

Consolidated Financial Statements of

**VANCOUVER ISLAND HEALTH AUTHORITY**

Year ended March 31, 2009

## **Vancouver Island Health Authority Statement of Management Responsibility**

The consolidated financial statements of the Vancouver Island Health Authority (the "Authority") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 27, 2009. The consolidated financial statements have also been reviewed by the Finance and Audit Committee.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function periodically evaluates internal controls and reports its findings to management and the Finance and Audit Committee.

The financial statements have been examined by The Office of the Auditor General of British Columbia, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly presents the Authority's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Report of the Auditor General, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Finance and Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors, and management to satisfy itself that each group has properly discharged its responsibilities with respect to the annual financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and open access to the Finance and Audit Committee, with and without the presence of management.



\_\_\_\_\_  
President and Chief Executive Officer



\_\_\_\_\_  
Vice President and Chief Financial Officer

Victoria, BC  
May 27, 2009



## Report of the Auditor General of British Columbia

*To the Board of Directors of  
the Vancouver Island Health Authority, and  
To the Minister of Health  
Province of British Columbia:*

I have audited the consolidated statement of financial position of the Vancouver Island Health Authority as at March 31, 2009, and the consolidated statements of operations and changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Vancouver Island Health Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Vancouver Island Health Authority as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

John Doyle, MBA, CA  
Auditor General

*Victoria, British Columbia  
May 27, 2009*

# VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Financial Position  
(Amounts expressed in thousands of dollars)

As at March 31, 2009, with comparative figures for 2008

	2009	2008
		(Restated see note 2)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 69,541	\$ 103,603
Short-term investments	14,887	32,216
Accounts receivable (note 4)	65,124	50,000
Inventories of materials and supplies	14,342	13,914
Prepays	11,039	11,603
	<u>174,933</u>	<u>211,336</u>
Long-term investments	1,957	14,423
Capital assets (note 5)	752,417	649,840
Long-term disability benefits (note 9(b)(i))	7,828	-
	<u>\$ 937,135</u>	<u>\$ 875,599</u>
<b>Liabilities and Net Assets (Deficiency)</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 147,250	\$ 148,610
Deferred operating contributions (note 7)	9,765	8,803
Current portion of long-term debt (note 8)	3,549	4,417
Current portion of retirement allowance (note 9(a))	7,516	7,271
Current portion of long-term disability benefits (note 9(b)(i))	-	10,581
	<u>168,080</u>	<u>179,682</u>
Long-term debt (note 8)	8,937	10,295
Retirement allowance (note 9(a))	72,110	69,008
Long-term disability benefits (note 9(b)(i))	-	14,661
Public Private Partnership obligations (note 3)	55,821	-
Deferred capital contributions (note 10)	706,873	677,234
	<u>1,011,821</u>	<u>950,880</u>
Net assets (deficiency):		
Invested in capital assets (note 11)	25,628	25,748
Externally restricted	4,857	4,933
Internally restricted	9,584	8,043
Unrestricted	(114,755)	(114,005)
	<u>(74,686)</u>	<u>(75,281)</u>
Commitments and contingencies (note 13)		
	<u>\$ 937,135</u>	<u>\$ 875,599</u>

See the accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

  
Director

  
Director

# VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Operations  
(Amounts expressed in thousands of dollars)

For the year ended March 31, 2009, with comparative figures for 2008

	2009	2008
		(Restated see note 2)
Revenues:		
Ministry of Health contributions	\$ 1,309,279	\$ 1,226,116
Medical Services Plan	113,812	107,543
Other contributions (note 14)	84,092	78,050
Amortization of deferred capital contributions	64,989	59,623
Other (note 15)	57,146	57,059
Patient, clients and residents (note 16)	52,875	53,313
Investment income (note 17)	3,131	5,754
Pharmacare	1,174	1,078
	<u>1,686,498</u>	<u>1,588,536</u>
Expenses:		
Compensation and benefits	991,051	939,103
Referred out and contracted services (note 18)	370,731	332,130
Supplies (note 19)	165,587	157,636
Depreciation of capital assets	65,897	62,272
Equipment and building services	56,867	58,628
Sundry	33,468	36,337
Interest on long-term debt	698	848
	<u>1,684,299</u>	<u>1,586,954</u>
Excess of revenues over expenses before loss on disposal	<u>\$ 2,199</u>	<u>\$ 1,582</u>
Loss on disposal of buildings (note 22)	(1,604)	-
Excess of revenues over expenditures	<u>\$ 595</u>	<u>\$ 1,582</u>

See the accompanying notes to consolidated financial statements.

# VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Changes in Net Assets (Deficiency)  
(Amounts expressed in thousands of dollars)

For the year ended March 31, 2009, with comparative figures for 2008

	Invested in capital assets (note11)	Externally restricted	Internally restricted	Unrestricted	2009 Total	2008 Total
Balance, beginning of year	\$ 25,748	\$ 4,933	\$ 8,043	\$(114,005)	\$(75,281)	\$(78,262)
Excess (deficiency) of revenues over expenses	(2,346)	154	1,541	1,246	595	1,582
Transfer to invested in capital assets	2,226	(230)	-	(1,996)	-	-
Purchase of land	-	-	-	-	-	1,399
<b>Balance, end of year</b>	<b>\$ 25,628</b>	<b>\$ 4,857</b>	<b>\$ 9,584</b>	<b>\$(114,755)</b>	<b>\$(74,686)</b>	<b>\$(75,281)</b>

See the accompanying notes to consolidated financial statements.

# VANCOUVER ISLAND HEALTH AUTHORITY

Consolidated Statement of Cash Flows  
(Amounts expressed in thousands of dollars)

For the year ended March 31, 2009, with comparative figures for 2008

	2009	2008
		(Restated see note 2)
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 595	\$ 1,582
Items not involving cash:		
Depreciation of capital assets	65,897	62,272
Amortization of deferred capital contributions	(64,989)	(59,623)
Loss on disposal of building	1,604	-
Net change in non-cash items (note 20)	(13,048)	7,490
	(9,941)	11,721
Cash flows from investing activities:		
Purchase of capital assets:		
Land	(194)	(1,227)
Land improvements	(455)	(208)
Buildings	(18,283)	(38,323)
Equipment	(25,230)	(32,783)
Construction in progress	(71,193)	(14,184)
	(115,355)	(86,725)
Net change in short-term investments	17,329	13,858
Net change in long-term investments	12,466	28,958
	(85,560)	(43,909)
Cash flows from financing activities:		
Capital contributions	94,628	100,639
Repayment of Healthcare Benefit Trust unfunded liability	(30,963)	-
Contribution for land purchase	-	1,399
Repayment of long-term debt	(2,226)	(807)
	61,439	101,231
Increase (decrease) in cash and cash equivalents	(34,062)	69,043
Cash and cash equivalents, beginning of year	103,603	34,560
Cash and cash equivalents, end of year	\$ 69,541	\$ 103,603
Cash and cash equivalents are comprised of:		
Cash	\$ 69,541	\$ 83,616
Marketable securities	-	19,987
	\$ 69,541	\$ 103,603

See the accompanying notes to consolidated financial statements.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

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The Vancouver Island Health Authority (the "Authority") was formed on December 12, 2001 pursuant to a Ministerial Order under the Health Authorities Act and provides a full range of health services to over 752,000 residents of Vancouver Island, on the islands of the Georgia Strait, and in the mainland communities north of Powell River and south of Rivers Inlet.

The Authority employs over 17,000 people and provides an extensive range of services including: emergency services, inpatient hospital care, outpatient diagnostics and treatments, rehabilitation care, children's services and programs, community, home care and home support services, residential care services, environmental and public health including promotion and protection, and communicable disease control, testing and research.

The Authority is a registered charity under the Income Tax Act, and as such, is exempt from income taxes.

The Authority is a member of the SSO Administration Society, which was formed as a result of an initiative launched in 2008 and includes all six Health Authorities in British Columbia. Its purpose is to find opportunities where the Health Authorities can improve cost effectiveness by working collaboratively on common services. The SSO Administration Society is governed by a Board of Directors consisting of the Chief Executive Officers of the six Health Authorities, the Chief Operating Officer of the Ministry of Health, and two external members.

These consolidated financial statements do not include the assets, liabilities and results of operations of foundations and auxiliaries and other organizations that provide services under contracts.

## 1. Significant accounting policies

### (a) Basis of presentation:

The consolidated financial statements include the operations of the Vancouver Island Health Authority, the Cumberland Regional Hospital Laundry Society and the OBL Continuing Care Society. All significant balances and transactions between the entities have been eliminated.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

### (b) Revenue recognition:

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

Under the Health Insurance Act and Regulations thereto, the Authority is funded primarily by the Province of British Columbia in accordance with the budget management plan and performance agreements established and approved by the Ministry of Health. Approved operating contributions are recorded as revenue in the period to which they relate and the related expenses are incurred. Where a portion of the contribution 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.



# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

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## 1. Significant accounting policies (continued):

### (b) Revenue recognition (continued):

Externally restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis as the related capital assets are depreciated.

### (c) Asset and service contributions:

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

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

Equipment with a total value of \$1,349,367 (2008 - \$295,482) was contributed to the Authority during the year.

### (d) Financial instruments:

The Authority measures its cash equivalents, short-term investments, and long-term investments at fair value. Annual changes in the fair value of investments are recognized in the consolidated statement of operations. Transaction costs directly attributable to the acquisition of the investments are recognized as expenses immediately on the statement of operations.

The Authority's other financial instruments include accounts receivable, accounts payable and accrued liabilities, long-term disability liabilities and assets, accrued retirement allowance liabilities, and long term debt. It is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these instruments approximate their carrying values, except for the fair value of accrued retirement allowance liabilities and accrued long-term disability liabilities and assets, which are disclosed in note 9, and long term debt which is recorded at amortized book value.

### (e) Cash and cash equivalents:

All short-term investments, with a term to maturity of three months or less at the date of purchase, are treated as cash equivalents. Cash equivalents are designated as held-for-trading securities and are recorded at fair value. At the end of the year the Authority held no cash equivalents (2008 - \$19,986,500).

### (f) Short-term investments:

The short-term investments include treasury bills and bonds. Short-term investments are designated as held-for-trading securities and are recorded at fair value.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

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## 1. Significant accounting policies (continued):

(g) Inventories of materials and supplies:

Inventories are valued at the lower of average cost and replacement cost.

(h) Long-term investments:

Long-term investments consist of bonds. Long-term investments are designated as held-for-trading securities and are recorded at fair value.

(i) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Betterments which extend the estimated life of an asset are capitalized.

The authority records depreciation on its assets on a straight-line basis over the useful life of the assets, based on the following years of useful life:

Land improvements	5 – 20 years
Buildings	15 – 50 years
Equipment	3 – 20 years
Information Systems Equipment	3 – 15 years

(j) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits and multiple-employer defined long-term disability benefits 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 retiring allowance benefits is 10 years (2008 – 10 years). The average remaining service period of the active employees covered by the multiple-employer defined long-term disability benefits is 10 years (2008 – 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 multi-employer defined benefit plans and accordingly, contributions are expensed.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

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## 1. Significant accounting policies (continued):

### (k) Asset retirement obligations:

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

### (l) Referred out and contracted services:

Referred out and contracted services are payments to affiliate organizations, other long-term care facilities, home support and other agencies.

### (m) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management reviews all significant estimates affecting its financial statements on a recurring basis and records the effect of any necessary adjustments. Significant areas requiring the use of estimates include determination of rates of depreciation of capital assets, recognition of asset retirement obligations, contingencies and, in particular, assumptions with respect to accrued retirement allowance and long-term disability benefits. Actual results could differ from the estimates.

### (n) Capitalization of public-private partnership project:

The Royal Jubilee Hospital Patient Care Centre is a public-private partnership project (P3). ISL Health is the private sector partner selected to design, build, finance and maintain the asset (note 13(b)). The cost of the asset is estimated at fair value, incurred as progress billings verified by an independent certifier and also includes owner's costs incurred by VIHA. Included in the asset costs are development and financing fees estimated at fair value, which requires the extraction of cost information from the financial model embedded in the Concession Agreement. Interest during construction is also included in the asset cost. This is calculated on the P3 asset value, less contributions from the Capital Regional Hospital District (CRHD) paid during the construction term. The interest rate used is the project internal rate of return of 6.87%. This rate is determined by calculating the internal rate of return of the future discounted cash flows. The result is a time weighted average cost of capital for the project.

Correspondingly, an obligation net of the CRHD payments made during the construction period is recorded as a liability. The obligation will be met as part of the monthly performance payments. The project assets will be amortized over their useful lives.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

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## 1. Significant accounting policies (continued):

### (n) Capitalization of public-private partnership project (continued):

Upon substantial completion of construction, the partner will receive monthly payments based upon specified performance criteria. These payments will cover the partners' operating costs, financing costs and a return of their capital costs.

### (o) New accounting pronouncements:

#### (i) Accounting pronouncements issued and effective for the current fiscal year:

##### Financial Instruments:

Section 3862 "Financial Instruments – Disclosure" and Section 3863 "financial Instruments – Presentation", which require expanded financial instrument disclosure and presentation standards from those prescribed in Section 3861 "Financial Instruments – Disclosure and Presentation", including increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. However, the CICA announced during the Authority's 2008 fiscal year that not-for-profit organizations, including entities such as the Authority, may elect to continue to apply Section 3861 in place of Sections 3862 and 3863. Accordingly, the Authority has elected to continue to apply the financial instrument disclosure and presentation standards in Section 3861 in its March 31, 2009 financial statements.

##### Inventories:

Section 3031, Inventories, was adopted by the Authority on April 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Authority's previous accounting policy for inventories was in line with measurement requirements in the new standard; however, additional disclosures may be required in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write downs of inventories.

The adoption of this new standard resulted in no impact to opening balances at April 1, 2008.

##### Capital Disclosures:

Section 1535, Capital Disclosures, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed. The section was applicable for the Authority's fiscal year commencing April 1, 2008. It requires enhanced disclosure with respect to the objectives, policies and processes for managing capital, quantitative data about the entity's capital and disclosures about the entity's compliance with capital requirements and consequences of any non-compliance. The Authority's disclosure in regards of this section is located in note 21.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

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## 1. Significant accounting policies (continued):

### (o) New accounting pronouncements (continued):

#### (i) Accounting pronouncements issued and effective for the current fiscal year (continued):

##### Assessing going concern:

Section 1400, General Standards of Financial Statement Presentation, which includes requirements for management to assess and disclose an entity's ability to continue as a going concern. Management has made its assessment and concluded there is no issue regarding the Authority's ability to continue as a going concern based on the assumption that the current funding levels are maintained and any committed additional future funding is received. If there are significant declines in funding, activity levels and resultant expenditures will be adjusted to match committed funding.

#### (ii) Accounting pronouncements issued but not yet effective:

In September 2008, the CICA made certain amendments to the Handbook Section 4400, "Financial Statement Presentation by Not-for-Profit Organizations" and Section 4470 "Disclosure of Allocated Expenses by Not-for-Profit Organizations". The amendments are effective for the authority's fiscal year commencing April 1, 2009 and include removal of requirements to treat net assets invested in capital assets as a separate component of net assets.

The Authority is currently evaluating the impact of these accounting standards amendments for fiscal year 2010.

## 2. Prior Period Adjustment

During the year an error in accounting for an asset retirement obligation was corrected. The Authority has an asset retirement obligation for the removal of asbestos. Prior to this year's financial statements, the capital costs for this project were fully amortized in the year they occurred. The Authority's policy is to recognize the liability for an asset retirement obligation when the cost can be reasonably estimated, with a corresponding asset retirement cost added to the carrying amount of the capital asset. This cost is then amortized over the estimated useful life of the capital asset. The correction of this accounting error has been applied retroactively and results in a restatement of the 2008 comparative figures as follows:

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 2. Prior Period Adjustments (continued):

	Amount Per 2008 Financial Statement	Prior Period Adjustment	2008 Comparatives Restated
<u>Consolidated Statement of Financial Position</u>			
Capital assets	\$ 645,864	\$ 3,976	\$ 649,840
Deferred capital contributions	673,258	3,976	677,234
<u>Consolidated Statement of Operations</u>			
Ministry of Health contributions	1,228,088	(1,972)	1,226,116
Equipment and building services	60,600	(1,972)	58,628
Amortization of deferred capital contributions	59,125	498	59,623
Depreciation of capital assets	61,774	498	62,272

## 3. Public-private partnership obligations:

Project	Construction Completion Date	Interest Rate	Contract Term	Capital Obligations 2009	Capital Obligations 2008
Royal Jubilee Hospital Patient Care Centre	2010/11	6.87%	30 years	\$ 55,821	\$ -
				\$ 55,821	\$ -

## 4. Accounts receivable

	2009	2008
Medical Services Plan	\$ 22,682	\$ 14,208
Ministry of Health	14,430	9,344
Other	12,262	12,885
Patient and third party	8,140	8,098
Regional Hospital Districts	7,472	4,788
Hospital Foundations	3,024	4,159
	\$ 68,010	\$ 53,482
Less: allowance for doubtful accounts	(2,886)	(3,482)
	\$ 65,124	\$ 50,000

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 5. Capital assets

			2009	2008
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 19,594	\$ -	\$ 19,594	\$ 19,399
Land improvements	12,703	7,274	5,429	5,417
Buildings	717,868	305,573	412,295	407,739
Equipment	534,893	421,378	113,515	115,619
Equipment under capital lease	346	339	7	40
Construction in progress	122,283	-	122,283	28,289
Equipment in progress	59,015	-	59,015	47,937
Leasehold improvements	22,383	8,110	14,273	13,869
Information Systems equipment	48,464	42,458	6,006	11,531
	\$ 1,537,549	\$ 785,132	\$ 752,417	\$ 649,840

## 6. Accounts payable and accrued liabilities

	2009	2008
Trade accounts payable and accrued liabilities	\$ 74,016	\$ 80,077
Accrued vacation pay	42,561	39,019
Salaries and benefits payable	30,673	29,514
	\$ 147,250	\$ 148,610

## 7. Deferred operating contributions

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

	2009	2008
Deferred operating contributions, beginning of year	\$ 8,803	\$ 8,057
Less amount recognized as revenue in the year	(5,529)	(2,544)
Add amount received for future periods	6,491	3,290
Deferred operating contributions, end of year	\$ 9,765	\$ 8,803

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 8. Long term debt

	2009	2008
Royal Bank loan, interest at 6.05% per annum, due November 20, 2011, repayable at \$55,507 per month, including interest.	\$ 7,216	\$ 7,438
Royal Bank loan, interest at 4.55% per annum, due November 10, 2009, repayable at \$30,783 per month, including interest.	3,104	3,301
CMHC mortgage, interest at 4.71% per annum, paid out June 1, 2008.	-	1,605
CMHC mortgage, interest at 3.16% per annum, due June 1, 2013, repayable at \$13,179 per month, including interest. Secured by land and buildings with a net book value of \$286,150.	1,148	1,266
CMHC mortgage, interest at 3.16% per annum, due June 1, 2013, repayable at \$7,188 per month, including interest. Secured by buildings with a net book value of \$2,193,385.	593	658
CMHC mortgage, interest at 3.16% per annum, due June 1, 2013, repayable at \$2,518 per month, including interest. Secured by buildings with a net book value of \$430,008.	425	441
Obligations under capital leases	-	3
Long-term debt at end of year	12,486	14,712
Less current portion of long-term debt	3,549	4,417
Long-term portion of long-term debt	\$ 8,937	\$ 10,295

Scheduled principal payments and maturities over the next five years are as follows:

2010	\$ 3,549
2011	467
2012	6,953
2013	230
2014	237



# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 9. Employee benefits

### (a) Retirement allowance:

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

The Authority's liabilities are based on an independent actuarial valuation as at December 31, 2006. The next required valuation will be as of December 31, 2009.

Information about employee retirement allowance benefits is as follows:

	2009	2008
Accrued benefit obligation:		
Sick leave benefits	\$ 24,470	\$ 27,669
Severance benefits	38,455	43,476
Total unfunded obligation	62,925	71,145
Balance of unamortized amounts	16,701	5,134
Accrued retirement allowance liabilities	79,626	76,279
Less current portion	7,516	7,271
Long-term portion	\$ 72,110	\$ 69,008
Retirement allowance expense	\$ 8,679	\$ 8,462
Benefits paid	5,325	5,772

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

	2009	2008
Accrued benefit obligation as at March 31:		
Discount rate	7.25%	5.50%
Rate of compensation increase	2.50%	3.25%
Benefit costs for years ended March 31:		
Discount rate	7.25%	5.50%
Rate of compensation increase	2.50%	3.25%

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 9. Employee benefits (continued):

### (b) Healthcare Benefit Trust benefits:

The Healthcare Benefit Trust (the "Trust"), administers long-term disability, group life insurance, accidental death and dismemberment, extended health and dental claims for certain employee groups of the Authority and other provincially funded organizations.

#### (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 consolidated financial statements.

The Authority's March 31, 2009 liabilities are based on an actuarial valuation using an early measurement date of December 31, 2008 (March 31, 2008: measurement date of December 31, 2007). The next required valuation will be as of December 31, 2009.

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

	2009	2008
Accrued benefit obligation	\$ 113,144	\$ 99,854
Fair value of plan assets	76,566	41,298
Net unfunded obligation, December 31	36,578	58,556
Balance of unamortized amounts	(36,433)	(25,085)
Contributions to the plan during January to March	(7,973)	(8,229)
Accrued long-term disability liability (asset)	(7,828)	25,242
Less current portion	-	10,581
Long-term portion	\$ (7,828)	\$ 14,661
Long-term disability expense	\$ 31,960	\$ 23,163
Benefits paid	19,513	17,123

In August 2008 the Authority paid \$31.0 million towards its Healthcare Benefit Trust unfunded actuarial liability. The payment exceeded the total liability and created a plan asset which is reported separately in the Consolidated Statement of Financial Position.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 9. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

Plan assets consist of:

	2009	2008
Debt securities	58%	61%
Equity securities	18%	19%
Foreign equities	24%	20%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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

	2009	2008
Accrued benefit obligation as at March 31:		
Discount rate	5.50%	5.50%
Rate of benefit increase	2.50%	2.50%
Benefit cost for years ended March 31:		
Discount rate	7.00%	5.50%
Expected long-term rate of return on plan assets	6.75%	6.75%
Rate of benefit increase	2.50%	2.50%

(ii) Other trust benefits:

The group life insurance, accidental death and dismemberment, extended health, dental and pre-October 1, 1997 long-term disability claims administered by the Trust are structured as a multi-employer plan. Contributions to the Trust of \$29.0 million (2008 - \$24.7 million) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2008 indicated a surplus of \$30.3 million (2008 - \$41.1 million). The multi-employee plan covers 78,748 members for Health, 76,433 members for Dental and 78,662 members for Life and AD&D benefits. Of this, the Authority has 11,951 members with Health, 11,394 members with Dental and 10,939 members with Life and AD&D benefits.

Although the trust has been restructured, the Authority and all other participating employers continue to be responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

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## 9. Employee benefits (continued):

### (c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$47.3 million (2008 - \$44.4 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at December 31, 2006 indicated a surplus of \$438 million. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 150,000 active employees of which approximately 12,300 are employees of the Authority. The next required evaluation will be as of December 31, 2009 with results available in 2010.

Employer contributions to the Public Service Pension Plan of \$1.5 million (2008 - \$1.6 million) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2008 indicated a surplus of \$487 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 55,000 active employees of which approximately 285 are employees of the Authority.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
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For the year ended March 31, 2009

## 10. Deferred capital contributions

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

	2009	2008
Deferred capital contributions, beginning of year	\$ 677,234	\$ 636,218
Capital funding receipts:		
Ministry of Health	34,309	75,854
Regional Hospital Districts	49,315	15,552
Foundations (note 12)	10,058	7,377
Other	946	1,856
	94,628	100,639
Less amortization for the year	64,989	59,623
Deferred capital contributions, end of year	\$ 706,873	\$ 677,234

Deferred capital contributions are comprised of the following:

	2009	2008
Contributions used to purchase capital assets	\$ 659,474	\$ 610,639
Unspent contributions	47,399	66,595
	\$ 706,873	\$ 677,234

## 11. Invested in capital assets

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

	2009	2008
Capital assets	\$ 752,417	\$ 649,840
Amounts financed by:		
Unamortized capital contributions (note 10)	(659,474)	(610,639)
Long-term debt	(66,941)	(13,260)
Other	(374)	(193)
	\$ 25,628	\$ 25,748

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 11. Invested in capital assets (continued):

(b) Deficiency of revenue over expenses:

	2009	2008
Amortization of deferred capital contributions	\$ 64,989	\$ 59,623
Depreciation of capital assets	(65,897)	(62,272)
Loan interest	(527)	(681)
Parkade revenue	693	693
Loss on disposal of capital asset	(1,604)	-
	\$ (2,346)	\$ (2,637)

(c) Transfer to invested in capital assets:

	2009	2008
Principal payments on long-term debt	\$ 2,226	\$ 807

(d) Purchase of land:

	2009	2008
Contribution for the purchase of land	\$ -	\$ 1,399

## 12. Related party transactions

The Authority is supported by a number of foundations incorporated under the Society Act (British Columbia) and registered as charities under the Income Tax Act. The purpose of these foundations is to raise funds in the community for the purpose of furthering the interests and objectives of the facilities which they support. Although there is no common control of the organizations through Board appointments or other forms of control, these foundations are related to the Authority by virtue of holding resources which are to be used to produce revenue or provide services for the Authority. The funds are provided to the Authority restricted for use to specified capital purchases and programs.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 12. Related party transactions (continued):

The hospital foundations provided the following capital funding to the Authority during the year:

	2009	2008
Victoria Hospitals Foundation	\$ 3,895	\$ 4,431
Nanaimo and District General Hospital Foundation	3,585	1,699
Cowichan District Hospital Foundation	642	-
Greater Victoria Eldercare Foundation	473	197
Lady Minto Hospital Foundation	391	95
Saanich Peninsula Hospital Foundation	361	464
Campbell River Hospital and Yucalta Lodge Foundation	361	158
Queen Alexandra Foundation for Children	302	284
Chemainus Health Care Foundation	48	-
Cowichan Lodge Foundation	-	40
West Coast General Hospital Foundation	-	9
	\$ 10,058	\$ 7,377

The capital funding amounts from the various foundations represent funding receipts upon completion of certain capital purchases within the year. Fluctuations in funding amounts are attributed to the timing and nature of capital purchases. They do not necessarily represent annual funding commitments provided by the foundations. At March 31, 2009 the hospital foundations have committed to provide additional capital funding to the Authority of \$4.6 million in future years.

## 13. Commitments and contingencies

### (a) Construction projects in process:

As at March 31, 2009 the Authority had outstanding commitments for construction projects in progress of \$14.7 million (2008 - \$18.1 million).

### (b) Contractual obligations:

VIHA has entered into a multiple-year public private partnership contract with ISL Health (P3 partner) to design, build, finance and maintain the Royal Jubilee Hospital Patient Care Centre. The information presented below shows the anticipated cash outflow for all future obligations under this contract including the remaining CRHD construction payments and the annual service payments for the repayment of the capital cost of the asset, lifecycle capital maintenance, soft and hard facility maintenance cost and special purpose vehicle costs. As construction proceeds, the asset values are recorded as work in progress and the corresponding liabilities are reported in VIHA's balance sheet and disclosed in note 3 (Public-private partnership obligations). Payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 13. Commitments and contingencies (continued):

### (b) Contractual obligations (continued):

	Contract Term	2010	2011	2012	2013	Future Payments
Royal Jubilee Hospital Patient Care Centre	2008-2040					
Annual service payments		\$ -	\$5,619	\$22,588	\$22,745	\$707,999
CRHD construction payments		49,371	4,109	-	-	-
<b>Total future obligations</b>		<b>\$49,371</b>	<b>\$9,728</b>	<b>\$22,588</b>	<b>\$22,745</b>	<b>\$707,999</b>

### (c) Long-term residential care contracts:

The Authority has entered into contracts with eight service providers for a period of twenty years to provide residential care services. The aggregate annual commitments for these contracts are as follows:

2010	\$ 61,531
2011	61,531
2012	61,531
2013	61,531
2014 and thereafter	941,034
	<b>\$1,187,158</b>

### (d) Operating leases:

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

2010	\$ 11,610
2011	7,822
2012	4,504
2013	2,687
2014 and thereafter	2,350
	<b>\$ 28,973</b>



# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 13. Commitments and contingencies (continued):

### (e) Litigation and claims:

The nature of the Authority's activities is such that there will be litigation pending or in progress at any time. With respect to claims at March 31, 2009, management is of the opinion that it has valid defenses and appropriate insurance coverages in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for in the financial statements based on management's best estimate of the ultimate settlement.

Insurance for all Health Authorities in British Columbia is provided in the form of indemnity by Government through the Risk Management Branch of the Ministry of Finance.

### (f) Asset retirement obligations:

The authority has identified that certain buildings owned by the Authority contain asbestos. Where the fair value of the retirement obligations cannot be reasonably estimated due to indeterminate settlement dates for the renovation or demolitions of the buildings the Authority has not accrued asset retirement obligations. The obligations will be recorded when the amounts and timing of the costs are determinable.

The Authority has recorded an asset retirement obligation for the removal of asbestos from its Eric Martin Pavilion building. At March 31, 2009 the cash flows required to settle this asset retirement obligation have been incurred. The unamortized asset retirement obligation is being amortized over the remaining life of the building. The asset retirement obligation recorded in these financial statements is as follows:

Asset Retirement Obligation	Current Obligation	Amortization Expense	Asset Retirement Obligation
Carrying amount 2008 2009	2009	2009	Carrying amount
\$3,976	\$1,171	\$877	\$4,270

### (g) Bill 29:

A settlement agreement was signed on January 25, 2008 between the Government of the Province of British Columbia and the Health Employers Association of British Columbia. This agreement provides for \$75 million of compensation for health care workers impacted by Bill 29 – B.C.'s Health and Social Services Delivery Improvement Act. The Authority received a total of \$11.4 million, which was paid out to the union members in accordance with the agreement. There was no impact on the Authority's financial statements as the payment to the workers was accounted for as a flow-through arrangement.

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 14. Other contributions

	2009	2008
Provincial Health Services Authority	\$ 61,764	\$ 55,997
Other Ministries	14,476	13,657
Other	7,852	8,396
	\$ 84,092	\$ 78,050

## 15. Other revenue

	2009	2008
Services and other external recoveries	\$ 31,407	\$ 34,156
Staff remuneration recoveries	10,564	11,350
Ancillary operations	4,763	3,963
Other	5,840	3,109
Hospice	2,749	2,618
Fees and licenses	1,823	1,863
	\$ 57,146	\$ 57,059

## 16. Patient, clients and residents revenue

	2009	2008
Long-term care and extended care self pay	\$ 20,675	\$ 22,807
Residents of British Columbia self pay	9,066	8,639
Non-residents of British Columbia	7,284	7,185
WorkSafe BC	5,987	4,932
Non-residents of Canada	4,608	5,008
Other	4,263	3,598
Preferred accommodation	992	1,144
	\$ 52,875	\$ 53,313

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 17. Investment income

	2009	2008
Income earned on investments	\$ 1,986	\$ 3,862
Bank interest	932	1,318
Unrealized changes in market value of investments	170	419
Other	43	155
	\$ 3,131	\$ 5,754

## 18. Referred-out and contracted services

	2009	2008
Residential care	\$ 169,923	\$ 139,267
Community care	68,843	66,378
Acute care	53,034	51,235
Administration/support	40,913	35,758
Mental health	24,635	25,007
Public & preventive health	13,383	14,485
	\$ 370,731	\$ 332,130

## 19. Supplies

	2009	2008
Medical & surgical supplies	\$ 65,355	\$ 61,303
Drugs & medical gases	39,051	38,441
Diagnostic	20,216	18,123
Plant operation	13,487	12,547
Other supplies	8,183	8,162
Laundry & linen	7,150	6,630
Food & dietary supplies	6,226	6,375
Printing, stationery & office	4,292	4,538
Housekeeping	1,627	1,517
	\$ 165,587	\$ 157,636

# VANCOUVER ISLAND HEALTH AUTHORITY

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

For the year ended March 31, 2009

## 20. Supplemental cash flow information

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

	2009	2008
Accounts receivable	\$ (15,124)	\$ (11,355)
Inventories of materials and supplies	(428)	(1,363)
Prepays	564	(3,504)
Accounts payable and accrued liabilities	(1,360)	29,228
Deferred operating contributions	962	746
Retirement allowance	3,347	2,566
Long-term disability benefits	(2,107)	(8,828)
Prior year restatement of undepreciated capital	1,098	-
	<u>\$ (13,048)</u>	<u>\$ 7,490</u>
(b) Cash paid for interest on long-term debt	\$ 698	\$ 848

## 21. Capital disclosures

The Authority defines capital to be net assets and deferred capital contributions. The Authority receives its principal source of capital through funding received from the Ministry of Health.

The Authority's objective when managing capital is to fund its operations and capital asset investments. The Authority manages the capital structure in conjunction with the Ministry of Health 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 of Health.

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. Non-compliance with external restrictions may result in reductions of future funding for designated purposes.

## 22. Loss on disposal of buildings

The Authority deconstructed buildings to provide for the construction of the Patient Care Centre. The unamortized carrying costs of the buildings of \$1,604,000 results in a loss on disposal and is recognized in the statement of operations.

## 23. Comparative figures

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