

Financial Statements of

**VANCOUVER COASTAL
HEALTH AUTHORITY**

Years Ended March 31, 2006 and 2005



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AUDITORS' REPORT

To the Board of
Vancouver Coastal Health Authority

We have audited the balance sheet of the Vancouver Coastal Health Authority as at March 31, 2006 and the statements of operations, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Health Authority's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Health Authority as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are written in a cursive, slightly slanted style.

Chartered Accountants

Vancouver, Canada

May 19, 2006

VANCOUVER COASTAL HEALTH AUTHORITY

Balance Sheet

(Amounts expressed in thousands of dollars)

March 31, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,509	\$ 47,006
Short-term investments	32,685	146,086
Accounts receivable (note 3)	179,456	95,598
Inventories of materials and supplies	14,368	9,263
Prepaid expenses	17,316	18,454
	<u>254,334</u>	<u>316,407</u>
Capital assets (note 4)	939,350	741,049
	<u>\$ 1,193,684</u>	<u>\$ 1,057,456</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 231,523	\$ 175,428
Current portion of long-term debt (note 6)	32,684	26,554
Current portion of Health Care Benefit Trust (note 8(b))	5,142	3,500
Current portion of retirement allowance (note 8(a))	6,325	6,264
Deferred operating revenue (note 1(i))	6,696	71,213
Deferred research revenue	13,773	12,244
	<u>296,143</u>	<u>295,203</u>
Long-term debt (note 6)	104,358	41,225
Replacement reserves (note 7)	953	1,078
Health Care Benefit Trust (note 8(b))	27,031	31,432
Retirement allowance (note 8(a))	78,701	75,029
Deferred capital revenue (note 9)	761,530	689,162
	<u>1,268,716</u>	<u>1,133,129</u>
Net Assets (Deficiency):		
Investment in capital assets (note 10)	57,533	20,503
Internally restricted	3,696	3,677
Unrestricted	<u>(136,261)</u>	<u>(99,853)</u>
	(75,032)	(75,673)
Commitments and contingencies (note 11 and 15)		
	<u>\$ 1,193,684</u>	<u>\$ 1,057,456</u>

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Operations

(Amounts expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

	2006	2005
Revenues:		
Ministry of Health grants	\$ 1,857,580	\$ 1,689,859
Patient and community program fees	137,883	125,357
Medical compensation recoveries	91,481	101,891
Amortization of deferred capital revenue	55,421	52,310
Other	40,113	48,518
Research grants	14,408	16,984
	<u>2,196,886</u>	<u>2,034,919</u>
Expenses:		
Salaries and benefits (notes 5 and 8)	865,272	770,932
Distributions to affiliated organizations (note 14 (b))	409,899	382,979
Distributions to community support agencies	348,032	320,325
Medical compensation	148,485	140,930
Medical and diagnostic supplies	87,184	78,421
Facility and equipment costs	84,786	102,449
Depreciation of capital assets	68,067	67,352
Administration and support	61,373	52,798
Patient support	55,990	52,017
Drugs	44,369	41,191
Research	14,408	16,984
Retirement allowance (note 8(a))	8,380	9,247
	<u>2,196,245</u>	<u>2,035,625</u>
Excess (deficiency) of revenues over expenses	\$ 641	\$ (706)

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Changes in Net Assets (Deficiency)

(Amounts expressed in thousands of dollars)

March 31, 2006 and 2005

	Invested in			2006	2005
	capital	Internally	Unrestricted	Total	Total
	assets	restricted			
Balance, beginning of year	\$ 20,503	\$ 3,677	\$ (99,853)	\$ (75,673)	\$ (72,206)
Excess (deficiency) of revenues over expenses (note 10(b))	(12,646)	19	13,268	641	(706)
Loss on disposition of land	0	0	0	0	(2,761)
Net change in investment in capital assets (note 10(c))	49,676	0	(49,676)	0	0
Balance, end of year	\$ 57,533	\$ 3,696	\$ (136,261)	\$ (75,032)	\$ (75,673)

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Cash Flow

(Amounts expressed in thousands of dollars)

March 31, 2006 and 2005

	2006	2005
Cash flow from operating activities:		
Excess (deficiency) of revenues over expenses	\$ 641	\$ (706)
Items not involving cash:		
Amortization of deferred capital revenue	(55,421)	(52,310)
Depreciation of capital assets	68,067	67,352
	13,287	14,336
Change in non-cash operating items:		
Accounts receivable	(83,858)	(34,388)
Inventories of materials and supplies	(5,105)	(129)
Prepaid expenses	1,138	(1,095)
Accounts payable and accrued liabilities	56,095	4,566
Deferred operating revenue	(64,517)	63,272
Deferred research revenue	1,529	(682)
Replacement reserves	(125)	59
Health Care Benefit Trust	(2,759)	1,588
Retirement allowance	3,733	4,439
	(93,869)	37,630
	(80,582)	51,966
Cash flow from financing activities:		
Capital funding	127,789	86,660
Repayment of capital lease obligations (note 12)	(8,937)	(4,821)
Repayment of long-term debt	(6,500)	(7,025)
	112,352	74,814
Cash flow from investing activities:		
Net change in short-term investments	113,401	39,040
Capital asset acquisitions (note 12)	(181,668)	(104,177)
	(68,267)	(65,137)
Increase (decrease) in cash and cash equivalents	(36,497)	61,643
Cash and cash equivalents (cheques issued in excess of funds on deposit), beginning of year	47,006	(14,637)
Cash and cash equivalents, end of year	\$ 10,509	\$ 47,006

Supplemental information (note 12)

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

As part of the implementation of health care reform initiatives in British Columbia, the Ministry of Health Services (the "Ministry") announced the creation of the Vancouver Coastal Health Authority (the "VCHA") as one of six health authorities in the Province effective December 12, 2001. The role of the VCHA is to promote and provide for the physical, mental and social well being of people who live in the Vancouver Coastal region and through referral from outside the region.

The VCHA is incorporated under the Health Authorities Act of British Columbia.

1. Significant accounting policies:

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates include: valuation of accounts receivable and inventory; the determination of obsolescence and useful lives of capital assets for depreciation and revenue from capital contributions; accrued liabilities; long term disability and retirement allowance; and accrued restructuring costs. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(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 VCHA. 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 grants revenue, and funds transferred to the Affiliates are recorded as expenses in the statement of operations. As VCHA'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 14(b) of these financial statements.

(b) Cash and cash equivalents:

Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, are not subject to significant risk of change in value and mature within 90 days of the inception date. Cheques issued in excess of funds on deposit in the bank will be covered by liquidation of short-term investments as required.

(c) Short-term investments:

Short-term investments are recorded at cost. When there has been a decline in value of an investment that is other than temporary, the investment is written down to recognize the loss. As at March 31, 2006, the quoted market value of the investments is \$35.0 million (2005 - \$151.0 million).

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

1. Significant accounting policies (continued):

(d) Inventories:

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

(e) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Betterments which extend the estimated life or enhance the service potential of an asset are capitalized. When a capital asset no longer contributes to the VCHA's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Buildings	2% - 20%
Major equipment	5% - 33%

Depreciation is not provided on projects in progress until the assets are in use.

Pursuant to a transfer agreement with the University of British Columbia, the VCHA leases the buildings at UBC Hospital for \$10 per year for a term expiring March 31, 2007.

(f) Asset retirement obligations:

The VCHA recognizes an asset retirement obligation liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed at the end of each period to reflect the passage of time and changes in the initial fair value assessment of the retirement obligation.

(g) Internally restricted equity:

Internally restricted funds consist of amounts set aside by the VCHA for use in specific programs, education or capital projects.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

1. Significant accounting policies (continued):

(h) Revenue recognition:

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

Under the Health Insurance Act and Regulations thereto, the VCHA is funded primarily by the Province of British Columbia in accordance with budget arrangements established and approved by the Ministry. Approved operating grants are provided to the VCHA by the Ministry and are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant received relates to a future period, it is deferred and recognized in that subsequent period.

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 year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized to revenue on the same basis as the related assets are depreciated.

(i) Deferred operating revenue:

Deferred operating revenue represents funding that has been received for future years' expenses.

(j) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee sick and severance benefits and multiple-employer defined benefit plans as employees render services to earn the benefits. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains and losses that exceed 10% of the benefit obligation are amortized over the average remaining service period of active covered employees. The average remaining service period of the active covered employees entitled to sick and severance benefits is 10 years (2005 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans is 10 years (2005 - 10 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Defined contribution plan accounting is applied to multiemployer defined benefit plans and, accordingly, contributions are expensed.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

1. Significant accounting policies (continued):

(k) Income taxes:

The VCHA is exempt from federal and provincial income and capital taxes.

(l) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty in determining fair value, contributed services are not recognized in the financial statements.

(m) Comparative figures:

Certain of the comparative figures have been re-classified in order to conform with the current year's presentation.

2. Financial instruments:

(a) Fair value:

The VCHA's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, Health Care Benefit Trust, retirement allowance and long-term debt. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short term nature of these financial assets and liabilities.

The fair value of long-term debt is based on management estimates and is determined by discounting cash flows required at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair values of the VCHA's long-term debt as at March 31, 2006 are not significantly different from their carrying values.

The fair value of short-term investments is disclosed in note 1(c) and the fair value of the retirement allowance and Health Care Benefit Trust are disclosed in notes 8(a) and 8(b), respectively.

(b) Interest rate risk:

As described in note 6, a portion of the VCHA's long-term debt bear interest at a floating rate. Fluctuations in interest rates will impact the cost of financing incurred in the future.

(c) Credit risk:

The VCHA faces credit risk with respect to the collection of its accounts receivable and recovery of short-term investments. There is a concentration of credit risk from the collection of receivables from the Ministry and recovery of bond principals invested with the Government of Canada. Management does not perceive these concentrations of credit risk to be significant based on the nature of the debtors and historical collection experience.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

3. Accounts receivable:

	2006	2005
Province of British Columbia	\$ 120,881	\$ 42,046
Other	36,054	35,434
Patient fees	11,787	10,587
Hospital foundations	7,993	6,804
Federal government	6,407	4,446
Other provinces	3,943	2,338
	187,065	101,655
Less provision for doubtful accounts	7,609	6,057
	\$ 179,456	\$ 95,598

Included in accounts receivable from the Province of British Columbia is \$84.2 million (2005-\$ Nil) relating to the collective agreement incentives due to employees on settlement of collective agreements on or before March 31, 2006.

4. Capital assets:

	2006		2005	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 22,133	\$ 0	\$ 22,133	\$ 22,133
Buildings	812,427	335,103	477,324	480,218
Equipment & information systems	597,542	417,453	180,089	132,113
Equipment under capital lease	56,335	30,698	25,637	15,265
Information systems projects in progress	65,934	0	65,934	44,913
Construction projects in progress	168,233	0	168,233	46,407
	\$ 1,722,604	\$ 783,254	\$ 939,350	\$ 741,049

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

5. Accounts payable and accrued liabilities:

	2006	2005
Accrued salaries and benefits and collective agreement incentives	\$ 114,770	\$ 51,183
Accounts payable and accrued liabilities	72,956	78,377
Accrued vacation pay	39,065	39,871
Accrued restructuring costs	4,732	5,997
	\$ 231,523	\$ 175,428

In the current year, \$0.9 million of accrued restructuring costs were paid out and the remaining accrual was reduced by \$0.4 million due to revised estimates of the prior year accrual. As of March 31, 2006, \$4.7 million of the prior year accrual remains to be paid out.

The balance remaining represents management's best estimate of the restructuring costs to be incurred using information available at the balance sheet date. Events occurring subsequent to year-end may materially impact the amounts recorded.

6. Long-term debt:

	2006	2005
Royal Bank term loan, 6.41% interest, payable in blended payments of \$568,149 per month expiring March, 2009	\$ 18,562	\$ 23,999
Mortgages payable to CMHC, at interest varying from 5.35% to 7.88%, secured by first charges on properties, payable in blended payments of \$137,000 per month, with maturity dates ranging to July, 2025	13,696	14,427
Demand loan, interest at the prime rate, evidenced by a promissory note, payable in blended payments of \$34,862 per month	1,698	2,030
Obligation on construction in progress of the Academic Ambulatory Care Centre (note 15)	77,000	11,700
Obligations under capital lease, with weighted average interest rate of 5.3% and maturities to 2009	26,086	15,623
	137,042	67,779
Less current portion of long-term debt	32,684	26,554
	\$ 104,358	\$ 41,225

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

6. Long-term debt (continued):

Debt maturing in the subsequent fiscal year and debt with demand features has been classified as current as at March 31, 2006 and 2005, irrespective of scheduled repayment terms.

Required principal repayments on long-term debt for the years ending March 31 are as follows:

2007	\$	32,406
2008		17,575
2009		15,837
2010		5,754
2011		3,893
Thereafter		87,277
	\$	162,742

The required principal payments include the balance of the obligation to be accumulated on the Academic Ambulatory Care facility (see Note 15).

7. Replacement reserves:

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

The change in the replacement reserves is calculated as follows:

	2006	2005
Balance, beginning of year	\$ 1,078	\$ 1,019
Provision for replacement reserve funding	68	85
Interest on replacement reserves	25	23
Expenditures	(218)	(49)
	\$ 953	\$ 1,078

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

7. Replacement reserves (continued):

The replacement reserves by facility are as follows:

	2006	2005
Lions Park Senior Citizens Housing	\$ 343	\$ 309
Olive Devaud Residence	210	323
Shorncliffe Intermediate Care	143	208
Hilltop House	96	89
Kiwanis Intermediate Care	95	86
Cederview Lodge	66	63
	<u>\$ 953</u>	<u>\$ 1,078</u>

8. Employee future benefits:

(a) Employee 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 VCHA's liabilities are based on an actuarial valuation as at December 31, 2003 updated to March 31, 2006. The next required valuation will be as of December 31, 2006.

Information about employee retirement allowance benefits is as follows:

	2006	2005
Total unfunded retirement allowance obligation	\$ 83,409	\$ 69,960
Unamortized amounts	1,617	11,333
Accrued retirement allowance liabilities	<u>\$ 85,026</u>	<u>\$ 81,293</u>
Retirement allowance benefits paid	<u>\$ 4,647</u>	<u>\$ 4,808</u>

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

8. Employee future benefits (continued):

(a) Employee retirement allowance (continued):

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

	2006	2005
Accrued benefit obligation as at March 31:		
Discount rate	5.00%	5.50%
Rate of compensation increase	3.25%	3.25%
Benefit costs for years ended March 31:		
Discount rate	5.50%	5.75%
Rate of compensation increase	3.25%	3.25%

(b) Employee healthcare benefits:

The Health Employers Association of British Columbia 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 VCHA.

Effective March 31, 2004, the Trust was restructured from a multi-employer to a multiple-employer plan only with respect to long-term disability benefits initiated after September 30, 1997. The VCHA's assets and liabilities for these long-term disability benefits have been segregated. Accordingly, the VCHA's net liabilities are reflected in these consolidated financial statements.

The VCHA's liabilities are based on an actuarial valuation, using an early measurement date, as at December 31, 2005. The next required valuation will be as of December 31, 2006.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

8. Employee future benefits (continued):

(b) Employee healthcare benefits (continued):

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

	2006	2005
Accrued benefit obligation	\$ 73,419	\$ 66,181
Fair value of plan assets	33,231	29,943
Net unfunded obligation	40,188	36,238
Contributions to plan (January - March)	(4,367)	(4,061)
Balance of unamortized amounts	(3,648)	2,755
Accrued long-term disability liabilities	\$ 32,173	\$ 34,932
Long term disability plan expense	\$ 14,700	\$ 16,942
Benefits paid	\$ 14,030	\$ 12,552

Plan assets consist of:

	2006	2005
Debt securities	52%	45%
Foreign equities	30%	25%
Equity securities	18%	30%
	100%	100%

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

8. Employee future benefits (continued):

(b) Employee healthcare benefits (continued):

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

	2006	2005
Accrued benefit obligation as at March 31:		
Discount rate	5.0%	6.0%
Rate of benefit increase	2.5%	1.5%
Benefit cost for years ended March 31:		
Discount rate	6.0%	7.5%
Expected long-term rate of return on plan assets	7.0%	7.5%
Rate of benefit increase	2.5%	1.5%

The group life insurance, accidental death and dismemberment and pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multi-employer plan and accounted for on a defined contribution basis. Contributions to the plan of \$1.1 million (2005- \$1.0 million) were expensed during the year. The most recent actuarial valuation at December 31, 2005 indicated a surplus of \$4.8 million. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 73,000 employees of which approximately 11,000 are employees of the VCHA. The next required valuation will be as of December 31, 2006.

While the Trust has been restructured, the VCHA 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

(c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$43.1 million (2005 - \$35.6 million) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2003 indicated an unfunded liability of \$789 million. The plan covers approximately 130,000 employees of which approximately 20,000 are employees of the VCHA. The next required valuation will be as of December 31, 2006.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

9. Deferred capital revenue:

Deferred capital revenue represents the unamortized and unspent amounts of contributions received for the purchase of capital assets. The amortization of deferred capital revenue is recorded as revenue in the statement of operations on the same basis as the related assets are depreciated.

	2006	2005
Balance, beginning of year	\$ 689,162	\$ 654,812
Capital funding receipts:		
Ministry of Health	103,221	53,531
Hospital foundations	13,316	8,940
Other	11,252	24,189
	<u>127,789</u>	<u>86,660</u>
	816,951	741,472
Less amortization for year	<u>55,421</u>	<u>52,310</u>
Balance, end of year	<u>\$ 761,530</u>	<u>\$ 689,162</u>

The balance is comprised of:

	2006	2005
Contributions used to purchase capital assets	\$ 744,775	\$ 652,767
Unspent contributions	<u>16,755</u>	<u>36,395</u>
Balance, end of year	<u>\$ 761,530</u>	<u>\$ 689,162</u>

10. Investment in capital assets:

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

	2006	2005
Capital assets	\$ 939,350	\$ 741,049
Amount financed by:		
Deferred capital revenue	(744,775)	(652,767)
Long-term debt	<u>(137,042)</u>	<u>(67,779)</u>
	<u>(881,817)</u>	<u>(720,546)</u>
	<u>\$ 57,533</u>	<u>\$ 20,503</u>

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

10. Investment in capital assets (continued):

(b) Deficiency of revenue over expenses:

	2006	2005
Amortization of deferred capital revenue	\$ 55,421	\$ 52,310
Depreciation of buildings and equipment	(68,067)	(67,352)
	\$ (12,646)	\$ (15,042)

(c) Net change in investment in capital assets:

	2006	2005
Purchase of capital assets	\$ 266,369	\$ 133,377
Disposition of capital assets	0	(2,761)
Amounts funded by deferred capital revenue	(147,430)	(97,944)
Amounts funded by long-term debt	(84,700)	(29,200)
Repayment of long-term debt	15,437	11,846
	\$ 49,676	\$ 15,318

11. Commitments and contingencies:

(a) Operating leases:

The following future minimum lease payments under operating leases are due for the years ending March 31:

2007	\$ 16,689
2008	14,002
2009	11,466
2010	10,641
2011	7,655
Thereafter	35,893
	\$ 96,346

(b) Litigation and claims:

The nature of the VCHA's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2006, management is of the opinion that the VCHA has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims will not have a material effect on the VCHA's financial position.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

11. Commitments and contingencies (continued):

(c) Risk management:

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

(d) Asset retirement obligations:

The VCHA has not accrued asset retirement obligations for the buildings that were previously acquired and may contain asbestos that require special handling procedures as the fair value of the retirement obligations cannot be reasonably estimated as there is an indeterminate settlement date for the major renovation or demolition of the buildings. The asset retirement obligation will be recognized as a liability in the period when the fair value can be reasonably estimated.

12. Statement of cash flow:

The following information pertains to the statement of cash flow for the year ended March 31.

(a) Assets acquired under capital lease:

Assets acquired or construction projects in progress under capital lease of \$84.7 million (2005 - \$29.2 million) are non-cash transactions and are excluded from the statement of cash flow.

(b) Interest paid:

During the year the VCHA paid interest of \$3.4 million (2005 - \$3.4 million).

13. Funding and payments to other organizations:

During the year, the VCHA received and distributed cash on behalf of the Ministry to Provincial Health Services Authority of \$78.5 million (2005 - \$78.6 million). This amount is not included in the VCHA's statement of operations as VCHA is the disbursement agent only.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

14. Related party and other agency operations:

(a) Hospital foundations:

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

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 and UBC Hospital Foundation
Whistler Health Care Foundation

The financial statements of the foundations have not been consolidated with those of the VCHA. As at March 31, 2006, the foundations, in aggregate, held net assets of \$102.3 million (2005 - \$87.1 million). During the year, the foundations granted \$20.4 million (2005 - \$19.0 million) to various VCHA facilities.

(b) Affiliated organizations:

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

	2006	2005
Excess (deficiency) of revenue over expenses:		
Providence Health Care	\$ (27)	\$ 1,094
Bella Coola General Hospital	(50)	84
R.W. Large Memorial Hospital	(288)	149
	<u>\$ (365)</u>	<u>\$ 1,327</u>
Net equity (deficit):		
Providence Health Care	\$ (39,058)	\$ (35,578)
Bella Coola General Hospital	642	692
R.W. Large Memorial Hospital	517	805
	<u>\$ (37,899)</u>	<u>\$ (34,081)</u>

Included in accounts payable is \$18.0 million (2005 - \$7.5 million) due to PHC.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Amounts in tables are expressed in thousands of dollars)

Years Ended March 31, 2006 and 2005

15. Academic Ambulatory Care Centre:

In 2004, VCHA entered into an agreement with Access Health Vancouver ("Access") for the design, construction, financing, operation and maintenance the Academic Ambulatory Care Centre ("AACC") Under this agreement, VCHA will lease the entire AACC facility to Access and Access will lease back to VCHA a majority of the space in the facility. Construction of the AACC commenced in September, 2004 and is projected to be completed by August, 2006. VCHA capitalizes the present value of the future minimum lease payments under the terms of the agreement, which amounts to approximately \$102.7 million. The construction in progress is recorded in VCHA's accounts based on the percentage of completion. As at March 31, 2006, the facility was deemed to be 75% complete, which resulted in \$77.0 million being capitalized in VCHA's accounts with a corresponding amount of obligation under capital lease.