

Financial Statements 2020/21



**College of Physicians and Surgeons of British Columbia
Financial Statements
February 28, 2021**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the College of Physicians and Surgeons of British Columbia (the Entity), which comprise:

- the statement of operations for the year ended February 28, 2021
- the statement of financial position as at February 28, 2021
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at February 28, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
May 28, 2021

College of Physicians and Surgeons of British Columbia

Statement of Operations

(Expressed in thousands of dollars)

Year ended February 28, 2021, with comparative information for 2020

	2021	2020
Revenues		
Annual registrant and incorporation fees	\$ 25,888	\$ 24,961
Annual accreditation fees	4,798	4,913
Application fees	1,474	1,428
Investment income (note 11)	1,261	1,540
Other income	759	1,162
Rental income	261	312
	34,441	34,316
Expenses		
Salaries and benefits	19,210	17,474
Amortization	2,336	2,283
Assessments, accreditations and reviews	2,313	3,261
General and administrative (note 4)	2,016	2,417
Information technology	1,924	2,161
Occupancy costs	1,351	1,408
Professional fees (note 4)	1,236	1,296
Board and committees	943	1,293
Library resources	498	481
	31,827	32,074
Excess of revenues over expenses before undernoted	2,614	2,242
Unrealized gain on investments	772	270
Excess of revenues over expenses	\$ 3,386	\$ 2,512

See accompanying notes to financial statements.

College of Physicians and Surgeons of British Columbia

Statement of Financial Position

(Expressed in thousands of dollars)

As at February 28, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 23,828	\$ 22,639
Short-term investments (note 6)	4,046	1,485
Accounts receivable	28	87
Prepaid expenses and deposits	889	729
	28,791	24,940
Prepaid expenses – non-current	200	196
Long-term investments (note 6)	26,932	25,375
Intangible assets (note 7)	3,525	3,299
Property and equipment (note 8)	31,548	32,247
	\$ 90,996	\$ 86,057
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	\$ 2,336	\$ 2,322
Tenant deposits	12	14
Unearned revenue	26,323	24,982
Current portion of pension liabilities (note 10(b))	499	499
	29,170	27,817
Tenant deposits	9	9
Pension liabilities – non-current (note 10(b))	5,387	5,784
	34,566	33,610
Net assets		
Investment in property, equipment and intangible assets	35,073	35,546
Internally restricted (note 5)	21,357	3,834
Unrestricted	-	13,067
	56,430	52,447
	\$ 90,996	\$ 86,057

Commitments and contingent liabilities (note 12)

See accompanying notes to financial statements.

Approved on behalf of the Board:


 _____ Board Member
 B. Anne Priestman


 _____ Board Member
 Bruce Bell

College of Physicians and Surgeons of British Columbia

Statement of Changes in Net Assets

(Expressed in thousands of dollars)

Year ended February 28, 2021, with comparative information for 2020

				2021	2020
	Investment in property, equipment and intangible assets	Internally restricted (note 5)	Unrestricted	Total	Total
Net assets, beginning of year	\$ 35,546	\$ 3,834	\$ 13,067	\$ 52,447	\$ 50,576
Net assets of CPodS due to amalgamation (note 3)			568	568	-
Excess (deficiency) of revenues over expenses	(2,336)	-	5,722	3,386	2,512
Interfund transfer (note 2(i))	-	18,667	(18,667)	-	-
Remeasurement gain loss for retired employee future benefits (note 10(b))	-	-	29	29	(641)
Changes in net assets invested in property, equipment and intangible assets	1,863	(1,144)	(719)	-	-
Net assets, end of year	\$ 35,073	\$ 21,357	\$ -	\$ 56,430	\$ 52,447

See accompanying notes to financial statements.

College of Physicians and Surgeons of British Columbia

Statement of Cash Flows

(Expressed in thousands of dollars)

Year ended February 28, 2021, with comparative information for 2020

	2021	2020
Operating activities		
Excess of revenues over expenses	\$ 3,386	\$ 2,512
Non-cash items		
Amortization	2,336	2,283
Provision for pension benefits	(368)	(314)
Unrealized gain on investments	(772)	(270)
	4,582	4,211
Changes in operating working capital (note 13)	1,161	504
	5,743	4,715
Investing activities		
Purchase of property and equipment	(534)	(929)
Cash from CPodS from amalgamation (note 3)	140	-
Purchase of intangible assets	(1,329)	(914)
Net changes in investments	(2,831)	(4,572)
	(4,554)	(6,415)
Net increase (decrease) in cash and cash equivalents	1,189	(1,700)
Cash and cash equivalents, beginning of year	22,639	24,339
Cash and cash equivalents, end of year	\$ 23,828	\$ 22,639
Non-cash transactions:		
Investments from CPodS from amalgamation (note 3)	\$ 515	\$ -
Non-cash working capital from CPodS from amalgamation (note 3)	(87)	-
	\$ 428	\$ -

See accompanying notes to financial statements.

College of Physicians and Surgeons of British Columbia

(Tabular amounts expressed in thousands of dollars)

Notes to the Financial Statements (continued)

February 28, 2021

1. Purpose of the organization and nature of operations

The purpose of the College of Physicians and Surgeons of British Columbia (the "CPSBC") is to regulate the practice of medicine and podiatry under the authority of provincial law. All physicians and podiatrists who practise in the province must be registrants of the CPSBC and meet expected standards of practice and conduct.

The CPSBC also administers several quality assurance and accreditation activities to ensure physicians remain competent throughout their professional lives, and the facilities they work in maintain standards of practice in health care.

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

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. As the COVID-19 coronavirus pandemic continues, the heightened economic uncertainty and risk may have significant financial reporting implications for the CPSBC. This situation presents uncertainty over the CPSBC's future cash flows and may affect the CPSBC's future operations. Potential impacts on the CPSBC's operations could include decreases in investment income and valuation of investments. As this situation is dynamic and the ultimate duration and magnitude of the impact on the economy are not known, an estimate of the financial effect on the CPSBC is not practicable at this time.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") of the Chartered Professional Accountants Canada and include the following significant accounting policies:

(a) Revenue recognition

The CPSBC follows the deferral method of accounting for revenue. Registrant fees, incorporation fees, and accreditation fees are recognized as revenue over the period of licensure, accreditation, or service provided when collection is reasonably assured. Application fees, rental and investment income are recorded as revenue when the service is provided or the investment income is earned and reasonable assurance exists regarding measurement and collectability.

Amounts received that relate to the period following the CPSBC's year-end are recorded as unearned revenue. Externally restricted grant revenue, if any, is recognized as revenue when the associated services are provided or costs incurred, if the amount to be received can be reasonably estimated and collection is reasonably assured.

(b) Financial instruments

The CPSBC initially measures its financial assets and financial liabilities at fair value when it becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments, other than investments, are measured at cost or amortized cost.

College of Physicians and Surgeons of British Columbia

(Tabular amounts expressed in thousands of dollars)

Notes to the Financial Statements (continued)

February 28, 2021

2. Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Investments are measured at fair value and any changes in fair value are recognized in the Statement of Operations in the period incurred.

Transaction costs related to the acquisition of financial instruments measured at fair value are expensed as incurred. Transaction costs related to the acquisition of other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the Statement of Operations as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the CPSBC recognizes in the Statement of Operations an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. 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 CPSBC expects to realize by exercising its right to any collateral. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the Statement of Operations in the period the reversal occurs, not exceeding the initial carrying value.

(c) Cash and cash equivalents

Cash and cash equivalents include cash and term deposits with a maturity of three months or less from the date of acquisition.

(d) 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

Capital assets are componentized when estimates can be made of the useful lives of the separate components.

The CPSBC reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the asset no longer has or has reduced long-term service potential to the organization. If such condition exists, an impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value or replacement cost.

College of Physicians and Surgeons of British Columbia

(Tabular amounts expressed in thousands of dollars)

Notes to the Financial Statements (continued)

February 28, 2021

2. Summary of significant accounting policies (continued)

(e) *Intangible assets*

The CPSBC's intangible assets include its database system and other software which have been recorded at cost and amortized over their useful lives of 7 years and 5 years, respectively.

The CPSBC reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the asset no longer has or has reduced long-term service potential to the organization. If such conditions exist, an impairment loss is measured at the amount by which the carrying amount of the intangible asset exceeds its fair value or replacement cost.

(f) *Pension plans*

Pension costs and obligations are accounted for as follows:

- (i) British Columbia Public Service Pension Plan – cost is recognized using defined contribution plan accounting as this is a multi-employer defined benefit pension plan. Contributions are expensed as incurred.
- (ii) Supplementary defined benefit pension plan – cost is recognized based on an actuarial valuation using the accumulated benefit method and management's best estimate of assumptions. Actuarial assumption changes resulting in remeasurement are recognized directly in the Statement of Changes in Net Assets in the period incurred.

(g) *Use of estimates*

The preparation of financial statements in conformance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods. Actual results could differ from these estimates. Estimates include the amortization period of property, equipment and intangible assets, the assumptions used regarding the actuarial valuation of the defined benefit pension obligations, and the recording of accrued and contingent liabilities.

(h) *Internally restricted net assets*

Amounts designated and approved by the Board of Directors for a contingency reserve fund and the funding of special projects are included in internally restricted net assets. Investment income earned from the internally restricted funds is unrestricted.

(i) *Interfund transfers:*

Transfers of funds between net assets are made when it is considered appropriate and authorized by the Board.

College of Physicians and Surgeons of British Columbia

(Tabular amounts expressed in thousands of dollars)

Notes to the Financial Statements (continued)

February 28, 2021

3. Amalgamation with the College of Podiatric Surgeons of British Columbia

In 2019, the Boards of the CPSBC and the College of Podiatric Surgeons of British Columbia (the "CPodS"), in coordination with the Ministry of Health of the Province of British Columbia (the "Ministry"), began working towards streamlining and modernizing health profession regulation in British Columbia. On August 31, 2020, the CPSBC amalgamated with the CPodS. The amalgamated colleges continue under the name College of Physicians and Surgeons of British Columbia.

As part of the amalgamation, the CPSBC assumed all assets and liabilities of the CPodS effective August 31, 2020 with the continuing operations of the amalgamated entity reflected in the statement of operations of the CPSBC subsequent to that date.

The following assets and liabilities of the CPodS were recorded at their carrying value which approximated their fair value as at August 31, 2020. The net assets contribution of \$568,000 was recorded as a direct increase to net assets of the CPSBC.

(Expressed in thousands of dollars)	
Assets	
Current assets	
Cash and cash equivalents	\$ 140
Short-term investments	515
	\$ 655
Liabilities and Net assets	
Current liabilities	
Accounts payable	\$ 1
Unearned revenue	86
	87
Net assets	
Unrestricted	568
	\$ 655

4. Amalgamation costs

Amalgamation costs reflect a combination of incremental spending to support the recent amalgamation between the CPSBC and the CPodS. In 2020, \$130,000 was incurred for the amalgamation, including amounts spent on legal, accounting and audit, consulting and other general administrative costs.

5. Internally restricted net assets

Internally restricted net assets include contingency reserves to ensure the CPSBC has sufficient financial resources to continue operations in the event of a significant negative event, as well as funds for the continued implementation of an Enterprise Content Management system to facilitate the management of electronic documents and records. During the year, the Board passed a motion to internally restrict funds to be set aside for its contingency reserve. This contingency reserve was previously maintained within unrestricted net assets. The contingency fund will be built up over time to a targeted balance

College of Physicians and Surgeons of British Columbia
(Tabular amounts expressed in thousands of dollars)
Notes to the Financial Statements (continued)
February 28, 2021

5. Internally restricted net assets (continued)

based on a percentage of annual operating costs. Annual transfers to the contingency reserves will be authorized by the Board until the target minimum reserve amount is attained.

6. Investments

	2021	2020
Recorded at fair value:		
Bond funds	\$ 11,302	\$ 10,198
Canadian equities	3,850	9,957
US equities	9,730	4,945
International equities	3,582	1,760
Recorded at amortized cost:		
Term deposits	2,514	-
Total investments	\$ 30,978	\$ 26,860
Short-term investments	\$ 4,046	\$ 1,485
Long-term investments	26,932	25,375
Total investments	\$ 30,978	\$ 26,860

Short-term investments include those investments held in operating accounts which the CPSBC intends to use in operations within the next fiscal year. Investments that are expected to be realized beyond the next fiscal year are classified as long term.

7. Intangible assets

	2021		2020	
	Cost	Accumulated amortization	Net book value	Net book value
Database system	\$ 7,033	\$ 4,877	\$ 2,156	\$ 2,828
Other software	2,698	1,329	1,369	471
	\$ 9,731	\$ 6,206	\$ 3,525	\$ 3,299

College of Physicians and Surgeons of British Columbia
(Tabular amounts expressed in thousands of dollars)
Notes to the Financial Statements (continued)
February 28, 2021

8. Property and equipment

			2021		2020	
	Cost	Accumulated amortization	Net book value		Net book value	
Land	\$ 8,301	\$ -	\$ 8,301	\$	8,301	
Building	22,445	4,192	18,253		18,702	
Building improvements	5,275	1,742	3,533		3,756	
Furniture and equipment	3,553	2,838	715		849	
Computer equipment	1,979	1,233	746		639	
	\$ 41,553	\$ 10,005	\$ 31,548	\$	32,247	

9. Government remittances

Included in accounts payable and accrued liabilities are government remittances of \$60,000 (2020 - \$137,000) for payroll related taxes.

10. Pension plans

(a) British Columbia Public Service Pension Plan

The CPSBC and its employees contribute to the British Columbia Public Service Pension Plan ("BCPSPP"), a jointly trustee pension plan. The Public Service Pension Board of Trustees, representing plan members and employees, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan that provides pension benefits based on a formula using length of service and best five-year average salary. As at March 31, 2020 the plan had 64,000 active members and 51,000 retired members.

The latest actuarial valuation for the BCPSPP as at March 31, 2020, indicated a surplus of \$2.7 billion for basic pension benefits. The next valuation is scheduled for March 31, 2023.

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 resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

The CPSBC paid \$1,462,000 for employer contributions to the plan in fiscal year 2021 (2020 - \$1,331,000). Contributions paid by employees in fiscal year 2021 were \$1,146,000 (2020 - \$1,008,000).

College of Physicians and Surgeons of British Columbia
(Tabular amounts expressed in thousands of dollars)
Notes to the Financial Statements (continued)
February 28, 2021

10. Pension plans (continued)

(b) Supplementary Pension Plan

For senior staff hired prior to 2004, the supplementary pension arrangements provide for pensions determined on a defined benefit basis. This plan provides pension benefits, based on length of service and best three-year average salary, that are in excess of those that can be funded under a registered pension plan. The CPSBC pays supplementary defined benefits to these former senior staff as they fall due. As of February 28, 2021, no active members of senior staff were covered under the supplementary defined benefit arrangement. An actuarial valuation to measure the CPSBC's accrued benefit obligation for its supplementary defined benefit contribution plan is carried out at each year end.

The following tables show the status of the CPSBC's defined benefit supplementary pension plan as well as figures related to the CPSBC's participation in the B.C. Public Service Pension Plan:

	2021	2020
Accrued benefit obligation		
Balance at beginning of year	\$ 6,736	\$ 6,379
Benefits paid	(499)	(499)
Interest cost	162	215
Actuarial (gain) loss	(29)	641
Balance at end of year	\$ 6,370	\$ 6,736
Pension liability		
Accrued benefit obligation	\$ 6,370	\$ 6,736
Plan assets	(484)	(453)
Net pension liability	5,886	6,283
Current portion of pension liability	(499)	(499)
Long-term pension liability	\$ 5,387	\$ 5,784
Pension expense		
Contributions to the B.C. Public Service Pension Plan	\$ 1,462	\$ 1,331
Interest cost	162	215
Expense included in salaries and benefits	1,624	1,546
Actuarial (gain) loss recognized in Statement of Changes in Net Assets	(29)	641
Pension expense recognized for year	\$ 1,595	\$ 2,187

Significant assumptions used to measure costs and obligations for the supplementary defined benefit pension plan are as follows:

Discount rate	2.7%	2.5%
Indexation of pensions	0.0%	0.0%

College of Physicians and Surgeons of British Columbia
(Tabular amounts expressed in thousands of dollars)
Notes to the Financial Statements (continued)
February 28, 2021

10. Pension plans (continued)

The CPSBC made contributions to the plans above as follows:

	2021	2020
BC Public Service Pension Plans	\$ 1,462	\$ 1,331
Supplementary defined benefit plan	529	529
Total contributions	\$ 1,991	\$ 1,860

11. Investment income

Investment income is comprised of the following:

	2021	2020
Net realized gain	\$ 325	\$ 447
Dividends	283	423
Interest	653	670
Total investment income	\$ 1,261	\$ 1,540

12. Commitments and contingent liabilities

- (a) The CPSBC has entered into a Letter of Credit agreement in the amount of \$6,308,000 (2020 - \$5,980,000) to secure the accrued pension benefits under the supplementary defined benefit pension plan provided to its former senior staff. The Letter of Credit expires on August 31 of each year and is renewed to reflect changes in the CPSBC's supplementary pension obligations. Collateral for this Letter of Credit is secured by the equity of the land and building.
- (b) The CPSBC has been named as a defendant in certain lawsuits and has been advised by legal counsel that these claims are without substantial merit. In the event the CPSBC is unsuccessful in defending any of these claims, the CPSBC has sufficient liability insurance to cover any legal obligation. When it is anticipated the CPSBC will ultimately incur a liability and the amount can be reasonably estimated, a provision is made in the financial statements.

13. Changes in operating working capital

	2021	2020
Accounts receivable	\$ 59	\$ (4)
Prepaid expenses and deposits	(164)	199
Accounts payables and accrued liabilities	13	(134)
Tenants deposits	(2)	9
Unearned revenue	1,255	434
	\$ 1,161	\$ 504

College of Physicians and Surgeons of British Columbia

(Tabular amounts expressed in thousands of dollars)

Notes to the Financial Statements (continued)

February 28, 2021

14. Financial instruments

(a) *Credit risk*

Credit risk is the risk that a counterparty will fail to perform its obligations when they come due. The CPSBC is exposed to credit risk on its investments and accounts receivable. The CPSBC does not have significant accounts receivable exposure to any individual registrant and investments are held with well known, reputable Canadian financial institutions.

(b) *Liquidity risk*

Liquidity risk is the risk that the CPSBC will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The CPSBC's objective is to have sufficient liquidity to meet its liabilities when they come due. The CPSBC monitors its cash balances and cash flows generated from operations to meet its requirements. As at February 28, 2021, the most significant financial liabilities are accounts payable and accrued liabilities, and accrued pension liabilities.

(c) *Market risk*

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates, equity prices and valuation of appraisal-based assets, will affect the CPSBC'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 CPSBC is exposed to currency risk on its foreign market common stock, as the prices denominated in foreign currencies are converted to Canadian dollars in determining fair value. The CPSBC controls currency risk by maintaining a geographically diversified portfolio. From time to time, the CPSBC's external investment fund managers may hold balances in cash and cash equivalents denominated in non-Canadian currencies. The currency risk related to these balances is not significant.

ii. *Interest rate risk*

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

College of Physicians and Surgeons of British Columbia
(Tabular amounts expressed in thousands of dollars)
Notes to the Financial Statements (continued)
February 28, 2021

14. Financial instruments (continued)

(c) Market risk (continued)

iii. Equity price risk:

Equity price risk is the risk that the fair value of equity financial instruments will fluctuate due to changes in market prices. The CPSBC is exposed to equity price risk on its investments in equities. The objective of the CPSBC's investment policy is to manage equity price risk by maintaining a portfolio which is diversified across geographic and industry sectors.

The COVID-19 pandemic situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the market prices of the CPSBC's financial instruments is not known at this time.

There has been no change to the above risk exposures outlined above from 2020 other than the potential impact of COVID-19, as described.

15. Comparative information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.

College of Physicians and Surgeons of British Columbia

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