



Consolidated Financial Statements

Valley Regional Hospital Foundation

March 31, 2014

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Grant Thornton

Independent auditor's report

Grant Thornton LLP
15 Webster Street
Kentville, NS
B4N 1H4
T (902) 678-7307
F (902) 679-1870
www.GrantThornton.ca

To the Board of Directors of

Valley Regional Hospital Foundation

We have audited the accompanying consolidated financial statements of the Valley Regional Hospital Foundation, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 non-profit organizations, the Valley Regional Hospital Foundation derives revenue from fundraising and donations from the public, 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 the Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to donation, fundraising revenues, excess of revenue over expenses, surplus and cash flows from operations.

Qualified opinion

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

Emphasis of matter

Without modifying our opinion, we draw attention to Note 6 to the financial statements, which explains that certain comparative information as at and for the year ended March 31, 2013 has been restated.



Kentville, Canada

June 17, 2014

Chartered Accountants

Valley Regional Hospital Foundation
Consolidated Statement of Operations
Year Ended March 31

	Unrestricted Funds	Restricted Fund Joint Capital Campaign (Our Community Our Health Funds) Restricted Fund	Restricted Fund Hospital Improvements and Capital Additions	Total Restricted Funds	2014	2013 restated (note 6)
Revenue						
Donations and fundraising	\$ 127,810	\$ 616,915	\$ 377,563	\$ 994,478	\$ 1,122,288	\$ 1,172,582
Investment income (Note 5)	141,334	22,419	5,376	27,795	169,129	278,758
Gifts in kind		100	226	326	326	490
Unrealized gain (loss) on value of investments	150,771	3,903	1,454	5,357	156,128	(55,399)
	<u>419,915</u>	<u>643,337</u>	<u>384,619</u>	<u>1,027,956</u>	<u>1,447,871</u>	<u>1,396,431</u>
Expenditures						
Advertising and promotion		1,171		1,171	1,171	1,488
Bank charges		1,675		1,675	1,675	1,087
Board expenses	47			-	47	23
Chaplaincy operating expenses and grant			49,992	49,992	49,992	49,992
Direct response costs		23,327		23,327	23,327	22,256
Dues and fees		40		40	40	101
Equipment and other donations	28,436		212,214	212,214	240,650	236,274
Fundraising	13,808		27,801	27,801	41,609	28,109
Insurance	3,007			-	3,007	2,955
Investment fees	20,322	1,874	609	2,483	22,805	19,680
Memberships	2,441			-	2,441	2,295
Office and miscellaneous	9,856	2,464		2,464	12,320	13,724
Office equipment lease	3,068			-	3,068	1,091
Postage	161			-	161	165
Printing	586			-	586	176
Professional fees	15,689	1,614		1,614	17,303	19,448
Promotion/donor recognition	11,646		13,337	13,337	24,983	15,639
Redevelopment costs				-	-	1,350,000
Special events		11,530		11,530	11,530	11,300
Salaries and benefits	77,963	78,237		78,237	156,200	154,277
Telephone and internet	314			-	314	314
Travel	756	253		253	1,009	1,744
	<u>188,100</u>	<u>122,185</u>	<u>303,953</u>	<u>426,138</u>	<u>614,238</u>	<u>1,932,138</u>
	<u>\$ 231,815</u>	<u>\$ 521,152</u>	<u>\$ 80,666</u>	<u>\$ 601,818</u>	<u>\$ 833,633</u>	<u>\$ (535,707)</u>

See accompanying notes to the consolidated financial statements.

Valley Regional Hospital Foundation
Consolidated Statement of Changes in Net Assets
Year Ended March 31

	<u>Unrestricted Reserve Fund</u>	<u>Unrestricted Funds</u>	<u>Restricted Fund Hospital Improvements and Capital Additions</u>	<u>Restricted Fund Joint Capital Campaign (Our Community Our Health Funds)</u>	<u>Total Restricted Funds</u>	<u>Internally Restricted Chaplancy Endowment Fund</u>	<u>Externally Restricted Endowment Fund</u>	<u>2014</u>	<u>2013 restated (note 6)</u>
Balance, beginning of year as previously reported	\$ 2,254,880		\$ 1,446,481	\$ 175,099	\$ 1,621,580			\$ 3,876,460	\$ 4,340,097
Interfund transfers (note 6b)			(1,057,903)			\$ 952,891	\$ 105,012	-	
Prior period adjustment (note 6a)		\$ 250,126	4,831	3,537				258,494	330,564
Balance, beginning of year, as restated	2,254,880	250,126	393,409	178,636	1,621,580	952,891	105,012	4,134,954	4,670,661
Interfund transfers	(2,254,880)	2,239,536	15,344						
Excess of revenue over expenditures (expenditures over revenue)		231,815	80,666	521,152				833,633	(535,707)
Balance, end of year	\$ -	\$ 2,721,477	\$ 489,419	\$ 699,788	\$ 1,621,580	\$ 952,891	\$ 105,012	\$ 4,968,587	\$ 4,134,954

See accompanying notes to the consolidated financial statements.

Valley Regional Hospital Foundation

Consolidated Statement of Financial Position

March 31

2014

2013

Restated (Note 6)

Assets

Current

Cash and cash equivalents	\$ 364,322	\$ 189,407
Marketable securities at fair market value (Note 3)	4,671,093	3,991,697
Receivables	58,974	15,462
Harmonized sales tax receivable	3,342	3,201
Prepays	<u>1,408</u>	<u>41</u>
	\$ 5,099,139	\$ 4,199,808

Liabilities

Current

Payables and accruals	\$ 130,552	\$ 63,368
Deferred revenue	<u>-</u>	<u>1,486</u>
	<u>130,552</u>	<u>64,854</u>

Surplus

Restricted fund - Joint Capital Campaign (Our Community Our Health)	699,788	178,636
Restricted fund	489,419	393,409
Internally restricted endowment fund	952,891	952,891
Externally restricted endowment fund	105,012	105,012
Unrestricted fund	<u>2,721,477</u>	<u>2,505,006</u>
	<u>4,968,587</u>	<u>4,134,954</u>
	\$ 5,099,139	\$ 4,199,808

Commitment (Note 4)

Approved on behalf of the Board

_____ Director _____ Director

See accompanying notes to the consolidated financial statements.

Valley Regional Hospital Foundation

Consolidated Statement of Cash Flows

Year Ended March 31

2014

2013

Restated (Note 6)

Operating

Consolidated excess (deficiency) of revenue over expenditures	\$ 833,633	\$ (535,707)
Unrealized (gain) loss on investments	<u>(156,128)</u>	<u>55,399</u>
	677,505	(480,308)
Change in non-cash operating working capital		
Receivables	(43,512)	40,641
Harmonized sales tax receivable	(141)	2,635
Prepays	(1,367)	562
Payables and accruals	67,184	(21,893)
Deferred revenue	<u>(1,486)</u>	<u>(4,586)</u>
	<u>20,678</u>	<u>17,359</u>

Investing

Net change in investments	<u>(523,268)</u>	<u>323,153</u>
Increase (decrease) in cash and cash equivalents	174,915	(139,796)
Cash and cash equivalents		
Beginning of year	<u>189,407</u>	<u>329,203</u>
End of year	<u>\$ 364,322</u>	<u>\$ 189,407</u>

See accompanying notes to the consolidated financial statements.

Valley Regional Hospital Foundation

Notes to the Consolidated Financial Statements

March 31, 2014

1. Nature of organization

The Foundation was formed on November 13, 1985, for the purpose of raising funds for the construction of a new regional hospital, including the purchase of related equipment, for the Annapolis Valley Region of Nova Scotia. On March 30, 1994, the Board of Directors of Valley Regional Hospital Foundation approved three resolutions to change the name, objects and bylaws of the Foundation. As a result of these changes, the Foundation will also raise funds for the purpose of improving and promoting health and health care within the Annapolis Valley and such other geographical areas within the Province of Nova Scotia. The Foundation is classified as a Public Foundation and qualifies for tax exempt status as a registered charity under the *Income Tax Act*. At a special general meeting of the Board of Directors held on June 15, 1999, the name of the Foundation was changed from Annapolis Valley Health Foundation to Valley Regional Hospital Foundation.

2. Summary of significant accounting policies

Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Part III of the CPA Canada Handbook - Canadian accounting standards for not-for-profit organizations.

The Foundation's investment in its joint venture (Joint Capital Campaign – Our Community Our Health) is accounted for using the proportionate consolidation method. These consolidated financial statements include the Foundation's 50% share of the revenue and expenses of the joint venture and the Foundation's share of the jointly controlled assets and its share of any liabilities incurred.

The Foundation entered into a joint venture agreement with the Valley Hospice Foundation whereby the two foundations have agreed to work together to raise \$8 million in order to fund a redevelopment project. The agreement states that undesignated donations received will be shared equally and restricted donations will be allocated to the Foundation for which they were designated. The joint expenses will be shared between the Foundations equally. The joint venture has been accounted for using proportionate consolidation.

Fund accounting

Assets, liabilities, revenues and expenses related to program delivery and administrative activities are reported in the Unrestricted Fund.

Assets, liabilities, externally restricted contributions and expenses related to donations for specific hospital improvements and equipment purchases are reported in the Hospital Improvements and Capital Additions Restricted Fund.

Assets, liabilities, externally restricted contributions and expenses related to the joint venture are reported in the Joint Capital Campaign Fund. Contributions to the redevelopment project are reported as expenditures in the Joint Capital Campaign Fund.

Endowment assets and endowment contributions are reported in the Endowment Fund.

Valley Regional Hospital Foundation

Notes to the Consolidated Financial Statements

March 31, 2014

2. Summary of significant accounting policies (continued)

Use of estimates

In preparing the Foundation's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported amounts of revenue and expenses. Actual amounts could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and other institutions and term deposits with maturities of three months or less.

Revenue recognition - Contributions

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

Unrestricted contributions

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Pledges of future donations are not reflected in these consolidated financial statements until they are received.

Restricted donations

Restricted donations received for use in the Joint Capital Campaign for hospital redevelopment, are recognized as revenue in that Restricted Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted donations received for use in specific hospital improvements including equipment purchases for specific hospital departments are recognized as revenue in the Hospital Improvements and Capital Additions Restricted Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as revenue in the Endowment Fund when the amounts can be reasonably estimated and collection is reasonably assured.

Restricted contributions for which there is no related restricted fund as noted above are recorded in the Unrestricted Fund using the deferral method. Such restricted contributions are recognized as revenue of the Unrestricted Fund in the year in which the related expenses are incurred.

Bequests are recognized when received.

Revenue recognition - Gifts in kind

Contributions of materials and services are recognized at fair value when it can be reasonably estimated and when the materials and services are used in the normal course of the Foundation's operations and would otherwise have been purchased. During the year, \$14,068 in contributed equipment was recorded in revenue and in expenses under equipment and other donations.

Valley Regional Hospital Foundation

Notes to the Consolidated Financial Statements

March 31, 2014

2. Summary of significant accounting policies (continued)

Revenue recognition - Gifts in kind (continued)

Office space used in the conduct of the daily operating activities of the Foundation is provided by the Valley Regional Hospital, which operates under the Annapolis Valley District Health Authority. There is no rent charged to the Foundation and the fair value relating to the provision of this space is not determinable.

Revenue recognition - Investment income

Net investment income that is not externally restricted is recognized as it is earned in the Unrestricted Fund.

Net investment income that is externally restricted is recorded as revenue in the Restricted Fund.

Net investment income that is externally restricted for which there is no related restricted fund is recorded in the Unrestricted Fund using the deferral method, which recognizes the revenue when the related expenses are incurred.

Net investment income that is externally restricted and must be added to the resources held for endowment are recognized as revenue in the Endowment Fund. If there is no external restriction on net investment income earned in the endowment funds, it is recognized as revenue in the Unrestricted Fund.

Financial instruments

Initial measurement

The Foundation's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

Subsequent measurement

At each reporting date, the Foundation measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for equities quoted in an active market, which must be measured at fair value.

All changes in fair value of the Foundation's investments in equities quoted in an active market and in bonds are recorded in the statement of operations. The Foundation uses the effective interest rate method to amortize for any premiums, discounts, transaction fees and financing fees to the statement of operations for those financial instruments measured at amortized cost. The financial instruments measured at amortized cost are cash and cash equivalents, receivables, payables and payable to Annapolis Valley District Health Authority.

Valley Regional Hospital Foundation

Notes to the Consolidated Financial Statements

March 31, 2014

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

For financial assets measured at cost or amortized cost, the Foundation regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Foundation determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

3. Investments, at fair value	<u>2014</u>	2013 (restated)
Unrestricted Fund		
Equities quoted in an active market	\$ 992,874	\$ 1,015,660
Guaranteed investment certificates and cash equivalents	2,414,794	2,280,539
Manulife bonds, 1.65% - 2.35% effective yield (April 30, 2013 – April 30, 2015)	500,000	500,000
Restricted Fund Joint Capital Campaign (Our Community Our Health)		
Equities quoted in an active market	231,543	84,683
Guaranteed investment certificates and cash equivalents	417,452	
Endowment Fund		
Equities quoted in an active market	28,832	54,130
Guaranteed investment certificates and cash equivalents	<u>85,598</u>	<u>56,685</u>
	\$ 4,671,093	\$ 3,991,697

4. Commitment

The Foundation has authorized the purchase of miscellaneous equipment at a total cost of \$268,802. The disbursements are to be made on delivery of equipment, expected to occur during the 2014/15 fiscal year.

Valley Regional Hospital Foundation

Notes to the Consolidated Financial Statements

March 31, 2014

5. Investment income	<u>2014</u>	<u>2013</u> (restated)
Unrestricted Fund		
Dividend income	\$ 75,607	\$ 68,200
Gain on sale of investments	51,691	177,490
Interest income	<u>14,036</u>	<u>11,166</u>
	<u>141,334</u>	<u>256,856</u>
Externally Restricted Endowment Fund		
Income recognized in restricted fund	5,376	1,734
Joint Capital Campaign (Our Community Our Health)		
Investment Income	<u>22,419</u>	<u>20,168</u>
Total investment income	\$ <u>169,129</u>	\$ <u>278,758</u>

6. Prior period restatement

- a) During the year, the Foundation changed its accounting policy for recognizing unrealized gains and losses to comply with accounting standards. Previously, the Foundation accounted for its investments at cost, recognizing gains and losses only when realized. CPA Handbook section 3856 requires securities traded in an active market to be measured at fair value, with changes in unrealized gains and losses recognized in the statement of operations.

As described in Note 2, the Foundation accounts for its investment in Our Community, Our Health using the proportionate consolidation method. During 2013, the Foundation donated \$1,350,000 of the funds raised for the redevelopment project to the Valley Regional Hospital. This contribution had been reflected in the statement of changes in net assets, whereas it should have been reflected as an expenditure out of the Joint Capital Campaign Restricted Fund.

The impact of these two restatements is as follows:

	<u>Net assets</u>	<u>2013 excess of revenue over expenses (expenses over revenue)</u>
As originally reported	\$4,340,097	\$ 869,692
Unrealized gains and losses on investments	330,564	(72,068)
Redevelopment costs contributed to Valley Regional Hospital		(1,350,000)
Reallocation of joint campaign unrealized change in investment value	<u> </u>	<u>16,669</u>
As restated	<u>\$4,670,661</u>	<u>\$ (535,707)</u>

Valley Regional Hospital Foundation

Notes to the Consolidated Financial Statements

March 31, 2014

6. Prior period restatement (continued)

- b) Certain of the prior year fund balances have been reclassified to conform with the standards. There was no impact on the statement of operations or total net assets due to the reclassifications.

7. Financial instruments

The Foundation is exposed to risk related to its financial instruments as follows:

Credit risk

The Foundation has determined that the financial assets with credit risk exposure are accounts receivable since failure of any of these parties to fulfil their obligations could result in a financial loss for the Foundation.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Foundation is exposed to interest rate risk with respect to its investments in bonds.

Other price risk

The Foundation is exposed to other price risk on its investment in equities quoted in an active market since changes in market prices could result in changes in the fair values of these instruments.

Liquidity risk

The Foundation's liquidity risk represents the risk that the Foundation could encounter difficulty in meeting obligations associated with its financial liabilities. The Foundation is therefore exposed to liquidity risk with respect to its payables.

8. Subsequent event

Subsequent to year end, the Foundation reduced its Restricted Fund Joint Capital Campaign (Our Community Our Health funds) by \$700,000 through contribution to Annapolis Valley Health toward redevelopment costs.