

Financial Statements of

**PROVIDENCE HEALTH CARE**

Year ended March 31, 2007





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## AUDITORS' REPORT

To the Board of Directors of Providence Health Care

We have audited the statement of financial position of Providence Health Care as at March 31, 2007 and the statements of revenue and expenses, changes in net assets (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of Providence Health Care's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Providence Health Care as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Vancouver, Canada

May 16, 2007, except as to note 20,  
which is as of June 8, 2007

# PROVIDENCE HEALTH CARE

Statement of Financial Position

(Amounts expressed in thousands of dollars)

March 31, 2007, with comparative figures for 2006

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,726	\$ 21,607
Short-term investments (note 3)	17,454	21,254
Accounts receivable (note 4)	21,860	38,843
Inventory	6,081	6,911
Prepaid expenses and deposits	3,229	2,703
	<u>65,350</u>	<u>91,318</u>
Investment in parkade (note 5)	972	1,215
Capital assets, net (note 6)	187,461	178,383
	<u>\$ 253,783</u>	<u>\$ 270,916</u>

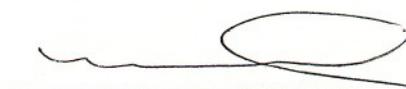
## Liabilities and Net Assets (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 60,981	\$ 74,863
Current portion of accrued sick and severance (note 13(a))	2,674	2,244
Current portion of accrued long-term disability liabilities (note 13(b))	1,249	685
Current portion of obligations under capital leases (note 8)	74	285
Deferred operating revenue	3,400	3,161
Deferred contributions for designated purposes (note 9)	9,305	7,822
	<u>77,683</u>	<u>89,060</u>
Obligations under capital leases (note 8)	-	74
Accrued sick and severance (note 13(a))	25,867	24,550
Accrued long-term disability liabilities (note 13(b))	7,775	11,135
Deferred capital contributions (note 10)	192,886	185,155
	<u>304,211</u>	<u>309,974</u>
Net assets (deficiency):		
Investment in capital assets (note 11(a))	14,527	10,735
Internally restricted (note 12)	352	339
Unrestricted	(65,307)	(50,132)
	<u>(50,428)</u>	<u>(39,058)</u>
Commitments and contingencies (note 14)		
Subsequent events (note 20)		
	<u>\$ 253,783</u>	<u>\$ 270,916</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

 Director

# PROVIDENCE HEALTH CARE

Statement of Revenue and Expenses  
(Amounts expressed in thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Ministry of Health	\$ 397,475	\$ 378,627
Ministry of Finance	-	14,833
Pharmacare	63,991	57,397
Medical Services Plan programs	17,411	16,634
Inpatient services	16,938	16,479
Outpatient services	22,413	21,778
Cafeteria	130	142
Other	25,217	22,443
Contributions for designated purposes	4,311	7,063
	<u>547,886</u>	<u>535,396</u>
Expenses:		
Salaries, wages and employee benefits	298,434	287,468
Sick and severance	3,046	2,750
Medical compensation	58,999	56,555
Drugs	73,405	67,955
Medical and surgical supplies	40,841	35,507
Patient care and diagnostic supplies	24,617	23,883
Facilities operation and housekeeping	14,856	14,063
Maintenance	5,668	5,849
Linen and laundry	4,887	4,758
Dietary, food and supplies	8,734	8,333
Administrative and support services	19,772	19,801
Bad debts	1,225	1,312
Expenses for designated purposes	4,311	7,063
	<u>558,795</u>	<u>535,297</u>
Excess (deficiency) of revenue over expenses before undernoted items	(10,909)	99
Invested in capital assets:		
Amortization of deferred capital contributions	18,956	18,520
Depreciation of capital assets	(19,417)	(18,646)
	<u>(461)</u>	<u>(126)</u>
Deficiency of revenue over expenses	<u>\$ (11,370)</u>	<u>\$ (27)</u>

See accompanying notes to financial statements.

# PROVIDENCE HEALTH CARE

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

Year ended March 31, 2007, with comparative figures for 2006

	Invested in capital assets	Internally restricted	Unrestricted	2007 Total	2006 Total
Balance, beginning of year	\$ 10,735	\$ 339	\$(50,132)	\$(39,058)	\$(35,578)
Excess (deficiency) of revenue over expenses	(461)	13	(10,922)	(11,370)	(27)
Reduction from the sale of land (note 6)	-	-	-	-	(3,453)
Net change in capital assets (note 11(c))	4,253	-	(4,253)	-	-
Balance, end of year	\$ 14,527	\$ 352	\$(65,307)	\$(50,428)	\$(39,058)

See accompanying notes to financial statements.

# PROVIDENCE HEALTH CARE

## Statement of Cash Flows

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (11,370)	\$ (27)
Items not involving cash:		
Depreciation	19,417	18,646
Amortization of deferred capital revenue	(18,956)	(18,520)
	(10,909)	99
Changes in non-cash operating items (note 18)	4,078	5,491
	(6,831)	5,590
Financing:		
Additions to deferred capital contributions	26,687	29,705
Capital lease obligation repayment	(285)	(1,109)
	26,402	28,596
Investments:		
Purchase of capital assets	(28,495)	(28,516)
Proceeds from sale of St. Vincent's Arbutus site (note 6)	-	6,361
Proceeds from investment in parkade	243	243
Net disposal of short-term investments	3,800	127
	(24,452)	(21,785)
Increase (decrease) in cash and cash equivalents	(4,881)	12,401
Cash and cash equivalents, beginning of year	21,607	9,206
Cash and cash equivalents, end of year	\$ 16,726	\$ 21,607

See accompanying notes to financial statements.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

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## 1. Organization:

Providence Health Care (Providence) is incorporated under the Society Act (British Columbia) and is funded by the Ministry of Health. Providence is a not-for-profit organization and is a registered charity under the Income Tax Act, and as such, is exempt from income and capital taxes and is able to issue donation receipts.

Providence, situated in central Vancouver, provides acute care, geriatric rehabilitation, continuing care, and other tertiary care services to the residents of Greater Vancouver Regional Area and other residents of British Columbia. Providence has clinical operations on seven different sites: St. Paul's Hospital, Holy Family Hospital, Mount Saint Joseph Hospital, Brock Fahrni Pavilion, St. Vincent's Langara, Youville Residence, and Marion Hospice.

Providence is a strategic partner with Vancouver Coastal Health Authority (VCHA). The formal relationship is delineated within an Affiliation Agreement signed by the respective parties on June 16, 1998. The Affiliation Agreement establishes Accountability Provisions, Operating Principles, Funding Guidelines, Dispute Mechanism, and Termination Rights between Providence and VCHA.

Providence is dependent upon the Ministry of Health and VCHA to provide sufficient funding to continue operations, to replace equipment and to complete other capital projects.

## 2. Significant accounting policies:

### (a) Basis of presentation:

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

These financial statements do not include the assets, liabilities, revenue and expenses of the related Foundations and Providence Research Institute Trust (note 15).

### (b) Revenue recognition:

Providence follows the deferral method of accounting for contributions which include donations and government grants.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements  
(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

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

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

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

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

### (c) Cash and cash equivalents:

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

### (d) Short-term investments:

Short-term investments include term deposits and bonds and are recorded at the lower of cost and market value.

### (e) Inventory:

Inventory, consisting mostly of drugs and supplies, is recorded at weighted average cost.

### (f) Capital assets:

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

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

Asset	Rate
Buildings	2% - 5% (except as noted below)
Equipment	5% - 20%

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

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

### (f) Capital assets (continued):

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

### (g) Contributed services and materials:

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

Contributions of materials are recognized as both revenue and expenses when a fair value can be reasonably estimated and the materials are used in the normal course of operations and would otherwise have been purchased.

### (h) Employee future benefits:

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

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

The average remaining service period of the active covered employees entitled to sick and severance benefits is 10 years (2006 - 10 years). The average remaining service period of the active employees covered by the multiple-employer defined benefit plans is 10 years (2006 - 10 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

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

### (i) Asset retirement obligations:

Providence recognizes a liability for an asset retirement obligation in the period in which it is incurred, if a reasonable estimate of fair value can be made. The liability is initially recorded at its estimated fair value, based on a discounted value of the expected costs to be paid when the assets are retired. The associated retirement costs are capitalized as part of the carrying amount of long-lived assets and depreciated over the life of the assets. The liability increases each period as the amount of the discount decreases over time. The resulting expense is referred to as accretion expense.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

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### 3. Short-term investments:

The carrying value of the short-term investments is \$17,454 (2006 - \$21,254), which approximates the market value.

### 4. Accounts receivable:

	2007	2006
Ministry of Health	\$ 3,449	\$ 3,147
Ministry of Finance	-	14,833
Patients, agencies and others	19,167	22,532
Grants and sundry receivables	1,107	1,125
	23,723	41,637
Allowance for doubtful accounts	(1,863)	(2,794)
	\$ 21,860	\$ 38,843

At March 31, 2006, Providence accrued \$14,833 for settlement payments to its employees under the agreement between the Province of B.C. and the unions and an equivalent amount as a receivable from the Province of B.C. (Ministry of Finance).

### 5. Investment in parkade:

During December 1998, Providence advanced funds for the repayment of the \$2,430 debt owing to the Province of British Columbia relating to the St. Paul's Hospital parkade. Providence's investment in the parkade is represented as a receivable from The Providence Parkade Trust (the Trust). The receivable earned interest at a rate of 5.0% during fiscal 2007. 10% of the initial receivable has been received each year since fiscal 2002.

The Trust was created by agreement between Providence and the St. Paul's Hospital Foundation of Vancouver. The Trust has beneficial ownership of the parkade and earns the associated revenue. Net earnings of the Trust are dispersed at the discretion of the trustees.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements  
(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

## 6. Capital assets:

2007	Cost	Accumulated amortization	Net book value
Land and land improvements	\$ 10,523	\$ 247	\$ 10,276
Buildings	228,589	118,574	110,015
Leasehold improvements	3,400	1,949	1,451
Equipment	154,384	112,880	41,504
Construction in progress	24,215	-	24,215
	\$ 421,111	\$ 233,650	\$ 187,461

2006	Cost	Accumulated amortization	Net book value
Land and land improvements	\$ 10,523	\$ 247	\$ 10,276
Buildings	211,466	110,367	101,099
Leasehold improvements	3,400	1,604	1,796
Equipment	143,586	107,067	36,519
Construction in progress	28,693	-	28,693
	\$ 397,668	\$ 219,285	\$ 178,383

Included in equipment are items under capital lease with a cost of \$17,042 and accumulated amortization of \$16,922 (2006 - \$17,295 and \$17,025 respectively).

In the prior year, Providence sold the St. Vincent's Arbutus site. The cost and associated amortization of the St. Vincent's Arbutus site building and related equipment of \$1,482 and \$1,482 respectively, and land cost of \$3,453 have been removed from capital assets.

Providence has nine different sites and clinical operations are conducted on seven of those sites. It owns three sites: St. Paul's, Mount Saint Joseph, and St. Vincent's Langara.

Providence has land lease arrangements with the following sites:

(a) St. Vincent's Heather:

75 year lease from the Catholic Charities of the Archdiocese of Vancouver which commenced March 31, 2000. Initial 40 year term with renewals, at the option of Providence, of 20 and 15 year terms at an annual lease fee of \$1 for all terms.

(b) Holy Family:

75 year lease from the Sisters of Providence of St. Vincent de Paul of Kingston in British Columbia which commenced March 31, 2000. Initial 40 year term with renewals, at the option of Providence, of 20 and 15 year terms at an annual lease fee of \$1 for all terms.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements  
(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

## 6. Capital assets (continued):

(c) Brock Fahrni:

Brock Fahrni operates on Children's and Women's Health Centre of British Columbia Branch site. The lease relating to Brock Fahrni is for 20 years which commenced February 1, 1999 at a total lease fee of \$1.

(d) Youville:

20 year lease from the Grey Sisters of the Immaculate Conception which commenced October 7, 1999 at an annual lease fee of \$1.

## 7. Accounts payable and accrued liabilities:

	2007	2006
Accounts payable and accrued liabilities	\$ 30,598	\$ 32,984
Accrued salaries and benefits	16,617	29,319
Accrued vacation pay	13,766	12,560
	\$ 60,981	\$ 74,863

## 8. Obligations under capital leases:

The following is a schedule of minimum lease payments under fixed rate capital leases, together with the balance of the obligation:

	2007	2006
2007	\$ -	\$ 293
2008	76	76
Total minimum lease payments	76	369
Amount representing interest at a weighted average rate of 2.1% (2006 - 5.9%)	2	10
Present value of capital lease payments	74	359
Current portion of obligations under capital leases	74	285
Long-term portion of obligations under capital leases	\$ -	\$ 74

Interest expense on capital leases for the year ended March 31, 2007 amounted to \$9 (2006 - \$54). The leases have various terms which expire in fiscal 2008.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

## 9. Deferred contributions for designated purposes:

Deferred contributions for designated purposes represent unspent grants and donations for specified purposes. Recognition of deferred contributions is recorded as revenue in the statement of revenue and expenses.

	2007	2006
Balance, beginning of year	\$ 7,822	\$ 7,727
Amount received for designated purposes	5,794	7,158
Amount recognized as revenue	(4,311)	(7,063)
	<u>\$ 9,305</u>	<u>\$ 7,822</u>

## 10. Deferred capital contributions:

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of grants and donations received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of revenue and expenses.

	2007	2006
Unamortized capital contributions, beginning of year	\$ 185,155	\$ 167,609
Capital contributions received:		
Ministry of Health	20,295	21,364
St. Paul's Hospital Foundation	1,647	4,008
Government of Canada	1,700	-
Tapestry Foundation for Health Care (formerly St. Vincent's & Holy Family Health Care Foundation)	1,712	333
Contribution for repayment of obligations under capital leases	-	1,040
Other	1,333	2,960
Proceeds from sale of St. Vincent's Arbutus site	-	6,361
	<u>211,842</u>	<u>203,675</u>
Amounts amortized to revenue	(18,956)	(18,520)
Balance, end of year	<u>\$ 192,886</u>	<u>\$ 185,155</u>

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

	2007	2006
Unamortized capital contributions used to purchase capital assets	\$ 172,860	\$ 167,289
Unspent contributions	20,026	17,866
	<u>\$ 192,886</u>	<u>\$ 185,155</u>

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

## 11. Investment in capital assets:

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

	2007	2006
Capital assets	\$ 187,461	\$ 178,383
Amounts financed by:		
Deferred capital contributions	(172,860)	(167,289)
Obligations under capital lease	(74)	(359)
	\$ 14,527	\$ 10,735

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

	2007	2006
Amortization of deferred contributions related to capital assets	\$ 18,956	\$ 18,520
Amortization of capital assets	(19,417)	(18,646)
	\$ (461)	\$ (126)

(c) Net change in investment in capital assets for the year is calculated as follows:

	2007	2006
Purchase of capital assets	\$ 28,495	\$ 28,516
Amounts funded by deferred contributions	(24,527)	(29,402)
Payment of obligations under capital leases	285	1,109
	\$ 4,253	\$ 223

## 12. Restricted funds:

	2007	2006
Internally restricted:		
Replacement reserve	\$ 271	\$ 261
Long-term care reserve	81	78
	\$ 352	\$ 339

The replacement reserve represents the accumulated provision specified by BC Housing Corporation. The long-term care reserve is a discretionary reserve for replacement of appliances and equipment. During the year, \$13 (2006 - \$10) of interest was earned on the reserves.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements  
(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

## 13. Employee benefits:

### (a) Employee sick and severance benefits:

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

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

Information about employee sick and severance benefits is as follows:

	2007	2006
Accrued benefit obligation:		
Sick leave benefits	\$ 10,080	\$ 10,253
Severance benefits	15,663	14,642
Total unfunded obligation	25,743	24,895
Unamortized amounts	2,798	1,899
Accrued sick and severance liabilities	28,541	26,794
Current portion of sick and severance liabilities	2,674	2,244
Long-term portion of sick and severance liabilities	\$ 25,867	\$ 24,550
Sick and severance plan expense	\$ 3,046	\$ 2,750
Benefits paid	1,300	1,700

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

	2007	2006
Accrued benefit obligation as at March 31:		
Discount rate	5.00%	5.00%
Rate of compensation increase	3.25%	3.25%
Benefit costs for years ended March 31:		
Discount rate	5.00%	5.50%
Rate of compensation increase	3.25%	3.25%

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

## 13. Employee benefits (continued):

### (b) Employee healthcare benefits:

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

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

Providence's liabilities are based on an actuarial valuation using an early measurement date of December 31, 2006. The next required valuation will be as of December 31, 2007.

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

	2007	2006
Accrued benefit obligation	\$ 30,332	\$ 27,907
Fair value of plan assets	(17,893)	(13,008)
Net unfunded obligation	12,439	14,899
Balance of unamortized amounts	(1,380)	(1,471)
Contributions to the plan during January to March	(2,035)	(1,608)
Accrued long-term disability liabilities	9,024	11,820
Current portion of long-term disability liabilities	1,249	685
Long-term portion of long-term disability liabilities	\$ 7,775	\$ 11,135
Long-term disability plan expense	\$ 6,091	\$ 5,835
Benefits paid	4,472	5,872

Plan assets consist of:

	2007	2006
Debt securities	54%	51%
Equity securities	20	23
Other	26	26
Total	100%	100%

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

## 13. Employee benefits (continued):

### (b) Employee healthcare benefits (continued):

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

	2007	2006
Accrued benefit obligation as at March 31:		
Discount rate	5.0%	5.0%
Rate of benefit increase	2.5%	2.5%
Benefit cost for years ended March 31:		
Discount rate	5.0%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of benefit increase	2.5%	2.5%

The group life insurance, accidental death and dismemberment, extended health, dental, and pre-October 1, 1997 long-term disability claims administered by the Trust continue to be structured as a multi-employer plan. Contributions to the Trust of \$666 (2006 - \$538) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2006 indicated a surplus of \$25,564 (December 31, 2005 - \$4,751). The plan covers approximately 74,724 active employees of which approximately 3,294 are employees of Providence. The next required valuation will be as of December 31, 2007.

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

### (c) Employee pension benefits:

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

Employer contributions to the Municipal Pension Plan of \$16,096 (2006 - \$14,169) were expensed during the year. The most recent actuarial valuation for the plan at December 31, 2003 indicated an unfunded liability of \$789,000. The actuary does not attribute portions of the deficit to individual employers. The plan covers approximately 140,000 active employees of which approximately 4,457 are employees of Providence. The next required valuation will be as of December 31, 2006 with results available in 2007.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

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## 14. Commitments and contingencies:

(a) Operating lease commitments:

Providence rents office space, equipment, and land under long-term operating leases that expire at various dates. Minimum lease payments for each of the next five years and in total are as follows:

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2008	\$	2,749
2009		2,672
2010		2,532
2011		974
2012		674
	\$	9,601

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(b) Legal contingencies:

The nature of Providence's activities is such that there is litigation pending or in prospect at any time. With respect to unsettled claims at March 31, 2007, management believes Providence has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on Providence's financial position.

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

## 15. Related party operations:

(a) Foundations:

Providence has an economic interest in two foundations, as set out below, and has the ability to appoint some of the members of the Board of Directors of each of the foundations. The foundations are incorporated under the Society Act (British Columbia), are registered charities under the Income Tax Act, and were formed to raise funds to further the improvement of patient care at the respective sites of Providence.

Providence received donations of the following amounts during the year:

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	2007	2006
St. Paul's Hospital Foundation	\$ 1,647	\$ 4,008
Tapestry Foundation for Health Care (formerly St. Vincent's & Holy Family Health Care Foundation)	1,712	333
	\$ 3,359	\$ 4,341

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# PROVIDENCE HEALTH CARE

Notes to Financial Statements  
(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

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## 15. Related party operations (continued):

### (a) Foundations (continued):

The net assets and results from operations of the foundations are not included in the financial statements of Providence.

During the year, Providence donated \$1,500 (2006 - \$1,200) to Tapestry Foundation which has been included in administrative and support services expense in the statement of revenue and expenses.

As at March 31, 2007, the foundations hold net assets of \$39,405 (2006 - \$33,505).

### (b) Providence Research Institute Trust:

As at March 31, 2007, the Providence Research Institute Trust includes 276 separate funds, the majority of which are medical research accounts, each with a specific purpose and under the control of an authorized person. Providence provides account processing services for the Providence Research Institute Trust.

The Research Institute Trust funds are not available for use in Providence's activities and accordingly, the assets, liabilities, revenue and expenses of these funds are not included in Providence's financial statements. The Research Institute Trust's net assets at March 31, 2007 were \$1,226 (2006 - \$574) and revenue and expenditures for the year then ended were approximately \$19,477 (2006 - \$12,118) and \$18,824 (2006 - \$11,544).

## 16. Financial instruments:

Providence's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, accrued sick and severance liabilities, accrued long-term disability liabilities, and obligations under capital leases. It is management's opinion that Providence is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The fair value of these instruments approximates their carrying values, except for the fair value of accrued sick and severance liabilities and accrued long-term disability liabilities which are disclosed in note 13.

## 17. Asset retirement obligations:

Providence has not accrued asset retirement obligations for buildings that are owned and may contain asbestos that require special handling procedures as the fair value of the retirement obligations cannot be reasonably estimated due to indeterminable settlement dates for major renovations or demolitions of the buildings. The asset retirement obligation will be recognized as a liability in the period when the fair value can be reasonably estimated.

# PROVIDENCE HEALTH CARE

Notes to Financial Statements

(Amounts expressed in thousands of dollars)

Year ended March 31, 2007

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## 18. Supplemental cash flow information:

	2007	2006
Changes to non-cash operating accounts:		
Accounts receivable	\$ 16,983	\$ (4,331)
Inventory	830	149
Prepaid expenses	(526)	(812)
Accounts payable and accrued liabilities	(13,882)	11,891
Sick and severance liabilities	1,747	1,153
Accrued long-term disability liabilities	(2,796)	(1,132)
Deferred operating revenue	239	(1,522)
Deferred contributions for designated purposes	1,483	95
	<hr/>	<hr/>
	\$ 4,078	\$ 5,491

## 19. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

## 20. Subsequent events:

In 2002, unions challenged the constitutionality of the *Health and Social Services Delivery Improvement Act* (Bill 29) under which Providence entered into contracts for services. The challenge was dismissed by the BC Supreme Court and an appeal of that decision was dismissed by the BC Court of Appeal. An appeal of the BC Court of Appeal decision was heard by the Supreme Court of Canada (SCC) in early 2006. On June 8, 2007, the SCC issued a ruling that deems certain provisions of Bill 29 as unconstitutional, but the court then suspended the enactment of its decision for one year. No liabilities have been established as a direct result of this decision.

The Ministry, VCHA and Providence have not yet assessed the impact of the June 8<sup>th</sup>, 2007 ruling. As of the date of signing of these financial statements, the impact of this decision on future operations and on Providence's current financial position cannot be determined. The financial impacts, if any, resulting from this ruling will be recorded when they can be reasonably estimated.