

Financial Statements of

**PEACE ARCH HOSPITAL AND
COMMUNITY HEALTH FOUNDATION**

Year ended March 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Directors

Report on the Financial Statements

We have audited the accompanying financial statements of Peace Arch Hospital and Community Health Foundation, which comprise the statement of financial position as at March 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Basis for Qualified Opinion

In common with many charitable organizations, the entity derives revenue from cash donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the entity and we were not able to determine whether any adjustments might be necessary to contributions, excess of revenue over expenses, current assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Peace Arch Hospital and Community Health Foundation as at March 31, 2011 and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

June 23, 2011

Burnaby, Canada

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION
Statement of Financial Position

March 31, 2011, with comparative figures for 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (note 3) | \$ 1,915,878 | \$ 4,678,840 |
| Restricted cash and cash equivalents (notes 3 and 4) | 980,459 | 974,980 |
| Restricted marketable securities (notes 3 and 4) | 919,865 | 2,822,720 |
| Marketable securities (note 3) | 10,179,055 | 6,604,118 |
| Accounts receivable | 95,553 | 72,899 |
| Accrued dividends and interest | 83,096 | 68,083 |
| Prepaid expenses | 64,546 | 32,134 |
| | <u>14,238,452</u> | <u>15,253,774</u> |
| Restricted long-term investments (notes 3 and 4) | 4,625,795 | 4,137,198 |
| Capital assets (note 6) | 7,918,429 | 7,445,801 |
| Cash surrender value of life insurance | 53,316 | 41,926 |
| | <u>\$ 26,835,992</u> | <u>\$ 26,878,699</u> |


Liabilities and Net Assets

| | | |
|--|----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 848,016 | \$ 300,206 |
| Due to Fraser Health Authority: | | |
| Operating expenses | - | 56,800 |
| Peace Arch Hospital contributions | 708,656 | 975,041 |
| Deferred revenue | 87,020 | 133,546 |
| | <u>1,643,692</u> | <u>1,465,593</u> |
| Net assets: | | |
| Invested in capital assets | 7,918,429 | 7,445,801 |
| Internally restricted | 69,843 | 110,589 |
| Externally restricted | 5,724,931 | 7,162,617 |
| Endowment | 731,345 | 698,495 |
| Unrestricted | 10,747,752 | 9,995,604 |
| | <u>25,192,300</u> | <u>25,413,106</u> |
| Commitments (note 9) | | |
| | <u>\$ 26,835,992</u> | <u>\$ 26,878,699</u> |


See accompanying notes to financial statements.

Approved on behalf of the Board:

Director


JACKIE SMITH,
EXECUTIVE DIRECTOR

Director


R C COOPIER
TREASURER

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

| | Unrestricted | Restricted Funds | | | | Total 2010 | |
|---|--------------|--------------------------|--------------------------|----------------|---------------------|---------------------|---------------|
| | | Internally restricted | Externally restricted | Capital assets | Total restricted | | Total 2011 |
| | | | | | | | |
| Revenue: | | | | | | | |
| Donations | \$ 589,807 | \$ - | \$ 4,218,283 | \$ - | \$ 2,760 | \$ 4,810,850 | |
| Special events | 587,035 | - | - | - | - | 592,521 | |
| Gaming (note 8) | - | - | - | - | - | 5,841,982 | |
| Other rental income | 118,287 | - | - | - | - | 121,045 | |
| Ancillary operations (note 10) | 316,646 | - | - | - | - | 329,297 | |
| Investment income and gain on sale of investments | 560,866 | - | - | - | 23,571 | 584,437 | |
| Change in unrealized loss on investments classified as held for trading | 796,326 | - | - | - | - | 796,326 | |
| | 2,988,967 | - | 4,218,283 | - | 26,331 | 7,213,581 | |
| | | | | | | 13,837,241 | |
| Expenses: | | | | | | | |
| Fundraising | 573,637 | - | - | - | - | 573,637 | |
| Gaming (note 8) | - | - | - | - | - | 4,904,698 | |
| Ancillary operations (note 10) | 4,868 | - | - | - | - | 4,868 | |
| Salaries, wages and benefits | 705,828 | - | - | - | - | 705,828 | |
| Office and administration | 374,438 | - | - | - | - | 374,438 | |
| Amortization of capital assets | - | - | - | - | - | 75,701 | |
| Loss on disposal of rental properties (note 5) | - | - | - | - | - | 28,206 | |
| | 1,658,771 | - | - | - | - | 214,211 | |
| | | | | | | 1,734,472 | |
| | | | | | | 6,856,985 | |
| Excess (deficiency) of revenue over expenses before the following: | 1,310,196 | - | 4,218,283 | (75,701) | 26,331 | 5,479,109 | |
| Community grants | - | 40,746 | 2,101 | - | 2,900 | 45,747 | |
| Contributions to Peace Arch Hospital | - | - | 3,985,437 | - | 300 | 3,985,737 | |
| Contributions to City of White Rock | - | - | 1,668,431 | - | - | 1,668,431 | |
| | \$ 1,310,196 | \$ (40,746) | \$ (1,437,686) | \$ (75,701) | \$ 23,131 | \$ (220,806) | |
| Excess (deficiency) of revenue over expenses | | | | | | \$ 4,700,680 | |

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

| | Restricted Funds | | | | | Total 2011 | Total 2010 |
|--|----------------------|--------------------------|--------------------------|-------------------------------|----------------------|----------------------|----------------------|
| | Unrestricted | Internally restricted | Externally restricted | Invested in capital assets | Total restricted | | |
| Net assets, beginning of year | \$ 9,995,604 | \$ 110,589 | \$ 7,162,617 | \$ 7,445,801 | \$ 14,719,007 | \$ 25,413,106 | \$ 20,712,426 |
| Excess (deficiency) of revenue over expenses | 1,310,196 | (40,746) | (1,437,686) | (75,701) | (1,554,133) | (220,806) | 4,700,680 |
| Net change in invested in capital assets (note 7) | (548,329) | - | - | 548,329 | 548,329 | - | - |
| Fund transfers during the year | (9,719) | - | - | - | - | 9,719 | - |
| Net assets, end of year | \$ 10,747,752 | \$ 69,843 | \$ 5,724,931 | \$ 7,918,429 | \$ 13,713,203 | \$ 25,192,300 | \$ 25,413,106 |

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

| | 2011 | 2010 |
|--|--------------|--------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Excess (deficiency) of revenue over expenses | \$ (220,806) | \$ 4,700,680 |
| Items not involving cash: | | |
| Amortization of capital assets | 75,701 | 28,206 |
| Change in market value of investments | (796,326) | (2,187,352) |
| Gain on sale of investments | (584,437) | (263,629) |
| Loss on disposal of rental properties | - | 214,211 |
| Increase (decrease) in cash surrender value of life insurance | (11,390) | (3,628) |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (22,654) | 8,582 |
| Accrued dividends and interest | (15,013) | 10,199 |
| Prepaid expenses | (32,412) | (3,324) |
| Prepaid lottery expenses | - | 41,428 |
| Accounts payable and accrued liabilities | 224,625 | (10,881) |
| Deferred revenue | (46,526) | 46,896 |
| | (1,429,238) | 2,581,388 |
| Investing: | | |
| Increase in restricted cash and cash equivalents | (5,479) | (681,563) |
| Proceeds from sale of marketable securities and long-term investments | 20,883,949 | 10,914,136 |
| Purchase of marketable securities and long-term investments | (21,663,865) | (12,322,767) |
| Purchase of capital assets | (548,329) | (144,291) |
| | (1,333,724) | (2,234,485) |
| Increase (decrease) in cash and cash equivalents | (2,762,962) | 346,903 |
| Cash and cash equivalents, beginning of year | 4,678,840 | 4,331,937 |
| Cash and cash equivalents, end of year | \$ 1,915,878 | \$ 4,678,840 |
| Non-cash transactions: | | |
| Investment in rental property transferred to capital assets | \$ - | \$ 925,703 |

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements

Year ended March 31, 2011

1. Operations:

Peace Arch Hospital and Community Health Foundation (the "Foundation") is incorporated under the Society Act (British Columbia). Its principal purpose is to raise money to enhance quality health care in the community of South Surrey/White Rock. The Foundation is a registered charity under the Income Tax Act (the "Act") and accordingly is exempt from income taxes, provided certain requirements of the Act are met.

2. Significant accounting policies:

(a) Basis of presentation:

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

(b) Fund accounting:

The Foundation follows fund accounting, giving recognition to restrictions on the use of resources specified by donors. The fund classifications are as follows:

(i) Externally restricted fund:

The externally restricted fund includes donations and other funding received by the Foundation which has been designated for specific purposes by the donor or the gaming authority.

(ii) Internally restricted fund:

The internally restricted fund includes amounts designated for specific purposes by the Board of Directors.

(iii) Capital assets and rental properties fund:

The capital assets and rental properties fund includes capital assets and rental properties purchased by the Foundation.

(iv) Unrestricted fund:

The unrestricted fund includes unrestricted revenue and donations received by the Foundation.

(v) Endowment fund:

The endowment fund includes six endowments. The annual investment income earned from these endowments is used for specific purposes as follows: the support of annual patient care equipment; the upkeep of specific equipment; educational purposes; the enhancement of medical staff recruitment to the White Rock/South Surrey area; and support the area of the greatest need at Peace Arch Hospital as determined by the Board of Directors.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents include investments with a term to maturity of three months or less at the date of purchase.

(d) Restricted cash, marketable securities and long-term investments:

Restricted cash, marketable securities and long-term investments are held for specific purposes.

Fixed income investments maturing within one year of the statement of financial position date and equity securities are classified as marketable securities. Fixed income investments maturing after one year are classified as long-term investments.

(e) Gaming Operations - Win'Fall Oceanview Lottery:

The Win'Fall Oceanview Lottery is carried out by the Foundation and the relevant revenue and expense are shown on a gross basis in the statement of operations.

(f) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis using the following number of years:

| Assets | Years |
|---------------------|-------|
| Parking lots | 20 |
| Office renovations | 3 |
| Office equipment | 5 |
| Computers | 3 |
| Website development | 3 |

(g) Financial instruments:

The Foundation accounts for its financial instruments in accordance with the Canadian Institute of Chartered Accountants ("CICA") standards for the recognition, measurement, disclosure and presentation of its financial assets and financial liabilities. Under these standards, all non-derivative financial assets and liabilities are measured at fair market value with the exception of loans and receivables, held-to-maturity investments and other liabilities, which should be measured at amortized cost. The standards also require that gains and losses on financial instruments measured at fair market value be recognized in operations in the periods in which they arise.

The Foundation's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, accrued dividends and interest, long-term investments, cash surrender value of life insurance, accounts payable and accrued liabilities and amounts due to Fraser Health Authority. The Foundation classifies its accounts receivable as loans and receivables, its cash surrender value of life insurance as held-to-maturity, its other financial assets as held for trading and its financial liabilities as other liabilities.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Significant accounting policies (continued):

(g) Financial instruments (continued):

The Foundation has elected to defer applying CICA Handbook Sections 3862, *Financial Instruments – Disclosures*, 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 Foundation has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

(h) Cash surrender value of life insurance:

The Foundation is the owner and beneficiary of various life insurance policies. These policies are classified as held-to-maturity and recorded at amortized cost, which approximates fair value based on cash surrender value. The premiums are paid either by the donors of the policies or by the Foundation out of monies donated to it for that purpose. The proceeds of these policies are recognized as revenue when received.

(i) Revenue recognition:

The Foundation follows the restricted fund method of accounting for contributions which include donations and funds raised through special events and lotteries. Donations are recorded when received.

(j) Contributed materials and services:

Contributed materials are recorded at their fair market values where the amount is reasonably determinable.

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

(k) General and administration expenses:

All expenses related to general management, marketing and administrative activities, are expensed in the period in which they are incurred. General and administration expenses are included in the unrestricted fund and are not allocated to the other funds.

(l) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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 management estimates relate to valuation of accounts receivable, useful lives for amortization of capital assets and provisions for accrued liabilities and contingencies. Actual results may ultimately differ from these estimates.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Significant accounting policies (continued):

(m) Changes in accounting framework:

Effective January 1, 2012, the Foundation's current accounting framework will no longer exist. In December 2010, the CICA, in conjunction with the Accounting Standards Board ("AcSB"), issued Part III – Accounting Standards for Not-for-Profit Organizations ("Part III") of the CICA Handbook. Part III is effective for fiscal years commencing on or after January 1, 2012 and provides Canadian private sector not-for-profit organizations with a new financial reporting framework. The Foundation has the option to apply International Financial Reporting Standards or the newly approved accounting standards for not-for-profit organizations.

The Foundation has elected to adopt the new accounting standards for not-for-profit organizations effective April 1, 2012.

The Foundation is evaluating the impact of adopting the new accounting standards for not-for-profit organizations.

3. Investments:

The aggregate market value of the Foundation's cash and cash equivalents, restricted cash and cash equivalents, restricted marketable securities, marketable securities and restricted long-term investments consists of:

| | 2011 | 2010 |
|------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 3,654,614 | \$ 5,653,820 |
| Fixed income securities | 6,831,521 | 4,137,198 |
| Common stock and equivalents | 8,134,917 | 9,426,838 |
| | <u>\$ 18,621,052</u> | <u>\$ 19,217,856</u> |

| | 2011 | 2010 |
|--------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 1,915,878 | \$ 4,678,840 |
| Restricted cash and cash equivalents | 980,459 | 974,980 |
| Restricted marketable securities | 919,865 | 2,822,720 |
| Marketable securities | 10,179,055 | 6,604,118 |
| Restricted long-term investments | 4,625,795 | 4,137,198 |
| | <u>\$ 18,621,052</u> | <u>\$ 19,217,856</u> |

The Foundation's long-term investments are comprised of fixed income securities. These fixed income securities not expected to mature in the next fiscal year are classified as long-term investments.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

4. Restricted amounts:

Restricted cash, marketable securities and long-term investments provide for the balances in the externally restricted fund, internally restricted fund and endowment fund.

| | 2011 | | 2010 |
|-----------------------------|---------------------|-----------|------------------|
| Restricted funds available: | | | |
| Cash and cash equivalents | \$ 980,459 | \$ | 974,980 |
| Marketable securities | 919,865 | | 2,822,720 |
| Long-term investments | 4,625,795 | | 4,137,198 |
| | \$ 6,526,119 | \$ | 7,934,898 |

| | 2011 | | 2010 |
|-----------------------------|---------------------|-----------|------------------|
| Restricted funds required: | | | |
| Internally restricted funds | \$ 69,843 | \$ | 110,589 |
| Externally restricted funds | 5,724,931 | | 7,162,617 |
| Endowment | 731,345 | | 698,495 |
| | \$ 6,526,119 | \$ | 7,971,701 |

5. Investment in rental properties:

The Foundation previously held rental properties, which were disposed of during fiscal 2010, resulting in a net loss of \$214,211 being recorded in the 2010 statement of operations. The cleared adjoined land has been developed for use as a parking lot. The land value of \$925,703 was transferred to capital assets during 2010.

6. Capital assets:

| | | | 2011 | 2010 |
|--------------------------------|---------------------|--------------------------|---------------------|---------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Parking lots | \$ 7,821,997 | \$ 6,703 | \$ 7,815,294 | \$ 6,345,753 |
| Parking lot under construction | - | - | - | 1,063,341 |
| Office renovations | 113,032 | 46,890 | 66,142 | 8,797 |
| Office equipment | 38,379 | 17,487 | 20,892 | 10,474 |
| Computers | 59,676 | 48,700 | 10,976 | 17,186 |
| Website development | 15,375 | 10,250 | 5,125 | 10,250 |
| | \$ 8,048,459 | \$ 130,030 | \$ 7,918,429 | \$ 7,455,801 |

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

7. Invested in capital assets:

Change in net assets invested in capital assets is comprised of the following:

| | 2011 | 2010 |
|---|-------------|-------------|
| Excess of expenses over revenue: | | |
| Amortization of capital assets and rental properties | \$ (75,701) | \$ (28,206) |
| Loss on disposal of rental properties | - | (214,211) |
| | (75,701) | (242,417) |
| Net change in invested in capital assets and rental properties: | | |
| Purchase of capital assets | 548,329 | 144,291 |
| | \$ 472,628 | \$ (98,126) |

8. Gaming:

The Foundation undertakes an annual Win'Fall Oceanview Lottery (the "Lottery").

Net lottery income is recognized when earned by the Foundation. The statement of operations reflects the Foundation's revenue and expenses from the 2009 Lottery. No Lottery was held in 2010.

| | 2010 Lottery | 2009 Lottery |
|----------------------------|--------------|--------------|
| Win'Fall Oceanview Lottery | | |
| Revenue | \$ - | \$ 5,841,982 |
| Expenses | - | (4,904,698) |
| | \$ - | \$ 937,284 |

9. Commitments:

(a) The Foundation launched a capital campaign in 2007 entitled, "Partners in Caring". The campaign was launched to meet the following commitments:

(i) Maternity ward:

The Foundation previously made a commitment of \$5.3 million to assist in the rebuilding of the Peace Arch Hospital's maternity ward. This project was completed in January 2011.

(ii) Centre of Active Living (Integrated Centre for Health Improvement):

The Foundation has committed \$4.4 million for this project. This is in partnership with the White Rock/South Surrey Foundation. This project was completed in April 2011.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

9. Commitments (continued):

(iii) Emergency department:

The Foundation is planning to assist in the funding of the costs required to expand and upgrade the Emergency department at the Peace Arch Hospital. The Foundation's commitment is estimated at approximately \$9.8 million and the project is expected to be completed by 2014.

The Foundation needs to raise approximately \$7 million of funds to meet these commitments.

(b) The Foundation has issued a letter of guarantee to the City of Surrey for \$50,000.

10. Ancillary operations:

| | | | 2011 | | 2010 | |
|-----------------|------------------|--------------|----------------|---------|----------------|---------|
| | Gross revenue | Expenditures | Net revenue | | Net revenue | |
| Parking lots | \$ 316,646 | \$ 4,868 | \$ | 311,778 | \$ | 286,373 |
| Property rental | - | - | | - | | 18,586 |
| | \$ 316,646 | \$ 4,868 | \$ | 311,778 | \$ | 304,959 |

11. Financial instruments:

The Foundation has investments in bonds, equities and mutual funds and, as such, is subject to risks arising from the credit worthiness and the liquidity of the underlying assets and general interest rate fluctuations.

12. Capital disclosures:

The Foundation receives its principal source of capital through donations, special events, rental, gaming and investment income earned. The Foundation defines capital to be net assets which include amounts held in the endowment funds. In carrying out its mission, the Foundation regularly distributes its capital in support of programs, capital purchases and activities of the Peace Arch Hospital in accordance with the donors' designations and the Foundation's bylaws.

The Foundation is not subject to any other external capital requirements or restrictions.

13. Comparative figures:

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