

Financial Statements of

**VICTORIA HOSPITALS
FOUNDATION**

Year ended March 31, 2015



KPMG LLP
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada

Telephone (250) 480-3500
Telefax (250) 480-3539
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To Members of Victoria Hospitals Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Victoria Hospitals Foundation, which comprise the statement of financial position as at March 31, 2015, 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 is sufficient and appropriate to provide a basis for our qualified audit opinion.



Basis for Qualified Opinion

In common with many charitable organizations, Victoria Hospitals Foundation derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Victoria Hospitals Foundation.

Therefore, we were not able to determine whether, as at March 31, 2015 and for the year then ended, any adjustments might be necessary to donation revenue and excess of revenue over expenses reported in the statements of operations, excess of revenue over expenses reported in the statements of cash flows and current assets and net assets reported in the statements of financial position.

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 Victoria Hospitals Foundation as at March 31, 2015, 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.

KPMG LLP

Chartered Professional Accountants

September 8, 2015
Victoria, Canada

VICTORIA HOSPITALS FOUNDATION

Statement of Financial Position

March 31, 2015, with comparative information for 2014

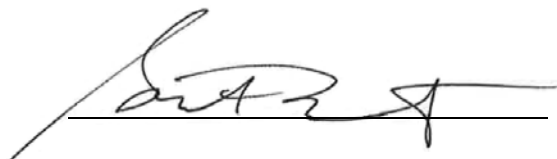
	2015	2014
Assets		
Current assets:		
Cash	\$ 3,873,485	\$ 4,820,908
Prepaid expenses and deposits	71,893	78,052
Other assets	134,154	406,164
	<u>4,079,532</u>	<u>5,305,124</u>
Investments (note 2)	7,003,083	6,410,785
	<u>\$ 11,082,615</u>	<u>\$ 11,715,909</u>

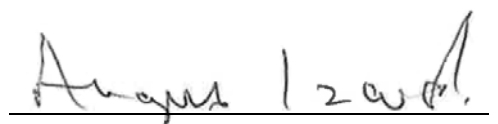
Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 306,990	\$ 325,789
Disbursements due to Island Health	401,377	373,128
Deferred contributions (note 3)	1,026,207	1,339,200
	<u>1,734,574</u>	<u>2,038,117</u>
Net assets:		
Unrestricted	9,098,041	9,427,792
Externally restricted	250,000	250,000
	<u>9,348,041</u>	<u>9,677,792</u>
Commitments (notes 5 and 11)		
	<u>\$ 11,082,615</u>	<u>\$ 11,715,909</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

 Director

VICTORIA HOSPITALS FOUNDATION

Statement of Operations

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Donations (note 6)	\$ 5,579,878	\$ 9,766,123
Gaming revenue (note 8)	393,828	320,125
Sales tax rebate (note 9)	103,710	39,922
Investment income	372,278	308,188
Realized gain on investments	141,982	260,880
Loss on disposal of land held for resale (note 4)	-	(15,000)
Change in unrealized gain (loss) on investments (note 2)	280,682	(81,570)
	<u>6,872,358</u>	<u>10,598,668</u>
Expenses:		
Direct fundraising expenses	746,593	1,238,882
Public relations expenses	63,572	75,059
Salaries and benefits	1,180,138	1,052,558
Office and administration	91,598	90,772
Professional fees	64,706	63,112
	<u>2,146,607</u>	<u>2,520,383</u>
Net revenue from operations before disbursements	4,725,751	8,078,285
Disbursements to Island Health (note 5)	5,055,502	5,145,412
Excess (deficiency) of revenue over expenses	<u>\$ (329,751)</u>	<u>\$ 2,932,873</u>

See accompanying notes to financial statements.

VICTORIA HOSPITALS FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2015, with comparative information for 2014

	Externally restricted	Unrestricted	Total
Net assets, March 31, 2013	\$ 250,000	\$ 6,494,919	\$ 6,744,919
Net revenue from operations before disbursements	-	8,078,285	8,078,285
Disbursements to Island Health	-	(5,145,412)	(5,145,412)
Net assets, March 31, 2014	250,000	9,427,792	9,677,792
Net revenue from operations before disbursements	-	4,725,751	4,725,751
Disbursements to Island Health	-	(5,055,502)	(5,055,502)
Net assets, March 31, 2015	\$ 250,000	\$ 9,098,041	\$ 9,348,041

See accompanying notes to financial statements.

VICTORIA HOSPITALS FOUNDATION

Statement of Cash Flows

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Net revenue from operations before disbursements	\$ 4,725,751	\$ 8,078,285
Items not involving cash:		
Realized gain on investments	(141,982)	(260,880)
Change in unrealized loss (gain) on investments	(280,682)	81,570
Loss on disposal of land held for resale	-	15,000
Changes in non-cash operating working capital:		
Prepaid expenses and deposits	6,159	(26,736)
Other assets	272,010	(347,396)
Accounts payable and accrued liabilities	(18,799)	61,431
Deferred contributions	(312,993)	332,077
	<u>4,249,464</u>	<u>7,933,351</u>
Disbursement activities to Island Health:		
Balance due, beginning of year	(373,128)	(2,552,003)
Disbursements approved and invoiced	<u>(5,055,502)</u>	<u>(5,145,412)</u>
	<u>(5,428,630)</u>	<u>(7,697,415)</u>
Balance due, end of year	<u>401,377</u>	<u>373,128</u>
	<u>(5,027,253)</u>	<u>(7,324,287)</u>
	(777,789)	609,064
Investing:		
Proceeds of disposal of land	-	166,000
Proceeds of disposal of investments	2,585,685	5,018,095
Purchase of and reinvestment in investments	<u>(2,755,319)</u>	<u>(2,984,194)</u>
	<u>(169,634)</u>	<u>2,199,901</u>
Increase (decrease) in cash	(947,423)	2,808,965
Cash, beginning of year	4,820,908	2,011,943
Cash, end of year	<u>\$ 3,873,485</u>	<u>\$ 4,820,908</u>

Supplemental cash flow information:

Offsetting amounts of revenue and expenses totaling \$226,405 (2014 - \$535,245) representing gifts in kind are recognized in these financial statements but did not involve cash.

See accompanying notes to financial statements.

VICTORIA HOSPITALS FOUNDATION

Notes to Financial Statements

Year ended March 31, 2015

Victoria Hospitals Foundation (the "Foundation") is incorporated under the Society Act (British Columbia). It is registered as a public foundation under business number 10793 5637 RR0001 with the Canada Revenue Agency.

The Foundation acts as the official fundraising arm for the Royal Jubilee and Victoria General hospitals operated by Island Health. The Foundation receives certain administrative services without charge from Island Health.

Donations received by the Foundation are used to enhance health care through equipment purchase, facility enhancement or by assisting in health-related research and education. Donations are not applied to hospital operating expenses.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are as follows:

(a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions.

- (i) Externally restricted contributions are recognized as revenue in the years in which related disbursements are incurred.
- (ii) Unrestricted contributions, donations and pledged contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- (iii) Donated materials and services are recognized in the financial statements when a fair value can be reasonably established in the market and when the materials and services are used in the normal course of operations and would otherwise have been purchased.
- (iv) Donations of life insurance policies and charitable remainder trusts are recorded when the funds are received by the Foundation. The cash surrender value of life insurance policies and changes in the cash surrender value are recorded as donation revenue for those policies in which the Foundation is the beneficiary.
- (v) Unrestricted investment income is recognized as revenue when it is earned and includes interest income, dividends, gains or losses on disposal of investments and unrealized gains or losses. Investment income restricted in use is initially recorded as deferred contributions and subsequently recognized as revenue when the related disbursements are incurred.
- (vi) Endowment contributions are recorded as direct increases in externally restricted net assets.

VICTORIA HOSPITALS FOUNDATION

Notes to Financial Statements

Year ended March 31, 2015

1. Significant accounting policies (continued):

(b) Life insurance policies:

The Foundation is owner and beneficiary of various life insurance policies. The cash surrender value of these policies is reflected in other assets on the statement of financial position. The annual change in the aggregate cash value is recorded as donations revenue.

(c) Charitable remainder trusts:

The Foundation has been named the capital beneficiary under charitable remainder trust arrangements. The Foundation's capital interests are actuarially valued at the time the trust arrangements are established. A receipt for income tax purposes is issued at that time based on the valuation. Due to the inability to accurately predict the timing of the future asset transfers, the Foundation records the revenue and assets received upon the death of the donor and receipt of the assets.

(d) Recognition of disbursements to Island Health:

Disbursements to Island Health are recorded when the purchase of equipment has been approved and invoiced to the Foundation.

(e) Contingent gains:

In prior years, the Foundation received certain hedge fund units which are to mature in 2019. Revenue in respect to these hedge fund units will be recognized on a cash basis as the timing and the amount of future cash receipts cannot be accurately determined.

(f) Employee benefits:

Sick leave is available to the Foundation's employees. The costs of the sick leave benefits are estimated based on service and best estimates of terms to retirement or termination and expected future salary and wage increases. The sick leave obligation is accrued based on projected benefits as the employees render services necessary to earn the future benefits.

The Foundation and its employees make contributions to the Municipal Pension Plan. These contributions are expensed as incurred.

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Investments that are quoted in an active market are subsequently measured at fair value and all changes in the fair value are recognized in the statement of operations in the period incurred. 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 not elected to carry any such financial instruments at fair value.

VICTORIA HOSPITALS FOUNDATION

Notes to Financial Statements

Year ended March 31, 2015

1. Significant accounting policies (continued):

(g) 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 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.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 revenues and expenses during the year. Actual results could differ from those estimates.

2. Investments:

The major components of investments are as follows:

March 31, 2015

	Market	Cost	Unrealized gain
Cash and equivalents	\$ 1,326	\$ 1,326	\$ -
Guaranteed Investment Certificates	564,214	564,214	-
Money market funds	153,963	153,963	-
Bond funds	2,436,799	2,269,657	167,142
Canadian equity funds	1,532,324	1,253,788	278,536
US Equity funds	1,215,834	999,533	216,301
Foreign equity funds	1,098,623	961,535	137,088
	<u>\$ 7,003,083</u>	<u>\$ 6,204,016</u>	<u>\$ 799,067</u>

The Guaranteed Investment Certificates have effective interest rates of 2.55% to 3.75% and mature between April 2015 and December 2016.

VICTORIA HOSPITALS FOUNDATION

Notes to Financial Statements

Year ended March 31, 2015

2. Investments (continued):

March 31, 2014

	Market	Cost	Unrealized gain
Cash and equivalents	\$ 22,148	\$ 22,148	\$ -
Guaranteed Investment Certificates	631,214	631,214	-
Money market funds	878,866	878,866	-
Bond funds	3,412,582	3,277,438	135,144
Canadian equity funds	1,023,340	723,374	299,966
US Equity funds	275,171	224,210	50,961
Foreign equity funds	167,464	135,150	32,314
	<u>\$ 6,410,785</u>	<u>\$ 5,892,400</u>	<u>\$ 518,385</u>

3. Deferred contributions:

Deferred contributions represent externally restricted donations received, but not yet disbursed. Changes in the deferred contributions balance are as follows:

	2015	2014
Balance, beginning of year	\$ 1,339,200	\$ 1,007,123
Add externally restricted donations received in the current year and not expended	157,815	357,318
Deduct amounts recognized as revenue in the current year from prior years' gifts	(470,808)	(25,241)
Balance, end of year	<u>\$ 1,026,207</u>	<u>\$ 1,339,200</u>

4. Land held for resale:

During the year ended March 31, 2013, the Foundation received a donation of land with a fair value of \$190,000. The carrying value of the land was recognized at the estimated fair value less costs to sell the land. During the year ended March 31, 2014, the Foundation sold the land for net proceeds of \$166,000.

5. Commitments:

The Foundation has a policy of disbursing funds to Island Health once an invoice for equipment has been received. There can be a long and unpredictable timeline from the date of commitment to the time of invoicing due to equipment trial periods and delivery times. Adjustments represent cancellations of commitments due to funding that did not materialize or changing equipment priorities.

VICTORIA HOSPITALS FOUNDATION

Notes to Financial Statements

Year ended March 31, 2015

5. Commitments (continued):

The following is a summary of commitments made and invoices recognized during the year:

Disbursements by medical department	Cumulative commitments outstanding at March 31, 2014	Commitments made during the fiscal year	Approved and invoiced during the fiscal year	Commitments adjustments	Cumulative commitments outstanding at March 31, 2015
Cardiac Services	\$ 1,079,457	\$ 159,628	\$ 329,786	\$ (51,446)	\$ 857,853
Child, Youth & Maternity	186,455	481,773	357,023	(204,891)	106,314
Diagnostic	-	49,194	13,200	(2,776)	33,218
Emergency	-	100,840	30,398	(4,512)	65,930
Intensive Care and Health-Restoration	-	70,000	52,175	-	17,825
Medical Imaging	32,355	-	30,255	(2,100)	-
Medicine	340,757	84,011	288,430	(75,558)	60,780
Mental Health	-	71,165	4,566	-	66,599
Patient Care Centre	970,775	1,888,011	2,123,311	-	735,475
Rehabilitation	1,694	73,415	30,086	(404)	44,619
Senior Health	150,000	24,690	28,720	-	145,970
Surgical /Post Surgical Svcs	294,263	1,275,308	1,168,246	(3,341)	397,984
Island Health-Combined Sites	17,045	1,247	18,292	-	-
Special Purpose Projects	400,000	488,667	581,014	-	307,653
Balance, end of year	\$ 3,472,801	\$ 4,767,949	\$ 5,055,502	\$ (345,028)	\$ 2,840,220

6. Donations:

The Building Care Together campaign finished in fiscal 2014 and fundraising activities were focused on the annual campaign for the year ended March 31, 2015.

7. Donations of life insurance and charitable remainder trusts:

The Foundation has been named owner and beneficiary of \$21,312 in life insurance policies (2014 - \$21,312). The annual premiums are treated as donations from the insured parties. Donation income and premium expense in the amount of \$752 (2014 - \$752) are reflected in the financial statements. The cash surrender value of the policies of \$13,873 (2014 - \$12,712) is included in other assets on the statement of financial position.

As described in note 1(c), the Foundation is a named capital beneficiary of charitable remainder trusts having a net present value, actuarially determined at the time the trusts were established, of \$170,350 (2014 - \$205,351). The Foundation will realize and record its interest in these trusts at their then fair value upon termination of the income interests as provided in the trust documents.

8. Gaming revenue:

Gaming revenue includes a 50/50 raffle draw with hospital staff, event raffles and amounts from other organizations who raise funds on the Foundation's behalf. Included in direct fundraising expenses are prizes awarded of \$182,060 (2014 - \$150,765).

VICTORIA HOSPITALS FOUNDATION

Notes to Financial Statements

Year ended March 31, 2015

9. Sales tax rebate:

The program under which the Foundation has been applying for rebates on the social service tax ("PST") paid on medical equipment has been reinstated effective April 1, 2013.

10. Municipal Pension Plan:

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 182,000 active members and approximately 75,000 retired members.

The most recent actuarial valuation as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be 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.

The Foundation paid \$97,638 for employer contributions to the Plan (2014 - \$83,904).

11. Financial risks and concentration of credit risk:

The Foundation is exposed to interest, currency or credit risks arising from its financial instruments. Risks related to market value fluctuation of investments are mitigated by the Foundation's investment policies regarding portfolio mix. Investments are purchased and sold during the year to comply with the Foundation's Board approved investment policy regarding permitted asset mix. The market value and composition of investments is disclosed in note 2.

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There has been no changes to the risk exposures from 2014.

VICTORIA HOSPITALS FOUNDATION

Notes to Financial Statements

Year ended March 31, 2015

12. Other information:

American Friends of the Victoria Hospitals Foundation is a US non-profit corporation that qualifies as a charity under US tax law. It is an organization which benefits areas of interest to the Foundation including medical and scientific research and education activities, promoting wellness and the care of the sick and disabled. During the year, the Foundation received a donation from American Friends of the Victoria Hospitals Foundation for \$245 (2014 – \$500). The Foundation has an administrative operating agreement with the American Friends of the Victoria Hospitals Foundation. During the year, the Foundation paid operating costs of \$3,225 in 2015 (2014 – \$3,744).