, and throughout as if these policies had always been in effect.

The impact of the conversion to the framework on the accumulated surplus (deficit) at the date on transition and the comparative balances is presented below. These accounting changes have been applied retroactively with restatement of prior periods, except for the exemptions from retroactive application described below.

(Tabular amounts expressed in thousands of dollars)

2. Adoption of new accounting framework (continued):

(a) The Authority has elected to use the following exemptions allowed upon first-time adoption:

(i) Long-term disability, retirement and post-employment benefits – change in discount rate applied:

The Authority has elected to apply PS 3250, *Retirement Benefits* and PS 3255, *Post-Employment Benefits, Compensated Absences and Termination Benefits* with respect to the discount rate used to calculate the accrued obligations as at April 1, 2011.

(ii) Retirement and post-employment benefits - cumulative unamortized gains and losses on transition:

The Authority has elected to recognize all cumulative unamortized actuarial gains and losses from inception to the date of transition directly to accumulated surplus (deficit). This election has been applied to all plans.

(iii) Tangible capital asset impairment:

The Authority has elected to apply the exemption and consider the conditions for write-down on tangible capital assets on a prospective basis from the date of transition. As a result, no previously recognized write-downs of tangible capital assets were reversed.

The impact of the conversion to the framework is presented below.

(b) Statements of financial position:

	March 31, 2012				
	Part V Canadian GAAP	Prior year adjustments	Current year adjustments	Reclassified	New accounting framework
Financial assets					
Portfolio Investments	$ 90,184	$ -	$ -	$ (235)	$ 89,949
Long-term disability benefits	5,464	-	-	(5,464)	-
Financial liabilities					
Current portion of long-term debt	2,792	-	-	(2,792)	-
Current portion of retirement allowance	8,303	-	-	(8,303)	-
Long-term disability benefits	3,212	32,960	(10,093)	(5,464)	20,615
Debt	151,944	-	-	2,792	154,736
Retirement allowance	83,661	2,155	2,613	8,303	96,732
Non-financial assets					
Restricted assets (endowments)	-	-	-	235	235
Accumulated surplus (deficit)	32,018	(35,115)	7,480	-	4,383

(Tabular amounts expressed in thousands of dollars)

2. Adoption of new accounting framework (continued):

(b) Statements of financial position (continued):

	April 1, 2011			
	Part V Canadian GAAP	Current year adjustments	Reclassified	New accounting framework
Financial assets				
Portfolio Investments	$ 87,627	$ -	$ (235)	$ 87,392
Financial liabilities				
Current portion of long-term debt	3,343	-	(3,343)	-
Current portion of retirement allowance	8,013	-	(8,013)	-
Long-term disability benefits	3,516	32,960	-	36,476
Debt	152,836	-	3,343	156,179
Retirement allowance	81,237	2,155	8,013	91,405
Non-financial assets				
Restricted assets (endowments)	-	-	235	235
Accumulated surplus (deficit)	26,385	(35,115)	-	(8,730)

(c) Statement of operations:

	March 31, 2012			
	Part V Canadian GAAP	Current year adjustments	Reclassified	New accounting framework
Revenues				
Ministry of Health contributions	$ 1,393,630	$ -	$ -	$ 1,393,630
Medical Services Plan	130,640	-	-	130,640
Patients, clients and residents	82,253	-	-	82,253
Amortization of deferred capital contributions	67,612	-	-	67,612
Other	55,455	33	1,234	56,722
Other contributions	27,690	-	-	27,690
Investment income	2,515	-	-	2,515
Pharmacare	1,234	-	(1,234)	-
	1,761,029	33	-	1,761,062
Expenses				
Compensation and benefits	1,135,554	(7,479)	(1,128,075)	-
Referred out and contracted services	263,868	-	(263,868)	-
Supplies	169,470	-	(169,470)	-
Depreciation of capital assets	72,191	-	(72,191)	-
Equipment and building services	58,438	-	(58,438)	-
Sundry	52,237	32	(52,269)	-
Interest on long-term debt	3,638	-	(3,638)	-
Acute	-	-	948,306	948,306
Residential care	-	-	340,099	340,099
Community care	-	-	172,677	172,677
Corporate	-	-	124,447	124,447
Mental health and substance use	-	-	108,407	108,407
Population health and wellness	-	-	54,013	54,013
	1,755,396	(7,447)	-	1,747,949
Net annual surplus	$ 5,633	$ 7,480	$ -	$ 13,113

(Tabular amounts expressed in thousands of dollars)

2. Adoption of new accounting framework (continued):

(d) Statement of cash flow:

The adoption of new financial reporting framework has had no impact on the net cash flows of the Authority. Interest income and interest expense are now separately presented as part of cash flows from operations. The framework requires separate presentation of cash flows from tangible capital assets, which were previously presented as part of investing activities.

(e) Accumulated surplus (deficit):

	March 31, 2012	April 1, 2011
Accumulated surplus, beginning of year as previously reported	$ 32,018	$ 26,385
Prior year adjustments	(35,115)	-
New accounting framework adjustments:		
Transition election to recognize all cumulative unamortized actuarial gains and losses on employee future benefits:		
Long-term disability benefits	-	(39,288)
Retirement allowance	-	15,488
Discount rate change		
Long-term disability benefits	10,093	15,611
Retirement allowance	(2,613)	(17,643)
Contributions subsequent to valuation date - long-term disability benefits	-	(9,283)
	7,480	(35,115)
Accumulated surplus (deficit), as adjusted	$ 4,383	$ (8,730)

(f) Transitional adjustments to new accounting framework

Key adjustments on the Authority's financial statements resulting from the adoption of the framework are as follows:

(i) Long-term disability benefit and retirement allowance – amortization of actuarial gains and losses:

Under Part V Canadian GAAP, the Authority used the "corridor" method of amortization of actuarial gains and losses, under which gains or losses in excess of 10% of greater of net plan assets or liabilities at the beginning of the period were deferred and amortized over the expected average remaining service lifetime of active employees.

Under PS 3250, *Retirement Benefits* and PS 3255, *Post-Employment Benefits, Compensated Absences and Termination Benefits*, the Authority defers and amortizes any amount of actuarial gains and losses on retirement benefit plans, as such benefits are not event driven. On event-driven employee benefits (long-term disability benefits), the Authority has elected to recognize the actuarial gains and losses when they arise.

(Tabular amounts expressed in thousands of dollars)

2. Adoption of new accounting framework (continued):

(f) Transitional adjustments to new accounting framework (continued):

(ii) Long-term disability benefit and retirement allowance – change in discount rate applied:

The Authority has applied PS section 3250, *Retirement Benefits* and PS section 3255, *Post-Employment Benefits, Compensated Absences and Termination Benefits* with respect to the discount rate used to calculate the accrued obligations as at April 1, 2011. Accordingly, the accrued obligation for long-term disability was recalculated using the rate of return on plan assets and the accrued obligation for retirement allowance benefits was recalculated using the rate of government's cost of borrowing.

(iii) Retirement and post-employment benefits – accrual of non-vesting sick leave benefits:

Previously, the Authority was not required to record an accrued benefit obligation related to sick leave benefits when such benefits do not vest. The new financial reporting framework requires that a liability and an expense be recognized for post employment benefits and compensated absences that vest or accumulate in the period in which employees render services to the Authority in return for the benefits. An adjustment was made to recognize a liability and an expense related to accumulated sick leave entitlement.

(iv) Long-term disability benefit – contributions subsequent to valuation date:

Under Part V Canadian GAAP the Authority adjusted the long-term disability benefits to reflect contributions made in the period between the valuation date and the fiscal year end. Under PS Section 3255, *Post-Employment Benefits, Compensated Absences and Termination Benefits*, no adjustment is permitted.

3. Cash and cash equivalents and portfolio investments:

	March 31, 2013	March 31, 2012	April 1, 2011
Cash and cash equivalents	$ 24,015	$ 51,879	$ 74,528
Portfolio investments	142,354	89,949	87,392
	166,369	141,828	161,920
Amounts restricted for capital purposes	(20,832)	(18,719)	(28,427)
Amounts restricted for replacement reserves	(743)	(679)	(607)
Amounts restricted for patient comfort funds	(320)	(328)	(262)
Amounts internally restricted	-	(25)	(25)
Unrestricted cash and cash equivalents and portfolio investments	$ 144,474	$ 122,077	$ 132,599

(Tabular amounts expressed in thousands of dollars)

4. Accounts receivable:

	March 31, 2013	March 31, 2012	April 1, 2011
Medical Services Plan	$ 13,376	$ 13,974	$ 14,459
Other health authorities and BC government reporting entities	11,476	9,009	8,834
Patients, clients, and residents	7,934	7,929	8,062
Ministry of Health	7,826	15,185	6,027
Foundations and auxiliaries	7,319	5,332	8,307
Federal government	5,456	10,405	8,393
Regional hospital districts	3,270	6,080	8,360
WorkSafeBC	1,855	1,474	1,807
Other	4,969	5,905	4,446
	63,481	75,293	68,695
Allowance for doubtful accounts	(4,189)	(3,166)	(4,048)
	$ 59,292	$ 72,127	$ 64,647

5. Accounts payable and accrued liabilities:

	March 31, 2013	March 31, 2012	April 1, 2011
Salaries and benefits payable	$ 81,120	$ 76,517	$ 67,985
Accrued vacation pay	52,610	49,954	47,767
Trade accounts payable and accrued liabilities	35,708	42,143	58,888
	$ 169,438	$ 168,614	$ 174,640

6. Deferred operating contributions:

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

	2013	2012
Deferred operating contributions, beginning of year	$ 9,115	$ 8,769
Contributions received during the year	2,877	3,504
Amount recognized as revenue in the year	(4,676)	(3,158)
Deferred operating contributions, end of year	$ 7,316	$ 9,115

(Tabular amounts expressed in thousands of dollars)

7. Debt:

	March 31, 2013	March 31, 2012	April 1, 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	$ 1,001	$ 1,029	$ 1,054
Kimberley Special Care Home, payable $2,628 monthly including interest at 8% per annum, due September 1, 2026	262	272	282
Noric House, payable at $14,457 monthly including interest at 10% per annum, due December 1, 2028	1,785	1,833	1,878
Public-private partnership obligation:			
Kelowna and Vernon Hospitals Project, 30 year contract term with Infusion Health KVH General Partnership, monthly payment including interest at 7.62% per annum, payable in accordance with the project agreement terms	148,896	151,602	152,965
Interior Heart & Surgical Centre Project, 30 year contract term with Plenary Health, monthly payment including interest at 5.83% per annum, payable in accordance with the project agreement terms	21,871	-	-
	$ 173,815	$ 154,736	$ 156,179

Scheduled principal repayments on debt over the next five years and thereafter are as follows:

2014	$ 2,713
2015	3,919
2016	4,341
2017	4,709
2018	4,922
Thereafter	153,211

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits:

(a) Retirement allowance:

Certain employees with ten or twenty years of service and having reached a specified age are entitled to receive special payments upon retirement or as specified by collective agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service.

The Authority's liabilities are based on an actuarial valuation as at the early measurement date of December 31, 2012 and extrapolated to March 31, 2013 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2013 are derived. The next required valuation will be as of December 31, 2015.

Information about retirement allowance benefits is as follows:

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
Accrued benefit obligation:			
Sick leave benefits	$ 41,988	$ 40,824	$ 38,920
Severance benefits	54,034	54,238	52,485
	96,022	95,062	91,405
Balance of unamortized amounts	5,834	1,670	-
Accrued retirement allowance benefits	$ 101,856	$ 96,732	$ 91,405

The changes in retirement allowance liability for the years ended March 31, 2013 and 2012 are as follows:

	2013	2012 (Note 2)
Accrued retirement allowance benefit, beginning of year	$ 96,732	$ 91,405
Net benefit expense:		
Current service cost	6,981	6,501
Amortization of actuarial (gain) loss	(857)	-
Plan amendment	690	-
Interest expense	4,252	4,629
Net benefit expense	11,066	11,130
Benefits paid	(5,942)	(5,803)
Accrued retirement allowance benefit, end of year	$ 101,856	$ 96,732

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits (continued):

(a) Retirement allowance (continued):

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

	March 31, 2013	March 31, 2012	April 1, 2011
Accrued benefit obligation:			
Discount rate	4.41%	4.44%	5.01%
Rate of compensation increase	2.50%	2.50%	2.50%
Benefit costs for years ended:			
Discount rate	4.44%	5.01%	
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 the actuarial valuation at December 31, 2012. The next expected valuation will be as of December 31, 2013.

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

Information about long-term disability benefits is as follows:

	March 31, 2013	March 31, 2012 (Note 2)	April 1, 2011 (Note 2)
Accrued benefit obligation	$ 184,298	$ 172,538	$ 168,143
Fair value of plan assets	163,495	151,923	131,667
Net unfunded obligation	$ 20,803	$ 20,615	$ 36,476

The changes in the accrued long-term disability benefits obligation (asset) for the years end March 31, 2013 and 2012 are as follows:

	2013	2012 (Note 2)
Long-term disability benefits obligation, beginning of year	$ 20,615	$ 36,476
Net benefit expense:		
Long-term disability expense	36,778	38,469
Employee payments	(1,835)	(871)
Actuarial loss (gain)	238	(7,675)
Interest expense	9,523	10,244
Expected return on assets	(8,136)	(8,069)
Net benefit expense	36,568	32,098
Contributions to the plan	(36,380)	(47,959)
Long-term disability benefits obligation, end of year	$ 20,803	$ 20,615
Benefits paid to claimants	$ (32,588)	$ (29,673)

Plan assets consist of:

	March 31, 2013	March 31, 2012	April 1, 2011
Debt securities	52%	55%	54%
Foreign equities	26%	25%	25%
Equity securities and other	22%	20%	21%
Total	100%	100%	100%

(Tabular amounts expressed in thousands of dollars)

8. 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 benefits liabilities are as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Accrued benefit obligation:			
Discount rate	5.60%	5.50%	6.00%
Rate of benefit increase	2.50%	2.00%	2.50%
Benefit costs for years ended:			
Discount rate	5.50%	6.00%	
Rate of compensation increase	2.50%	2.00%	
Expected future inflationary increases	5.50%	6.00%	
Actual long-term rate of return on plan assets	6.40%	3.30%	

(ii) Other Trust benefits:

The group life insurance, accidental death and dismemberment, extended health, dental and pre-October 1, 1997 long-term disability claims administered by the Trust are structured as a multi-employer plan. Contributions to the Trust of $37,531,000 (2012 - $32,823,000) were expensed during the year. The most recent actuarial valuation at December 31, 2012 indicated a surplus of $62,476,000. The plan covers approximately 90,000 active members, of which approximately 14,000 are employees of the Authority. The Authority's next expected actuarial valuation will be as of December 31, 2013.

(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 $63,371,000 (2012 - $60,817,000) 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 an unfunded liability of approximately $1,024,000,000. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 173,000 active members, of which approximately 15,900 are employees of the Authority. The next required actuarial valuation will be as of December 31, 2012; the results of which are not yet available.

(Tabular amounts expressed in thousands of dollars)

8. Employee benefits (continued):

(c) Employee pension benefits (continued):

Employer contributions to the Public Service Pension Plan of $1,503,000 (2012 - $1,568,000) 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 unfunded liability to individual employers. The plan covers approximately 57,000 active members, of which approximately 300 are employees of the Authority. The Authority's next actuarial valuation will be as of December 31, 2014.

9. 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:

	2013	2012
Balance, beginning of year	$ 679	$ 607
Provision for replacement reserve funding	53	53
Interest on replacement reserves	11	19
Expenses	-	-
Balance, end of year	$ 743	$ 679

The replacement reserves by facility are as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Kimberley Special Care Home	$ 375	$ 360	$ 341
Noric House	284	256	225
Columbia View Lodge	84	63	41
	$ 743	$ 679	$ 607

(Tabular amounts expressed in thousands of dollars)

10. Deferred capital contributions:

Deferred capital contributions represent externally restricted contributions for the purchase of tangible capital assets.

	2013	2012
Deferred capital contributions, beginning of year	$ 891,715	$ 839,591
Capital contributions received:		
Ministry of Health	44,390	58,084
Regional hospital districts	21,583	50,585
Foundations and auxiliaries	9,085	8,980
Health authorities and BC government reporting entities	454	348
Other	769	1,739
	76,281	119,736
Amortization	(76,189)	(67,612)
Deferred capital contributions, end of year	$ 891,807	$ 891,715

Deferred capital contributions are comprised of the following:

	March 31, 2013	March 31, 2012	April 1, 2011
Contribution used to purchase tangible capital assets	$ 870,975	$ 872,996	$ 811,164
Unspent contributions	20,832	18,719	28,427
	$ 891,807	$ 891,715	$ 839,591

(Tabular amounts expressed in thousands of dollars)

11. Tangible capital assets:

Cost	Balance at March 31, 2012	Additions	Disposals	Transfers	Balance at March 31, 2013
Land	$ 39,537	$ 3,283	$ -	$ -	$ 42,820
Land improvements	21,782	1,512	(17)	-	23,277
Buildings	1,006,199	300,942	(2,123)	-	1,305,018
Building service equipment	73,069	8,865	(213)	(27)	81,694
Leasehold improvements	16,846	181	-	-	17,027
Major equipment	590,970	49,084	(19,825)	27	620,256
Construction in progress	327,276	(259,476)	-	-	67,800
	$ 2,075,679	$ 104,391	$ (22,178)	$ -	$ 2,157,892

Accumulated amortization	Balance at March 31, 2012	Amortization expense	Disposals	Transfers	Balance at March 31, 2013
Land improvements	$ 11,007	$ 1,082	$ (17)	$ -	$ 12,072
Buildings	446,812	38,633	(2,055)	-	483,390
Building service equipment	31,681	4,417	(197)	(14)	35,887
Leasehold improvements	7,507	1,436	-	-	8,943
Major equipment	457,374	39,003	(19,462)	14	476,929
	$ 954,381	$ 84,571	$ (21,731)	$ -	$ 1,017,221

	Net book value March 31, 2012	Net book value March 31, 2013
Land	$ 39,537	$ 42,820
Land improvements	10,775	11,205
Buildings	559,387	821,628
Building service equipment	41,388	45,807
Leasehold improvements	9,339	8,084
Major equipment	133,596	143,327
Construction in progress	327,276	67,800
	$ 1,121,298	$ 1,140,671

(Tabular amounts expressed in thousands of dollars)

11. Tangible capital assets (continued):

Cost	Balance at April 1, 2011	Additions	Disposals	Transfers	Balance at March 31, 2012
Land	$ 39,627	$ 65	$ -	$ (155)	$ 39,537
Land improvements	21,459	376	(53)	-	21,782
Buildings	821,258	186,588	(965)	(682)	1,006,199
Building service equipment	68,690	7,538	(331)	(2,828)	73,069
Leasehold improvements	16,467	379	-	-	16,846
Major equipment	554,390	46,781	(13,856)	3,655	590,970
Construction in progress	434,446	(107,180)	-	10	327,276
	$ 1,956,337	$ 134,547	$ (15,205)	$ -	$ 2,075,679

Accumulated amortization	Balance at April 1, 2011	Amortization expense	Disposals	Transfers	Balance at March 31, 2012
Land improvements	$ 9,980	$ 1,080	$ (53)	$ -	$ 11,007
Buildings	417,462	30,693	(904)	(439)	446,812
Building service equipment	28,688	4,007	(332)	(682)	31,681
Leasehold improvements	6,162	1,345		-	7,507
Major equipment	434,837	35,066	(13,650)	1,121	457,374
	$ 897,129	$ 72,191	$ (14,939)	$ -	$ 954,381

	Net book value April 1, 2011	Net book value March 31, 2012
Land	$ 39,627	$ 39,537
Land improvements	11,479	10,775
Buildings	403,796	559,387
Building service equipment	40,002	41,388
Leasehold improvements	10,305	9,339
Major equipment	119,553	133,596
Construction in progress	434,446	327,276
	$ 1,059,208	$ 1,121,298

(Tabular amounts expressed in thousands of dollars)

11. Tangible capital assets (continued):

During the year ended March 31, 2013 $1,941,000 (2012 - $5,942,000) of interest has been capitalized to construction projects in progress.

Tangible capital assets are funded as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Deferred capital contributions	$ 870,975	$ 872,996	$ 811,164
Debt	173,815	154,736	156,179
Internally funded	95,881	93,566	91,865
Tangible capital assets	$ 1,140,671	$ 1,121,298	$ 1,059,208

12. Inventories held for use:

	March 31, 2013	March 31, 2012	April 1, 2011
Medical supplies	$ 4,092	$ 4,054	$ 4,429
Pharmaceuticals	2,390	2,374	2,405
	$ 6,482	$ 6,428	$ 6,834

13. Endowment contributions

	2013	2012
Endowments, beginning of year	$ 235	$ 235
Contributions received during the year	-	-
Endowments, end of year	$ 235	$ 235

14. Commitments and contingencies:

(a) Construction projects in process:

As at March 31, 2013, the Authority had outstanding commitments for construction and information systems projects in progress of $15,273,000.

(Tabular amounts expressed in thousands of dollars)

14. Commitments and contingencies (continued):

(b) Contractual obligations:

The Authority has entered into multiple-year public private partnership contracts to design, build, finance, and maintain the Kelowna and Vernon Hospitals project and the Interior Heart and Surgical Centre project. The information presented below shows the anticipated cash outflow for all future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance and the lifecycle costs. Facilities management and life cycle payments to the public private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

	2014	2015	2016	2017	2018	Thereafter
Kelowna and Vernon Hospitals Project, contract term 2012 - 2042						
Annual service payments	$ 21,354	$ 21,295	$ 21,391	$ 21,404	$ 21,590	$ 600,352
Interior Heart & Surgical Centre, contract term 2015 - 2045						
Annual service payments	-	907	5,971	5,966	6,015	176,510
Authority funding payments and debt	68,350	15,878	-	-	-	-
Total future obligations	$ 89,704	$ 38,080	$ 27,362	$ 27,370	$ 27,605	$ 776,862

Long-term residential care contracts:

The Authority has entered into contracts with 37 service providers to provide residential care services. The aggregate annual commitments for these contracts are as follows:

2014	$ 166,100
2015	51,614
2016	51,614
2017	51,614
2018	51,614
Thereafter	494,769
	$ 867,325

(Tabular amounts expressed in thousands of dollars)

14. Commitments and contingencies (continued):

(c) Operating leases:

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

2014	$	10,490
2015		10,067
2016		8,951
2017		7,645
2018		6,820
Thereafter		2,613
	$	46,586

(d) 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, 2013, 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.

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.

(e) Asset retirement obligations:

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

(f) 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 $739,000 (2012 - $732,000) is for any health care purpose in the District of Sparwood. This trust fund has not been reflected in these financial statements.

(Tabular amounts expressed in thousands of dollars)

15. Statement of operations:

(a) Patients, clients and residents revenue:

	2013	2012
Residents of BC self-pay	$ 46,530	$ 46,344
Non-Residents of BC	19,806	16,738
WorkSafe BC	9,011	8,684
Non-Residents of Canada	6,546	6,330
Federal government	2,317	2,561
Preferred accommodation	609	577
Other	1,023	1,019
	$ 85,842	$ 82,253

(b) Other revenues:

	2013	2012
Recoveries from other health authorities and BC government reporting entities	$ 35,029	$ 31,281
Compensation recoveries	8,114	7,532
Parking	3,598	3,425
Other	14,832	14,484
	$ 61,573	$ 56,722

(c) Other contributions:

	2013	2012
Provincial Health Services Authority	$ 27,024	$ 22,756
Other BC government reporting entities	3,382	3,781
Other	1,189	1,153
	$ 31,595	$ 27,690

(Tabular amounts expressed in thousands of dollars)

15. Statement of operations (continued):

(d) The following is a summary of expenses by object:

	2013	2012
Compensation and benefits	$ 1,179,970	$ 1,128,075
Referred-out and contracted services		
Other health authorities and BC government reporting entities	10,546	10,678
Private contractors	268,322	253,190
	278,868	263,868
Supplies		
Medical and surgical	70,661	65,859
Drugs and medical gases	52,459	49,066
Diagnostic	18,291	17,708
Food and dietary	15,140	14,438
Printing, stationery & office	5,331	5,246
Laundry and linen	4,371	4,346
Housekeeping	3,839	3,411
Other	9,506	9,396
	179,598	169,470
Equipment and building services		
Equipment	26,876	30,882
Plant operation (utilities)	17,087	17,493
Building and ground service contracts	6,538	3,893
Other	7,277	6,170
	57,778	58,438
Sundry		
Patient transport	9,239	8,174
Travel	8,792	8,962
Communication and processing	8,776	9,151
Rent	8,410	11,083
Professional fees	7,009	3,733
Other	16,071	11,166
	58,297	52,269
Interest on debt	9,145	3,638
Amortization of tangible capital assets	84,571	72,191
	$ 1,848,227	$ 1,747,949

(Tabular amounts expressed in thousands of dollars)

16. Supplementary cash flow information:

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

	2013	2012
Accounts receivable	$ 12,835	$ (7,480)
Accounts payable and accrued liabilities	824	(6,027)
Deferred operating contributions	(1,799)	346
Inventories held for use	(54)	406
Replacement reserves	64	72
Prepaid expenses	(1,339)	1,420
	$ 10,531	$ (11,263)

(b) Acquisition of tangible capital assets:

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

	2013	2012
Purchase of tangible capital assets (note 11)	$ 104,391	$ 134,547
Construction financed with debt	(21,871)	(1,901)
	$ 82,520	$ 132,646

(c) Supplementary Information:

	2013	2012
Interest paid	$ 9,145	$ 3,638
Interest received	$ 2,149	$ 3,183

(Tabular amounts expressed in thousands of dollars)

17. Related party and other agency operations:

(a) Related parties:

The Authority is related through common control to all Province of BC 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.

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

	2013	2012
Revenue		
Ministry of Health contributions	$ 1,467,441	$ 1,393,630
Medical Services Plan	132,650	130,640
Patient, clients and residents	20,830	17,757
Amortization of deferred capital contributions	42,401	37,407
Other contributions	30,343	26,537
Other	35,481	32,515
	$ 1,729,146	$ 1,638,486
Expenses		
Referred out and contracted services	$ 10,546	$ 10,678
Other	33,189	25,458
	$ 43,735	$ 36,136

	March 31, 2013	March 31, 2012	April 1, 2011
Accounts receivable			
Ministry of Health	$ 7,826	$ 15,185	$ 6,027
Medical Services Plan	13,376	13,974	14,459
Other health authorities and BC government reporting entities	11,407	9,009	8,834
	$ 32,609	$ 38,168	$ 29,320
Accounts payable and accrued liabilities	$ 8,080	$ 6,534	$ 4,483
Deferred operating contributions	$ 6,233	$ 7,684	$ 6,821
Deferred capital contributions	$ 512,563	$ 510,120	$ 488,948

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

(b) Hospital foundations:

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 organizations. 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 financial and non-financial assets and liabilities and results from operations of the foundations and auxiliaries are not included in the financial statements of the Authority. During the year, the foundations and auxiliaries granted $10,211,000 (2012 - $10,048,000) to various facilities within the Authority.

18. Risk management:

The Authority is exposed to credit risk, liquidity risk, foreign exchange risk and interest rate risk from the entity's financial instruments. Qualitative and quantitative analysis of the significant risks from the Authority's financial instruments is provided below by type of risk below.

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.

(a) Credit risk

Credit risk primarily arises from the Authority's cash and cash equivalents, accounts receivable and portfolio investments. The risk exposure is limited to their varying amounts at the date of the statement of financial position.

The Authority manages credit risk by holding balances of cash and cash equivalents with reputable top rated financial institution. The portfolio investments are in low risk instruments with varying maturities held with top rated financial institutions. The Authority periodically reviews its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its portfolio investments.

Accounts receivable primarily consist of amounts receivable from the Ministry, other Health Authorities and BC government reporting entities, patients, clients and agencies, hospital foundations and auxiliaries, grantors etc. To reduce the risk, the Authority periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2013, the amount of allowance for doubtful debts was $4,189,000 (2012 - $3,166,000), as these accounts receivable are deemed by management not to be collectible. The Authority historically has not had difficulty collecting receivables, nor have counterparties defaulted on any payments.

(Tabular amounts expressed in thousands of dollars)

18. Risk management (continued):

(b) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due.

The Authority receives its principal source of capital through funding received from the Ministry. The Authority defines capital to be accumulated surplus (deficit), long-term debt and deferred capital contributions.

The Authority's objective when managing capital is to fund its operations and capital asset additions. 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.

The table below show when various financial assets and liabilities mature:

Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	$ 24,015	$ -	$ -	$ 24,015
Portfolio investments	142,354			142,354
Accounts receivable	58,601	691	-	59,292
Total financial assets	$ 224,970	$ 691	$ -	$ 225,661

Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$ 165,851	$ 2,806	$ 88	$ 168,745
Debt	2,715	17,898	153,202	173,815
Total financial liabilities	$ 168,566	$ 20,704	$ 153,290	$ 342,560

(c) Foreign exchange risk

The Authority has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks, as management believes that the foreign exchange risk derived from currency conversions is not significant. Any foreign currency financial instruments are short-term in nature and do not give rise to significant foreign currency risk.

(Tabular amounts expressed in thousands of dollars)

18. Risk management (continued):

(d) Interest rate risk

As the Authority's debt is all of a fixed rate, there is no significant interest rate risk. The Authority manages interest rate risk through negotiations with lenders at origination or renewal of loan agreements.

19. Budget:

The original budget used in the Authority's 2012/13 – 2104/15 Service Plan has been adjusted to reflect changes made to sector allocations for various programs and services. In addition, reallocations were done to correct various employee benefit expenses and depreciation budgets allocated to the various sectors. The changes are as follows:

	Service Plan	Reallocations	Depreciation adjustment	Employee benefits	Restated Budget
Revenues:					
Provincial government sources	$ 1,680,189	$ (1,680,189)	$ -	$ -	$ -
Non-provincial government sources	135,571	(135,571)	-	-	-
Ministry of Health contributions	-	1,459,909	-	-	1,459,909
Medical Services Plan	-	126,578	-	-	126,578
Patients, clients and residents	-	82,436	-	-	82,436
Amortization of deferred capital	-	67,747	8,000	-	75,747
Other	-	50,338	-	-	50,338
Other contributions	-	26,458	-	-	26,458
Investment Income	-	2,294	-	-	2,294
	1,815,760	-	8,000	-	1,823,760
Expenses:					
Acute	985,442	3,900	9,000	(21,300)	977,042
Residential care	353,467	1,300	2,000	(5,900)	350,867
Community care	188,530	(3,500)	-	(4,000)	181,030
Corporate	114,957	(3,700)	(3,000)	35,600	143,857
Mental health & substance use	117,202	200	-	(2,800)	114,602
Population health & wellness	56,162	1,800	-	(1,600)	56,362
	1,815,760	-	8,000	-	1,823,760
Annual Operating surplus	$ -	$ -	$ -	$ -	$ -