

Financial Statements of

**SURREY HOSPITAL & OUTPATIENT  
CENTRE FOUNDATION**

Year ended March 31, 2017



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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, 2017, 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, 2017 and March 31, 2016, 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, 2017 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.

*KPMG LLP*

Chartered Professional Accountants

August 22, 2017  
Burnaby, Canada

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

## Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 3,019,525	\$ 3,066,631
Accounts receivable	160,286	95,980
Short-term investments (note 4)	13,256,590	15,556,585
	<u>16,436,401</u>	<u>18,719,196</u>
Long-term investments (note 4)	1,833,404	1,954,932
	<u>\$ 18,269,805</u>	<u>\$ 20,674,128</u>

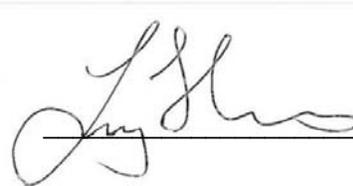
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 3,121,816	\$ 1,484,414
Net assets:		
Unrestricted	1,219,366	1,211,125
Internally restricted (note 5)	919,623	788,434
Externally restricted (note 6)	13,009,000	17,190,155
	<u>15,147,989</u>	<u>19,189,714</u>
Commitments (note 11)		
	<u>\$ 18,269,805</u>	<u>\$ 20,674,128</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, 2017, with comparative information for 2016

	Unrestricted Fund	Internally Restricted Fund	Externally Restricted Fund	2017 Total	2016 Total
<b>Revenue:</b>					
Donations and fundraising (note 2(f))	\$ 1,391,571	\$ -	\$ 3,613,860	\$ 5,005,431	\$ 5,400,005
Income from investments carried at fair market value (note 7)	-	-	227,615	227,615	23,524
Income from investments carried at amortized cost (note 7)	278,713	-	4,083	282,796	285,194
	1,670,284	-	3,845,558	5,515,842	5,708,723
<b>Expenses:</b>					
Fundraising	369,054	-	-	369,054	295,925
Salaries, wages and benefits (note 2(f))	688,868	-	70,539	759,407	807,940
Office, support and professional fees	255,842	26,186	16,288	298,316	223,472
	1,313,764	26,186	86,827	1,426,777	1,327,337
Excess (deficiency) of revenue over expenses	356,520	(26,186)	3,758,731	4,089,065	4,381,386
Contributions to health and other organizations (note 8)	(190,904)	-	(7,939,886)	(8,130,790)	(2,148,375)
Excess (deficiency) of revenue over expenses	165,616	(26,186)	(4,181,155)	(4,041,725)	2,233,011
Net assets, beginning of year	1,211,125	788,434	17,190,155	19,189,714	16,956,703
Transfer of internally restricted fund (note 5)	(157,375)	157,375	-	-	-
Net assets, end of year	\$ 1,219,366	\$ 919,623	\$ 13,009,000	\$ 15,147,989	\$ 19,189,714

See accompanying notes to financial statements.

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

## Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses and contributions	\$ (4,041,725)	\$ 2,233,011
Unrealized loss (gain) on investments	(101,752)	37,289
Realized loss (gain) on sale of investments	(55,475)	7,549
	(4,198,952)	2,277,849
Changes in non-cash operating working capital:		
Accounts receivable	(64,306)	(86,662)
Accounts payable and accrued liabilities	1,637,402	765,541
	(2,625,856)	2,956,728
Investment:		
Net disposition (purchase) of investments	2,578,750	(1,506,086)
Increase (decrease) in cash	(47,106)	1,450,642
Cash, beginning of year	3,066,631	1,615,989
Cash, end of year	\$ 3,019,525	\$ 3,066,631

Cash includes restricted gaming funds of \$1,187,796 (2016 - \$916,639).

See accompanying notes to financial statements.

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017

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## 1. Operations:

Surrey Hospital & Outpatient Centre Foundation (the "Foundation") is incorporated under the Society Act (British Columbia). On December 23, 2016, the Foundation transitioned to the new Societies Act (British Columbia). 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, 2017

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## 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 and they would otherwise be purchased.

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, \$594,843 (2016 - \$762,207) 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, \$70,539 (2016 - \$64,879) was allocated to externally restricted expenses.

### (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.

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## 2. Significant accounting policies (continued):

### (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 carried at cost or amortized cost 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.

## 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, 2017 (2016 - nil).

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

## 4. Investments:

The investments are comprised of the following:

	2017	2016
Investments measured at fair market value:		
Bonds	\$ 857,266	\$ 865,225
Equities	1,209,859	1,089,707
	2,067,125	1,954,932
Investments measured at amortized cost:		
Guaranteed investment certificates ("GIC's")	13,022,869	15,556,585
Total investments	15,089,994	17,511,517
Short-term investments	(13,256,590)	(15,556,585)
Long-term investments	\$ 1,833,404	\$ 1,954,932

Bonds consist of federal, provincial and corporate bonds maturing between August 2017 and June 2024 (2016 - August 2017 and June 2024) with yields ranging from 1.06% to 2.72% (2016 - 1.28% to 3.14%). The GIC's have maturity dates between April 2017 and March 2018 (2016 - May 2016 and March 2017) with yields ranging from 1.6% to 1.8% (2016 - 1.55% 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 (note 6).

## 5. Internally restricted net assets:

The Foundation has an approved policy to review unrestricted estate gifts received by the Foundation on an annual basis and determine a percentage allocation between the unrestricted fund and internally restricted fund. In 2017, an amount of \$157,375 (2016 - \$288,736), representing 55% (2016 - 65%) of unrestricted estate gifts, has been transferred from the unrestricted fund to the internally restricted fund for purposes of supporting future contributions to the Hospital.

## 6. Externally restricted net assets:

	2017	2016
Arthur and Irene Bourassa Endowment Fund	\$ 1,871,003	\$ 2,059,678
Designated funds	11,137,997	15,130,477
	\$ 13,009,000	\$ 17,190,155

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

## 6. Externally restricted net assets (continued):

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 2017 was \$227,615 (2016 - \$23,524), which includes a fair value gain of \$157,227 (2016 - loss of \$44,838). 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:

	2017	2016
Interest income	\$ 315,022	\$ 317,996
Dividends	38,162	35,560
Realized gains (losses)	55,475	(7,549)
Unrealized gains (losses)	101,752	(37,289)
	<u>\$ 510,411</u>	<u>\$ 308,718</u>

## 8. Contributions to health and other organizations:

Included in contributions to health organizations is \$7,624,886 (2016 - \$1,833,375) of contributions to the Authority and \$315,000 (2016 - \$315,000) of contributions to other organizations. Contributions to the Authority include an allocation of operating costs of \$190,904 (2016 - \$191,060) 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.

## 9. Fraser Health Authority:

As at March 31, 2017, the Foundation owed the Authority \$2,717,600 (2016 - \$1,064,384) 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 these financial statements.

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## 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 189,000 active members and approximately 85,000 retired members. Active members include approximately 9 (2016 - 10) contributors from the Foundation.

The most recent actuarial valuation as at December 31, 2015 indicated a \$2.224 billion funding surplus for basic pension benefits on a going concern basis. The next valuation is as at 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 2017, the Foundation paid \$97,516 (2016 - \$87,851) 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, 2017, the Foundation has accrued \$300,000 for the fiscal 2017 payable amount, and the remaining \$ 300,000 (2016 - \$600,000) is to be paid in future years.

## 12. Disclosure of employee and contractor remuneration:

For the fiscal year ended March 31, 2017, the Foundation paid total remuneration of \$997,309 to eight employees and contractors for services, each of whom received total annual remuneration of \$75,000 or greater.

In accordance with the bylaws of the Foundation, no remuneration was paid to any Directors of the Foundation during the year.

# SURREY HOSPITAL & OUTPATIENT CENTRE FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

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## 13. Financial risks:

### (a) Interest rate and market risks:

The Foundation's interest rate and market risks arise from its investment in fixed-rate 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.

There has been no change to the risk exposures since 2016.