

Financial Statements of

**PEACE ARCH HOSPITAL AND
COMMUNITY HEALTH FOUNDATION**

Year ended March 31, 2010



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AUDITORS' REPORT TO THE MEMBERS

We have audited the statement of financial position of Peace Arch Hospital and Community Health Foundation (the "Foundation") as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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 common with many charitable organizations, the Foundation derives revenue from donations and special events, 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 Foundation and we were not able to determine whether any adjustments might be necessary to donation and special events revenues, deficiency of revenue over expenses, assets and net assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations and special events revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Burnaby, Canada

May 21, 2010

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 4,678,840	\$ 4,331,937
Restricted cash and cash equivalents (notes 3 and 4)	974,980	293,417
Restricted marketable securities (notes 3 and 4)	4,458,554	3,124,945
Marketable securities (note 3)	4,968,284	2,780,246
Accounts receivable	72,899	81,481
Accrued dividends and interest	68,083	78,282
Prepaid expenses	32,134	28,810
Prepaid lottery expenses	-	41,428
	<u>15,253,774</u>	<u>10,760,546</u>
Restricted long-term investments (notes 3 and 4)	4,137,198	3,799,233
Investment in rental properties (note 5)	-	1,139,914
Capital assets (note 6)	7,445,801	6,404,013
Cash surrender value of life insurance	41,926	38,298
	<u>\$ 26,878,699</u>	<u>\$ 22,142,004</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 300,206	\$ 50,469
Due to Fraser Health Authority:		
Operating expenses	56,800	30,010
Peace Arch Hospital contributions	975,041	1,262,449
Deferred revenue	133,546	86,650
	<u>1,465,593</u>	<u>1,429,578</u>
Net assets:		
Invested in capital assets and rental properties (note 7)	7,445,801	7,543,927
Internally restricted	84,546	144,670
Externally restricted	8,785,553	6,386,553
Endowment	698,495	686,372
Unrestricted	8,398,711	5,950,904
	<u>25,413,106</u>	<u>20,712,426</u>
Commitments (notes 9)		
	<u>\$ 26,878,699</u>	<u>\$ 22,142,004</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	Unrestricted	Restricted Funds			Total 2010	Total 2009
		Internally restricted	Externally restricted	Capital assets		
Revenue:						
Donations	\$ 1,149,503	\$ -	\$ 3,351,912	\$ -	\$ 4,501,415	\$ 3,853,992
Special events	592,521	-	-	-	592,521	520,283
Gaming (note 8)	-	-	5,841,982	-	5,841,982	5,019,947
Other rental income	121,045	-	-	-	121,045	116,586
Ancillary operations (note 10)	329,297	-	-	-	329,297	299,460
Investment income and gain on sale of investments	223,572	-	-	40,057	263,629	455,540
Change in unrealized loss on investments classified as held for trading	2,187,352	-	-	-	2,187,352	(2,721,089)
	4,603,290	-	9,193,894	40,057	13,837,241	7,544,719
Expenses:						
Fundraising	577,631	-	-	-	577,631	425,000
Gaming	-	-	4,904,698	-	4,904,698	4,585,212
Ancillary operations (note 10)	24,338	-	-	-	24,338	32,321
Salaries, wages and benefits	786,588	-	-	-	786,588	678,238
Office and administration	321,313	-	-	-	321,313	420,490
Amortization of capital assets	-	-	28,206	-	28,206	25,672
Loss on disposal of rental properties (note 5)	-	-	214,211	-	214,211	-
	1,709,870	-	4,904,698	242,417	6,856,985	6,166,933
Excess (deficiency) of revenue over expenses before the following	2,893,420	-	4,289,196	(242,417)	6,980,256	1,377,786
Community grants	-	60,124	-	-	60,124	38,245
Contributions to Peace Arch Hospital	316,085	-	1,645,748	-	1,975,004	5,267,727
Contributions to City of White Rock	-	-	244,448	-	244,448	-
Excess (Deficiency) of revenue over expenses	\$ 2,577,335	\$ (60,124)	\$ 2,399,000	\$ (242,417)	\$ 4,700,680	\$ (3,928,186)

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

	Restricted Funds					Total 2010	Total 2009
	Unrestricted	Internally restricted	Externally restricted	Capital assets and rental properties	Total Restricted		
Net assets, beginning of year	\$ 5,950,904	\$ 144,670	\$ 6,386,553	\$ 7,543,927	\$ 14,075,150	\$ 20,712,426	\$ 24,640,612
Excess (deficiency) of revenue over expenses	2,577,335	(60,124)	2,399,000	(242,417)	2,096,459	4,700,680	(3,928,186)
Net change in invested in capital assets and rental properties	(144,291)	-	-	144,291	144,291	-	-
Fund transfers during the year	14,763	-	-	-	-	-	-
Net assets, end of year	\$ 8,398,711	\$ 84,546	\$ 8,785,553	\$ 7,445,801	\$ 16,315,900	\$ 25,413,106	\$ 20,712,426

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 4,700,680	\$ (3,928,186)
Items not involving cash:		
Amortization of capital assets	28,206	25,672
Change in market value of investments	(2,187,352)	2,721,089
Loss (gain) on sale of investments	(263,629)	38,590
Loss on disposal of rental properties	214,211	-
Increase (decrease) in cash surrender value of life insurance	(3,628)	6,809
Change in non-cash operating working capital:		
Accounts receivable	8,582	114,399
Accrued dividends and interest	10,199	23,295
Prepaid expenses	(3,324)	5,088
Prepaid lottery expenses	41,428	87,292
Land held for resale	-	940,504
Accounts payable and accrued liabilities	(10,881)	(285,267)
Deferred revenue	46,896	(7,200)
	<u>2,581,388</u>	<u>(257,915)</u>
Investing:		
Increase in restricted cash and cash equivalents	(681,563)	(212,643)
Proceeds from sale of marketable securities and long-term investments	10,914,136	23,563,843
Purchase of marketable securities and long-term investments	(12,322,767)	(22,064,172)
Purchase of capital assets and rental properties	(144,291)	(26,764)
	<u>(2,234,485)</u>	<u>1,260,264</u>
Increase in cash and cash equivalents	346,903	1,002,349
Cash and cash equivalents, beginning of year	4,331,937	3,329,588
Cash and cash equivalents, end of year	<u>\$ 4,678,840</u>	<u>\$ 4,331,937</u>
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, 2010

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 (GAAP) for not-for-profit organizations.

(b) Fund accounting:

The Foundation follows fund accounting procedures, 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.

(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.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

2. Significant accounting policies (continued):

(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 balance sheet date and equity securities are classified as marketable securities. Fixed income investments maturing after one year are classified as long-term investments.

(e) Win'Fall Oceanview Lottery:

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

(f) Investment in rental properties and capital assets:

Rental properties and 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
Rental properties	40
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 revenues and expenses 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, 2010

2. Significant accounting policies (continued):

(g) Financial instruments (continued):

The Foundation has elected to defer applying 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 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, 2010

2. Significant accounting policies (continued):

(m) Adoption of accounting standards:

(i) Amendments to Accounting Standards that apply to not-for-profit organizations:

Effective April 1, 2009, the Foundation adopted the amendments to Section 4400 of the CICA Handbook. Amongst other items, these amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flows. The application of these amendments resulted in the revenues and expenses related to charitable events being recognized and presented on a gross basis in the statement of operations.

(ii) Amendments to Section 1000, *Financial Statement Concepts*:

Effective April 1, 2009, the Foundation adopted the CICA amendments to Section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. The application of these amendments resulted in the June 2010 Gala Event expenses being recognized in the March 31, 2010 statement of operations instead of being treated as prepaid expenses.

(n) Changes in accounting framework:

Previously, the AcSB had announced that International Financial Reporting Standards ("IFRS") will be required for Canada's publicly accountable enterprises and would be optional for private enterprises. On December 15, 2009, Canada's Accounting Standards Board ("AcSB") issued the new accounting standards for private enterprises. Both standards are effective for fiscal years commencing on or after January 1, 2011 with earlier adoption permitted.

The Foundation is currently classified as a not-for-profit organization. The AcSB has released an exposure draft seeking to incorporate the existing accounting standards for not-for-profit organizations (Section 4400 Standards) into the Handbook. Accordingly, a not-for-profit organization will have the ability to apply private enterprise standards, including the Section 4400 standards, which provide additional guidance for not-for-profit organizations, rather than the IFRS.

The AcSB reconfirmed that existing standards for not-for-profit organizations will remain in effect until the mandatory effective date for adopting the new standards.

The Foundation intends to continue applying the existing not-for-profit standards and is awaiting the finalization of the new not-for-profit standards. Once the new standards are finalized, the Foundation will determine the impact of the new standards.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

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:

	2010	2009
Cash and cash equivalents	\$ 5,653,820	\$ 4,625,354
Fixed income securities	4,137,198	4,072,789
Common stock and equivalents	9,426,838	5,631,635
	\$ 19,217,856	\$ 14,329,778

	2010	2009
Cash and cash equivalents	\$ 4,678,840	\$ 4,331,937
Restricted cash and cash equivalents	974,980	293,417
Restricted marketable securities	4,458,554	3,124,945
Marketable securities	4,968,284	2,780,246
Restricted long-term investments	4,137,198	3,799,233
	\$ 19,217,856	\$ 14,329,778

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

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.

	2010	2009
Restricted funds available:		
Cash and cash equivalents	\$ 974,980	\$ 293,417
Marketable securities	4,458,554	3,124,945
Long-term investments	4,137,198	3,799,233
	\$ 9,570,732	\$ 7,217,595
Restricted funds required:		
Internally restricted funds	\$ 84,546	\$ 144,670
Externally restricted funds	8,787,691	6,386,553
Endowment	698,495	686,372
	\$ 9,570,732	\$ 7,217,595

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

5. Investment in rental properties:

The investment in rental properties was recorded at cost. As at March 31, 2009, the net book value of these rental properties (land and building) was \$1,139,914. These rental buildings from which the Foundation earned rental income were disposed of in the current year. The resulting loss from disposal of the rental buildings of \$214,211 is recorded in the statement of operations. The cleared adjoined land is under development for the future use as a parking lot. The land value of \$925,703 has been transferred to capital assets.

6. Capital assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Parking lots	\$ 6,345,753	\$ -	\$ 6,345,753	\$ 6,345,753
Parking lot under construction	1,053,341	-	1,053,341	-
Office renovations	18,011	9,214	8,797	9,381
Office equipment	20,704	10,230	10,474	13,860
Computers	46,947	29,761	17,186	19,644
Website development	15,375	5,125	10,250	15,375
	\$ 7,500,131	\$ 54,330	\$ 7,445,801	\$ 6,404,013

7. Invested in capital assets and rental properties:

(a) Invested in capital assets and rental properties is comprised of the following:

	2010	2009
Capital assets	\$ 7,445,801	\$ 6,404,013
Investment in rental properties	-	1,139,914
	\$ 7,445,801	\$ 7,543,927

(b) Change in net assets invested in capital assets and investment in rental properties is comprised of the following:

	2010	2009
Excess of expenses over revenue:		
Amortization of capital assets and rental properties	\$ (28,206)	\$ (25,672)
Loss on disposal of rental properties	(214,211)	-
	(242,417)	(25,672)
Net change in invested in capital assets and rental properties:		
Purchase of capital assets	144,291	26,764
	\$ (98,126)	\$ 1,092

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

8. Gaming:

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

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 Lotto 200 was held in 2010.

	2009 Lottery	2008 Lottery
Win'Fall Oceanview Lottery:		
Revenue	\$ 5,841,982	\$ 5,017,357
Expenses	4,904,698	4,585,212
	937,284	432,145
Lotto 200	-	2,590
Total Gaming Proceeds	\$ 937,284	\$ 434,735

The Foundation has decided not to hold a Win'Fall Oceanview Lottery in 2010.

9. Commitments:

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

(i) Maternity ward:

The Foundation has made a commitment of \$5.3 million to assist in the rebuilding of the Peace Arch Hospital's maternity ward by the end of 2010.

(ii) 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 is expected to be completed by 2010/2011 fiscal year.

(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 2012.

The Foundation needs to raise approximately \$9.1 million of funds to meet these commitments.

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

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2010

10. Ancillary operations:

			2010	2009
	Gross revenue	Expenses	Net revenue	Net revenue
Parking lots	\$ 303,545	\$ 17,172	\$ 286,373	\$ 283,688
Property rental	25,752	7,166	18,586	42,937
	\$ 329,297	\$ 24,338	\$ 304,959	\$ 326,625

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.