

Consolidated Financial Statements
(Expressed in thousands of dollars)

**PROVINCIAL HEALTH SERVICES
AUTHORITY**

Years ended March 31, 2005 and 2004



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT

To the Board of Provincial Health Services Authority

We have audited the consolidated statement of financial position of Provincial Health Services Authority as at March 31, 2005 and the consolidated statements of operations, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Vancouver, Canada

May 6, 2005

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statements of Financial Position
(Expressed in thousands of dollars)

March 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 117,300	\$ 127,262
Restricted cash	229	286
Short-term investments (note 3)	3,305	11,363
Accounts receivable (note 4)	119,932	126,956
Inventories	13,482	11,654
Prepaid expenses	3,889	4,732
	<u>258,137</u>	<u>282,253</u>
Long-term investments	40,753	-
Capital assets, net (note 5)	629,228	337,563
	<u>\$ 928,118</u>	<u>\$ 619,816</u>

Liabilities and Net Assets (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 174,061	\$ 187,278
Deferred operating revenue	46,162	8,864
Deferred contributions for designated purposes (note 7)	41,425	34,499
Current portion of obligations under capital leases (note 8)	461	827
	<u>262,109</u>	<u>231,468</u>
Accrued sick and severance liabilities (note 9(a))	38,282	37,869
Accrued long-term disability liabilities (note 9(b))	357	4,428
Other long-term benefit liabilities	1,058	1,867
Obligations under capital leases (note 8)	247	708
Deferred capital contributions (note 10)	553,131	376,663
	<u>855,184</u>	<u>653,003</u>
Net assets (deficiency):		
Invested in capital assets (note 11(a))	109,251	8,726
Internally restricted	448	448
Unrestricted	(36,765)	(42,361)
	<u>72,934</u>	<u>(33,187)</u>
	<u>\$ 928,118</u>	<u>\$ 619,816</u>

Commitments and contingencies (note 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director and Chair of the Board



Director

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statements of Operations
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

	2005	2004
Revenue:		
Contributions:		
Ministry of Health Services operating grants	\$ 902,775	\$ 880,086
BC Health Authority operating grants	78,511	78,500
Patient/client revenue (note 13)	26,007	27,508
Medical Services Commission	87,260	96,453
Investment income	2,893	3,487
Other revenue	38,076	35,328
Contributions for designated purposes	65,208	55,891
	<u>1,200,730</u>	<u>1,177,253</u>
Expenses:		
Compensation and benefits (note 14)	549,181	585,816
Supplies	236,312	204,083
Sundry	54,367	45,238
Equipment and building services	36,146	37,541
Referred-out/contracted services	257,215	255,457
Expenses for designated purposes	65,208	55,891
	<u>1,198,429</u>	<u>1,184,026</u>
Excess (deficiency) of revenue over expenses before amounts related to capital assets	2,301	(6,773)
Amortization of investment in capital assets:		
Amortization of deferred capital contributions	42,307	39,915
Amortization of capital assets	(44,587)	(43,387)
	<u>(2,280)</u>	<u>(3,472)</u>
Excess (deficiency) of revenue over expenses	<u>\$ 21</u>	<u>\$ (10,245)</u>

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statements of Changes in Net Assets (Deficiency)
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

	Invested in capital assets	Internally restricted	Unrestricted	Total	
				2005	2004
Balance, beginning of the year	\$ 8,726	\$ 448	\$ (42,361)	\$ (33,187)	\$ (22,942)
Excess (deficiency) of revenue over expenses	(2,280)	-	2,301	21	(10,245)
Contribution of land from the Province of British Columbia	106,100	-	-	106,100	-
Net change in capital assets (note 11(c))	(3,295)	-	3,295	-	-
Balance, end of year	\$ 109,251	\$ 448	\$ (36,765)	\$ 72,934	\$ (33,187)

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Consolidated Statements of Cash Flows
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 21	\$ (10,245)
Items not involving cash:		
Amortization of capital assets	44,587	43,387
Amortization of deferred capital contributions	(42,307)	(39,915)
	2,301	(6,773)
Changes in non-cash operating items (note 16)	32,639	(5,979)
	34,940	(12,752)
Investments:		
Purchase of capital assets	(64,803)	(68,261)
Contribution of buildings	(164,549)	-
Contribution of land	(106,100)	-
Contribution of equipment	(800)	-
Net disposal of short-term investments	8,058	39,692
Net purchase of long-term investments	(40,753)	-
	(368,947)	(28,569)
Financing:		
Additions to deferred capital contributions	53,426	80,711
Repayment of obligations under capital leases	(830)	(1,176)
Contribution of buildings	164,549	-
Contribution of land	106,100	-
Contribution of equipment	800	-
	324,045	79,535
Increase (decrease) in cash and cash equivalents	(9,962)	38,214
Cash and cash equivalents, beginning of year	127,262	89,048
Cash and cash equivalents, end of year	\$ 117,300	\$ 127,262

See accompanying notes to consolidated financial statements.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

1. Operations:

The Provincial Health Services Authority ("PHSA" or the "Authority") was established on December 12, 2001 to manage the quality, coordination, accessibility, and cost of certain province wide health-care programs and services.

PHSA directly manages and governs selected provincial agencies and programs and is responsible for the services they provide. The agencies/programs of PHSA are:

- British Columbia Cancer Agency Branch;
- British Columbia Centre for Disease Control and Prevention Society Branch;
- British Columbia Drug and Poison Information Centre;
- British Columbia Mental Health Society (Riverview) Branch;
- British Columbia Provincial Renal Agency;
- British Columbia Transplant Society Branch;
- Cardiac Services;
- Children's & Women's Health Centre of British Columbia Branch;
- Forensic Psychiatric Services Commission; and
- Red Cross Outpost Hospitals.

The Authority also has the responsibility for planning, coordinating, monitoring, evaluating, and in certain cases funding, a number of highly specialized health services to ensure access for all British Columbians.

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

PHSA is dependant on the Ministry of Health Services to provide sufficient funding to continue operations, replace equipment and complete capital projects.

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements, management has made estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates include the determination of useful lives of capital assets and the estimation of amounts which may become payable to retiring employees. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

These consolidated financial statements do not include the assets, liabilities, revenue and expenses of Foundations and Auxiliaries of the PHSA branches (see note 15).

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

2. Significant accounting policies (continued):

(b) Revenue recognition:

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

Operating grants are recorded as revenue in the year to which they relate. Grants approved but not yet received at the end of the year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in that subsequent year.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions externally restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

(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.

(d) Cash and cash equivalents:

The Authority considers all short-term investments with a term to maturity of three months or less at the date of purchase to be cash and cash equivalents.

(e) Short-term investments:

Short-term investments include banker's acceptances, term deposits, and bonds and are recorded at the lower of cost and market value.

(f) Inventories:

Inventories, consisting of materials, supplies and pharmaceuticals, are recorded at the lower of weighted average cost and market value.

(g) Long-term investments:

Long-term investments are recorded at cost. Where the market value of long-term investments becomes lower than cost and this decline in value is considered to be other than temporary, the long-term investments are written down to market value.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

2. Significant accounting policies (continued):

(h) Capital assets:

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis over the assets' estimated useful lives or lease term at the following rates:

Asset	Rate
Buildings	20 - 50 years
Leased building	50 years
Leasehold improvements	Lease term to a maximum of 10 years
Equipment	3 - 20 years

Assets acquired under capital leases are amortized over the lesser of the estimated lives of the assets and the lease terms.

(i) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee sick and severance benefits and multiple-employer defined benefit plans as employees render services to earn the benefits.

The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains and losses that exceed 10% of the benefit obligation are amortized over the average remaining service period of active covered employees.

The average remaining service period of the active covered employees entitled to sick and severance benefits is 10 years (2004 – 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans is 10 years (2004 -10 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

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

(j) Financial instruments:

The Authority's financial instruments include short-term investments, accounts receivable, long term investments, accounts payable and accrued liabilities, accrued sick and severance liabilities, accrued long term disability liabilities, and obligations under capital leases. It is management's opinion that the Authority is not exposed to significant interest 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 sick and severance liabilities and accrued long term disability liabilities which are disclosed in note 9.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

2. Significant accounting policies (continued):

(k) Asset retirement obligations:

Effective April 1, 2004, the Authority adopted Section 3110 of the CICA Handbook, "Asset Retirement Obligations". This section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and depreciated over the life of the asset. At this time, the Authority has determined that there are no significant asset retirement obligations with its assets.

(l) Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the presentation adopted for 2005.

3. Short-term investments:

The carrying value of the short-term investments is \$3,305 (2004 - \$11,363), which approximates the market value.

4. Accounts receivable:

	2005	2004
BC Health Authorities	\$ 2,047	\$ 7,229
Ministry of Health Services	27,000	35,744
Medical Services Commission	47,739	44,712
Medical Services Plan	1,540	1,629
Government agencies	-	223
Research grants	5,087	6,742
Foundations (note 15)	14,358	12,281
Other	23,581	21,514
	121,352	130,074
Allowance for doubtful accounts	(1,420)	(3,118)
	\$ 119,932	\$ 126,956

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

5. Capital assets:

2005	Cost	Accumulated amortization	Net book value
Land	\$ 113,391	\$ -	\$ 113,391
Buildings	346,100	53,429	292,671
Leased building	80,378	4,095	76,283
Leasehold improvements	61,179	41,626	19,553
Equipment	299,336	190,302	109,034
Construction-in-progress	13,794	-	13,794
Deposits on equipment	4,502	-	4,502
	\$ 918,680	\$ 289,452	\$ 629,228

2004	Cost	Accumulated amortization	Net book value
Land	\$ 7,291	\$ -	\$ 7,291
Buildings	184,024	42,658	141,366
Leasehold improvements	66,263	35,769	30,494
Equipment	265,690	168,293	97,397
Equipment under capital leases	3,829	2,887	942
Construction-in-progress	60,073	-	60,073
	\$ 587,170	\$ 249,607	\$ 337,563

In December 2004, the British Columbia Cancer Agency Branch completed construction of a new research centre with total construction costs of \$76,549. The Branch incurred construction costs of \$51,100, which were funded by the Canada Foundation for Innovation and British Columbia Knowledge Development Fund. The remainder of the construction costs, totaling \$25,449, were incurred by the BC Cancer Foundation. The Research centre was constructed on land that is leased by the Branch from the BC Cancer Foundation. The lease agreement with the Foundation is for a 50-year term, at nominal annual rent, and the Branch is responsible for all operating costs. As the lease term represents the full economic life of the asset, the total construction costs of the Research Centre, including the \$25,449 paid by BC Cancer Foundation, are recorded in capital assets. Deferred capital funding, of \$25,449, has been recorded in the financial statements to reflect the fair value of costs paid by the Foundation and contributed to the Branch through the lease.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

5. Capital assets (continued):

On April 22, 2004, the Province of British Columbia granted to Children's & Women's Health Centre of British Columbia Branch the land and premises situated on the Oak Street site. The grant is subject to section 48 of the Hospital Act which includes restrictions on certain structural alterations and on any lease or transfer of the granted assets. The grant for land is recorded in capital assets and net assets invested in capital assets at the estimated fair value of the land. The grant for premises that were not purchased by the Branch have been included in these financial statements in capital assets and deferred capital contributions at the estimated fair value of the premises.

During the year Children's & Women's Health Centre of British Columbia Branch began construction of the Child, Adolescent & Women's Mental Health Building with a total estimated construction cost of \$19,000 of which \$3,492 (2004 - \$1,121) is included in capital assets as construction in progress. Funding for this project has been committed by the Provincial Health Services Authority and the British Columbia's Children's Hospital Foundation.

During fiscal 2004, the Provincial Government directed Partnerships British Columbia Inc. to assume the construction of a new Abbotsford Hospital and Cancer Centre using a public private partnerships approach. As a result, Abbotsford Hospital and Cancer Centre Inc. (AHCC Inc) was incorporated under the Company Act on September 2, 2003 and is registered as a not-for-profit organization under the Income Tax Act. AHCC Inc is wholly owned by Partnerships British Columbia Inc., a Crown Corporation of the Province of British Columbia. It is anticipated that once the hospital and cancer centre is available for use, ownership will be transferred to the Fraser Health Authority and the Provincial Health Services Authority. During 2004, the Branch expended \$742 in planning for this project. However, the Branch subsequently transferred responsibility for the construction of the Centre to AHCC Inc. and, as a result, in the prior year, both the capital costs and the corresponding deferred capital contributions of \$742 were removed from these financial statements.

6. Accounts payable and accrued liabilities:

	2005	2004
Trade accounts payable and accrued liabilities	\$ 79,489	\$ 86,199
Accrued salaries, wages and benefits payable	40,990	35,040
Accrued vacation payable	26,535	28,152
Accrued Mental Health Plan costs (note 14)	23,012	34,100
Current portion of accrued sick and severance liabilities	3,021	2,537
Patient trust funds	229	232
Other	785	1,018
	\$ 174,061	\$ 187,278

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

7. Deferred contributions for designated purposes:

Deferred contributions for designated purposes represent unspent grants and donations for research and other specified purposes. These deferred contributions will be recorded as revenue in the statement of operations when they are spent.

	2005	2004
Balance, beginning of year	\$ 34,499	\$ 26,797
Amount received for designated purposes	72,134	63,593
Amount recognized as revenue	(65,208)	(55,891)
Balance, end of year	\$ 41,425	\$ 34,499

8. Obligations under capital leases:

Certain branches lease equipment over terms which expire between fiscal years 2006 and 2007. The following is a schedule of minimum lease payments under fixed rate capital leases, together with the balance of the obligations.

	2005	2004
Year ending March 31,		
2005	\$ -	\$ 900
2006	487	487
2007	251	251
Total minimum lease payments	738	1,638
Amount representing interest at a weighted average rate of 6.9% (2004 - 6.9%)	(30)	(103)
Present value of capital lease payments	708	1,535
Current portion of obligations under capital leases	461	827
Long-term portion of obligations under capital leases	\$ 247	\$ 708

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

9. Employee benefits:

(a) Employee sick and severance benefits:

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 actuarial valuation as at December 31, 2003 updated to March 31, 2005. The next required valuation will be as of December 31, 2006.

Information about employee sick and severance benefits is as follows:

	2005	2004
Accrued benefit obligation:		
Sick leave benefits	\$ 10,961	\$ 10,178
Severance benefits	25,037	24,075
Total unfunded obligation	35,998	34,253
Balance of unamortized amounts	5,305	6,153
Accrued sick and severance liabilities	\$ 41,303	\$ 40,406
Sick and severance plan expense	\$ 4,476	\$ 5,046
Benefits paid	3,579	2,900

The current portion of accrued sick and severance liabilities of \$3,021 (2004 - \$2,537) is included in accounts payable and accrued liabilities.

The significant actuarial assumptions adopted in measuring the Authority's accrued sick and severance liabilities are as follows:

	2005	2004
Accrued benefit obligation as at March 31:		
Discount rate	5.50%	5.75%
Rate of compensation increase	3.25%	3.25%
Benefit costs for years ended March 31:		
Discount rate	5.75%	6.25%
Rate of compensation increase	3.25%	5.20%

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

9. Employee benefits (continued):

(b) Employee healthcare 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.

Effective March 31, 2004, the Trust was restructured from a multiemployer to a multiple-employer plan only 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 liabilities are based on an actuarial valuation using an early measurement date of December 31, 2004. The next required valuation will be as of December 31, 2005.

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

	2005	2004
Accrued benefit obligation	\$ 17,214	\$ 15,511
Fair value of plan assets	16,301	11,083
Net unfunded obligation	913	4,428
Balance of unamortized amounts	329	-
Contributions to the plan during January to March, 2005	(885)	-
Accrued long-term disability liabilities	\$ 357	\$ 4,428
Long-term disability plan expense	\$ 3,968	\$ -*
Benefits paid	3,437	-*

* Comparative figures are not available because the long-term disability benefit plan was a multiemployer plan throughout 2004 and, consequently, PHSA does not have sufficient information about the long-term disability benefit plan expense or benefit payments in 2004.

Plan assets consist of:

	2005	2004
Debt securities	45%	48%
Equity securities	41	39
Other	14	13
Total	100%	100%

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

9. Employee benefits (continued):

(b) Employee healthcare benefits (continued):

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

	2005	2004
Accrued benefit obligation as at March 31:		
Discount rate	6.0%	7.5%
Rate of benefit increase	1.5%	1.5%
Benefit cost for years ended March 31:		
Discount rate	7.5%	7.5%
Expected long-term rate of return on plan assets	7.5%	7.5%
Rate of benefit increase	1.5%	1.5%

The group life insurance, accidental death and dismemberment, extended health, dental and pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multiemployer plan. Contributions to the Trust of \$10,294 were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2004 indicated a deficit of \$6,415. The plan covers approximately 76,108 active employees of which approximately 4,400 are employees of the Authority. The next required valuation will be as of December 31, 2005.

While 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.

(c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$17,950 (2004 - \$16,474) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2003 indicated an unfunded liability of \$789,000. The plan covers approximately 128,000 active employees of which approximately 5,584 are employees of the Authority. The next required valuation will be as of December 31, 2006.

Employer contributions to the Public Service Pension Plan of \$5,914 (2004 - \$6,141) were expensed during the year. The most recent actuarial valuation for the plan at March 31, 2002 indicated a surplus of \$546,000. The plan covers approximately 51,000 active employees of which approximately 1,740 are employees of the Authority. The next required valuation will be as of March 31, 2005.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

10. Deferred capital contributions:

Deferred capital contributions represent the unamortized amounts and unspent amounts of grants and donations received for the purchase of capital assets. Amortization of deferred capital contributions is recorded as revenue in the statement of operations.

	2005	2004
Deferred capital contributions, beginning of year	\$ 376,663	\$ 335,867
Additional contributions received:		
Ministry of Health Services	23,236	41,465
Foundations (note 15)	5,492	5,569
Contribution of buildings from the Province of British Columbia	139,100	-
Contribution of building from BC Cancer Foundation	25,449	-
Contribution of equipment from BC Cancer Foundation	800	-
Other	24,698	35,649
Capital funding to other health authorities for provincial renal programs	-	(1,972)
Amount amortized to revenue	(42,307)	(39,915)
Deferred capital contributions, end of year	\$ 553,131	\$ 376,663

The balance of deferred capital contributions related to capital assets consists of the following:

	2005	2004
Unamortized deferred capital contributions used to purchase capital assets	\$ 519,261	\$ 327,291
Unspent contributions	33,870	49,372
	\$ 553,131	\$ 376,663

11. Invested in capital assets:

(a) The amount invested in capital assets is calculated as follows:

	2005	2004
Capital assets	\$ 629,228	\$ 337,563
Amounts financed by:		
Deferred capital contributions	(519,261)	(327,291)
Obligations under capital leases	(708)	(1,535)
Unsecured loan	(8)	(11)
	\$ 109,251	\$ 8,726

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

11. Invested in capital assets (continued):

(b) The deficiency of revenue over expenses related to capital assets is calculated as follows:

	2005	2004
Amortization of deferred capital contributions	\$ 42,307	\$ 39,915
Amortization of capital assets	(44,587)	(43,387)
	\$ (2,280)	\$ (3,472)

(c) The change in the amount invested in capital assets for the year is calculated as follows:

	2005	2004
Purchase of capital assets	\$ 64,803	\$ 68,261
Contributed building	164,549	-
Contributed equipment	800	-
Amounts funded by:		
Deferred capital contributions	(68,928)	(65,648)
Contribution of buildings from the Province of B.C.	(139,100)	-
Contribution of buildings from BC Cancer Foundation	(25,449)	-
Contribution of equipment from BC Cancer Foundation	(800)	-
Payment of obligations under capital leases and loan	830	1,176
	\$ (3,295)	\$ 3,789

12. Commitments and contingencies:

(a) Operating lease commitments:

Certain of the branches lease premises and equipment under operating leases. Minimum lease payments for each of the next five years and in total are as follows:

Year ending March 31,	
2006	\$ 22,071
2007	1,886
2008	1,236
2009	869
2010	356
	\$ 26,418

British Columbia Mental Health Society (Riverview) Branch, British Columbia Centre for Disease Control and Prevention Society Branch and Forensic Psychiatric Services Commission lease land and buildings under an operating lease with the British Columbia Buildings Corporation ("BCBC"). Lease payments are for base rent, operating expenses and maintenance costs. The terms and conditions are negotiated annually. Included in the above amounts is \$19,991 for lease payments to BCBC for the year ending March 31, 2006.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

12. Commitments and contingencies (continued):

(b) Legal contingencies:

The nature of the Authority's activities is such that there is litigation pending or in prospect at any time. With respect to unsettled claims at March 31, 2005, management believes the Authority has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Authority's financial position.

Risk management and insurance services are provided by the BC Health Care Risk Management Society under the Health Care Protection Program.

13. Patient/client revenue:

	2005	2004
Patient/client revenue consists of:		
Medical Services Plan	\$ 17,551	\$ 18,762
Other Provincial Government	2,161	2,002
Non-residents of British Columbia	2,568	4,085
Non-residents of Canada	1,513	775
Residents of British Columbia - Self Pays	1,079	1,346
Other	1,135	538
	\$ 26,007	\$ 27,508

14. Compensation and benefits:

The Authority is in the process of implementing the Mental Health Plan approved by the Ministry of Health Services. The purpose of the plan is to decentralize mental health care services throughout British Columbia. The plan will be substantially completed over the next three years and will culminate in significant downsizing of the operations of British Columbia Mental Health Society (Riverview) Branch (the "Branch"). The anticipated costs of the plan consist of severance, benefits and related expenses.

These financial statements include accruals for the compensation, benefits and employment security expenses and the related funding of \$20,000 in 2003 and an additional \$14,100 in 2004. As at March 31, 2005 management has revised the estimated accrual due to timing changes in implementing the Mental Health Plan. This has resulted in a reduction of the accrual by \$9,400. During the year, costs of \$1,688 related to the provision were incurred. The total remaining accrual of the \$23,012 is recorded in Accrued Mental Health Plan costs. These amounts represent management's best estimate of the expenses required to implement the plan. However, other expenses may be incurred and recorded in future years as the plan is implemented.

PROVINCIAL HEALTH SERVICES AUTHORITY

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars)

Years ended March 31, 2005 and 2004

15. Related entities:

Foundations and Auxiliaries:

The following branches of the Authority have an economic interest in the Foundations and Auxiliaries listed under them:

British Columbia Cancer Agency Branch:
BC Cancer Foundation
British Columbia Transplant Society Branch:
British Columbia Transplant Foundation
Children's & Women's Health Centre of British Columbia Branch:
British Columbia's Children's Hospital Foundation
Sunny Hill Foundation for Children
British Columbia's Women's Hospital and Health Centre Foundation
The Auxiliary to British Columbia's Children's Hospital
British Columbia's Women's Hospital and Health Centre Auxiliary
Auxiliary to Sunny Hill Centre for Children
BC Women's Institute for Research and Evaluation Society
British Columbia Mental Health Society (Riverview) Branch
Riverview Hospital Foundation

As at March 31, 2005, the Foundations and Auxiliaries held net assets of \$91,570 (2004 - \$102,369). During the year ended March 31, 2005, the Foundations granted \$23,040 (2004 - \$21,572) to their affiliated branches to fund certain expenditures.

16. Supplementary information:

	2005	2004
Changes in non-cash operating items:		
Restricted cash	\$ 57	\$ 49
Accounts receivable	7,024	(50,290)
Inventories and prepaid expenses	(985)	(37)
Accounts payable and accrued liabilities	(13,214)	32,888
Deferred operating revenue	37,298	2,298
Deferred contributions for designated purposes	6,926	7,702
Accrued sick and severance liabilities	413	2,436
Accrued long-term disability liabilities	(4,071)	(216)
Other long-term benefit liabilities	(809)	(809)
	\$ 32,639	\$ (5,979)