

Financial Statements of

**PEACE ARCH HOSPITAL AND
COMMUNITY HEALTH FOUNDATION**

Year ended March 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Directors of Peace Arch Hospital and Community Health Foundation

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, 2018, 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 accounting standards for not-for-profit organizations, 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Peace Arch Hospital and Community Health Foundation as at March 31, 2018 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

As required by the Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the right end.

Chartered Professional Accountants

Burnaby, Canada
May 31, 2018

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 5,317,748	\$ 3,138,823
Investments (note 4)	38,174,928	41,070,639
Accounts receivable	283,450	155,640
Prepaid expenses	78,037	71,402
	<u>43,854,163</u>	<u>44,436,504</u>
Capital assets (note 5)	15,234,192	8,588,488
Investments held for endowment (note 4)	497,535	1,106,636
Cash surrender value of life insurance policies (note 6)	91,780	87,997
	<u>\$ 59,677,670</u>	<u>\$ 54,219,625</u>

Liabilities and Net Assets

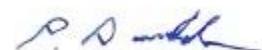
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,246,816	\$ 210,291
Due to Fraser Health Authority (note 9)	69,967	213,124
Construction holdback payable (note 3)	418,768	-
Deferred revenue	204,131	173,533
	<u>1,939,682</u>	<u>596,948</u>
Net assets:		
Unrestricted	13,771,968	13,365,391
Invested in capital assets	15,234,192	8,588,488
Internally restricted	14,309,991	14,137,440
Externally restricted	13,924,302	16,424,722
Endowment	497,535	1,106,636
	<u>57,737,988</u>	<u>53,622,677</u>
Commitments (note 10)		
	<u>\$ 59,677,670</u>	<u>\$ 54,219,625</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, 2018, with comparative information for 2017

	Unrestricted	Invested in capital assets	Restricted Funds			Endowment	Total 2018	Total 2017
			Internally restricted	Externally restricted	Total restricted			
Revenue:								
Donations	\$ 997,672	\$ -	\$ -	\$ 4,319,412	\$ 4,319,412	\$ -	\$ 5,317,084	\$ 7,158,624
Special events	35,506	-	-	1,138,469	1,138,469	-	1,173,975	1,066,298
Other rental income	106,952	-	-	-	-	-	106,952	110,161
Ancillary parking	458,572	-	-	-	-	-	458,572	446,306
Investment income and gain								
on sale of investments (note 4)	1,298,239	-	-	44,694	44,694	23,510	1,366,443	2,458,719
Fair value adjustment on investments	238,797	-	-	-	-	-	238,797	1,725,374
	3,135,738	-	-	5,502,575	5,502,575	23,510	8,661,823	12,965,482
Expenses:								
Fundraising	328,054	-	-	496,287	496,287	-	824,341	868,436
Ancillary	178,516	-	-	-	-	-	178,516	40,279
Salaries, wages and benefits	1,127,895	-	-	-	-	-	1,127,895	1,124,367
Office and administration	443,426	-	-	-	-	3,037	446,463	351,058
Amortization of capital assets	-	34,823	-	-	-	-	34,823	39,221
	2,077,891	34,823	-	496,287	496,287	- 3,037	2,612,038	2,423,361
Excess (deficiency) of revenue over expenses before the following:								
	1,057,847	(34,823)	-	5,006,288	5,006,288	20,473	6,049,785	10,542,121
Community grants and projects	(3,997)	-	(334,781)	(27,425)	(362,206)	(5,000)	(371,203)	(78,123)
Contributions to Peace Arch Hospital	(9,198)	-	(21,975)	(1,524,792)	(1,546,767)	(7,306)	(1,563,271)	(1,302,584)
Excess (deficiency) of revenue over expenses	\$ 1,044,652	\$ (34,823)	\$ (356,756)	\$ 3,454,071	\$ 3,097,315	\$ 8,167	\$ 4,115,311	\$ 9,161,414

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

	Unrestricted	Invested in capital assets	Restricted Funds			Endowment	Total 2018	Total 2017
			Internally restricted	Externally restricted	Total restricted			
Net assets, beginning of year	\$ 13,365,391	\$ 8,588,488	\$ 14,137,440	\$ 16,424,722	\$ 30,562,162	\$ 1,106,636	\$ 53,622,677	\$ 44,461,263
Excess (deficiency) of revenue over expenses	1,044,652	(34,823)	(356,756)	3,454,071	3,097,315	8,167	4,115,311	9,161,414
Net change in invested in capital assets (note 7 and 11)	(420,713)	6,680,527	-	(6,259,814)	(6,259,814)	-	-	-
Fund transfers during the year (note 11)	(217,362)	-	529,307	305,323	834,630	(617,268)	-	-
Net assets, end of year	\$ 13,771,968	\$ 15,234,192	\$ 14,309,991	\$ 13,924,302	\$ 28,234,293	\$ 497,535	\$ 57,737,988	\$ 53,622,677

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 4,115,311	\$ 9,161,414
Items not involving cash:		
Amortization of capital assets	34,823	39,221
Fair value adjustment on investments	(238,797)	(1,725,374)
Loss (gain) on sale of investments	(213,324)	23,554
Increase in cash surrender value of life insurance	(3,783)	(3,944)
Receipt of securities as donations	(1,061,146)	(176,164)
Change in non-cash operating working capital:		
Accounts receivable	(127,810)	(27,933)
Accrued dividends and interest income included in investments	5,909	(66,962)
Prepaid expenses	(6,635)	(3,730)
Accounts payable and accrued liabilities	1,036,525	24,679
Due to Fraser Health Authority	(143,157)	77,951
Construction holdback payable	418,768	-
Deferred revenue	30,598	42,075
	<u>3,847,282</u>	<u>7,364,787</u>
Investing:		
Proceeds from sale of investments	24,327,749	6,970,325
Purchase of investments	(19,315,579)	(13,248,822)
Purchase of capital assets	(6,680,527)	(534,276)
	<u>(1,668,357)</u>	<u>(6,812,773)</u>
Increase in cash and cash equivalents	2,178,925	552,014
Cash and cash equivalents, beginning of year	3,138,823	2,586,809
Cash and cash equivalents, end of year	<u>\$ 5,317,748</u>	<u>\$ 3,138,823</u>

See accompanying notes to financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements

Year ended March 31, 2018

1. Operations:

Peace Arch Hospital and Community Health Foundation (the "Foundation") filed for transition to the Societies Act (British Columbia) on November 29, 2016. The Foundation's principal purpose is to raise funds and awareness to enhance the health and wellness 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 and is authorized to issue donation receipts for income tax purposes.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

(b) Fund accounting:

In order to ensure observance of the limitations and restrictions placed on the use of resources available, the Foundation follows the restricted fund method of accounting for contributions. Under this method, restricted contributions are recorded as revenue of the restricted fund to which they relate. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the donors or in accordance with directives issued by the Board of Directors (the "Board"). For financial reporting purposes, the accounts have been classified into the following funds:

(i) Unrestricted fund:

The unrestricted fund reflects the results of operating activities and includes undesignated revenue and donations received by the Foundation.

(ii) 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 funder.

(iii) Internally restricted fund:

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

(iv) Capital assets fund:

The capital assets fund includes capital assets acquired by the Foundation and related amortization.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

2. Significant accounting policies (continued):

(b) Fund accounting (continued):

(v) Endowment fund:

The endowment fund comprises donations that are permanently maintained in accordance with donor wishes. The annual investment income earned from these endowments is used for specific purposes, in a manner consistent with the endowment agreement.

(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) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

Assets	Years
Parking lots - improvements	20
Office improvements	3
Office equipment	5
Computer hardware and software	3
Website development	3

Costs capitalized relating to assets under construction are not amortized until the assets are available for productive use.

Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Foundation's ability to provide services, it is reviewed for impairment and its carrying amount is written down to its residual value.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has elected to carry all investments at fair value.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

2. Significant accounting policies (continued):

(e) Financial instruments (continued):

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Cash surrender value of life insurance policies:

The Foundation is the owner and beneficiary of various donated life insurance policies. These policies are recorded at the cash surrender values.

(g) Revenue recognition:

The Foundation follows the restricted fund method of accounting for contributions.

Unrestricted contributions are recognized in the unrestricted fund 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 related restricted funds when received if a relevant restricted fund exists. Externally restricted contributions for future expenses for which a restricted fund does not exist are recorded as deferred revenue in the unrestricted fund and recognized as revenue in the period the related expense is incurred or the restrictions are met.

Endowment contributions are recognized as revenue of the endowment funds when received.

Investment income is recognized when earned and recorded to the respective funds.

Event revenues received in advance for subsequent years' fundraising events are recorded as deferred revenue. These revenues are recognized as revenue in the period in which the event occurs.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

2. Significant accounting policies (continued):

(h) Contributed materials and services:

Contributed materials are recorded at their fair market values where the amount is reasonably determinable and the items would otherwise have been acquired.

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.

(i) Employee future benefits:

The Foundation and its employees contribute to the Municipal Pension Plan. Defined contribution plan accounting is applied to the multi-employer defined benefit plan and, accordingly, contributions are expensed when paid or payable.

(j) 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.

(k) 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.

3. Cash and cash equivalents:

Included in cash and cash equivalents is \$418,878 (2017 - nil) relating to the construction holdback account.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

4. Investments:

The aggregate fair value of the Foundation's investments consists of:

	2018	2017
Fixed income securities	\$ 19,883,522	\$ 24,620,797
Common stock and other equity instruments	18,788,941	17,556,478
	<u>\$ 38,672,463</u>	<u>\$ 42,177,275</u>

The amounts are allocated as presented in the statement of financial position as follows:

	2018	2017
Investments	\$ 38,174,928	\$ 41,070,639
Investments held for endowment	497,535	1,106,636
Total investments	<u>38,672,463</u>	<u>42,177,275</u>
Less restricted funds required:		
Internally restricted funds	14,309,991	14,137,440
Externally restricted funds	13,924,302	16,424,722
Endowment restricted funds	497,535	1,106,636
	<u>28,731,828</u>	<u>31,668,798</u>
Unrestricted investments	<u>\$ 9,940,635</u>	<u>\$ 10,508,477</u>

Investment income earned by the Foundation is comprised of the following:

	2018	2017
Dividend income	\$ 492,488	\$ 1,016,451
Interest income	660,631	1,465,822
Capital gains (losses)	213,324	(23,554)
	<u>\$ 1,366,443</u>	<u>\$ 2,458,719</u>

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

5. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Parking lots:				
Land	\$ 7,271,455	\$ -	\$ 7,271,455	\$7,271,455
Improvements	550,543	199,393	351,150	378,676
Office improvements	117,094	117,094	-	31
Office equipment	53,053	53,053	-	-
Computer hardware and software	121,950	106,695	15,255	10,745
Website development	26,742	26,742	-	-
Construction in Progress - Residential Care/Hospice	7,596,332	-	7,596,332	927,581
	\$ 15,737,169	\$ 502,977	\$ 15,234,192	\$8,588,488

Construction in progress relates to costs that are directly attributable to the construction and development of a residential care/hospice residence by the Foundation that will be leased and operated by the Fraser Health Authority ("FHA"). Costs incurred to date include construction, project management, engineering, and architectural costs.

6. Cash surrender value of life insurance policies:

Premiums paid toward the life insurance policies are allocated between insurance costs and income earned. 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 aggregate face value of these policies is \$713,093 (2017 - \$713,093) and will be recognized as revenue when received.

7. Invested in capital assets:

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

	2018	2017
Excess of expenses over revenue:		
Amortization of capital assets	\$ (34,823)	\$ (39,221)
Net change in invested in capital assets:		
Purchase of capital assets	6,680,527	534,276
	\$ 6,645,704	\$ 495,055

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

8. Employee pension benefits:

The Foundation and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trustee pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2016, the Plan has about 193,000 active members and approximately 90,000 retired members. Active members include approximately 14 contributors from the Foundation.

The most recent actuarial valuation as at December 31, 2015 indicated a \$2,224 million funding surplus for basic pension benefits. The next valuation will be December 31, 2018, with results available in 2019.

Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

During fiscal 2018, the Foundation paid \$84,183 (2017 - \$90,731) for employer contributions to the Plan.

9. Fraser Health Authority:

The amounts recognized as owing to FHA represent qualifying expenditures as incurred by the Peace Arch Hospital and funded by the Foundation.

FHA provides office space for the Foundation's use on a no-charge basis. As the fair value of the use of this space is not readily determinable, no related amount has been recognized in the financial statements.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

10. Commitments:

The Foundation is planning to assist in the funding of costs related to the Hospital site redevelopment plan, including the emergency room expansion and new operating rooms. Funds raised through outright gifts specified by the donors to be used towards these redevelopment projects are held in the externally restricted fund. They are complemented by amounts set aside in the internally restricted fund that are intended to allow the Foundation to meet its funding commitments for these two major projects. The remaining amounts committed will be met through outstanding pledges and fundraising in subsequent years.

	Emergency Room	Operating Room
Externally restricted	\$ 10,061,892	\$ 840,850
Internally restricted	2,922,213	10,000,000
Outstanding pledges/fundraising	2,015,895	11,159,150
Total commitment	\$ 15,000,000	\$ 22,000,000

11. Fund transfers:

During the year, the Board approved for certain amounts previously reported under the endowment fund totaling \$617,268 to be transferred to the unrestricted, internally restricted, and externally restricted funds in accordance with the donation terms and Board restricted purpose gift policy. The Foundation made transfers from the unrestricted fund of \$384,730 to the internally restricted fund for specified purposes as approved by the Board. In addition, \$6,259,814 was transferred from the externally restricted fund and invested in capital assets relating to the residential care and hospice construction.

12. Related party transactions:

The Foundation incurred costs for legal and consulting fees totaling \$299,000 (2017 - \$212,700) with parties with which certain members of its Board of Directors are associated. These transactions are considered to be in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and are at or below fair value.

13. Remuneration of employees:

For the fiscal year ending March 31, 2018, the Foundation paid total remuneration of \$427,231 (2017 - \$415,551) to four (2017 – four) employees, each of whom received total annual remuneration of \$75,000 or greater.

No remuneration was paid to any members of the Foundation's Board of Directors.

PEACE ARCH HOSPITAL AND COMMUNITY HEALTH FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

14. Funds held at the Vancouver Foundation:

The Foundation established an endowment fund (the "Fund") which is administered by the Vancouver Foundation and is permanently restricted. The principal cannot be withdrawn and, accordingly, the balance of \$10,100 (2017 - \$10,100) is not reflected in these financial statements. Any distributions received are included as income in the period. Under the terms of the Fund, the Foundation receives investment income earned on the investments. Income of \$520 (2017 - \$496) from the Fund has been recorded in the unrestricted fund balance of the Foundation. As at March 31, 2018, the Fund's market value was \$14,610 (2017 - \$14,640).

15. Financial risks:

The Foundation manages its investment portfolio to earn investment income and invests according to a Statement of Investment Policy approved by The Board.

The Foundation is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Foundation to a fair value risk while the floating rate instruments subject it to cash flow risk. The Foundation is exposed to interest rate risks as a result of investments in short-term deposits, bond funds and investment certificates. The risks associated with investments are managed through the Foundation's established investment policy.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Foundation has investments in fixed income securities, common stock and other equity instruments which are subject to risks arising from changes in market conditions.

The Foundation believes that it is not exposed to significant foreign currency, credit or liquidity risks arising from its financial instruments.