

Financial Statements of

INTERIOR HEALTH AUTHORITY

Year ended March 31, 2014



Interior Health

Statement of Management Responsibility

The financial statements of Interior Health Authority (the "Authority") for the year ended March 31, 2014 have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") issued by the Public Sector Accounting Board ("PSAB"), as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and in regard to the accounting for restricted contributions which is based on the Restricted Contributions Regulation 198/2011. 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 no fewer than four times a year and the external auditors a minimum of two times a year.

The Authority's internal auditor independently evaluates the effectiveness of internal controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. Their examination considers internal control relevant to management's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, 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 of the Board and meet with it on a regular basis.

On behalf of Interior Health Authority

A handwritten signature in black ink, appearing to read "R. Halpenny", written over a horizontal line.

Dr. Robert Halpenny,
Chief Executive Officer

A handwritten signature in black ink, appearing to read "D. Lommer", written over a horizontal line.

Donna Lommer,
VP Residential Services & Chief Financial Officer

May 27, 2014



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Interior Health Authority and

To the Minister of Health, Province of British Columbia

We have audited the accompanying financial statements of Interior Health Authority which comprise the statement of financial position as at March 31, 2014, the statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 accounting estimates



made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of Interior Health Authority as at March 31, 2014, and for the year then ended 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 significant differences between such basis of accounting and Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read 'KPMG LLP'.

Chartered Accountants

May 27, 2014
Kelowna, Canada

INTERIOR HEALTH AUTHORITY
Statement of Financial Position
(Tabular amounts expressed in thousands of dollars)


As at March 31, 2014

	2014	2013
Financial assets		
Cash and cash equivalents (note 2)	\$ 143,784	\$ 24,015
Portfolio investments (note 2)	-	142,354
Accounts receivable (note 3)	49,315	59,292
Assets available for sale (note 4, 11)	2,781	-
Long-term disability benefits (note 8(b)(i))	46,701	-
	<u>242,581</u>	<u>225,661</u>
Liabilities		
Accounts payable and accrued liabilities (note 5)	172,412	169,438
Deferred operating contributions (note 6)	7,439	7,316
Debt (note 7)	208,693	173,815
Retirement allowance (note 8(a))	106,037	101,856
Long-term disability benefits (note 8(b)(i))	-	20,803
Replacement reserves (note 9)	807	743
Deferred capital contributions (note 10)	882,367	891,807
	<u>1,377,755</u>	<u>1,365,778</u>
Net debt	<u>(1,135,174)</u>	<u>(1,140,117)</u>
Non-financial assets		
Tangible capital assets (note 11)	1,170,060	1,140,671
Inventories held for use (note 12)	6,185	6,482
Prepaid expenses	5,779	6,012
Restricted assets (note 13)	235	235
	<u>1,182,259</u>	<u>1,153,400</u>
Accumulated surplus	<u>\$ 47,085</u>	<u>\$ 13,283</u>

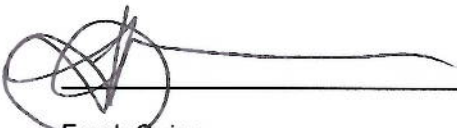
Commitments and contingencies (note 14)

See accompanying notes to financial statements.

Approved on behalf of the Board:



Norman Embree Director



Frank Quinn Director

INTERIOR HEALTH AUTHORITY

Statement of Operations and Accumulated Surplus
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

	2014 Budget	2014	2013
	(Notes 1(o), 19)		
Revenues:			
Ministry of Health contributions	\$ 1,518,926	\$ 1,518,578	\$ 1,467,441
Medical Services Plan	131,241	137,732	132,650
Patients, clients and residents (note 15(a))	84,251	91,164	85,842
Amortization of deferred capital contributions	76,034	78,798	76,189
Recoveries from other health authorities and BC government reporting entities	34,878	36,259	35,481
Other contributions (note 15(b))	31,168	35,445	31,595
Other (note 15(c))	25,776	30,424	26,092
Investment income	2,483	2,245	1,837
	<u>1,904,757</u>	<u>1,930,645</u>	<u>1,857,127</u>
Expenses (note 15(d)):			
Acute	1,048,275	1,046,594	1,015,543
Residential care	370,793	367,863	356,806
Community care	189,471	191,621	183,759
Corporate	126,830	126,057	129,883
Mental health and substance use	112,966	110,031	107,784
Population health and wellness	56,422	54,677	54,452
	<u>1,904,757</u>	<u>1,896,843</u>	<u>1,848,227</u>
Annual surplus	-	33,802	8,900
Accumulated surplus, beginning of year	13,283	13,283	4,383
Accumulated surplus, end of year	<u>\$ 13,283</u>	<u>\$ 47,085</u>	<u>\$ 13,283</u>

INTERIOR HEALTH AUTHORITY

Statement of Changes in Net Debt
(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

	2014 Budget (Note 1(o))	2014	2013
Annual surplus	\$ -	\$ 33,802	\$ 8,900
Acquisition of tangible capital assets	(166,100)	(117,924)	(102,450)
Proceeds from disposal of tangible capital assets	-	1,757	50
Amortization of tangible capital assets	85,750	87,262	84,571
Loss on disposal of tangible capital assets	-	70	397
Transfer of tangible capital assets	-	2,781	-
Capitalized interest	-	(3,335)	(1,941)
	(80,350)	4,413	(10,473)
Acquisition of inventories held for use	-	(81,260)	(81,548)
Acquisition of prepaid expenses	-	(15,087)	(19,456)
Consumption of inventories held for use	-	81,557	81,494
Use of prepaid expenses	-	15,320	18,117
	-	530	(1,393)
(Increase) decrease in net debt	(80,350)	4,943	(11,866)
Net debt, beginning of year	(1,140,117)	(1,140,117)	(1,128,251)
Net debt, end of year	\$ (1,220,467)	\$ (1,135,174)	\$ (1,140,117)

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

	2014	2013
Cash flows from (used in) operating activities:		
Annual surplus	\$ 33,802	\$ 8,900
Items not involving cash:		
Amortization of deferred capital contributions	(78,798)	(76,189)
Amortization of tangible capital assets	87,262	84,571
Loss on disposal of tangible capital assets	70	397
Retirement allowance expense	10,873	11,066
Long-term disability benefits expense	(353)	36,568
Interest income	(2,245)	(1,837)
Interest expense	11,634	9,145
	62,245	72,621
Net change in non-cash operating items (note 16(a))	13,669	10,532
Interest received	2,245	1,837
Interest paid	(11,634)	(9,146)
Net change in cash from operating activities	66,525	75,844
Capital activities:		
Proceeds from disposal of tangible capital assets	1,757	50
Acquisition of tangible capital assets (note 16(b))	(83,669)	(82,520)
Net change in cash from capital activities	(81,912)	(82,470)
Investing activities:		
Proceeds from disposals and redemption of portfolio investments	142,354	-
Purchase of portfolio investments	-	(52,405)
Net change in cash from investing activities	142,354	(52,405)
Financing activities:		
Retirement allowance benefits paid	(6,692)	(5,942)
Long-term disability benefits contributions	(67,151)	(36,380)
Repayment of debt	(2,713)	(2,792)
Capital contributions	69,358	76,281
Net change in cash from financing activities	(7,198)	31,167
Increase (decrease) in cash and cash equivalents	119,769	(27,864)
Cash and cash equivalents, beginning of year	24,015	51,879
Cash and cash equivalents, end of year	\$ 143,784	\$ 24,015

Supplementary cash flow information (note 16)

See accompanying notes to financial statements.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

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:

(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 BC supplemented by Regulations 257/2010 and 198/2011 issued by the Province of BC 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 ("PSAS") issued by the Canadian Public Sector Accounting Board ("PSAB") without any PS 4200 series.

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 follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset, in each case for use in providing services, are 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 periods during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.
- (ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions has been met by the Authority.

INTERIOR HEALTH AUTHORITY

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

Year ended March 31, 2014

1. Significant accounting policies (continued):

(a) Basis of accounting (continued):

For BC 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 PSAS 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 PS 3410, *Government Transfers*; 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 PS 3100, *Restricted Assets and Revenues*; and
- deferred contributions meet liability criteria in accordance with PS 3200, *Liabilities*.

As a result, revenue recognized in the statement of operations and certain related deferred capital contributions would be recorded differently under PSAS.

(b) Basis of presentation:

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, the 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.

INTERIOR HEALTH AUTHORITY

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

Year ended March 31, 2014

1. Significant accounting policies (continued):

(e) Accounts receivable:

Accounts receivable are recorded at amortized cost less an amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and the net recoverable value when risk of loss exists. Changes in valuation allowance are recognized in the statement of operations. Interest is accrued on loans receivable to the extent it is deemed collectable.

(f) 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.

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.

(g) 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 cumulative unrecognized actuarial gains and losses for retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefit is 10 years (2013 – 10 years). Actuarial gains and losses from event-driven benefits such as long-term disability benefits that do not vest or accumulate are recognized immediately.

INTERIOR HEALTH AUTHORITY

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

Year ended March 31, 2014

1. Significant accounting policies (continued):

(g) Employee benefits (continued):

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

The discount rate used to measure obligation is based on the Province of BC's cost of borrowing if there are no plan assets. The expected rate of return on plan assets is the discount rate used if there are plan assets. 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.

(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.

(h) 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 and 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	5 – 50 years
Equipment	3 – 20 years
Information systems	3 - 20 years
Leasehold improvements	5 - 15 years
Vehicles	4 - 7 years

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(h) Non-financial assets (continued):

(i) Tangible capital assets (continued):

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 is 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. Such fair value becomes the cost of the contributed asset. 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.

(iii) Prepaid expenses:

Prepaid expenses are recorded at cost and amortized over the period where the service benefits are received.

(i) Revenue recognition:

Under the *Hospital Insurance Act* and *Regulation* thereto, the Authority is funded primarily by the Province of BC 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 are deferred and recognized when the fees are earned or services performed.

Unrestricted contributions are recognized as revenue when receivable if the amounts can be estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue depending on the nature of the restrictions on the use of the funds by the contributors as described in note 1(a).

INTERIOR HEALTH AUTHORITY

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

Year ended March 31, 2014

1. Significant accounting policies (continued):

(i) Revenue recognition (continued):

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 contributions of land, are recorded as revenue in the period of acquisition or transfer of title.

(j) 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 valuation of accounts receivable, the estimated useful lives of tangible capital assets, amounts to settle asset retirement obligations, 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.

(k) Restricted assets:

Restricted 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.

(l) 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.

(m) Financial instruments:

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.

INTERIOR HEALTH AUTHORITY

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

Year ended March 31, 2014

1. Significant accounting policies (continued):

(m) Financial instruments (continued):

Financial assets and financial liabilities, other than derivatives, equity instruments quoted in an active market and financial instruments designated at fair value, are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are measured at cost. Accounts receivable are recorded at cost less any amount for valuation allowance. Portfolio investments, other than equity investments quoted in an active market, are reported at amortized costs less any write-downs associated with a loss in value that is other than a temporary decline. 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. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

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. Transaction costs for financial instruments measured at fair value are expensed when incurred.

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

Management evaluates contractual obligations for the existence of embedded derivatives and elects to either designate the entire contract for fair value measurement or separately measure the value of the derivative component when characteristics of the derivative are not closely related to the economic characteristics and risks of the contract itself. 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.

(n) 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.

INTERIOR HEALTH AUTHORITY

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

Year ended March 31, 2014

1. Significant accounting policies (continued):

(n) Capitalization of public-private partnership projects (continued):

When available for operations, the project assets are amortized over their estimated useful lives.

Correspondingly, an obligation for the cost of capital and financing received to date, net of the contributions received is recorded as a liability and included in debt.

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

(o) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2013/2014 Budget approved by the Board of Directors on May 28, 2013 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.

(p) 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 of a site or part of a site not in productive use 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.

PS 3260 is effective for the Authority's fiscal year ending March 31, 2015. Management is continuously assessing the potential impact of adoption of PS 3260 on the financial statements of the Authority. The magnitude of the impact of PS 3260 on the financial statements will depend on the existence of contaminated sites as at March 31, 2015, if any.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

2. Cash and cash equivalents and portfolio investments:

	2014	2013
Cash and cash equivalents	\$ 143,784	\$ 24,015
Portfolio investments	-	142,354
	143,784	166,369
Amounts restricted for capital purposes	(15,717)	(20,832)
Amounts restricted for future operating purposes	(7,439)	(7,316)
Amounts restricted for replacement reserves	(807)	(743)
Amounts restricted for patient comfort funds	(310)	(320)
Unrestricted cash and cash equivalents and portfolio investments	\$ 119,511	\$ 137,158

3. Accounts receivable:

	2014	2013
Medical Services Plan	\$ 13,623	\$ 13,376
Other health authorities and BC government reporting entities	12,552	11,476
Patients, clients and residents	9,396	7,934
Ministry of Health	5,025	7,826
Foundations and auxiliaries	1,970	7,319
Federal government	2,745	5,456
Regional Hospital Districts	3,978	3,270
WorkSafeBC	1,793	1,855
Other	3,677	4,969
	54,759	63,481
Allowance for doubtful accounts	(5,444)	(4,189)
	\$ 49,315	\$ 59,292

4. Assets available for sale:

Certain owned properties have been identified for disposition with the goal of optimizing both the value and use of assets to support the strategic goals of the Authority. These properties have also been identified as target properties for the government's Asset Realization Strategy.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

5. Accounts payable and accrued liabilities:

	2014	2013
Salaries and benefits payable	\$ 80,683	\$ 81,120
Accrued vacation pay	55,582	52,610
Trade accounts payable and accrued liabilities	36,147	35,708
	<u>\$ 172,412</u>	<u>\$ 169,438</u>

6. Deferred operating contributions:

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

	2014	2013
Deferred operating contributions, beginning of year	\$ 7,316	\$ 9,115
Contributions received during the year	3,520	2,877
Amount recognized as revenue in the year	(3,397)	(4,676)
	<u>\$ 7,439</u>	<u>\$ 7,316</u>

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

7. Debt:

	2014	2013
Public-private partnerships:		
Kelowna and Vernon Hospitals Project, 30 year contract to August 2042 with Infusion Health KVH General Partnership, payable in monthly payments including annual interest of 7.62%, in accordance with the project agreement terms	\$ 146,278	\$ 148,896
Interior Heart & Surgical Centre Project, 30 year contract to December 2044 with Plenary Health, payable in monthly payments including annual interest of 5.83%, in accordance with the project agreement terms	59,461	21,871
	205,739	170,767
Mortgages:		
Canada Mortgage and Housing Corporation (CMHC), secured by first charges on properties:		
Columbia View Lodge, payable in monthly payments of \$8,552, including annual interest of 10.5%, renewable December 1, 2027	971	1,001
Kimberley Special Care Home, payable in monthly payments of \$2,628, including annual interest of 8%, renewable September 1, 2026	251	262
Noric House, payable in monthly payments of \$14,457, including annual interest of 10%, renewable December 1, 2028	1,732	1,785
	2,954	3,048
	\$ 208,693	\$ 173,815

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

2015	\$	104
2016		114
2017		125
2018		137
2019		151
Thereafter		2,323
	\$	2,954

Required principal repayments on P3 debt for the years ending March 31 are disclosed with public-private partnership commitments in note 14(d).

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

8. 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 or employee 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, 2013 and extrapolated to March 31, 2014 from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2014 are derived. The next required valuation will be as of December 31, 2015.

Information about retirement allowance benefits is as follows:

	2014	2013
Accrued benefit obligation:		
Severance benefits	\$ 56,810	\$ 54,034
Sick leave benefits	44,678	41,988
	<u>101,488</u>	<u>96,022</u>
Unamortized actuarial gain	4,549	5,834
Accrued benefit obligation	<u>\$ 106,037</u>	<u>\$ 101,856</u>

The accrued benefit obligation for retirement allowance reported on the statement of financial position is as follows:

	2014	2013
Accrued benefit obligation, beginning of year	\$ 101,856	\$ 96,732
Net benefit expense:		
Current service cost	7,166	6,981
Interest expense	4,299	4,252
Plan amendment	-	690
Amortization of actuarial (gain) loss	(592)	(857)
Net benefit expense	<u>10,873</u>	<u>11,066</u>
Benefits paid	(6,692)	(5,942)
Accrued benefit obligation, end of year	<u>\$ 106,037</u>	<u>\$ 101,856</u>

INTERIOR HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

8. Employee benefits (continued):

(a) Retirement allowance (continued):

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

	2014	2013
Accrued benefit obligation as at March 31:		
Discount rate	4.26%	4.41%
Rate of compensation increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	4.41%	4.44%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%

(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 jointly 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 trust (assets) liabilities are reflected in these financial statements.

The Authority's (assets) liabilities are based on the actuarial valuation at December 31, 2013, with the next expected valuation as of December 31, 2014.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

8. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

The long-term disability benefits (asset) obligation reported on the statement of financial position is as follows:

	2014	2013
Fair value of plan assets	\$ 222,436	\$ 163,495
Accrued benefit obligation	175,735	184,298
Net funded (asset) obligation	\$ (46,701)	\$ 20,803

	2014	2013
Long-term disability benefits (asset) obligation, beginning of year:	\$ 20,803	\$ 20,615
Net benefit expense:		
Long-term disability expense	31,812	36,778
Interest expense	10,229	9,523
Actuarial loss (gain)	(30,869)	238
Employee payments	(1,592)	(1,835)
Expected return on assets	(9,933)	(8,136)
Net benefit expense	(353)	36,568
Contributions to the plan	(67,151)	(36,380)
Long-term disability benefits (asset) obligation, end of year	\$ (46,701)	\$ 20,803
Benefits paid to claimants	\$ (31,924)	\$ (32,588)

Plan assets consist of:

	2014	2013
Debt securities	44.00%	52.00%
Foreign equities	40.00%	26.00%
Equity securities and other	16.00%	22.00%
Total	100.00%	100.00%

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

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 long-term disability benefits (asset) liabilities are as follows:

	2014	2013
Accrued benefit (asset) obligation as at March 31:		
Discount rate	5.80%	5.60%
Rate of benefit increase	2.50%	2.50%
Benefit costs for years ended March 31:		
Discount rate	5.60%	5.50%
Rate of compensation increase	2.50%	2.50%
Expected future inflationary increases	2.00%	2.00%
<u>Expected long-term rate of return on plan assets</u>	<u>5.60%</u>	<u>5.50%</u>

Actual long-term rate of return on plan assets was 14.3% for the year ended December 31, 2013 (December 31, 2012 – 6.0%).

(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 \$36.9 million (2013 - \$37.6 million) were expensed during the year. The most recent actuarial valuation at December 31, 2013 indicated a surplus of \$62.5 million (December 31, 2012 - \$62.5 million). The plan covers approximately 90,000 active members, of which approximately 14,800 are employees of the Authority (2013 – 15,100). The next expected actuarial valuation will be as of December 31, 2014.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

8. 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 \$68.5 million (2013 - \$63.4 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, 2012 indicated an unfunded liability of approximately \$1,370.0 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 179,000 active members, of which approximately 15,600 are employees of the Authority (2013 – 15,900). The next expected actuarial valuation will be as of December 31, 2015.

Employer contributions to the Public Service Pension Plan of \$1.5 million (2013 - \$1.5 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, 2011 indicated an unfunded liability of approximately \$226.0 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 56,000 active members, of which approximately 250 are employees of the Authority (2013 – 275). The next expected actuarial valuation will be as of March 31, 2014 with results available in 2015.

9. Replacement reserves:

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

The replacement reserves by facility are as follows:

	2014	2013
Kimberley Special Care Home	\$ 390	\$ 375
Noric House	311	284
Columbia View Lodge	106	84
	<u>\$ 807</u>	<u>\$ 743</u>

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

10. Deferred capital contributions:

Deferred capital contributions represent externally restricted contributions and other funding received for the purchase of tangible capital assets.

	2014	2013
Deferred capital contributions, beginning of year	\$ 891,807	\$ 891,715
Capital contributions received:		
Ministry of Health	23,690	44,390
Regional hospital districts	34,229	21,583
Foundations and auxiliaries	8,750	9,085
Health authorities and BC government reporting entities	366	454
Other	2,323	769
	69,358	76,281
Amortization	(78,798)	(76,189)
Deferred capital contributions, end of year	\$ 882,367	\$ 891,807

Deferred capital contributions are comprised of the following:

	2014	2013
Contributions used to purchase tangible capital assets	\$ 866,650	\$ 870,975
Unspent contributions	15,717	20,832
	\$ 882,367	\$ 891,807

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

11. Tangible capital assets:

Cost	2013	Additions	Disposals	Transfers	2014
Land	\$ 42,820	\$ -	\$ (1,054)	\$ 441	\$ 42,207
Land improvements	23,277	-	-	1,098	24,375
Buildings	1,386,712	420	(3,197)	29,377	1,413,312
Equipment	545,885	16,080	(14,189)	14,343	562,119
Information systems	65,130	314	(4,428)	6,980	67,996
Leasehold improvements	17,027	330	-	-	17,357
Vehicles	9,241	1,385	(986)	-	9,640
Construction in progress	59,306	83,303	-	(36,989)	105,620
Equipment and information systems in progress	8,494	19,427	-	(18,031)	9,890
Total	\$ 2,157,892	\$ 121,259	\$ (23,854)	\$ (2,781)	\$ 2,252,516

Accumulated amortization	2013	Amortization	Disposals	Transfers	2014
Land improvements	\$ 12,072	\$ 1,060	\$ -	\$ -	\$ 13,132
Buildings	519,277	48,352	(3,191)	1	564,439
Equipment	419,208	27,460	(13,560)	1	433,109
Information systems	50,479	8,435	(4,428)	(2)	54,484
Leasehold improvements	8,943	1,060	-	-	10,003
Vehicles	7,242	895	(848)	-	7,289
Total	\$ 1,017,221	\$ 87,262	\$ (22,027)	\$ -	\$ 1,082,456

Cost	2012	Additions	Disposals	Transfers	2013
Land	\$ 39,537	\$ -	\$ -	\$ 3,283	\$ 42,820
Land improvements	21,782	-	(17)	1,512	23,277
Buildings	1,079,268	794	(2,336)	308,986	1,386,712
Equipment	514,078	15,679	(13,708)	29,836	545,885
Information systems	68,226	109	(5,859)	2,654	65,130
Leasehold improvements	16,846	85	-	96	17,027
Vehicles	8,666	833	(258)	-	9,241
Construction in progress	310,334	73,055	-	(324,083)	59,306
Equipment and information systems in progress	16,942	13,836	-	(22,284)	8,494
Total	\$ 2,075,679	\$ 104,391	\$ (22,178)	\$ -	\$ 2,157,892

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

11. Tangible capital assets (continued):

Accumulated amortization	2012	Amortization	Disposals	Transfers	2013
Land improvements	\$ 11,007	\$ 1,082	\$ (17)	\$ -	\$ 12,072
Buildings	478,493	43,050	(2,252)	(14)	519,277
Equipment	403,738	28,819	(13,349)	-	419,208
Information systems	46,948	9,375	(5,858)	14	50,479
Leasehold improvements	7,507	1,436	-	-	8,943
Vehicles	6,688	809	(255)	-	7,242
Total	\$ 954,381	\$ 84,571	\$ (21,731)	\$ -	\$ 1,017,221

Net book value	2014	2013
Land	\$ 42,207	\$ 42,820
Land improvements	11,243	11,205
Buildings	848,873	867,435
Equipment	129,010	126,677
Information systems	13,512	14,651
Leasehold improvements	7,354	8,084
Vehicles	2,351	1,999
Construction in progress	105,620	59,306
Equipment and information systems in progress	9,890	8,494
Total	\$ 1,170,060	\$ 1,140,671

During the year, \$3.3 million (2013 - \$1.9 million) of interest has been capitalized to construction in progress.

Tangible capital assets are funded as follows:

	2014	2013
Deferred capital contributions	\$ 866,650	\$ 870,975
Debt	208,693	173,815
Internally funded	94,717	95,881
Tangible capital assets	\$ 1,170,060	\$ 1,140,671

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

12. Inventories held for use:

	2014	2013
Medical supplies	\$ 3,738	\$ 4,092
Pharmaceuticals	2,447	2,390
	<u>\$ 6,185</u>	<u>\$ 6,482</u>

13. Restricted assets:

	2014	2013
Endowments, beginning of year	\$ 235	\$ 235
Contributions received during the year	-	-
Endowments, end of year	<u>\$ 235</u>	<u>\$ 235</u>

14. Commitments and contingencies:

(a) Construction, equipment and information systems projects in progress:

As at March 31, 2014, the Authority had outstanding commitments for construction, equipment and information systems projects in progress of \$90.5 million (2013 – \$15.3 million).

(b) Long-term residential care contracts:

The Authority has entered into contracts with 40 service providers to provide residential care services. The aggregate annual commitments for these contracts for the years ending March 31 are as follows:

2015	\$ 170,926
2016	52,931
2017	52,931
2018	52,931
2019	52,931
Thereafter	454,462
	<u>\$ 837,112</u>

INTERIOR HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

14. Commitments and contingencies (continued):

(c) Operating leases:

The aggregate minimum future annual rentals under operating leases for the years ending March 31 are as follows:

2015	\$	10,412
2016		9,314
2017		7,959
2018		6,386
2019		1,313
Thereafter		2,437
	\$	37,821

(d) Public-private partnerships commitments:

The Authority has entered into multiple-year P3 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 future obligations under these contracts for the capital cost and financing of the asset, the facility maintenance ("FM") and the lifecycle costs. As construction progresses the asset values are recorded as capital assets and the corresponding liabilities are recorded as debt and disclosed in note 7. Facilities maintenance and life cycle payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

	Capital and financing	FM and lifecycle	Total payments
2015	\$ 64,873	\$ 11,696	\$ 76,569
2016	19,733	13,189	32,922
2017	19,791	13,571	33,362
2018	19,659	14,117	33,776
2019	19,389	14,803	34,192
Thereafter	414,578	580,108	994,686
	\$ 558,023	\$ 647,484	\$ 1,205,507

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

14. Commitments and contingencies (continued):

(d) Public private partnership commitments (continued):

Required principal repayments on P3 debt for the years ending March 31 included in capital and financing commitments above are as follows:

2015	\$	3,815
2016		4,227
2017		4,589
2018		4,789
2019		4,865
Thereafter		183,454
	\$	205,739

(e) Litigation and claims:

Risk management and insurance services for all health authorities in BC are provided by the Risk Management and Government Security Branch of the Ministry of Finance.

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, 2014, 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.

(f) Asset retirement obligations:

The Authority has certain asset retirement obligations relating to several of its facilities that may contain asbestos which may require special handling procedures. At this time, the Authority has not recognized these asset retirement obligations as there are no current approved plans and the timing of the future demolition or renovation of the facilities is unknown and therefore the value of the future obligations cannot be reasonably estimated. These asset retirement obligations will be recognized as a liability in the period when their value can be reasonably estimated.

(g) 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 \$0.7 million (2013 - \$0.7 million) is for any health care purpose in the District of Sparwood. This trust fund has not been reflected in these financial statements.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

15. Statement of operations:

(a) Patients, clients and residents revenue:

	2014	2013
Residents of BC self pay	\$ 47,895	\$ 46,530
Non-residents of BC	22,281	19,806
WorkSafe BC	10,269	9,011
Non-residents of Canada	7,826	6,546
Federal government	1,269	2,317
Preferred accommodation	607	609
Other	1,017	1,023
	<u>\$ 91,164</u>	<u>\$ 85,842</u>

(b) Other contributions:

	2014	2013
Provincial Health Services Authority	\$ 31,051	\$ 27,024
Other BC government reporting entities	3,323	3,382
Other	1,071	1,189
	<u>\$ 35,445</u>	<u>\$ 31,595</u>

(c) Other revenues:

	2014	2013
Compensation recoveries	\$ 14,363	\$ 8,114
Parking	3,962	3,598
Other	12,099	14,380
	<u>\$ 30,424</u>	<u>\$ 26,092</u>

INTERIOR HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

15. Statement of operations (continued):

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

	2014	2013
Compensation:		
Compensation	\$ 1,005,751	\$ 954,507
Employee Benefits	229,727	225,225
(Gain) loss on event-driven employee benefits	(30,869)	238
	1,204,609	1,179,970
Referred-out and contracted services:		
Other health authorities and BC government reporting entities	11,311	10,546
Health and support services providers	282,490	268,322
	293,801	278,868
Supplies:		
Medical and surgical	79,581	70,661
Drugs and medical gases	50,838	52,459
Diagnostic	20,111	18,291
Food and dietary	15,261	15,140
Printing, stationery and office	5,367	5,331
Laundry and linen	4,586	4,371
Housekeeping	4,076	3,839
Other	10,095	9,506
	189,915	179,598
Amortization of tangible capital assets	87,262	84,571
Equipment and building services:		
Equipment	24,731	26,876
Plant operation (utilities)	18,888	17,087
Rent	9,241	8,413
Building and ground service contracts	7,219	6,538
Other	5,965	7,672
	66,044	66,586
Sundry:		
Patient transport	8,824	9,239
Travel	8,572	8,791
Communication and data processing	5,747	5,557
Professional fees	3,560	5,704
Other	16,875	20,198
	43,578	49,489
Interest on debt	11,634	9,145
	\$ 1,896,843	\$ 1,848,227

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Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

16. Supplementary cash flow information:

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

	2014	2013
Accounts receivable	\$ 9,977	\$ 12,835
Accounts payable and accrued liabilities	2,975	825
Deferred operating contributions	123	(1,799)
Replacement reserves	64	64
Inventories held for use	297	(54)
Prepaid expenses	233	(1,339)
	\$ 13,669	\$ 10,532

(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.

	2014	2013
Acquisition of tangible capital assets (note 11)	\$ 121,259	\$ 104,391
Construction financed with debt	(37,590)	(21,871)
	\$ 83,669	\$ 82,520

17. Related parties and other agency operations:

(a) BC Government reporting entities:

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

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

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

(a) BC Government reporting entities (continued):

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

	2014	2013
Revenue:		
Ministry of Health contributions	\$ 1,518,578	\$ 1,467,441
Medical Services Plan	137,732	132,650
Amortization of deferred capital contributions	43,966	42,401
Recoveries from other health authorities and BC government reporting entities	36,259	35,481
Other contributions	34,374	30,406
Patient, clients and residents	23,298	20,830
	<u>\$ 1,794,207</u>	<u>\$ 1,729,209</u>
Expenses:		
Sundry	\$ 26,399	\$ 33,189
Referred-out and contracted services	11,311	10,546
	<u>\$ 37,710</u>	<u>\$ 43,735</u>
Accounts receivable:		
Medical Services Plan	\$ 13,623	\$ 13,376
Other health authorities and BC government reporting entities	12,552	11,476
Ministry of Health	5,025	7,826
	<u>\$ 31,200</u>	<u>\$ 32,678</u>
Accounts payable and accrued liabilities	\$ 6,977	\$ 8,080
Deferred operating contributions	6,697	6,233
Deferred capital contributions	492,653	512,563

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

Year ended March 31, 2014

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

(b) Foundations and auxiliaries:

Within the Authority area, 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 \$9.9 million (2013 - \$10.2 million) to various facilities within the Authority.

18. Risk management:

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

(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 institutions. 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, 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, 2014, the amount of allowance for doubtful accounts was \$5.4 million (2013 - \$4.2 million).

The Authority is not exposed to significant credit risk with respect to the amounts receivable from the Ministry, other health authorities and BC government reporting entities.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

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. It is the Authority's intention to meet its financial obligations through the collection of current accounts receivable, cash on hand and future funding from the Ministry. If the current funding and cash on hand were insufficient to satisfy its current obligations, the Authority has the option to sell its portfolio investments, which can be liquidated without additional cost.

The Authority's principal source of funding is from 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 or grant documentation. The Authority has complied with the external restrictions on the funding provided.

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

2014 Financial assets	Up to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	\$ 143,784	\$ -	\$ -	\$ 143,784
Portfolio investments	-	-	-	-
Accounts receivable	48,652	663	-	49,315
Total financial assets	\$ 192,436	\$ 663	\$ -	\$ 193,099

2014 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 171,747	\$ 665	\$ -	\$ 172,412
Debt	3,815	18,470	186,408	208,693
Total financial liabilities	\$ 175,562	\$ 19,135	\$ 186,408	\$ 381,105

2013 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

2013 Financial liabilities	Up to 1 year	1 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 166,544	\$ 2,806	\$ 88	\$ 169,438
Debt	2,715	17,898	153,202	173,815
Total financial liabilities	\$ 169,259	\$ 20,704	\$ 153,290	\$ 343,253

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

18. Risk management (continued):

(b) Liquidity risk (continued)

Debt pertaining to P3 projects is funded through the ongoing annual operating grants received from the Ministry.

(c) Foreign exchange risk

The Authority's operating results and financial position are reported in Canadian dollars. As the Authority operates in an international environment, some of the Authority's financial instruments and transactions are denominated in currencies other than Canadian dollar. The results of the Authority's operations are subject to currency transaction and translation risks.

The Authority makes payments denominated in USA dollars, Great Britain pounds and other currencies. Currencies most contributing to the foreign exchange risk are US dollar and British pound.

Comparative foreign exchange rates as at March 31 are as follows:

		2014		2013
US dollar per Canadian dollar	\$	0.905	\$	0.984
Great Britain pound per Canadian dollar		0.542		0.649

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. The foreign currency financial instruments are short-term in nature and do not give rise to significant foreign currency risk.

INTERIOR HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year ended March 31, 2014

19. Budget:

The original budget, as approved by the Board on May 28, 2013, has been adjusted to reflect changes made to sector allocations for various programs and services and the refinement of allocation between accounts. The changes are as follows:

	Board		Restated
	Approved	Reallocations	Budget
	Plan		
Revenues:			
Provincial government sources	\$ 1,758,943	\$ (1,758,943)	\$ -
Non-provincial government sources	145,814	(145,814)	-
Ministry of Health contributions	-	1,518,926	1,518,926
Medical Services Plan	-	131,241	131,241
Patients, clients and residents	-	84,251	84,251
Amortization	-	76,034	76,034
Recoveries from other Health Authorities and government reporting entities	-	34,878	34,878
Other contributions	-	31,168	31,168
Other	-	25,776	25,776
Investment Income	-	2,483	2,483
	1,904,757	-	1,904,757
Expenses:			
Acute	1,043,860	4,415	1,048,275
Residential care	369,380	1,413	370,793
Community care	188,329	1,142	189,471
Corporate	133,767	(6,937)	126,830
Mental health and substance use	112,999	(33)	112,966
Population health and wellness	56,422	-	56,422
	1,904,757	-	1,904,757
Annual Surplus	\$ -	\$ -	\$ -

20. Comparative figures:

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