

Financial Statements of

**SURREY HOSPITAL & OUTPATIENT
CENTRE FOUNDATION**

Year ended March 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Surrey Hospital & Outpatient Centre Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Surrey Hospital & Outpatient Centre Foundation, which comprise the statement of financial position as at March 31, 2016, the statements of operations and 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 is sufficient and appropriate to provide a basis for our qualified audit opinion.



Basis for Qualified Opinion

In common with many charitable organizations, Surrey Hospital & Outpatient Centre Foundation derives revenue from 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 Surrey Hospital & Outpatient Centre Foundation. Therefore, we were not able to determine whether, as at March 31, 2016 and March 31, 2015, any adjustments might be necessary to donation revenues and excess of revenue over expenses and contributions reported in the statements of operations and changes in net assets and cash flows, and current assets and net assets recorded in the statement of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended March 31, 2016.

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 Surrey Hospital & Outpatient Centre Foundation as at March 31, 2016 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 Society 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, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

September 7, 2016

Burnaby, Canada

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 3,066,631	\$ 1,615,989
Accounts receivable	95,980	9,318
Short-term investments (note 4)	15,556,585	13,954,636
	<u>18,719,196</u>	<u>15,579,943</u>
Long-term investments (note 4)	1,954,932	2,095,633
	<u>\$ 20,674,128</u>	<u>\$ 17,675,576</u>

Liabilities and Net Assets


Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 1,484,414	\$ 718,873
Net assets:		
Unrestricted	1,211,125	948,249
Internally restricted (note 5)	788,434	499,698
Externally restricted (note 6)	17,190,155	15,508,756
	<u>19,189,714</u>	<u>16,956,703</u>
Commitments (note 11)		
	<u>\$ 20,674,128</u>	<u>\$ 17,675,576</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Statement of Operations and Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

	Unrestricted Fund	Internally Restricted Fund	Externally Restricted Fund	2016 Total	2015 Total
Revenue:					
Donations (note 2(f))	\$ 1,722,895	\$ -	\$ 3,677,110	\$ 5,400,005	\$ 5,688,241
Income from investments carried at fair market value (note 7)	-	-	23,524	23,524	152,487
Income from investments carried at amortized cost (note 7)	266,781	-	18,413	285,194	353,606
	1,989,676	-	3,719,047	5,708,723	6,194,334
Expenses:					
Fundraising	295,925	-	-	295,925	370,099
Salaries, wages and benefits (note 2(f))	743,061	-	64,879	807,940	788,340
Office, support and professional fees	208,018	-	15,454	223,472	240,363
	1,247,004	-	80,333	1,327,337	1,398,802
Excess of revenue over expenses	742,672	-	3,638,714	4,381,386	4,795,532
Contributions to health organizations (note 8)	(191,060)	-	(1,957,315)	(2,148,375)	(9,011,614)
Excess (deficiency) of revenue over expenses and contributions	551,612	-	1,681,399	2,233,011	(4,216,082)
Net assets, beginning of year	948,249	499,698	15,508,756	16,956,703	21,172,785
Transfer to internally restricted fund (note 5)	(288,736)	288,736	-	-	-
Net assets, end of year	\$ 1,211,125	\$ 788,434	\$ 17,190,155	\$ 19,189,714	\$ 16,956,703

See accompanying notes to financial statements.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Excess (deficiency) of revenue over expenses and contributions	\$ 2,233,011	\$ (4,216,082)
Unrealized loss (gain) on investments	37,289	(56,018)
Realized loss (gain) on sale of investments	7,549	(16,279)
	<u>2,277,849</u>	<u>(4,288,379)</u>
Changes in non-cash operating working capital:		
Accounts receivable	(86,662)	(203)
Prepaid expenses	-	8,027
Accounts payable and accrued liabilities	765,541	(140,687)
	<u>2,956,728</u>	<u>(4,421,242)</u>
Investment:		
Net disposition (purchase) of investments	<u>(1,506,086)</u>	<u>2,774,350</u>
Increase (decrease) in cash	1,450,642	(1,646,892)
Cash, beginning of year	1,615,989	3,262,881
Cash, end of year	<u>\$ 3,066,631</u>	<u>\$ 1,615,989</u>

Cash includes restricted gaming funds of \$916,639 (2015 - \$516,826).

See accompanying notes to financial statements.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements

Year ended March 31, 2016

1. Operations:

Surrey Hospital & Outpatient Centre Foundation (the "Foundation"), formerly Surrey Memorial Hospital Foundation, is incorporated under the Society Act (British Columbia) and its principal purpose is to raise funds to assist the Surrey Memorial Hospital site, Jim Pattison Outpatient Care & Surgery Centre (together the "Hospital") and related healthcare organizations and facilities in the Fraser Health Authority (the "Authority") in the delivery of health care services. The Foundation is a registered charity under the Income Tax Act (the "Act") and as such, 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. For financial reporting purposes, the accounts have been classified into the following funds:

(i) Unrestricted:

The unrestricted fund includes unrestricted donations, unrestricted investment income and administration fees charged on designated gifts and events (note 2(f)).

(ii) Internally restricted:

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

(iii) Externally restricted:

The externally restricted fund includes donations and other funding received by the Foundation which have been designated for specific purposes by the donor or the gaming authority. The investment income accrued on these funds is not restricted and hence is recorded under the unrestricted fund.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Significant accounting policies (continued):

(c) Investments:

Fixed income investments maturing within one year of the statement of financial position are classified as short-term investments. Fixed income investments maturing after one year and equity securities expected to be held for more than one year are classified as long-term investments.

(d) Revenue recognition:

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

Contributions are recognized as revenue in the appropriate fund in the year received or receivable if the amount to be received can be reasonably established and collection is reasonably assured.

Investment income is recognized when earned and recognized as unrestricted revenue unless restricted by the donor. Changes in the fair value of investments are recorded on the statement of operations as investment income.

(e) Contributed materials and services:

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

Volunteers contribute an indeterminate number of hours to assist the Foundation in carrying out its activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

(f) Allocations of revenue and expenses:

The Foundation incurs costs to secure and manage gifts, provide recognition and manage the investment of the restricted funds. The Foundation allocates up to a maximum of 20% of any designated gifts, excluding endowment gifts, as an administration fee and records it as unrestricted donations upon receipt of the designated gifts. During the year, \$762,207 (2015 - \$633,612) was allocated to unrestricted revenue.

The Foundation allocates a portion of salaries to the externally restricted gaming funds based on the estimated salary costs to administer the 50/50 lottery events. During the year, \$64,879 (2015 - \$66,471) was allocated to externally restricted expenses.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

2. Significant accounting policies (continued):

(g) 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.

(h) 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. Actual results may ultimately differ from these estimates.

(i) 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 its investments managed by an investment manager, which include equity instruments that are quoted in an active market and bonds, at fair market value and all other financial instruments that are invested directly by the Foundation with third parties, such as guaranteed investment certificates ("GIC's"), at cost or amortized cost.

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.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

3. Credit facility:

The Foundation has a credit facility available to a maximum of \$50,000 which when drawn is due on demand, bears interest at the bank's prime rate plus 0.25% per annum and is unsecured. There were no amounts drawn at March 31, 2016 (2015 - nil).

4. Investments:

The investments are comprised of the following:

	2016	2015
Investments measured at fair market value:		
Bonds	\$ 865,225	\$ 833,859
Equitiess	1,089,707	1,057,822
	1,954,932	1,891,681
Investments measured at amortized cost:		
Guaranteed investment certificates (GIC's)	15,556,585	14,158,588
Total investments	17,511,517	16,050,269
Short-term investments	(15,556,585)	(13,954,636)
Long-term investments	\$ 1,954,932	\$ 2,095,633

Bonds consist of federal, provincial and corporate bonds maturing between August 2017 and June 2024 (2015 - June 2015 and March 2024) with yields ranging from 1.28% to 3.14% (2015 - 4.15% to 5.16%). The GIC's have maturity dates between May 2016 to March 2017 (2015 - June 2015 and March 2016) with yields ranging from 1.55% to 2.00% (2015 - 1.80% to 2.00%). The equities consist of investments in Canadian, US and international entities across various industries.

A portion of these investments are restricted and will be used for the purposes specified by the donors.

5. Internally restricted net assets:

The Foundation has an approved policy to transfer 65% of unrestricted estate donations to the internally restricted fund for purposes of supporting future contributions to the Hospital. In 2016, \$288,736 representing 65% of the unrestricted estate donations received during the year was transferred to the internally restricted fund.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

6. Externally restricted net assets:

	2016	2015
Arthur and Irene Bourassa Endowment Fund	\$ 2,059,678	\$ 2,051,608
Designated funds	15,130,477	13,457,148
	\$ 17,190,155	\$ 15,508,756

The Arthur and Irene Bourassa Endowment Fund is externally restricted, including revenues earned on related investments. Earned investment revenue of the funds shall be used for the purposes of the fund or added to principal of the fund. The investment income earned on this fund in 2016 was \$23,524 (2015 - \$150,983), which includes a fair value loss of \$44,838 (2015 - gain of \$55,138). The principal is to be used for capital equipment acquisitions and cannot be utilized until the year 2032.

7. Investment income:

Investment income is comprised of the following:

	2016	2015
Interest income	\$ 317,996	\$ 401,088
Dividends	35,560	32,708
Realized gains (losses)	(7,549)	16,279
Unrealized gains (losses)	(37,289)	56,018
	\$ 308,718	\$ 506,093

8. Contributions to health organizations:

Included in contributions to health organizations is \$1,833,375 (2015 - \$8,711,614) of contributions to the Authority and \$315,000 (2015 - \$300,000) of contributions to other organizations. Contributions to the Authority include an allocation of operating costs of \$191,060 (2015 - \$194,850) incurred by the Foundation, on behalf of the Authority. These operating costs relate to the educational and public relations activities carried out by the Foundation that provide a service to the Authority in raising the profile of Surrey Memorial Hospital and the Jim Pattison Outpatient Care & Surgery Centre and the health care programs they provide.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

9. Fraser Health Authority:

As at March 31, 2016, the Foundation owed the Authority \$1,064,384 (2015 - \$126,018) related to the reimbursement of contributions to health organizations and operating expenses paid by the Authority on behalf of the Foundation. The amount owing is included in accounts payable and accrued liabilities.

The Authority provides office space for the Foundation's use on a no-charge basis. The Foundation also receives certain administrative services from the Authority including payroll and benefit administration, housekeeping and information technology support.

Because of the difficulty in determining their fair value, these contributed services and free rent are not recognized in the financial statements.

10. Employee future 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 contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 185,000 active members and approximately 80,000 retired members. Active members include approximately 10 (2015 - 10) contributors from the Foundation.

The most recent actuarial valuation as at December 31, 2012 indicated a \$1.37 billion funding deficit for basic pension benefits. The next valuation is as at December 31, 2015 with results available in 2016. 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 2016, the Foundation paid \$87,851 (2015 - \$84,734) for employer contributions to the Plan.

11. Commitments:

In fiscal 2012, the Foundation pledged \$1,500,000 to establish an endowed research chair in Multi-Media Technologies for Healthcare Innovation at Simon Fraser University. In accordance with the pledge agreement, subject to certain conditions, the Foundation has committed to disbursing \$300,000 per annum over five years, commencing on the first day of employment of the research chairperson. As at March 31, 2016, the Foundation has accrued \$300,000 for the fiscal 2016 payable amount, and the remaining \$300,000 (2015 - \$600,000) is to be paid in future years.

SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

12. Financial risks:

(a) Interest rate and market risks:

The Foundation's interest rate and market risks arise from its investment in GIC's and bonds, which fluctuate in their fair value based on changes in market interest rates, and Canadian equities, which are sensitive to volatility in the equity markets.

(b) Credit risk:

Credit risk arises when a failure of a counterparty to discharge their obligations could reduce the future cash inflows from financial assets. The Foundation's credit risk arises primarily from its investments in bonds, GIC's, and cash balance.

(c) Risk management:

The Foundation manages its interest rate and market risks by maintaining a diversified portfolio of investments with different issuers and matching cash needs with investment maturities. Further, the Foundation has developed an investment policy which requires regular performance review and provides guidelines on investment management.

The Foundation manages its credit risk on bond investments by restricting investments to issuers with minimum investment grades as assigned by national investment grade rating agencies and ensuring a diversified portfolio mix. The Foundation manages its credit risk on cash and GIC's by holding these financial assets at various high credit quality Canadian financial institutions.