

Financial Statements of

**VANCOUVER COASTAL
HEALTH AUTHORITY**

Years Ended March 31, 2013, and March 31, 2012

Statement of Management Responsibility

The financial statements of Vancouver Coastal Health Authority ("the Authority") are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Contributions Regulation 198/2011 and as advised by the Office of the Comptroller General of British Columbia.

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 fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board. The Audit Committee meets with management and the internal auditors no fewer than four times a year and the external auditors two times a year.

The Authority's internal auditor has the responsibility for assessing the management systems and practices of the corporation.

The external auditors, the Auditor General of British Columbia, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Authority's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board and meet with it on a regular basis.

On behalf of Vancouver Coastal Health Authority



Dr. David Ostrow
President & Chief Executive Officer



Mary Ackenhusen
Interim Chief Financial Officer & Vice President,
System Development & Performance

Vancouver, BC
May 30, 2013



INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Vancouver Coastal Health Authority, which comprise the statements of financial position as at March 31, 2013, March 31, 2012, and April 1, 2011, and the statements of operations, statements of changes in net financial debt and statements of cash flows for the years ended March 31, 2013, and March 31, 2012, and 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 accounting requirements 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 the auditor's 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, the auditor considers 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 presentation of the financial statements.

In my view, the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.


Opinion

In my opinion, the financial statements of Vancouver Coastal Health Authority as at and for the years ended March 31, 2013, March 31, 2012, and the statement of financial position as at April 1, 2011, are prepared, in all material respects in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 1(b) to the financial statements, which discloses that the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia are in accordance with Canadian public sector accounting standards except in regard to the accounting treatment of government transfers. Note 23 to the financial statements discloses the impact of these differences.

Victoria, British Columbia
June 24, 2013


Russ Jones, MBA, CA
Auditor General

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Financial Position

(Amounts expressed in thousands of dollars)

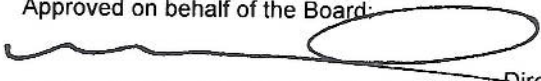
March 31, 2013, with comparative figures for March 31, 2012 and April 1, 2011


| | March 31, 2013 | March 31, 2012 | April 1, 2011 |
|--|-----------------------|---------------------------|---------------------------|
| | | (Restated - note 2, 3) | (Restated - note 2, 3) |
| Financial assets | | | |
| Cash and cash equivalents (note 4) | \$ 102,681 | \$ 109,098 | \$ 99,552 |
| Portfolio investments (note 4) | 70,408 | 49,939 | 5,000 |
| Accounts receivable (note 5) | 94,019 | 100,193 | 87,491 |
| Loans receivable (note 6) | 5,376 | 5,521 | 5,695 |
| Assets available for sale (note 7, 16) | 3,091 | - | - |
| Long-term disability benefits (note 13(b)(i)) | 2,358 | 17,900 | 14,482 |
| | 277,933 | 282,651 | 212,220 |
| Liabilities | | | |
| Accounts payable and accrued liabilities (note 8) | 274,570 | 287,709 | 267,415 |
| Deferred operating contributions (note 9) | 2,763 | 4,185 | 11,891 |
| Deferred research and designated contributions (note 10) | 11,491 | 13,762 | 16,834 |
| Obligations under capital leases (note 11) | 110,551 | 113,440 | 114,569 |
| Debt (note 12) | 6,925 | 8,029 | 9,100 |
| Retirement allowance (note 13(a)) | 115,317 | 113,781 | 104,219 |
| Replacement reserves (note 14) | 869 | 756 | 849 |
| Deferred capital contributions (note 15) | 844,393 | 872,186 | 876,444 |
| | 1,366,879 | 1,413,848 | 1,401,321 |
| Net financial debt | \$ (1,088,946) | \$ (1,131,197) | \$ (1,189,101) |
| Non-financial assets | | | |
| Tangible capital assets (note 16) | 812,583 | 854,461 | 887,903 |
| Tangible capital assets under lease (note 16) | 97,201 | 99,447 | 101,701 |
| Inventories held for use (note 17) | 8,248 | 7,972 | 14,828 |
| Prepaid expenses | 18,386 | 16,606 | 21,452 |
| | \$ 936,418 | \$ 978,486 | \$ 1,025,884 |
| Accumulated operating deficit (note 3(e), 23) | \$ (152,528) | \$ (152,711) | \$ (163,217) |

Commitments and contingencies (note 18)

See accompanying notes to financial statements.

Approved on behalf of the Board:


Director


Director

Kip Woodward, Board Chair

Axel Rehkatsch, Chair Audit & Finance Committee

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Operations and Accumulated Operating Deficit
(Amounts expressed in thousands of dollars)

Year Ended March 31, 2013 with comparative figures for 2012

| | 2013 Budget | 2013 | 2012 |
|--|------------------|---------------------|---------------------|
| | (Note 1(n)) | | (Restated - note 3) |
| Revenues: | | | |
| Ministry of Health contributions | \$ 2,359,739 | \$ 2,353,271 | \$ 2,304,432 |
| Medical Services Plan | 197,532 | 205,584 | 198,426 |
| Other contributions (note 19(a)) | 180,398 | 191,663 | 196,410 |
| Recoveries from B.C government reporting entities and other (note 19(b)) | 125,884 | 138,590 | 125,608 |
| Amortization of deferred capital contributions (note 15) | 94,503 | 97,683 | 105,407 |
| Patients, clients and residents (note 19(c)) | 81,400 | 83,053 | 80,821 |
| Research and designated contributions (note 10) | 16,000 | 21,725 | 19,448 |
| | <u>3,055,456</u> | <u>3,091,569</u> | <u>3,030,552</u> |
| Expenses (note 19(d)): | | | |
| Acute | 1,756,533 | 1,785,570 | 1,747,017 |
| Residential care | 420,332 | 426,451 | 430,563 |
| Mental health & substance use | 290,661 | 277,127 | 261,098 |
| Corporate | 260,333 | 272,808 | 266,092 |
| Community care | 209,502 | 229,521 | 216,357 |
| Population health & wellness | 118,095 | 99,909 | 98,919 |
| | <u>3,055,456</u> | <u>3,091,386</u> | <u>3,020,046</u> |
| Annual operating surplus | \$ - | \$ 183 | \$ 10,506 |
| Accumulated operating deficit, beginning of year | | (152,711) | (163,217) |
| Accumulated operating deficit, end of year | | \$ (152,528) | \$ (152,711) |

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Change in Net Financial Debt
(Amounts expressed in thousands of dollars)

Year Ended March 31, 2013 with comparative figures for 2012

| | 2013 Budget (Note 1(n)) | 2013 | 2012 |
|--|----------------------------|----------------|----------------|
| Annual operating surplus | \$ - | \$ 183 | \$ 10,506 |
| Acquisition of tangible capital assets | (101,702) | (72,320) | (79,847) |
| Amortization of tangible capital assets | 101,635 | 104,090 | 113,665 |
| Write-down of tangible capital assets | - | 9,263 | 1,878 |
| Transfer of tangible capital assets | - | 3,091 | - |
| | (67) | 44,307 | 46,202 |
| Acquisition of inventories held for use | - | (186,559) | (164,281) |
| Acquisition of prepaid expenses | - | (190,485) | (221,410) |
| Consumption of inventories held for use (note 20(b)) | - | 186,283 | 171,137 |
| Use of prepaid expenses | - | 188,705 | 226,256 |
| | - | (2,056) | 11,702 |
| (Increase) decrease in net financial debt | (67) | 42,251 | 57,904 |
| Net financial debt, beginning of year | | (1,131,197) | (1,189,101) |
| Net financial debt, end of year | | \$ (1,088,946) | \$ (1,131,197) |

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Statement of Cash Flows

(Amounts expressed in thousands of dollars)

Year Ended March 31, 2013 with comparative figures for 2012

| | 2013 | 2012 |
|---|------------|------------------------|
| | | (Restated - note 3) |
| Cash flows from operating activities: | | |
| Annual operating surplus (deficit) | \$ 183 | \$ 10,506 |
| Items not involving cash: | | |
| Amortization of deferred capital contributions | (97,683) | (105,407) |
| Amortization of tangible capital assets | 104,090 | 113,664 |
| Write-down of tangible capital assets | 9,263 | 1,878 |
| Write-down of deferred capital contributions | (6,409) | - |
| Retirement allowance expense | 12,185 | 12,300 |
| Long term disability benefits expense | 39,663 | 24,320 |
| | 61,292 | 57,261 |
| Net change in non-cash operating items (note 20(b)) | (16,317) | 13,441 |
| Net change in cash from operating activities | 44,975 | 70,702 |
| Capital activities: | | |
| Acquisition of tangible capital assets (note 20(c)) | (72,320) | (79,846) |
| Net change in cash from capital activities | (72,320) | (79,846) |
| Investing activities: | | |
| Investments in portfolio investments | (20,469) | (44,939) |
| Proceeds from loans receivable | 145 | 174 |
| Net change in cash from investing activities | (20,324) | (44,765) |
| Financing activities: | | |
| Repayment of obligation under capital leases | (2,889) | (1,131) |
| Retirement allowance contributions | (6,933) | (7,269) |
| Long-term disability benefits contributions | (24,121) | (28,225) |
| Repayment of debt | (1,104) | (1,069) |
| Capital contributions | 76,299 | 101,149 |
| Net change in cash from financing activities | 41,252 | 63,455 |
| Increase in cash and cash equivalents | (6,417) | 9,546 |
| Cash and cash equivalents, beginning of year | 109,098 | 99,552 |
| Cash and cash equivalents, end of year | \$ 102,681 | \$ 109,098 |

Supplementary cash flow information (note 20(d))

See accompanying notes to financial statements.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

Vancouver Coastal 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 Vancouver Coastal region and those referred from outside the region.

1. Significant accounting policies:

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

(a) Affiliated organizations:

Within the Vancouver Coastal area, there are three denominational health care organizations, Providence Health Care ("PHC"), Bella Coola General Hospital ("Bella Coola") and R.W. Large Memorial Hospital in Bella Bella ("R.W. Large") (collectively the "Affiliates") which have the responsibility to manage the administration of certain health care facilities under affiliation agreements with the Authority. These Affiliates are separate legal entities with separate Boards of Directors and accordingly, these financial statements do not include their assets, liabilities or results of operations. However, the funds received from the Ministry on behalf of these Affiliates are recorded as Ministry of Health contributions, and funds transferred to the Affiliates are recorded as expenses in the statement of operations. As the Authority's performance agreement with the Ministry includes the performance of these Affiliates, information on the equity and results of operations of the Affiliates is provided in note 21(b) of these financial statements.

(b) Basis of accounting:

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

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(b) Basis of accounting (continued):

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 Institute of Chartered Accountants ("CICA") Public Sector Accounting Board ("PSAB") without any CICA Handbook – PSAS ("PS") 4200 series from their first fiscal year commencing after January 1, 2012.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as 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 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.
- (ii) Contributions restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met.

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

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

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS 3410; 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.

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(c) Basis of consolidation:

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 21(c)).

(d) 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 short-term 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.

(e) Portfolio investments:

Portfolio investments include guaranteed investment certificates 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.

(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.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(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 are amortized over the expected average remaining service lifetime of active employees covered under the plan. The expected average remaining service period of the active covered employees entitled to retirement allowance benefits is 10 years (2012 - 10 years). The average remaining service period of the active employees covered by the multiple employer defined long-term disability benefits is 10 years (2012 - 10 years).

The discount rate used to measure the obligation is based on the cost of borrowing. The cost of a plan amendment or the crediting of past service is accounted for entirely in the year that the plan change is implemented.

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

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

(iii) Accumulating, non-vesting benefit plans:

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

(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.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(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. Costs include overhead directly attributable to construction and development. Interest is capitalized over the development period whenever external debt is issued to finance the construction and development of tangible capital assets.

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

| | |
|-----------------------------------|--------------|
| Buildings | 5 - 50 years |
| Equipment and information systems | 3 - 20 years |
| Leasehold improvements | lease term |
| Buildings under capital lease | lease term |

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

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

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

(ii) Leased tangible capital assets:

Tangible capital assets acquired under a lease which transfers substantially all of the benefits and risks incidental to ownership of property are recorded as leased tangible capital assets with an offsetting obligation under capital lease. All other leases are accounted for as operating leases and the related payments are charged to expense as incurred.

Obligations under capital leases are recorded at the present value of the minimum lease payments excluding executor costs. The discount rate used to determine the present value of the lease payments is the lower of the Authority's rate for incremental borrowing or the interest rate implicit in the lease. Note 11 provides a schedule of repayments and amount of interest on the leases.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(h) Non-financial assets (continued):

(iii) Inventories held for use:

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

(i) Revenue recognition:

Under the *Hospital Insurance Act* and *Regulation* thereto, the Authority is funded primarily by the Province of British Columbia in accordance with budget management plans and performance agreements established and approved by the Ministry.

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

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

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(b).

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

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

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(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 and inventories held for use, the determination of obsolescence and useful lives of tangible capital assets and amortization of deferred capital contributions, accrued liabilities and contingent liabilities and the assumptions with respect to long-term disability benefits and retirement allowance.

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) 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.

(l) 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.

Financial assets and financial liabilities are measured at cost or amortized cost upon their inception and subsequent to initial recognition. Cash and cash equivalents are measured at cost. Accounts receivable are recorded at amortized cost less any amount for valuation allowance. Portfolio investments are reported at cost 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.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

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

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

The Authority applied requirements of PS 3450, *Financial Instruments* effective April 1, 2012, in the same period as it adopted PSAS for the first time. Accordingly, PS 3450 was not applied retroactively. Comparative amounts for financial instruments are presented in accordance with the accounting policies applied by the Authority immediately preceding its adoption of PSAS. Such accounting policies were as follows:

The Authority had designated all non-derivative financial assets and liabilities as held-for-trading with the exception of certain obligations designated as other liabilities, and receivables and investments which were designated as held-to-maturity.

- The Authority initially recorded all non-derivative financial assets and liabilities at fair value.
- Assets and liabilities classified as held-for-trading were measured at fair value and changes in fair value were recognized in the statement of operations.
- Other liabilities which included the Authority's long-term disability liabilities and assets, accrued retirement allowance liabilities, long-term debt, and obligations under capital leases, were recorded at amortized cost.
- All transaction costs incurred on loans, receivables and other liabilities were incorporated in the fair value of the instrument and were amortized to operations using the effective interest rate method.

Assets and liabilities classified as available-for-sale were measured at fair value and changes in fair value were recorded in the statement of changes in net assets until the financial instruments were de-recognized or other than temporarily impaired at which time the amounts are recorded in the statement of operations. The Authority had not classified any assets or liabilities as available-for-sale.

The standards required derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as normal purchase and sale. Certain derivatives embedded in other contracts were required to be measured at fair value. All changes in the fair value of derivatives were recognized as earnings unless specific hedge criteria were met, which required that an entity must formally document, designate and assess the effectiveness of the transaction that received hedge accounting.

The Authority's financial instruments included cash, restricted cash, accounts receivable, long-term disability liabilities and assets, accounts payable and accrued liabilities, and accrued retirement allowance liabilities. It was management's opinion that the Authority was not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these instruments approximated their carrying values, except for the fair value of accrued retirement allowance liabilities and accrued long-term disability liabilities and assets.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(l) Financial instruments (continued):

The Authority had elected not to apply the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862, *Financial Instruments - Disclosure*, and 3863, *Financial Instruments - Presentation*. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Authority elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

(m) Capitalization of public-private partnership projects:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance and maintain the assets. The cost of the assets under construction are estimated at fair value, based on construction progress billings verified by an independent certifier, and also includes other costs incurred directly by the Authority.

The asset cost includes development and financing fees estimated at fair value, which require the extraction of cost information from the financial model embedded in the project agreement. Interest during construction is also included in the asset cost and is calculated on the P3 asset value, less contributions received and amounts repaid, during the construction term. The interest rate used is the project internal rate of return. When available for operations, the project assets are amortized over their estimated useful lives.

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

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

(n) Budget figures:

Budget figures have been provided for comparative purposes and have been derived from the Authority's Fiscal 2012/2013 Budget approved by the Board of Directors on March 29, 2012 and published in the Authority's Service Plan. The budget is included in the Statement of Operations and Accumulated Operating Deficit and the Statement of Changes in Net Financial Debt.

The sector budget figures have been derived from the budget provided to the Ministry of Health at Quarter 1 ("Q1"), in the Budget Working Papers. The Ministry of Health has locked down the budget at Q1. Reclassification of health sector expenses after Q1, as a result of the ongoing review of reporting consistency within health sectors between the Ministry of Health and the Health Authorities, are not reflected in these figures.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

1. Significant accounting policies (continued):

(o) Prepaid expenses:

Prepaid expenses include cash disbursements for future events, and operational costs, which will be charged to expense over the periods expected to benefit from it.

(p) Assets available for sale:

Assets available for sale are those expected to be sold within one year. They are valued at the lower of cost, less accumulated amortization, or expected net realizable value. Cost includes amounts for improvements to prepare the assets for sale.

(q) Future accounting standards:

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

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

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

2. Prior year restatements:

During the year, management ascertained that the long-term disability benefits for prior years were misstated. As a result, the accumulated operating deficit and long-term disability benefits for April 1, 2011 and March 31, 2012 have been restated.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

2. Prior year restatements (continued):

The impact of the correction of prior period errors is presented below:

(a) Statement of Financial Position:

| | March 31, 2012 | | | |
|-------------------------------|------------------------|--------------------------|---------------------------|-----------|
| | As previously reported | April 1, 2011 Correction | March 31, 2012 Correction | Restated |
| Long-term disability benefits | \$ 11,171 | \$ 3,462 | \$ (487) | \$ 14,146 |

| | April 1, 2011 | | |
|-------------------------------|------------------------|--------------------------|-----------|
| | As previously reported | April 1, 2011 Correction | Restated |
| Long-term disability benefits | \$ 15,260 | \$ 3,462 | \$ 18,722 |

(b) Statement of Operations:

| | March 31, 2012 | | |
|---|------------------------|------------|--------------|
| | As previously reported | Correction | Restated |
| Compensation and benefits | \$ 1,337,833 | \$ 487 | \$ 1,338,320 |
| Distributions to affiliated organizations | 604,081 | - | 604,081 |
| Referred out and contracted services | 590,698 | - | 590,698 |
| Supplies | 198,836 | - | 198,836 |
| Depreciation of capital assets | 113,664 | - | 113,664 |
| Equipment and building services | 86,611 | - | 86,611 |
| Sundry | 66,809 | - | 66,809 |
| Research | 19,426 | - | 19,426 |
| Interest | 6,254 | - | 6,254 |
| | \$ 3,024,212 | \$ 487 | \$ 3,024,699 |

(c) Accumulated operating deficit:

| | March 31, 2012 | April 1, 2011 |
|--|----------------|---------------|
| Accumulated operating deficit, as previously reported | \$ (153,293) | \$ (159,633) |
| Restatements: | | |
| Restatement of April 1, 2011 due to long-term disability benefits | 3,462 | 3,462 |
| Restatement of March 31, 2012 due to long-term disability benefits | (487) | |
| Accumulated operating deficit, as restated | \$ (150,318) | \$ (156,171) |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

3. Adoption of new accounting framework:

Effective April 1, 2012, the Authority has adopted the framework described in note 1(b). These financial statements are the first financial statements for which the Authority has applied the framework. Previously, the Authority's financial statements were prepared in accordance with Part V of Canadian Generally Accepted Accounting Principles ("Part V Canadian GAAP").

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

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

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

(i) Retirement and post-employment benefits – change in discount rate applied:

The Authority has elected to defer application of PS 3250, *Retirement Benefits* and PS 3255, *Post-Employment Benefits, Compensated Absences and Termination Benefits* with respect to the discount rate used to calculate the accrued obligations. PS 2125 allows for this deferral until the Authority's next actuarial valuation after the date of adoption, or within three years of the transition date, whichever is sooner. The Authority's actuarial valuation was December 31, 2012, therefore the Authority used the discount rate as of that date.

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

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

(iii) Tangible capital asset impairment:

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

3. Adoption of new accounting framework (continued):

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

(b) Statement of Financial Position:

| | | | | | March 31, 2012 | | | | |
|-------------------------------|----|--|---------|----|---|--|--|--------------------------------|---------|
| | | | | | Part V Canadian GAAP restated (Note 2(a)) | Prior year adjustments (Note 3(f)) | Current year adjustments (Note 3(f)) | New accounting framework | |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | \$ | | 139,098 | \$ | (5,000) | \$ | (25,000) | \$ | 109,098 |
| Portfolio Investments | | | 19,939 | | 5,000 | | 25,000 | | 49,939 |
| Long-term disability benefits | | | 14,146 | | (4,240) | | 7,994 | | 17,900 |
| Financial liabilities | | | | | | | | | |
| Retirement allowance | | | 107,634 | | 2,806 | | 3,341 | | 113,781 |
| | | | | | April 1, 2011 | | | | |
| | | | | | Part V Canadian GAAP restated (Note 2(a)) | Adjustments | New accounting framework | | |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | \$ | | 104,552 | \$ | (5,000) | \$ | | \$ | 99,552 |
| Portfolio Investments | | | - | | | | 5,000 | | 5,000 |
| Long-term disability benefits | | | 18,722 | | (4,240) | | | | 14,482 |
| Financial liabilities | | | | | | | | | |
| Retirement allowance | | | 101,413 | | | | 2,806 | | 104,219 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

3. Adoption of new accounting framework (continued):

(c) Statement of Operations:

| | March 31, 2012 | | | |
|---|---|----------------------------|----------------|--------------------------------|
| | Part V Canadian GAAP restated (Note 2(b)) | Adjustments (Note 3(f)) | Reclassified | New accounting framework |
| Compensation and benefits | \$ 1,338,320 | \$ - | \$ (1,338,320) | \$ - |
| Distributions to affiliated organizations | 604,081 | - | (604,081) | - |
| Referred out and contracted services | 590,698 | - | (590,698) | - |
| Supplies | 198,836 | - | (198,836) | - |
| Depreciation of capital assets | 113,664 | - | (113,664) | - |
| Equipment and building services | 86,611 | - | (86,611) | - |
| Sundry | 66,809 | - | (66,809) | - |
| Research | 19,426 | - | (19,426) | - |
| Interest | 6,254 | - | (6,254) | - |
| Acute | - | - | 1,747,017 | 1,747,017 |
| Residential care | - | - | 430,563 | 430,563 |
| Mental health & substance use | - | - | 261,098 | 261,098 |
| Corporate | - | (4,653) | 270,745 | 266,092 |
| Community care | - | - | 216,357 | 216,357 |
| Population health & wellness | - | - | 98,919 | 98,919 |
| | \$ 3,024,699 | \$ (4,653) | \$ - | \$ 3,020,046 |

(d) Statement of Cash Flows:

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

3. Adoption of new accounting framework (continued):

(e) Accumulated operating deficit:

| | March 31, 2012 | April 1, 2011 |
|--|-----------------------|----------------------|
| Accumulated operating deficit, as restated (Note 2(c)) | \$ (150,318) | \$ (156,171) |
| New accounting framework adjustments: | | |
| PSAS adjustment for long-term disability benefits as at April 1, 2011 | (4,240) | (4,240) |
| PSAS adjustment for retirement allowance as at April 1, 2011 | (2,806) | (2,806) |
| PSAS adjustment for long-term disability benefits as at March 31, 2012 | 7,994 | |
| PSAS adjustment for retirement allowance as at March 31, 2012 | (3,341) | |
| Accumulated operating deficit, as restated | \$ (152,711) | \$ (163,217) |

(f) Transitional adjustments to new accounting framework

Key adjustments on the Authority's consolidated financial statements were due to the following:

Long-term disability benefit and retirement allowance:

(i) Change in discount rate applied:

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

(ii) Amortization of actuarial gains and losses:

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

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

3. Adoption of new accounting framework (continued):

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

Long-term disability benefit and retirement allowance (continued):

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

Portfolio Investments:

- (iv) The portfolio investments as at April 1, 2012 formerly classified as available-for-sale and measured at fair-value have been restated at their amortized cost. As PS 3450 has been applied prospectively, previously recognized gains or losses have not been reversed.
- (v) Under PS 1202 an investment would normally qualify as a cash equivalent if it has a short maturity of less than three months from the date of acquisition. Under CICA section 1540, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. As a result of the transition to PSAS, \$30 million in investments has been reclassified from cash and cash equivalents to portfolio investments because their maturities were greater than 3 months from the date of their acquisition.

4. Cash and cash equivalents and portfolio investments:

| | 2013 | | 2012 | |
|--|------|----------|------|----------|
| Cash and cash equivalents | \$ | 102,681 | \$ | 109,098 |
| Portfolio investments | | 70,408 | | 49,939 |
| | | 173,089 | | 159,037 |
| Amounts restricted for capital purposes | | (68,557) | | (65,589) |
| Amounts restricted for patient comfort funds | | (498) | | (462) |
| Amounts restricted for replacement reserves | | (869) | | (756) |
| Amounts externally restricted | | (18,243) | | (25,641) |
| Unrestricted cash and cash equivalents and portfolio investments | \$ | 84,922 | \$ | 66,589 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

5. Accounts receivable:

| | 2013 | 2012 |
|---|-----------|------------|
| Other health authorities and BC government reporting entities | \$ 39,378 | \$ 41,678 |
| Ministry of Health | 16,489 | 28,455 |
| Hospital foundations and auxiliaries | 9,701 | 6,519 |
| Patient fees | 4,865 | 6,102 |
| Medical Services Plan | 6,526 | 5,768 |
| Federal government | 3,324 | 3,219 |
| Other provinces | 3,294 | 2,498 |
| WorkSafeBC | 2,279 | 1,618 |
| Other | 13,331 | 9,968 |
| | 99,187 | 105,825 |
| Allowance for doubtful accounts | (5,168) | (5,632) |
| | \$ 94,019 | \$ 100,193 |

6. Loans receivable:

The loan consists of funds advanced for the repayment of a debt related to the Vancouver General Hospital ("VGH") Parkade. The debt was repaid on behalf of 578583 BC Ltd., a corporation which is the trustee of the VGH Parkade Trust (the "Trust") and is wholly owned by the VGH & UBC Hospital Foundation.

The Trust was created by agreement between the Authority and 578583 BC Ltd. In its capacity as the trustee of the Trust, 578583 BC Ltd. holds beneficial ownership in the VGH Parkade and earns the associated revenue.

The loan receivable from 578583 BC Ltd. earns interest at a variable rate which equals the RBC prime rate, currently 3.0%, and will mature in February 2016.

7. 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. Net proceeds from the disposition will be restricted for future capital investments. Subsequent to March 31, 2013, purchase offers totaling \$7,580,000 were made and accepted and the Authority is currently awaiting removal of purchasers' conditions.

8. Accounts payable and accrued liabilities:

| | 2013 | 2012 |
|--|------------|------------|
| Trade accounts payable and accrued liabilities | \$ 151,340 | \$ 158,057 |
| Salaries and benefits payable | 64,891 | 71,592 |
| Accrued vacation payable | 58,339 | 58,060 |
| | \$ 274,570 | \$ 287,709 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

9. Deferred operating contributions:

Deferred operating contributions represent externally restricted operating funding received for specific purposes, including grants from provincial ministries for various programs (including mental health, youth services, speech pathology and special needs). Other funds received are used for “go green” projects, maintenance of certain equipment and to further the well being of VCHA employees. Funds received for exchange transactions, environmental health permits and parking paid in advance, are also recorded as deferred operating contributions and recognized throughout the fiscal year.

| | 2013 | 2012 |
|---|----------|-----------|
| Deferred operating contributions, beginning of year | \$ 4,185 | \$ 11,891 |
| Contributions received during the year | 2,456 | 22,628 |
| Amounts recognized as revenue in the year | (3,878) | (30,334) |
| Deferred operating contributions, end of year | \$ 2,763 | \$ 4,185 |

10. Deferred research and designated contributions:

Deferred research and designated contributions represent unspent contributions received to fund research and other activities through the Vancouver Coastal Health Research Institute and the Prostate Research Centre. Contributions are received from pharmaceutical companies and other donors for various research projects to promote the health and well-being of residents with the region.

| | 2013 | 2012 |
|---|-----------|-----------|
| Deferred research and designated contributions, beginning of year | \$ 13,762 | \$ 16,834 |
| Contributions received during the year | 19,454 | 16,376 |
| Amounts recognized as revenue in the year | (21,725) | (19,448) |
| Deferred research and designated contributions, end of year | \$ 11,491 | \$ 13,762 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

11. Obligations under capital leases:

| | 2013 | 2012 |
|--|------------|------------|
| Building under capital lease obligation, with weighted average interest rate of 5.37% and maturities to 2036 | \$ 110,551 | \$ 113,434 |
| Equipment under capital lease obligations, with weighted average interest rate of 9.85% and maturities to 2013 | - | 6 |
| | \$ 110,551 | \$ 113,440 |

Future minimum lease payments for the years ending March 31 are as follows:

| | |
|-------------------------------|------------|
| 2014 | \$ 6,513 |
| 2015 | 6,675 |
| 2016 | 6,841 |
| 2017 | 7,021 |
| 2018 | 7,201 |
| Thereafter | 169,626 |
| Total minimum lease payments | 203,877 |
| Amounts representing interest | (93,326) |
| | \$ 110,551 |

12. Debt:

Debt is measured at amortized cost determined using the effective interest rate method.

| | 2013 | 2012 |
|--|----------|----------|
| Mortgages payable to CMHC, 2.86% interest, secured by first charges on properties, payable in blended payments of \$110,000 per month, renewable December 2013 | \$ 6,925 | \$ 8,029 |
| | \$ 6,925 | \$ 8,029 |

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

| | |
|------------|----------|
| 2014 | \$ 1,134 |
| 2015 | 1,166 |
| 2016 | 1,178 |
| 2017 | 1,023 |
| 2018 | 1,027 |
| Thereafter | 1,397 |
| | \$ 6,925 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

13. Employee benefits:

(a) Retirement allowance:

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

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

Information about retirement allowance benefits is as follows:

| | 2013 | 2012 | 2011 |
|---------------------------------------|------------|------------------------|------------------------|
| | | (Restated - note 3) | (Restated - note 3) |
| Accrued benefit obligation: | | | |
| Sick leave benefits | \$ 46,656 | \$ 48,112 | \$ 44,478 |
| Severance benefits | 59,346 | 63,171 | 59,741 |
| | 106,002 | 111,283 | 104,219 |
| Balance of unamortized amounts | 9,315 | 2,498 | - |
| Accrued retirement allowance benefits | \$ 115,317 | \$ 113,781 | \$ 104,219 |

The accrued benefit obligation for retirement allowance reported on the Statement of Financial Position is as follows:

| | 2013 | 2012 |
|---|------------|------------------------|
| | | (Restated - note 3) |
| Accrued benefit obligation: | | |
| Balance, beginning of year | \$ 113,781 | \$ 104,219 |
| Current service cost | 7,567 | 7,082 |
| Amortization of actuarial (gain) loss | (1,021) | - |
| Plan amendment | 772 | - |
| Interest expense | 4,867 | 5,218 |
| Net benefit expense | 12,185 | 12,300 |
| Benefits paid | (6,933) | (7,269) |
| Retirement allowance liability transferred (to)/from other health organizations | (3,716) | 4,531 |
| Accrued benefit obligation, end of year | \$ 115,317 | \$ 113,781 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

13. Employee benefits (continued):

(a) Retirement allowance (continued):

During the years ended March 31, 2013 and 2012 under the Lower Mainland Consolidation and Health Shared Services BC initiatives, there were movements of staff between health authorities. This resulted in the transfer of employee liabilities and ongoing expense obligations to the receiving health authorities at the date of transfer.

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

| | 2013 | 2012 | 2011 |
|--|-------|-------|-------|
| Accrued benefit obligation as at March 31: | | | |
| Discount rate | 4.41% | 4.44% | 5.01% |
| Rate of compensation increase | 3.00% | 2.50% | 2.50% |
| Benefit costs for years ended March 31: | | | |
| Discount rate | 4.44% | 5.01% | 0.00% |
| Rate of compensation increase | 3.00% | 2.50% | 2.50% |
| Expected future inflationary increases | 2.50% | 0.00% | 0.00% |

(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 responsible for the liabilities of the Trust should any participating employers be unable to meet their obligation to contribute to the Trust.

(i) Long-term disability benefits:

The Trust is a multiple employer plan with respect to long-term disability benefits initiated after September 30, 1997. The Authority's assets and liabilities for these long-term disability benefits have been segregated. Accordingly, the Authority's net liabilities are reflected in these financial statements.

The Authority's liabilities are based on the actuarial valuation at December 31, 2012 and extrapolated to March 31, 2013. The next expected valuation will be as of December 31, 2013.

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

13. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

Accrued long-term disability benefits obligation (asset) reported on the Statement of Financial Position is as follows:

| | 2013 | 2012 | 2011 |
|--|------------|---------------------------|---------------------------|
| | | (Restated - note 2, 3) | (Restated - note 2, 3) |
| Accrued benefit obligation | \$ 167,203 | \$ 141,356 | \$ 136,067 |
| Fair value of plan assets | 163,205 | 154,724 | 126,990 |
| Net unfunded obligation (asset), December 31 | 3,998 | (13,368) | 9,077 |
| Contributions to the plan (January - March) | (6,356) | (4,532) | (23,559) |
| Long-term disability benefits obligation (asset) | \$ (2,358) | \$ (17,900) | \$ (14,482) |

Accrued long-term disability asset reported on the statement of financial position as follows:

| | 2013 | 2012 |
|---|-------------|---------------------------|
| | | (Restated - note 2, 3) |
| Long-term disability obligation (asset) | | |
| Balance, beginning of year | \$ (17,900) | \$ (14,482) |
| Long-term disability expense | 25,821 | 31,483 |
| Actuarial (gain) loss | 14,405 | (6,918) |
| Interest expense | 7,924 | 8,554 |
| Expected return on assets | (8,487) | (8,312) |
| Net benefit expense | 39,663 | 24,807 |
| Contributions to plan | (24,121) | (28,225) |
| Long-term disability benefits obligation (asset), end of year | \$ (2,358) | \$ (17,900) |
| Benefits paid to claimants | \$ (26,041) | \$ (24,201) |

Plan assets consist of:

| | 2013 | 2012 | 2011 |
|-----------------------------|------|------|------|
| Debt securities | 52% | 55% | 54% |
| Foreign equities | 26% | 25% | 25% |
| Equity securities and other | 22% | 20% | 21% |
| Total | 100% | 100% | 100% |

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

13. Employee benefits (continued):

(b) Healthcare Benefit Trust benefits (continued):

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

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

| | 2013 | 2012 | 2011 |
|--|-------|-------|-------|
| Accrued benefit obligation as at March 31: | | | |
| Discount rate | 5.60% | 5.50% | 6.00% |
| Rate of benefit increase | 2.50% | 2.00% | 2.50% |
| Benefit costs for years ended March 31: | | | |
| Discount rate | 5.50% | 6.00% | 6.25% |
| Rate of benefit increase | 2.50% | 2.00% | 2.50% |
| Expected long-term rate of return on plan assets | 5.50% | 6.00% | 6.25% |
| Expected future inflationary increases | 2.00% | 2.00% | 2.00% |

(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 \$1.7 million (2012 - \$1.6 million) were expensed during the year. The most recent actuarial valuation at December 31, 2012 indicated a surplus of \$62.5 million (December 31, 2011 - \$30.9 million). The plan covers approximately 90,000 active members, of which approximately 16,000 are employees of the Authority. The Authority's next expected actuarial valuation will be as of December 31, 2013.

(c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$69.3 million (2012 - \$69.8 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, 2009 indicated an unfunded liability of approximately \$1,024 million. The actuary does not attribute portions of the unfunded liability to individual employers. The plan covers approximately 175,000 active members, of which approximately 16,375 are employees of the Authority. The Authority's next required actuarial valuation will be as of December 31, 2012; the results of which are not yet available.

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

14. Replacement reserves:

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

The change in the replacement reserves is calculated as follows:

| | 2013 | 2012 |
|---|--------|--------|
| Balance, beginning of year | \$ 756 | \$ 849 |
| Provision for replacement reserve funding | 106 | 59 |
| Interest on replacement reserves | 7 | 9 |
| Expenses | - | (161) |
| | \$ 869 | \$ 756 |

The replacement reserves by facility are as follows:

| | 2013 | 2012 |
|------------------------------------|--------|--------|
| Olive Devaud Residence | \$ 360 | \$ 340 |
| Kiwanis Intermediate Care | 147 | 140 |
| Shorncliffe Intermediate Care | 128 | 115 |
| Lions Park Senior Citizens Housing | 109 | 44 |
| Cedarview Lodge | 81 | 79 |
| Hilltop House | 44 | 38 |
| | \$ 869 | \$ 756 |

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

15. Deferred capital contributions:

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

| | 2013 | 2012 |
|---|------------|------------|
| Deferred capital contributions, beginning of year | \$ 872,186 | \$ 876,444 |
| Capital contributions received: | | |
| Ministry of Health | 51,297 | 79,750 |
| Hospital Foundations | 14,009 | 11,278 |
| Regional Health Districts | 8,677 | 2,527 |
| Other | 2,272 | 2,169 |
| Canada Foundation for Innovation | 44 | 5,425 |
| | 76,299 | 101,149 |
| | 948,485 | 977,593 |
| Amortization for the year | (97,683) | (105,407) |
| Writedown of assets | (6,409) | - |
| Deferred capital contributions, end of year | \$ 844,393 | \$ 872,186 |

Deferred capital contributions are comprised of the following:

| | 2013 | 2012 |
|--|------------|------------|
| Contributions used to purchase tangible capital assets | \$ 775,836 | \$ 806,597 |
| Unspent contributions | 68,557 | 65,589 |
| | \$ 844,393 | \$ 872,186 |

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

16. Tangible capital assets:

| Cost | Balance at March 31, 2012 | Additions | Disposals ⁽¹⁾ | Transfers | Balance at March 31, 2013 |
|--|---------------------------------|------------------|--------------------------|-------------------|---------------------------------|
| Land | \$ 19,984 | \$ - | \$ - | \$ (2,325) | \$ 17,659 |
| Buildings | 1,162,479 | 66,061 | (2,097) | (2,475) | 1,223,968 |
| Equipment and information systems | 991,799 | 29,637 | (36,088) | - | 985,348 |
| Leasehold improvements | 23,224 | 455 | - | - | 23,679 |
| Buildings under capital lease | 111,955 | - | - | - | 111,955 |
| Information systems projects in progress | 2,875 | (1,432) | - | - | 1,443 |
| Construction projects in progress | 52,627 | (22,401) | - | - | 30,226 |
| | \$ 2,364,943 | \$ 72,320 | \$ (38,185) | \$ (4,800) | \$ 2,394,278 |

| Accumulated amortization | Balance at March 31, 2012 | Disposals ⁽¹⁾ | Amortization expense | Transfers | Balance at March 31, 2013 |
|--|---------------------------------|--------------------------|-------------------------|-------------------|---------------------------------|
| Land | \$ - | \$ - | \$ - | \$ - | \$ - |
| Buildings | 550,914 | (1,517) | 41,163 | (1,709) | 588,851 |
| Equipment and information systems | 835,627 | (27,405) | 57,900 | - | 866,122 |
| Leasehold improvements | 11,986 | - | 2,781 | - | 14,767 |
| Buildings under capital lease | 12,508 | - | 2,246 | - | 14,754 |
| Information systems projects in progress | - | - | - | - | - |
| Construction projects in progress | - | - | - | - | - |
| | \$ 1,411,035 | \$ (28,922) | \$ 104,090 | \$ (1,709) | \$ 1,484,494 |

| | Net book value March 31, 2012 | Net book value March 31, 2013 |
|--|----------------------------------|----------------------------------|
| Land | \$ 19,984 | \$ 17,659 |
| Buildings | 611,565 | 635,117 |
| Equipment and information systems | 156,172 | 119,226 |
| Leasehold improvements | 11,238 | 8,912 |
| Buildings under capital lease | 99,447 | 97,201 |
| Information systems projects in progress | 2,875 | 1,443 |
| Construction projects in progress | 52,627 | 30,226 |
| | \$ 953,908 | \$ 909,784 |

⁽¹⁾ Included in disposals is \$9.2 million of write-downs

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

16. Tangible capital assets (continued):

| Cost | Balance at March 31, 2011 | Additions | Disposals ⁽¹⁾ | Balance at March 31, 2012 |
|---|---------------------------------|-----------|--------------------------|---------------------------------|
| Land | \$ 19,984 | \$ - | \$ - | \$ 19,984 |
| Buildings | 1,123,797 | 41,581 | (2,899) | 1,162,479 |
| Equipment and information systems | 970,141 | 34,900 | (13,242) | 991,799 |
| Leasehold improvements | 21,793 | 1,431 | - | 23,224 |
| Buildings under capital lease | 111,955 | - | - | 111,955 |
| Information systems projects in progress | 5,418 | (2,543) | - | 2,875 |
| Construction projects in progress | 48,150 | 4,477 | - | 52,627 |
| | \$ 2,301,238 | \$ 79,846 | \$ (16,141) | \$ 2,364,943 |

| Accumulated amortization | Balance at March 31, 2011 | Disposals ⁽¹⁾ | Amortization expense | Balance at March 31, 2012 |
|---|---------------------------------|--------------------------|-------------------------|---------------------------------|
| Land | \$ - | \$ - | \$ - | \$ - |
| Buildings | 512,032 | (1,183) | 40,065 | 550,914 |
| Equipment and information systems | 780,297 | (13,080) | 68,410 | 835,627 |
| Leasehold improvements | 9,051 | - | 2,935 | 11,986 |
| Buildings under capital lease | 10,254 | - | 2,254 | 12,508 |
| Information systems projects in progress | - | - | - | - |
| Construction projects in progress | - | - | - | - |
| | \$ 1,311,634 | \$ (14,263) | \$ 113,664 | \$ 1,411,035 |

| | Net book value March 31, 2011 | Net book value March 31, 2012 |
|---|----------------------------------|----------------------------------|
| Land | \$ 19,984 | \$ 19,984 |
| Buildings | 611,765 | 611,565 |
| Equipment and information systems | 189,844 | 156,172 |
| Leasehold improvements | 12,742 | 11,238 |
| Buildings under capital lease | 101,701 | 99,447 |
| Information systems projects in progress | 5,418 | 2,875 |
| Construction projects in progress | 48,150 | 52,627 |
| | \$ 989,604 | \$ 953,908 |

⁽¹⁾ Included in disposals is \$1.9 million of write-downs

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

16. Tangible capital assets (continued):

Contributed tangible capital assets total \$0 (2012 - \$0.6M).

Tangible capital assets and assets held for sale are funded as follows:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Deferred capital contributions | \$ 775,836 | \$ 806,597 |
| Debt | 117,679 | 119,327 |
| Internally funded | 19,360 | 27,984 |
| Tangible capital assets and assets held for sale | \$ 912,875 | \$ 953,908 |

17. Inventories held for use:

| | 2013 | 2012 |
|------------------|-----------------|-----------------|
| Pharmaceuticals | \$ 5,979 | \$ 5,648 |
| Medical supplies | 2,269 | 2,324 |
| | \$ 8,248 | \$ 7,972 |

18. Commitments and contingencies:

(a) Construction projects in process:

As at March 31, 2013, the Authority had outstanding commitments for construction projects in progress of \$178.1 million (2012 - \$52.0 million).

(b) Contractual obligations:

The Authority has entered into contracts for various services within the normal course of operations. The information presented below shows the anticipated cash outflow for all future obligations under these contracts.

| | Contract Term | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total |
|---------------------------------|---------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Housekeeping | 2014 | \$ 24,352 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 24,352 |
| Patient Food Services | 2014-2019 | 32,598 | 33,033 | 33,638 | 34,311 | 34,997 | 41,782 | 210,359 |
| Laundry | 2014-2016 | 14,757 | 15,052 | 9,464 | - | - | - | 39,273 |
| Waste Management | 2014-2015 | 110 | 74 | - | - | - | - | 184 |
| Waste Management | 2014 | 288 | - | - | - | - | - | 288 |
| Total future obligations | | \$ 72,105 | \$ 48,159 | \$ 43,102 | \$ 34,311 | \$ 34,997 | \$ 41,782 | \$ 274,456 |

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

18. Commitments and contingencies (continued):

(c) Long-term residential care contracts:

The Authority has entered into contracts with various residential care providers for a period of one year to provide residential care services. The aggregate annual commitment for these contracts is \$344 million for 2014.

(d) Service agreements:

The Authority, along with Provincial Health Services Authority ("PHSA") and Providence Health Care ("PHC"), have entered into a 10-year Services Agreement with IBM Canada Ltd. ("IBM") for design, build, integration and implementation of a standardized, integrated clinical information system across the three Health Authorities. The Agreement has an estimated value of \$188 million (excluding taxes, inflation and contingency) in professional services obligations to IBM, of which the portion relating to the Authority and PHC is currently estimated to be \$141 million. The cost allocation between the Authority and PHC has not been determined.

The Health Authorities can terminate at any time for convenience for a termination fee. This termination fee is subject to calculation and expires 20 months after the Effective Date of the Agreement.

(e) Operating leases:

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

| | | |
|------------|----|---------|
| 2014 | \$ | 22,616 |
| 2015 | | 20,973 |
| 2016 | | 16,577 |
| 2017 | | 13,170 |
| 2018 | | 10,917 |
| Thereafter | | 82,328 |
| | \$ | 166,581 |

(f) Litigation and claims:

The nature of the Authority's activities is such that there is litigation pending or in progress at any time. With respect to unsettled claims at March 31, 2013, management is of the opinion that the Authority has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have material effect on the Authority's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

18. Commitments and contingencies (continued):

(g) Asset retirement obligations:

The Authority has accrued asset retirement obligations for certain buildings on the Vancouver General Hospital site that are contractually required to be demolished as part of a zoning agreement with the City of Vancouver. The aggregate amount of the liability relating to the demolition of these buildings can be reasonably determined as of March 31, 2013 as \$5.9 million (2012 – \$5.7 million). During the year, the obligation was accreted by \$0.2 million.

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

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

19. Statement of operations:

(a) Other contributions:

| | 2013 | 2012 |
|--------------------------------------|------------|------------|
| Provincial Health Services Authority | \$ 173,327 | \$ 176,865 |
| Other B.C. government entities | 12,952 | 13,567 |
| Other entities | 5,384 | 5,978 |
| | \$ 191,663 | \$ 196,410 |

(b) Other revenues:

| | 2013 | 2012 |
|--|------------|------------|
| Recoveries from B.C. government reporting entities | \$ 114,539 | \$ 107,349 |
| Other | 24,051 | 18,259 |
| | \$ 138,590 | \$ 125,608 |

(c) Patients, clients and residents revenue:

| | 2013 | 2012 |
|-----------------------------|-----------|-----------|
| Long-term and extended care | \$ 32,824 | \$ 32,440 |
| Non-residents of BC | 15,827 | 13,779 |
| Non-residents of Canada | 13,635 | 13,944 |
| WorkSafe BC | 8,702 | 8,538 |
| Residents of B.C. self pay | 5,150 | 4,407 |
| Preferred accommodation | 4,498 | 5,038 |
| Other | 2,417 | 2,675 |
| | \$ 83,053 | \$ 80,821 |

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

19. Statement of operations (continued):

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

| | 2013 | 2012 |
|--|--------------|--------------|
| Compensation and benefits | \$ 1,346,917 | \$ 1,333,667 |
| Distributions to affiliated organizations | 613,081 | 604,081 |
| Referred-out and contracted services | | |
| Residential care | 259,116 | 268,619 |
| Community care | 169,664 | 162,202 |
| Other referred out services | 145,762 | 82,761 |
| Food services | 32,189 | 31,212 |
| Housekeeping | 25,212 | 23,931 |
| Laundry | 14,430 | 13,884 |
| Security | 8,299 | 8,089 |
| | 654,672 | 590,698 |
| Supplies | | |
| Medical, surgical and patient | 94,908 | 91,569 |
| Drugs and medical gases | 57,324 | 56,949 |
| Other | 45,742 | 29,357 |
| Diagnostic | 16,709 | 16,804 |
| Office | 4,643 | 4,157 |
| | 219,326 | 198,836 |
| Amortization of tangible capital assets | 104,090 | 113,664 |
| Equipment and building services | 68,524 | 86,611 |
| Sundry | | |
| Rent | 17,094 | 19,833 |
| Professional, management and membership fees | 19,725 | 12,835 |
| Communication and data processing | 11,846 | 12,380 |
| Other | (1,856) | 11,499 |
| Staff travel | 5,678 | 5,733 |
| Patient transport | 4,399 | 4,529 |
| | 56,886 | 66,809 |
| Research | 21,725 | 19,426 |
| Interest | 6,165 | 6,254 |
| | \$ 3,091,386 | \$ 3,020,046 |

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Notes to Financial Statements

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Year Ended March 31, 2013, with comparative figures for 2012

20. Supplementary cash flow information:

(a) As a result of the Province of B.C. transitioning from the Harmonized Sales Tax ("HST") to the Goods and Services Tax ("GST") on April 1, 2013, leases of real property were subject to a decrease of 7% tax. The change resulted in a decrease to capital lease obligations of \$2.342 million.

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

| | 2013 | 2012 |
|--|-------------|------------|
| Accounts receivable | \$ 6,174 | \$ (7,684) |
| Accounts payable and accrued liabilities | (16,855) | 20,294 |
| Deferred operating contributions | (1,422) | (3,072) |
| Deferred research contributions | (2,271) | (7,706) |
| Replacement reserves | 113 | (93) |
| Inventories held for use | (276) | 6,856 |
| Prepaid expenses | (1,780) | 4,846 |
| | \$ (16,317) | \$ 13,441 |

Included in consumption of inventory is \$0 (2012 - \$5.8M) of inventory transferred to the central warehouse under Fraser Health Authority.

Retirement allowance transferred (to)/from other Health Organizations (Note 13 (a)) has been offset against non-cash operating items. The effect for 2013 is net inflow of accounts payable and accrued liabilities has been reduced by \$3.716 million. The effect for 2012 is net outflow from accounts receivable has been reduced by \$4.531 million.

Long-term disability expense (Note 2 (b)) restatement has been offset against non-cash operating items. The effect for 2012 is net outflow from accounts receivable has been reduced by \$0.487 million.

(c) Acquisition of tangible capital assets:

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

| | 2013 | 2012 |
|-------------------------------------|-----------|-----------|
| Purchase of tangible capital assets | \$ 72,320 | \$ 79,846 |
| Disposal of tangible capital assets | (38,184) | (16,143) |
| | \$ 34,136 | \$ 63,703 |

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

20. Supplementary cash flow information (continued):

(d) Supplementary Information:

| | 2013 | | 2012 | |
|-------------------|------|-------|------|-------|
| Interest paid | \$ | 6,165 | \$ | 6,254 |
| Interest received | \$ | 3,751 | \$ | 2,471 |

21. Related party and other agency operations:

(a) Related parties:

The Authority is related through common control to all Province of BC ministries, Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are considered to be in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

| | 2013 | | 2012 | |
|--|------|-----------|------|-----------|
| Revenue | | | | |
| Ministry of Health Services contributions | \$ | 2,353,271 | \$ | 2,304,432 |
| Medical Services Plan | | 205,584 | | 198,426 |
| Other Contributions | | 186,279 | | 190,432 |
| Other | | 114,539 | | 107,349 |
| Amortization of deferred capital contributions | | 68,340 | | 74,597 |
| | \$ | 2,928,013 | \$ | 2,875,236 |
| Expenses | | | | |
| Distributions to affiliated organizations | \$ | 613,081 | \$ | 604,081 |
| Referred out and contracted services | | 149,433 | | 86,700 |
| Supplies | | 79,136 | | 41,918 |
| Sundry | | 16,675 | | 11,972 |
| Compensation and benefits | | 13,815 | | 12,877 |
| Equipment and building services | | 4,261 | | 4,227 |
| | \$ | 876,401 | \$ | 761,775 |

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

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

(a) Related parties (continued):

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

| | 2013 | 2012 |
|---|------------------|------------------|
| Accounts receivable | | |
| Other health authorities and B.C. government reporting entities | \$ 39,378 | \$ 41,678 |
| Ministry of Health Services | 16,489 | 28,455 |
| Medical Services Plan | 6,526 | 5,768 |
| | <u>\$ 62,393</u> | <u>\$ 75,901</u> |
| Accounts payable and accrued liabilities | \$ 43,700 | \$ 51,685 |
| Deferred operating contributions | \$ 313 | \$ 842 |
| Deferred capital contributions | \$ 667,095 | \$ 689,040 |

(b) Affiliated organizations:

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

| | 2013 | 2012 |
|--|--------------------|--------------------|
| Excess (deficiency) of revenues over expenses: | | |
| Providence Health Care | \$ 2,056 | \$ 1,505 |
| Bella Coola General Hospital | (262) | 25 |
| R.W. Large Memorial Hospital | (316) | 471 |
| | <u>\$ 1,478</u> | <u>\$ 2,001</u> |
| Net assets (deficiency): | | |
| Providence Health Care | \$ (67,516) | \$ (69,572) |
| Bella Coola General Hospital | (209) | 53 |
| R.W. Large Memorial Hospital | (930) | (614) |
| | <u>\$ (68,655)</u> | <u>\$ (70,133)</u> |

Included in accounts receivable is \$1.4 million (2012 - \$1.3 million) due from PHC, \$1.1 million (2012 - \$1.2 million) due from R.W. Large, and \$0.8 million (2012 - \$0.5 million) due from Bella Coola. Included in accounts payable is \$12.8 million (2012 - \$16.0 million) due to PHC.

VANCOUVER COASTAL HEALTH AUTHORITY

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

Year Ended March 31, 2013, with comparative figures for 2012

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

(c) Hospital foundations:

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

- Lions Gate Hospital Foundation
- Pemberton and District Health Care Foundation
- Powell River Hospital Foundation
- Richmond Hospital Foundation
- St. Mary's Hospital Foundation
- Squamish Health Care Foundation
- VGH & UBC Hospital Foundation
- Whistler Health Care Foundation

The financial statements of the foundations have not been consolidated with those of the Authority. As at March 31, 2013, the foundations, in aggregate, held net assets of \$201.2 million (2012 - \$175.6 million). During the year, the foundations granted \$30.5 million (2012 - \$33.6 million) to various facilities within the Authority.

22. Risk management:

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

Risk management and insurance services for all Health Authorities in B.C. are provided by the Risk Management and Government Security Branch of the Ministry of Finance.

(a) Credit risk

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

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

Accounts receivable primarily consist of amounts receivable from the Ministry of Health, other Health Authorities and BC government reporting entities, patients, clients and agencies, hospital foundations and auxiliaries, grantors etc. To reduce the risk, the Authority periodically reviews the collectability of its accounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. As at March 31, 2013, the amount of allowance for doubtful debts was \$5.2 million (2012: \$5.6 million), as these accounts receivable are deemed by management not to be collectible. The Authority historically has not had difficulty collecting receivables, nor have counterparties defaulted on any payments.

VANCOUVER COASTAL HEALTH AUTHORITY

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21. Risk management (continued):

(b) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The table below shows when various financial assets and liabilities mature:

| Financial assets | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|-------------------------------|-------------------|------------------|--------------|-------------------|
| Cash and cash equivalents | \$ 102,681 | \$ - | \$ - | \$ 102,681 |
| Portfolio investments | 50,408 | 20,000 | - | 70,408 |
| Accounts receivable | 94,019 | - | - | 94,019 |
| Loans receivable | - | 5,376 | - | 5,376 |
| Total financial assets | \$ 247,108 | \$ 25,376 | \$ - | \$ 272,484 |

| Financial liabilities | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|--|-------------------|------------------|------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 274,570 | \$ - | \$ - | \$ 274,570 |
| Obligations under capital leases | 6,513 | 27,738 | 76,300 | 110,551 |
| Debt | 6,925 | - | - | 6,925 |
| Total financial liabilities | \$ 288,008 | \$ 27,738 | \$ 76,300 | \$ 392,046 |

The maturity dates of the remaining financial assets and liabilities cannot be determined and therefore, are excluded from the above amounts.

(c) Foreign exchange risk

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

VANCOUVER COASTAL HEALTH AUTHORITY

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(Tabular amounts expressed in thousands of dollars)

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22. Risk management (continued):

(d) Capital management

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

The Authority's objective when managing capital is to fund its operations and capital asset additions, and to conduct research in the field of health care. The Authority manages the capital structure in conjunction with the Ministry of Health and makes adjustments based on available government funding and economic conditions. Currently, the Authority's strategy is to monitor expenditures to preserve capital in accordance with budgeted funding granted by the Ministry of Health.

The Authority is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined in the funding letter. The Authority has complied with the external restrictions on the funding provided.

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23. Impact of accounting for restricted contributions in accordance with Section 23.1 of the Budget Transparency and Accountability Act:

As disclosed in the significant accounting policies note 1(b), Restricted Contributions Regulation 198/2011 requires the Authority to recognize revenue from restricted contributions for the purpose of acquiring or developing a depreciable tangible capital asset on the same basis as the related amortization expense of the tangible capital asset. As these transfers do not contain stipulations or restrictions creating a liability over the term of the expected useful life of a related capital tangible assets, PSAS would require these contributions to be recognized in revenue as a tangible capital asset is acquired or development and construction of a tangible capital asset is complete.

The impact of the departure from PSAS on the financial statements of the Authority is as follows:

| | | |
|--|----|----------|
| As at April 1, 2011 | | |
| Decrease in accumulated operating deficit | \$ | 876,444 |
| Decrease in deferred capital contributions | | 876,444 |
| For the year ended March 31, 2012 | | |
| Decrease in operating surplus | | (4,258) |
| As at March 31, 2012 | | |
| Decrease in accumulated operating deficit | \$ | 872,186 |
| Decrease in deferred capital contributions | | 872,186 |
| For the year ended March 31, 2013 | | |
| Decrease in operating surplus | | (27,793) |
| As at March 31, 2013 | | |
| Decrease in accumulated operating deficit | \$ | 844,393 |
| Decrease in deferred capital contributions | | 844,393 |
