

Financial Statements of

**KELOWNA GENERAL HOSPITAL
FOUNDATION**

Year ended March 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Directors of the Kelowna General Hospital Foundation

We have audited the accompanying financial statements of Kelowna General Hospital Foundation (the "Foundation") which comprise the statements of financial position as at March 31, 2014, the statements of operations and changes in net assets and cash flows for the year ended March 31, 2014, 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 an 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 Foundation'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 Foundation'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, the Foundation derives revenue from donations, the completeness and allocation of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to donations revenue, excess of revenue over expenses, current assets and net assets.



Qualified Opinion

In our opinion, except for the possible effects on the financial statements of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Kelowna General Hospital Foundation as at March 31, 2014, and the results of its operations and its cash flows for the year ended March 31, 2014 in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Accountants

June 24, 2014
Kelowna, Canada

KELOWNA GENERAL HOSPITAL FOUNDATION

Statements of Financial Position

| | 2014 | 2013 |
|--|---------------|---------------|
| Assets | | |
| Current assets: | | |
| Cash and restricted cash (note 2) | \$ 434,654 | \$ 620,196 |
| Accounts receivable | 158,730 | 34,257 |
| Inventories | 30,087 | 44,110 |
| Prepaid expenses and deposits | 24,327 | 29,335 |
| | 647,798 | 727,898 |
| Investments (note 2) | 18,133,348 | 11,239,218 |
| Cash surrender value of life insurance policies (note 3) | 273,132 | 238,422 |
| Tangible capital assets (note 4) | 656,029 | 628,727 |
| | \$ 19,710,307 | \$ 12,834,265 |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 113,048 | \$ 119,854 |
| Pledges payable - Interior Health Authority | 29,753 | 135,483 |
| Deferred revenue | 103,668 | 100,111 |
| | 246,469 | 355,448 |
| Net assets: | | |
| Invested in tangible capital assets | 656,029 | 628,727 |
| Restricted for specified purposes (note 5) | 6,570,011 | 3,732,909 |
| Restricted for endowment purposes (note 6) | 9,543,545 | 7,185,503 |
| Unrestricted | 2,694,253 | 931,678 |
| | 19,463,838 | 12,478,817 |
| Commitment (note 7) | | |
| | \$ 19,710,307 | \$ 12,834,265 |

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

KELOWNA GENERAL HOSPITAL FOUNDATION

Statements of Operations and Changes in Net Assets

Year ended March 31, 2014, with comparative figures for 2013

| | Invested in tangible capital assets | Restricted for Specified purposes | Endowment purposes | Unrestricted | 2014 | 2013 |
|---|---|---|-----------------------|--------------|---------------|---------------|
| Revenue: | | | | | | |
| Donations | \$ - | \$ 6,344,745 | \$ 1,552,614 | \$ 2,309,005 | \$ 10,206,364 | \$ 3,582,760 |
| Fundraising and other | - | 403,024 | - | 46,530 | 449,554 | 484,754 |
| Auxiliary operations, net (note 8) | (55,316) | - | - | 767,192 | 711,876 | 687,576 |
| | (55,316) | 6,747,769 | 1,552,614 | 3,122,727 | 11,367,794 | 4,755,090 |
| Investment | - | - | 1,056,795 | 87,148 | 1,143,943 | 599,523 |
| | (55,316) | 6,747,769 | 2,609,409 | 3,209,875 | 12,511,737 | 5,354,613 |
| Donation disbursements | - | 3,918,567 | 139,239 | 23,903 | 4,081,709 | 2,524,712 |
| Expenses: | | | | | | |
| Amortization | 23,777 | - | - | - | 23,777 | 20,179 |
| Campaign and events | - | 211,294 | - | 120,914 | 332,208 | 546,800 |
| Administrative | - | - | 40,043 | 197,543 | 237,586 | 195,110 |
| Salaries and benefits | - | - | - | 851,436 | 851,436 | 665,390 |
| Administrative recovery | - | 529,069 | 72,085 | (601,154) | - | - |
| | 23,777 | 740,363 | 112,128 | 568,739 | 1,445,007 | 1,427,479 |
| Excess (deficiency) of revenue over expenses | (79,093) | 2,088,839 | 2,358,042 | 2,617,233 | 6,985,021 | 1,402,422 |
| Net assets, beginning of year | 628,727 | 3,732,909 | 7,185,503 | 931,678 | 12,478,817 | 11,076,395 |
| Net investment in tangible capital assets | 106,395 | - | - | (106,395) | - | - |
| Transfers from unrestricted to restricted net assets | - | 748,263 | - | (748,263) | - | - |
| Net assets, end of year | \$ 656,029 | \$ 6,570,011 | \$ 9,543,545 | \$ 2,694,253 | \$ 19,463,838 | \$ 12,478,817 |

See accompanying notes to financial statements.

KELOWNA GENERAL HOSPITAL FOUNDATION

Statements of Cash Flows

Year ended March 31, 2014, with comparative figures for 2013

| | 2014 | 2013 |
|--|--------------|--------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Cash received from donations | \$ 8,653,750 | \$ 3,538,382 |
| Cash received from auxiliaries and other revenue | 1,061,120 | 1,220,907 |
| Cash paid for donation disbursements | (4,187,438) | (2,455,787) |
| Cash paid for operating expenditures | (1,368,965) | (1,278,265) |
| | 4,158,467 | 1,025,237 |
| Investing and financing activities: | | |
| Endowment contributions | 1,552,614 | 44,378 |
| Purchase of tangible capital assets | (107,293) | (160,941) |
| Proceeds on disposal of tangible capital assets | 900 | 10,167 |
| Net purchase of investments | (6,195,317) | (1,076,241) |
| Investment income received, net of fees | 405,087 | 218,246 |
| | (4,344,009) | (964,391) |
| Increase (decrease) in cash | (185,542) | 60,846 |
| Cash, beginning of year | 620,196 | 559,350 |
| Cash, end of year | \$ 434,654 | \$ 620,196 |
| Supplemental information: | | |
| Non-cash investing and financing activities: | | |
| Net change in cumulative unrealized gain (loss) on investments | \$ 698,813 | \$ 345,311 |

See accompanying notes to financial statements.

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements

Year ended March 31, 2014, with comparative figures for 2013

The Kelowna General Hospital Foundation (the "Foundation") is a charitable organization incorporated under the Society Act (British Columbia). The Foundation is an independent, volunteer-driven organization dedicated to enhancing the delivery of healthcare to the patients of the Kelowna General Hospital and its associated facilities. These financial statements include the assets and operations of the Foundation as well as those of the Kelowna Auxiliary, the Peachland Auxiliary, the Rutland Auxiliary and the Winfield Auxiliary to Kelowna General Hospital Foundation. The Foundation is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act are met. Donation disbursements made directly to the Interior Health Authority accounted for substantially all of the Foundation's donation disbursements in the year.

1. Significant accounting policies:

(a) Revenue recognition:

The Foundation uses the deferral method of accounting for revenue.

Donation revenue is recorded when the funds are received. Pledges for specified equipment are reflected as donation revenue once the specific equipment has been purchased by a specified health care organization and the supporting documentation has been provided to the maker of the pledge. Fundraising and other includes revenue from the BC Gaming Raffle License-Payroll Deduction (50/50 staff lottery), ATM commissions and fundraising events.

Gifts in kind are reflected at fair value as supported by independent documentation. Gifts in kind are recorded when the donated product is received.

Donations of life insurance policies with a cash surrender value are recorded as donation revenue in the period the Foundation receives the policy.

Revenue received by the auxiliary operations are recorded at the point of sale and upon the receipt of cash.

(b) Cash and cash equivalents:

Cash and restricted cash in the statement of financial position includes cash, guaranteed investment certificates and term deposits readily convertible into cash.

(c) Inventories:

Inventories consisting of goods for sale in Auxiliary operations, are recorded at the lower of cost and net realizable value.

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

1. Significant accounting policies (continued):

(d) Tangible capital assets:

Tangible capital assets are recorded at cost, less accumulated amortization. When the Foundation's management determines that certain tangible capital assets no longer contribute to its ability to provide services, their carrying amount is written down to its net recoverable amount. Amortization is provided on a straight-line basis at the following annual rates:

| | Rate |
|------------------------------|-----------|
| North Dougall Road Property: | |
| Building and equipment | 4% - 50% |
| Computer and equipment | 10% - 50% |

(e) Investments:

Investments include pooled investment funds and interest bearing investments. These investments are recorded at their fair values determined, on a settlement date basis, on the last business day of the fiscal period.

(f) Pledges payable - Interior Health Authority:

Pledges to the Interior Health Authority are reflected as both pledges payable and current donation disbursements once the Foundations' Board of Directors (the "Board") has approved the donation and the related expenditure has been made by the Interior Health Authority.

(g) Restricted donation revenue and net assets:

Donation revenue is considered restricted when the donor designates it be spent on a specific piece of equipment or project and the Board approves the designation or when the Board designates it be spent on a specific piece of equipment or project. The funds are retained as restricted net assets until the designated equipment is purchased or the designated project is completed, subject to approval by the Board.

(h) Unrestricted donation revenue and net assets:

Donation revenue is considered unrestricted when the donor does not designate it towards a specific piece of equipment or project. The funds are retained as unrestricted net assets and may be used at the discretion of the Board.

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

1. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of the 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 year. Actual results could differ from those estimates.

(j) Contributed services:

The Foundation receives a significant amount of services from volunteers each year. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

(k) Financial instruments:

The Foundation measures cash and investments at fair value and accounts receivable and accounts payable and accrued liabilities and pledges payable at amortized cost. Changes in fair value of cash and investments are recognized in the statement of operations in the periods in which they arise.

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

2. Cash and investments:

| | 2014 | 2013 |
|------------------------------|---------------|---------------|
| Cash: | | |
| Restricted | \$ 15,428 | \$ 84,493 |
| Unrestricted | 419,226 | 535,703 |
| | 434,654 | 620,196 |
| Investments: | | |
| Restricted | | |
| Pooled investment funds | 9,149,692 | 6,883,099 |
| Interest bearing investments | 6,824,153 | 4,032,465 |
| | 15,973,845 | 10,915,564 |
| Unrestricted | | |
| Interest bearing investments | 2,159,503 | 323,654 |
| | 18,133,348 | 11,239,218 |
| | \$ 18,568,002 | \$ 11,859,414 |

Interest bearing investments consists of term deposits, guaranteed investment certificates and other money market instruments with a weighted average interest rate of 1.16% (2013 - 1.33%)

Investment includes amounts held in respect of restricted net assets and amounts not held for use in day to day operations for the upcoming year. Accordingly, the investments have been presented as non-current assets.

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

3. Cash surrender value of life insurance policies:

The Foundation has been named the beneficiary of five (2013 - five) life insurance policies with a total face value of \$329,418 (2013 - \$329,418). Donations revenue includes policy premiums paid, on behalf of the Foundation, by the respective donors. Life insurance policies have been gifted to the Foundation for planned future endowments or specified purposes. Accordingly, the cash surrender value of life insurance policies has been included in net assets restricted for specified purposes.

4. Tangible capital assets:

| | Cost | Accumulated amortization | Net book value |
|------------------------------|------------|-----------------------------|-------------------|
| 2014 | | | |
| North Dougall Road property: | | | |
| Land | \$ 175,468 | \$ - | \$ 175,468 |
| Building | 420,417 | 159,467 | 260,950 |
| | 595,885 | 159,467 | 436,418 |
| Computer and equipment | 402,474 | 182,863 | 219,611 |
| | \$ 998,359 | \$ 342,330 | \$ 656,029 |

| | Cost | Accumulated amortization | Net book value |
|------------------------------|------------|-----------------------------|-------------------|
| 2013 | | | |
| North Dougall Road property: | | | |
| Land | \$ 175,468 | \$ - | \$ 175,468 |
| Building | 420,417 | 142,651 | 277,766 |
| | 595,885 | 142,651 | 453,234 |
| Computer and equipment | 376,695 | 201,202 | 175,493 |
| | \$ 972,580 | \$ 343,853 | \$ 628,727 |

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

5. Net assets restricted for specified purposes:

Net assets restricted for specified purposes consists of the following funds:

| | 2014 | 2013 |
|--|--------------|--------------|
| Arthritis Services | \$ 4,412 | \$ 4,370 |
| Auxiliary - Kelowna General Hospital | 19,310 | 26,194 |
| Brookhaven Care Centre | 51,270 | 57,925 |
| Cancer Care | 23,721 | 19,812 |
| Cardiology | 280,962 | 288,128 |
| Chaplaincy | 57,383 | 57,383 |
| Children's Care | 172,616 | 304,059 |
| Cottonwoods Extended Care General | 345,690 | 184,086 |
| Critical Care Unit | 14,608 | 5,934 |
| David Lloyd Jones Community Home | 28,301 | 31,140 |
| Designated - TD Bank Nursing & Education | 67,443 | 56,600 |
| Designated Equipment | 211,486 | 237,805 |
| Dignity Restricted Fund | 50,000 | - |
| Emergency Department | 59,267 | 13,237 |
| Eyecare | - | 1,105 |
| Future Endowments (note 3) | 273,132 | 238,422 |
| General Education | 142,758 | 176,496 |
| Hospice Palliative Care | 182,642 | 192,557 |
| Interior Heart & Surgical Centre | 4,287,409 | 1,541,800 |
| Kelowna General Hospital Expansion | 94,481 | 36,375 |
| Kidney Care | 56,117 | 133,442 |
| MS Clinic | 36,308 | 36,308 |
| Orthopaedic | 17,188 | 13,869 |
| Psychiatry/Mental Health | 52,820 | 45,078 |
| Rehabilitation Services | - | 2,769 |
| Rutland Hospital Auxiliary | 50 | - |
| Thoracic | 30,224 | 17,602 |
| Three Links Manor | 10,413 | 10,413 |
| | \$ 6,570,011 | \$ 3,732,909 |

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

6. Net assets restricted for endowment purposes:

| | 2014 | 2013 |
|--|--------------|--------------|
| Endowment net assets: | | |
| Contributed principal | \$ 7,812,967 | \$ 6,260,353 |
| Income on contributed principal, net of allocation for disbursement: | | |
| Balance, beginning of year | 623,846 | 404,487 |
| Investment income | 1,056,795 | 541,791 |
| Investment management fees | (40,043) | (35,966) |
| Administrative recovery | (72,085) | (65,552) |
| Allocation for disbursement | (231,788) | (220,914) |
| | 1,336,725 | 623,846 |
| | 9,149,692 | 6,884,199 |
| Endowment net assets allocated for disbursement: | | |
| Balance, beginning of year | 301,304 | 133,468 |
| Donation disbursements | (139,239) | (53,078) |
| Allocation for disbursement | 231,788 | 220,914 |
| | 393,853 | 301,304 |
| | \$ 9,543,545 | \$ 7,185,503 |

7. Commitment:

In connection with Interior Health's construction of the Interior Heart & Surgical Centre in Kelowna, the Foundation has embarked on a "Be a Lifesaver" campaign to raise \$12.0 million for medical equipment. As at March 31, 2014, the Foundation has committed to contribute \$5.1 million over the next two years.

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

8. Auxiliary operations:

| | 2014 | 2013 |
|---|------------|------------|
| Revenue received from auxiliary operations: | | |
| Gift shops, gross margin | \$ 123,262 | \$ 122,650 |
| Snackery, gross margin | 30,062 | 141,358 |
| Perking lot, gross margin | 402,937 | 270,805 |
| Thrift shop sales | 247,596 | 263,683 |
| Vending rights and commissions | 4,503 | 36,573 |
| Other | 88,375 | 121,086 |
| | 896,735 | 956,155 |
| Expenditures: | | |
| Net amortization and gain on disposal | 55,316 | 46,739 |
| Operations and administrative | 129,543 | 221,840 |
| | 184,859 | 268,579 |
| | \$ 711,876 | \$ 687,576 |

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

9. Financial risk:

The Foundation has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk

The Foundation adheres to an Investment Policy, which is approved by the Board of Directors, that outlines the objectives, policies and processes related to its investing activities. This policy prescribes limits around the quality and concentration of investments held by the Foundation. The Board of Directors has overall responsibility for the establishment and oversight of the Foundation's risk management framework.

(a) Credit risk:

Credit risk is the risk of financial loss to the Foundation if a counterparty to a financial instrument fails to meet its contractual obligations. The Foundation's investments in short-term and long-term investments and bonds and debentures are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value.

(b) Market risk:

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates and equity prices, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the return.

(i) Currency risk:

Investments in foreign securities are exposed to currency risk due to fluctuations in foreign exchange rates. The Foundation is exposed to currency risk on its foreign investments, as the prices denominated in foreign currencies are converted to Canadian dollars in determining fair value. The objective of the Foundation's investment policy is to control currency risk by maintaining a geographically diversified portfolio.

(ii) Interest rate risk:

Interest rate risk relates to the risk that changes in interest rates will affect the fair value of future cash flows of financial instruments held by the Foundation. The Foundation is invested in a number short-term interest bearing investments, as well as pooled bond funds, and, accordingly, is subject to interest rate risk in relation to these investments.

KELOWNA GENERAL HOSPITAL FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014, with comparative figures for 2013

9. Financial risk (continued):

(b) Market risk (continued):

(iii) Other price risk:

The Foundation invests its various funds according to an Investment Policy Statement approved by the Board of Directors. The Investment Policy Statement applies to all investments held by the Foundation and it includes restrictions regarding the minimum and maximum amount of Canadian equities, global equities, fixed income and short-term investments. The diversification across various asset classes is designed to decrease the volatility of portfolio returns.