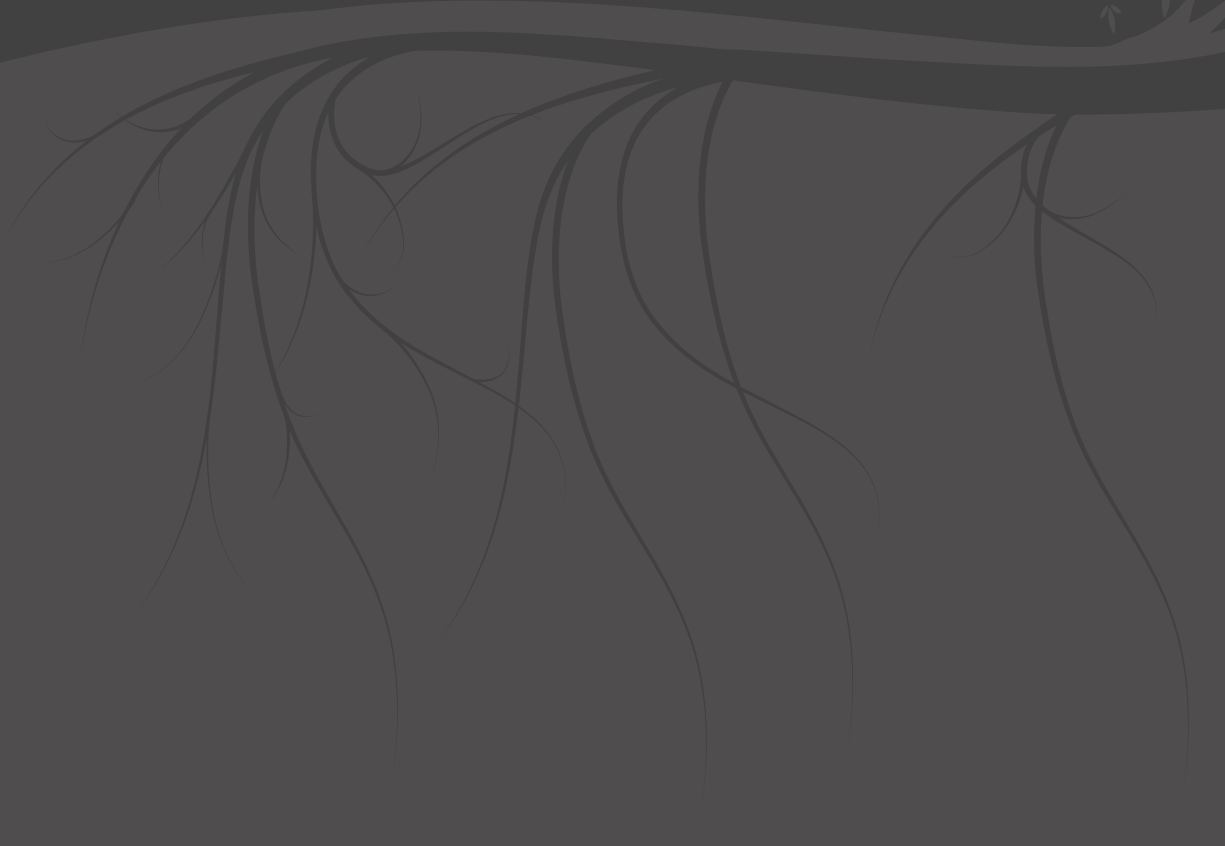




FINANCIAL STATEMENTS OF

COLLEGE OF PHYSICIANS AND  
SURGEONS OF BRITISH COLUMBIA

FEBRUARY 29, 2012



# College of Physicians and Surgeons of British Columbia

February 29, 2012

## Table of contents

Independent Auditor's Report ..... 1

Statement of operations ..... 2

Statement of changes in net assets ..... 3

Balance sheet ..... 4

Statement of cash flows ..... 5

Notes to the financial statements ..... 6-13

## Independent Auditor's Report

To the Board of the College of Physicians and Surgeons of British Columbia

We have audited the accompanying financial statements of the College of Physicians and Surgeons of British Columbia, which comprise the balance sheet as at February 29, 2012, and the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

### Auditor's Responsibility

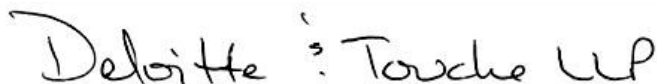
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 the auditor's 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, the auditor considers 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 audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the College of Physicians and Surgeons of British Columbia as at February 29, 2012, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Vancouver, British Columbia  
May 30, 2012

# College of Physicians and Surgeons of British Columbia

## Statement of operations

year ended February 29, 2012

	2012	2011
	\$	\$
<b>Revenue</b>		
Annual registrant and incorporation fees	15,361,076	13,806,438
Accreditation fees	3,278,838	3,207,307
Application and incorporation setup fees	534,350	574,571
Investment income	518,637	1,365,581
Grants	436,333	428,896
Other income	365,835	286,580
Rental revenue (Note 10)	226,244	-
Preliminary assessment fees	187,950	112,875
Penalties, fines and costs	150,596	82,485
Medical directory and provider registry	98,305	98,903
	<b>21,158,164</b>	<b>19,963,636</b>
<b>Expenditures</b>		
Salaries and benefits	10,800,502	10,795,401
Rent and occupancy costs	1,957,697	1,659,220
Board and committees	1,636,813	1,563,914
Office expenses	919,667	813,336
Information technology	855,551	569,747
Professional fees	498,644	552,014
Amortization, property and equipment	478,059	241,991
Miscellaneous expenses	400,499	364,147
Bank charges and credit card fees	359,766	385,046
Physician health program	300,000	300,000
Travel and training	243,013	296,804
Federation membership dues	177,647	169,383
Grants	150,754	147,798
Publications	149,231	217,708
Annual meeting and election	68,778	70,784
Scholarships	20,500	20,500
Lease termination costs (Note 9)	-	462,306
	<b>19,017,121</b>	<b>18,630,099</b>
Excess of revenue over expenditures before undernoted	2,141,043	1,333,537
Realized loss on investments	(89,537)	(112,675)
Unrealized gain on investments	76,353	746,481
Gain on sale of property and equipment	1,366,493	-
<b>Excess of revenue over expenditures</b>	<b>3,494,352</b>	<b>1,967,343</b>

# College of Physicians and Surgeons of British Columbia

## Statement of changes in net assets

year ended February 29, 2012

	2012			2011	
	Invested in property and equipment	Internally restricted	Unrestricted	Total	Total
	\$	\$ (Note 2 (f))	\$	\$	\$
<b>Fund balance, beginning of year</b>	<b>624,836</b>	<b>23,767,400</b>	<b>4,658,148</b>	<b>29,050,384</b>	27,083,041
Transfers					
Pension obligation	-	<b>(8,767,400)</b>	<b>8,767,400</b>	-	-
Database project	-	<b>700,000</b>	<b>(700,000)</b>	-	-
Excess of revenue over expenditures	<b>888,434</b>	-	<b>2,605,918</b>	<b>3,494,352</b>	1,967,343
Purchase of property and equipment, net of proceeds on sale	<b>34,778,457</b>	<b>(15,000,000)</b>	<b>(19,778,457)</b>	-	-
<b>Fund balance, end of year</b>	<b>36,291,727</b>	<b>700,000</b>	<b>(4,446,991)</b>	<b>32,544,736</b>	29,050,384

# College of Physicians and Surgeons of British Columbia

## Balance sheet

as at February 29, 2012

	2012	2011
	\$	\$
<b>Assets</b>		
Current assets		
Cash	6,281,992	4,969,205
Short-term investments	9,965,525	27,866,340
Accounts receivable	236,600	540,169
Prepaid expenses	490,929	515,903
	<b>16,975,046</b>	<b>33,891,617</b>
Deposit	155,830	1,519,794
Long-term investments	7,054,352	18,172,634
Property and equipment (Note 3)	36,305,869	649,120
	<b>60,491,097</b>	<b>54,233,165</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payables and accrued liabilities	2,631,245	1,317,380
Unearned revenue	16,950,407	15,263,112
Current portion of capital lease liability (Note 7)	11,195	10,142
Current portion of lease termination costs (Note 9)	55,467	334,838
Current portion of pension liabilities (Note 6)	575,700	603,600
	<b>20,224,014</b>	<b>17,529,072</b>
Capital lease liability (Note 7)	2,947	14,142
Lease termination costs (Note 9)	-	55,467
Pension liabilities (Note 6)	7,719,400	7,584,100
	<b>27,946,361</b>	<b>25,182,781</b>
<b>Net assets</b>		
Invested in property and equipment	36,291,727	624,836
Internally restricted (Note 2 (f))	700,000	23,767,400
Unrestricted (deficit)	(4,446,991)	4,658,148
	<b>32,544,736</b>	<b>29,050,384</b>
	<b>60,491,097</b>	<b>54,233,165</b>

Commitments (Note 7)

Contingent liabilities (Note 8)

# College of Physicians and Surgeons of British Columbia

## Statement of cash flows

year ended February 29, 2012

	2012	2011
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenditures	3,494,352	1,967,343
Non-cash items		
Amortization	478,059	241,991
(Gain) loss on sale of property and equipment	(1,366,493)	3,139
Provision for pension benefits	1,344,930	1,233,194
Unrealized gain on investments	(76,353)	(746,481)
	<b>3,874,495</b>	<b>2,699,186</b>
Change in operating working capital (Note 4)	3,329,703	2,525,091
	<b>7,204,198</b>	<b>5,224,277</b>
<b>Investing activities</b>		
Purchase of property and equipment	(36,168,315)	(249,395)
Deposits	1,363,964	(1,519,794)
Proceeds on sale of property and equipment	1,400,000	280
Pension benefit payments	(1,237,530)	(841,594)
Net changes in long-term investments	11,172,711	11,332,851
Net changes in short-term investments	17,922,739	(12,778,892)
	<b>(5,546,431)</b>	<b>(4,056,544)</b>
<b>Financing activities</b>		
Repayment of lease termination liability	(334,838)	-
Repayment of capital lease liability	(10,142)	(9,188)
	<b>(344,980)</b>	<b>(9,188)</b>
Net increase in cash and cash equivalents	1,312,787	1,158,545
Cash, beginning of year	4,969,205	3,810,660
<b>Cash, end of year</b>	<b>6,281,992</b>	<b>4,969,205</b>

# College of Physicians and Surgeons of British Columbia

## Notes to the financial statements

February 29, 2012

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### 1. Purpose of the organization

The purpose of the College of Physicians and Surgeons of British Columbia (the "College") is to set and enforce standards of practice and ethics within the medical profession in British Columbia.

The College is continued under the Health Professionals Act (RSBC 1996) as a not-for-profit organization. As a not-for-profit organization, the College is not subject to income taxes.

### 2. Summary of significant accounting policies

#### (a) Financial statement presentation

The financial statements presented include the assets, liabilities and excess of revenue over expenditures and cash flows of the College of Physicians and Surgeons of British Columbia.

#### (b) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the College's designation of such instruments.

##### (i) Classification

Cash	Held for trading
Short-term and long-term investments	Held for trading
Accounts receivable	Loans and receivables
Accounts payable	Other liabilities

The College has elected to use the exemption provided by the Canadian Institute of Chartered Accountants ("CICA") permitting not-for-profit organizations not to apply the following sections of the CICA Handbook: 3862 and 3863, which would otherwise have applied to the financial statements of the College for the year ended February 29, 2012. The College applies the requirements of Section 3861 of the CICA Handbook.

##### (ii) Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned or accrued, gains and losses realized on disposal and unrealized gains and losses are included in the statement of operations in the year incurred.

##### (iii) Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest rate method.

##### (iv) Other liabilities

Other liabilities are recorded at amortized cost using the effective interest rate method.



# College of Physicians and Surgeons of British Columbia

## Notes to the financial statements

February 29, 2012

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### 2. Summary of significant accounting policies (continued)

#### (c) *Property and equipment*

Property and equipment are recorded at cost and amortized on the straight-line method over the following estimated useful lives:

Building	50 years
Building improvements	25 years
Furniture and equipment	8 years
Computer equipment	4 years
Leasehold improvements	Term of lease
Equipment under capital lease	5.5 years

Management reviews property and equipment for impairment when events or changes in circumstances indicate that the asset no longer has any long-term service potential to the College. When an asset no longer has future value to the College, an impairment loss is recorded for the excess of the carrying value over the residual value. In the current year, an impairment loss of \$33,507 (2011 - \$Nil) was included in amortization expense.

Amortization commences when the asset is placed in use.

#### (d) *Pension plans*

Pension costs and obligations are accounted for as follows:

- (i) Defined benefit pension plan sponsored by the Canadian Medical Association - Cost is recognized using defined contribution plan accounting.
- (ii) Supplementary defined benefit pension plan – cost is recognized based on an actuarial valuation using the projected benefit method, prorated on service and management's best estimate assumptions. Actuarial gains and losses are amortized on a straight-line basis over the five year period commencing March 1, 2012.
- (iii) Supplementary defined contribution pension plan – cost is recognized using defined contribution accounting based on the College's notional contribution obligations.

#### (e) *Revenue recognition*

The College follows the deferral method of accounting for revenue. Registrant fees, accreditation fees and grant revenue are recognized over the period of licensure, accreditation, or service provided. Rental and investment income are recorded as revenue when the service is provided or the investment income earned and reasonable assurance exists regarding measurement and collectability. Amounts received in advance of these periods are recorded as unearned revenue. Unrestricted revenue is recognized as revenue, when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

# College of Physicians and Surgeons of British Columbia

## Notes to the financial statements

February 29, 2012

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### 2. Summary of significant accounting policies (continued)

(f) *Internally restricted net assets*

The internally restricted net assets were established for the purpose of obtaining a Letter of Credit ("LOC") to secure the College's supplementary pension benefits obligation (Note 6), and to fund the purchase of a building for use by the College. During the fiscal year 2012, management transferred \$15,000,000 out of internally restricted net assets for the purchase of the College's building, secured the LOC with the equity of the purchased building, and has internally restricted \$700,000 to fund the development and implementation of a new database system.

	2012	2011
	\$	\$
Investments securing pension benefit obligation	-	8,767,400
Allocated to database project	<b>700,000</b>	-
Allocated for the purchase of a building	-	15,000,000
<b>Total internally restricted net assets</b>	<b>700,000</b>	<b>23,767,400</b>

Investment income earned from the internally restricted net assets is unrestricted.

(g) *Use of estimates*

In conformance with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the year. Significant estimates include the amortization period of property and equipment, the estimated revenue earned and deferred, and the pension assumptions used by the actuaries. Actual results could differ from these estimates.

(h) *Comparative figures*

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

(i) *Future accounting changes*

The CICA has issued a new accounting framework applicable to Canadian not-for-profit organizations. Effective for fiscal years beginning on or after December 21, 2011, the College will have to choose between International Financial Reporting Standards and Canadian accounting standards for not-for-profit organizations ("ASPE") as their new accounting framework. The College is currently evaluating the accounting framework options for its fiscal year beginning March 1, 2012.

# College of Physicians and Surgeons of British Columbia

## Notes to the financial statements

February 29, 2012

### 3. Property and equipment

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	8,301,000	-	8,301,000	-
Building	22,444,765	149,717	22,295,048	-
Building improvements	4,028,581	41,764	3,986,817	81,689
Furniture and equipment	1,799,692	586,985	1,212,707	230,823
Computer equipment	1,364,759	881,913	482,846	275,947
Equipment under capital lease	52,387	38,100	14,287	23,812
Leasehold improvements	85,964	72,800	13,164	36,849
	<b>38,077,148</b>	<b>1,771,279</b>	<b>36,305,869</b>	<b>649,120</b>

### 4. Change in operating working capital

	2012	2011
	\$	\$
Accounts receivable	303,569	431,231
Prepaid expenses	24,974	(66,657)
Accounts payables and accrued liabilities	1,313,865	510,396
Unearned revenue	1,687,295	1,650,121
	<b>3,329,703</b>	<b>2,525,091</b>

### 5. Trust fund

During the year, through a deed of resignation and appointment of trustee, the College appointed the University of British Columbia as trustee to administer the assets of the Laura MacRae Trust Fund. The \$10,000 of original trust funds and all of its estate, right, title and interest whatsoever has been vested in the new trustee.

### 6. Pension plans

Employees of the College participate in either a defined benefit pension plan or a group registered retirement savings plan. The defined benefit pension plan is the Canadian Medical Association ("CMA") pension plan in which the College is a participating employer. This plan provides pension benefits based on length of service and the best three-year average salary. Pensions are periodically increased to offset a portion of increases in the cost-of-living after retirement.

In addition, the College provides two supplementary plans for current and former senior staff as follows:

- (i) a defined benefit plan for current and former senior staff hired before 2004. This plan provides pension benefits, based on length of service and the best three-year average salary, that are in excess of those that can be funded under a registered pension plan. This plan also provides for periodic partial cost-of-living adjustments after retirement.

# College of Physicians and Surgeons of British Columbia

## Notes to the financial statements

February 29, 2012

### 6. Pension plans (continued)

- (ii) a defined contribution plan for senior staff hired after 2003. Under this plan, contributions of a specified percentage of salary in excess of the College's contributions to the CMA pension plan are paid for by the College.

Although the supplementary defined benefit pension plan is not directly funded, the College has arranged a credit facility secured by its recently purchased building to finance the future benefits expected to be paid under this plan.

An actuarial valuation to measure the College's accrued benefit obligation for its supplementary defined benefit pension plan is carried out as at the last day of February of each year.

The following tables detail the status of the College's supplemental pension plans:

	2012	2011
	\$	\$
<b>Defined benefit accrued benefit obligation</b>		
Balance at beginning of year <sup>1</sup>	8,767,400	8,331,500
Service cost	191,800	311,000
Interest cost	400,100	463,000
Actuarial losses	581,900	151,400
Benefits paid	(600,400)	(489,500)
Balance at end of year	9,340,800	8,767,400
Unamortized net actuarial losses	(1,045,700)	(579,700)
Accrued benefit liability	8,295,100	8,187,700
Less current portion of pension liability	(575,700)	(603,600)
Long-term pension liability	7,719,400	7,584,100

<sup>1</sup> Does not include obligations under the Canadian Medical Association pension plan.

### Net pension expense

Current service cost		
CMA pension plan, accounted for based on contributions	637,130	352,096
Supplementary defined benefit plan	53,800	198,500
Supplementary defined contribution plan	138,000	112,500
Interest cost	400,100	463,000
Actuarial losses	581,900	151,400
Pension costs incurred, before adjustments	1,810,930	1,277,496
Difference between actuarial gains and losses amortized for year and actuarial gains and losses arising in year	(466,000)	(44,300)
Net pension expense recognized for year <sup>2</sup>	1,344,930	1,233,196

<sup>2</sup> Amount included in "Salaries and benefits" on the statement of operations.

# College of Physicians and Surgeons of British Columbia

## Notes to the financial statements

February 29, 2012

### 6. Pension plans (continued)

	2012	2011
	\$	\$
<b>College contributions</b>		
CMA pension plan	637,130	352,096
Pensions paid under supplementary defined benefit pension plan	600,400	489,500
<b>Total contributions</b>	<b>1,237,530</b>	<b>841,596</b>

	2012	2011
	%	%
<b>Significant assumptions<sup>3</sup></b>		
To determine accrued benefit obligation at end of year		
Discount rate	3.8%	5.1%
Rate of salary increase	2.0%	2.0%
Indexation of pensions	1.0%	1.0%

<sup>3</sup> Used to measure costs and obligations for supplementary defined benefit pension plan.

The discount rate is determined based on long-term corporate AA bond yields.

The College has entered into a Letter of Credit agreement in the amount of \$8,709,000 to secure the accrued pension benefits under the supplementary defined benefit plan. The Letter of Credit expires on August 31 of each year and is renewed to reflect new supplementary pension obligations. Collateral for this Letter of Credit is provided by the equity of the purchased building.

### 7. Commitments

- (a) The lease for the College's former premises was amended effective February 29, 2008 to extend the term until September 12, 2012. The College has subleased the former premises until the end of the extended term. The annual rent of premises consists of rent plus a proportionate share of the common area maintenance costs for the term of the lease. Minimum rent payable for premises and equipment in aggregate and for the fiscal year 2013 is \$487,510. As disclosed in Note 9, the College has sublet this space.
- (b) The College has entered into an agreement to lease the Diagnostic Accreditation Program premises until April 2012. The annual rent of premises consists of rent plus a proportionate share of the common area maintenance costs for the term of the lease. Minimum rent payable for premises and equipment in aggregate and for the fiscal year 2013 is \$11,291. This lease was terminated on April 30, 2012.

# College of Physicians and Surgeons of British Columbia

## Notes to the financial statements

February 29, 2012

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### 7. Commitments (continued)

(c)	Future minimum lease payments under a capital lease of office equipment for the Diagnostic Accreditation Program, which expires in August 2013, are as follows:	\$
	2013	12,200
	2014	3,050
		<u>15,250</u>
	Less: Amount representing imputed interest at approximately 10%	<u>(1,108)</u>
		14,142
	Less: Current portion	<u>(11,195)</u>
		<u>2,947</u>

### 8. Contingent liabilities

The College has been named as a defendant in certain lawsuits and has been advised that these claims are without substantial merit. In the event the College is unsuccessful in defending these claims, it is expected that it has more than adequate liability insurance coverage. When an amount payable is likely and can be reasonably estimated, a provision is made in the financial statements if certain claims are anticipated to exceed the limits of the liability insurance coverage.

### 9. Lease termination costs

In the prior period, the College entered into an agreement to sublease its former premises noted in Note 7 (a) to September 12, 2012 for less than the lease obligation. The termination costs totaled \$462,306, of which \$72,001 was paid in fiscal 2011, \$334,838 was paid in fiscal 2012 and \$55,467 will be paid in fiscal 2013.

### 10. Rental income

The College has signed a lease for 17,431 square feet on two floors of its purchased premises for a five year period ending August 31, 2016.

### 11. Financial instruments

#### (a) Credit risk

Credit risk is the risk that a counterparty will fail to perform its obligations. The College is exposed to credit risk on its cash, investments and accounts receivable. However, the College does not have significant accounts receivable exposure to any individual member and cash and investments are held with well known, reputable Canadian financial institutions.

#### (b) Fair value

The carrying values of accounts receivable, accounts payable and capital lease obligations approximate their fair values based on their liquidity and short-term nature.

# College of Physicians and Surgeons of British Columbia

Notes to the financial statements

February 29, 2012

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## 11. Financial instruments (continued)

### (c) *Interest rate risk*

Interest rate risk is the risk that the value of the College's financial instruments will vary due to fluctuations in interest rates and the degree of volatility of these rates. The College is exposed to interest rate risk on a portion of its investments. The College does not use derivative instruments to reduce its exposure to fluctuations in market interest rates.

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