

Financial Statements of

**HEALTH EMPLOYERS ASSOCIATION
OF BRITISH COLUMBIA**

Year ended March 31, 2015



KPMG LLP
Chartered Accountants
Metrotower II
Suite 2400 - 4720 Kingsway
Burnaby BC V5H 4N2
Canada

Telephone (604) 527-3600
Fax (604) 527-3636
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of the Health Employers Association of British Columbia

Report on the Financial Statements

We have audited the accompanying financial statements of the Health Employers Association of British Columbia, which comprise the statement of financial position as at March 31, 2015, the statements of operations, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Health Employers Association of British Columbia as at March 31, 2015, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

The financial statements of Health Employers Association of British Columbia as at and for the year ended March 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 30, 2014.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding period.

KPMG LLP

Chartered Accountants

May 29, 2015

Burnaby, Canada

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Statement of Financial Position

March 31, 2015, with comparative information for 2014

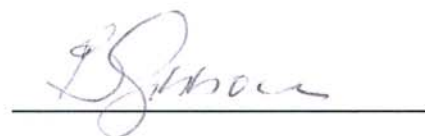
	2015	2014
Financial assets:		
Cash	\$ 1,599,577	\$ 1,102,296
Short-term investments (note 3)	7,145,426	8,134,965
Long-term investments (note 3)	800,000	1,700,000
Accounts receivable	2,643,926	481,265
	<u>12,188,929</u>	<u>11,418,526</u>
Liabilities:		
Accounts payable and accrued liabilities	2,102,250	1,416,625
Deferred contributions (note 5)	5,765,145	6,112,350
Tenant inducements	447,270	596,368
Retirement benefit liability	293,398	260,854
	<u>8,608,063</u>	<u>8,386,197</u>
Net financial assets:	3,580,866	3,032,329
Non-financial assets:		
Tangible capital assets (note 4)	465,677	581,000
Prepaid expenses	126,367	140,823
	<u>592,044</u>	<u>721,823</u>
Commitments (note 8)		
Accumulated surplus (schedule 1)	<u>\$ 4,172,910</u>	<u>\$ 3,754,152</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Statement of Operations

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

	2015		
	Budget	2015	2014
	(note 2 (j))		
Revenue:			
Provincial government funding	\$ 9,068,215	\$ 9,068,215	\$ 9,068,215
Member assessments	180,000	180,804	180,804
Interest and other revenue	150,000	136,737	128,521
Fee for service (note 7)	150,000	149,358	129,530
	9,548,215	9,535,114	9,507,070
Funding from deferred contributions operations (note 5)	5,730,484	4,967,662	4,776,060
	15,278,699	14,502,776	14,283,130
Expenses (note 10)			
Strategic negotiations and contract administration	4,337,855	3,455,097	3,681,977
Knowledge management and information technology	2,631,680	2,538,531	2,433,360
Legal services	1,162,690	1,307,830	1,344,827
Finance and administration	898,940	900,360	836,297
Executive services and board governance	848,630	712,092	749,228
Communications	408,420	374,413	366,709
General	180,000	318,237	421,479
Expenses from ongoing operations	10,468,215	9,606,560	9,833,877
Contracted operations:			
Recruitment services - Health Match BC	2,227,578	2,142,553	2,064,850
Physician services	1,328,500	1,199,476	993,175
Health cross jurisdictional labour relations database	643,406	577,260	545,785
Care aide registry	550,000	526,877	554,882
Integrated health human resource planning	-	31,292	-
Total expenses from contracted operations	4,749,484	4,477,458	4,158,692
Total expenses from operations	15,217,699	14,084,018	13,992,569
Annual Surplus	61,000	418,758	290,561
Accumulated surplus, beginning of year	3,754,152	3,754,152	3,463,591
Accumulated surplus, end of year	\$ 3,815,152	\$ 4,172,910	\$ 3,754,152

See accompanying notes to financial statements.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Statement of Changes in Net Financial Assets

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

	2015		
	Budget	2015	2014
	(note 2(j))		
Annual surplus	\$ 61,000	\$ 418,758	\$ 290,561
Acquisition of tangible capital assets	(216,000)	(87,410)	(102,502)
Disposal of tangible capital assets	-	-	17,662
Amortization of tangible capital assets	200,000	202,733	218,545
Acquisition of prepaid expenses	-	(122,415)	(141,253)
Use of prepaid expenses	-	136,871	177,977
Increase in net financial assets	45,000	548,537	460,990
Net financial assets, beginning of year	3,032,329	3,032,329	2,571,339
Net financial assets, end of year	\$ 3,077,329	\$ 3,580,866	\$ 3,032,329

See accompanying notes to financial statements.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Statement of Cash Flow

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

	2015	2014
Cash flows provided by (used in):		
Operating activities:		
Surplus of revenue over expenses	\$ 418,758	\$ 290,561
Items not affecting cash:		
Amortization of tangible capital assets	202,733	218,545
Amortization of tenant inducements	(149,098)	(149,098)
Loss on disposal of tangible capital assets	-	17,662
	<u>472,393</u>	<u>377,670</u>
Changes in non-cash working capital:		
Accounts receivable	(2,162,661)	143,891
Prepaid expenses	14,456	36,724
Accounts payable and accrued liabilities	685,625	(664,186)
Deferred contributions	(347,205)	(82,843)
Retirement benefit liability	32,544	12,005
	<u>(1,304,848)</u>	<u>(176,739)</u>
Capital activities:		
Acquisition of tangible capital assets	(87,410)	(102,502)
	<u>(87,410)</u>	<u>(102,502)</u>
Investing activities:		
Purchase of short-term investments	-	(800,000)
Purchase of long-term investments	(800,000)	(1,700,000)
Redemption of short-term investments	2,689,539	3,863,727
	<u>1,889,539</u>	<u>1,363,727</u>
Increase in cash during the year	497,281	1,084,486
Cash, beginning of year	1,102,296	17,810
Cash, end of year	\$ 1,599,577	\$ 1,102,296

See accompanying notes to financial statements.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2015

1. Nature of business and basis of presentation:

The Health Employers Association of British Columbia (the "Association") was formed under the Society Act (British Columbia) and the Public Sector Employers Act and is exempt from income taxes under Section 149 of the Income Tax Act.

The Association's primary purpose is to coordinate and conduct collective bargaining, coordinate compensation for exempt employees, and support health care employers in the areas of benefit administration and human resource practices.

Funding is provided primarily by the Province of British Columbia (the "Province") and the Association is dependent on funding from this source.

2. Significant accounting policies:

The Association's significant accounting policies are as follows:

(a) Basis of accounting:

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards established by the Canadian Public Sector Accounting Board.

(b) Revenue recognition:

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government transfers are accounted for in accordance with PS 3410 - Government Transfers. Under PS 3410, contributions for operating purposes are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. These transfers are recognized as deferred contributions when transfer stipulations give rise to a liability. Such revenues are recognized in the statement of operations as the liabilities are settled.

Contributions from non-government sources are deferred when restrictions are placed on their use by the contributor, and are recognized as revenue when used for the specific purpose.

Revenue related to fees or services received in advance of the fee being earned or the service being performed is deferred and recognized when the fee is earned or service performed.

Interest income on restricted deferred contributions is recorded as deferred revenue until revenue recognition has been met. Other interest income is recognized when earned.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

2. Significant accounting policies (continued):

(c) Short-term and long-term investments:

The Association's short-term investments consist of units in Phillips, Hager & North Canadian Money Market Fund Series O recorded at fair value and guaranteed investment certificates recorded at cost less a provision for impairment where investments are considered to be other than temporarily impaired.

Long-term investments consist of guaranteed investment certificates with original maturity dates of more than one year from the date of acquisition.

(d) Employee future benefits:

The Association and its employees participate in the Municipal Pension Plan. The Municipal Pension Plan is a multi-employer contributory defined benefit pension plan. Contributions to the plan are expensed as incurred.

The liability for vacation payable and staff illness bank payable are accrued and expensed as the benefits are earned, and are included in accounts payable and accrued liabilities.

The accrued retirement benefit liability is an estimate of future retirement allowances for employees who are over 55 years of age with greater than 10 years of service, upon retirement from the Association. The retiring allowance is one week of an employee's regular pay for every two years of service to a maximum of 20 weeks. Payments made on this liability will be funded from cash as incurred.

(e) Tenant inducements:

Inducements received from the landlord have been deferred and are being amortized to rent expense on a straight-line basis over the term of the lease.

(f) Tangible capital assets:

Tangible capital assets are recorded at cost less accumulated amortization. Amortization is determined at rates which will reduce original cost to estimated residual value over the useful lives of the assets on the following basis:

	Basis	Rate
Furniture and fixtures	declining balance	20%
Computer equipment	straight-line	3 years
Leasehold improvements	straight-line	Over the term of the lease

Tangible capital assets are written down to residual value when conditions indicate that they no longer contribute to the Association's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

Leases that transfer substantially all benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

2. Significant accounting policies (continued):

(g) Accumulated surplus:

Various funds are included in the accumulated surplus. These funds are not presented separately in the statement of operations but are presented on a combined basis, with any interfund balances and transactions eliminated. The funds are, however, separated for the purposes of segmented reporting and are detailed in Schedule 1. The various funds include the following:

(i) Operating Fund:

This fund consists of the unrestricted funds of the Association.

(ii) Tangible Capital Assets Fund:

This fund represents the tangible capital assets under the management of the Association, and relates to the maintenance and acquisition of those tangible capital assets.

(h) Financial instruments:

Derivatives and equity instruments quoted in an active market are measured at fair value. Other than short-term investments (Note 2 (c)), the Association does not have these instruments. All other financial assets and financial liabilities are measured at cost or amortized cost.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of a short-term investment to reflect a loss in value is not reversed for a subsequent increase in value.

Transaction costs are a component of cost for financial instruments measured at cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the year. The actual outcome could differ from the estimates made in the preparation of the financial statements. Areas requiring significant management estimates include retirement benefit liability, contingencies, and the useful economic lives of tangible capital assets for amortization.

(j) Budget figures:

The budget information reported in the statements of operations and changes in net financial assets have been derived from estimates approved by the Board of Directors on February 28, 2014.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

3. Investments:

Investments recorded at fair value and at cost are comprised of the following:

	2015	2014
Short-term investments:		
Canadian Money Market Funds	\$ 5,445,426	\$ 7,334,965
Guaranteed Investment Certificates	1,700,000	800,000
	7,145,426	8,134,965
Long-term investments:		
Guaranteed Investment Certificates	800,000	1,700,000
	\$ 7,945,426	\$ 9,834,965

The Guaranteed Investment Certificates have interest rates ranging from 1.54% to 1.64%.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

4. Tangible capital assets:

	Office equipment	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost:					
As at April 1, 2014	\$ 273,096	\$ 555,933	\$ 872,734	\$ 712,636	\$ 2,414,399
Additions	3,061	3,103	67,039	14,207	87,410
Disposals	-	-	-	-	-
	276,157	559,036	939,773	726,843	2,501,809
Accumulated amortization:					
As at April 1, 2014	152,288	479,501	722,552	479,058	1,833,399
Additions	24,379	15,546	100,862	61,946	202,733
Disposals	-	-	-	-	-
	176,667	495,047	823,414	541,004	2,036,132
Net book value, March 31, 2015	\$ 99,490	\$ 63,989	\$ 116,359	\$ 185,839	\$ 465,677

	Office equipment	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost:					
As at April 1, 2013	\$ 275,066	\$ 552,035	\$ 821,397	\$ 712,636	\$ 2,361,134
Additions	47,267	3,898	51,337	-	102,502
Disposals	(49,237)	-	-	-	(49,237)
	273,096	555,933	872,734	712,636	2,414,399
Accumulated amortization:					
As at April 1, 2013	162,519	463,213	619,498	401,198	1,646,428
Additions	21,344	16,288	103,054	77,860	218,546
Disposals	(31,575)	-	-	-	(31,575)
	152,288	479,501	722,552	479,058	1,833,399
Net book value, March 31, 2014	\$ 120,808	\$ 76,432	\$ 150,182	\$ 233,578	\$ 581,000

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

5. Deferred contributions:

	2015	2014
Balance, beginning of year	\$ 6,112,350	\$ 6,195,193
Provincial government funding received	4,598,651	4,643,906
Funds transferred	(21,000)	-
Interest earned	42,806	49,311
	10,732,807	10,888,410
Less amounts recognized as revenue	(4,967,662)	(4,776,060)
Balance, end of year	\$ 5,765,145	\$ 6,112,350

During the year, the Association received funding from the Provincial Government of British Columbia for the following purposes:

	2015	2014
Strategic negotiations	\$ 380,000	\$ 380,000
Recruitment services - Health Match BC	2,030,000	1,930,000
Physician services (including physician negotiations)	550,000	1,250,000
Health cross jurisdictional labour relations database	608,651	585,906
Care aide registry	550,000	498,000
Integrated health human resource planning	480,000	-
	\$ 4,598,651	\$ 4,643,906

The deferred contributions are restricted to and allocated as follows:

	2015	2014
Strategic negotiations	\$ 433,978	\$ 544,183
Recruitment services - Health Match BC	479,262	591,816
Physician services (including physician negotiations)	3,976,702	4,604,370
Health cross jurisdictional labour relations database	403,372	371,981
Care aide registry	23,123	-
Integrated health human resource planning	448,708	-
	\$ 5,765,145	\$ 6,112,350

6. Line of credit:

The Association has an operating line of credit of \$250,000, bearing interest at Royal Bank prime rate, which is unsecured and repayable on demand. This line is unused at March 31, 2015 (2014 - nil).

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

7. Related party transactions:

The Board of Directors of the Association is responsible for appointing the trustees to the Healthcare Benefit Trust ("HBT").

The Association has a service contract with the HBT to provide consulting and administrative services to HBT related to its maintenance, operation and administration. Fees earned for the year were \$13,675 (2014 - \$25,195).

8. Commitments:

The Association has annual operating lease payments, exclusive of operating costs. Minimum future lease payments as at March 31, 2015 are as follows

2016	\$ 722,109
2017	714,887
2018	711,735
2019	11,251
	<hr/>
	\$ 2,159,982

9. Pension plan:

The Association and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trustee pension plan. The Board of Trustees, representing the Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 182,000 active members and approximately 75,000 retired members. Active members include approximately 104 contributors from the Association.

The most recent actuarial valuation as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the Plan.

The Association paid \$661,167 for employer contributions to the Plan in fiscal 2015 (2014 - \$627,349).

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

10. Expenses by object:

	2015	2014
Compensation and benefits	\$ 8,878,080	\$ 8,919,755
Travel and meetings	626,439	716,206
Legal and professional	1,630,770	1,537,945
Rental - office and equipment	1,264,839	1,297,655
Office and information technology	993,949	900,412
Amortization	202,733	218,545
GST – unrecoverable	70,959	65,302
Staff training, research and memberships	137,285	127,410
Arbitration and hearing costs	195,195	182,955
Recruiting and relocation	83,769	26,384
	<u>\$14,084,018</u>	<u>\$ 13,992,569</u>

11. Financial risk management:

(a) Fair values:

The Association's financial instruments include cash, short-term investments, long-term investments, accounts receivable and accounts payable. These financial instruments are carried at cost, except for the Money Market Fund Series O investment which is measured at fair value.

(b) Credit risk:

The Association has limited exposure to credit risk associated with its cash, short-term and long-term investments, and accounts receivable. The Association is not exposed to significant credit risk as the receivables are due from governments. Cash and the GICs are held with a Canadian chartered bank and the short-term and long-term investments are held in Canadian money market funds. The Association's maximum exposure to credit risk is limited to the carrying amount of the balances in the financial statements of \$11,467,659 (2014 - \$11,418,526).

(c) Interest rate risk:

The Association is not exposed to significant interest rate risk due to the short-term maturity of its financial assets and liabilities, except in its short-term investments and long-term investments which are subject to fluctuations in changes in interest rates.

(d) Liquidity risk:

The Association does not have significant liquidity risk as it has sufficient cash to meet its liabilities as they come due. Short-term and long-term investments, except for the guaranteed investment certificates, are held in highly liquid investments with no specific terms to maturity that can be disposed of when required. Accounts payable and accrued liabilities are all due within one year.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Notes to Financial Statements (continued)

Year ended March 31, 2015

12. Trust under administration:

Trusts under administration are not reflected in the financial statements and are comprised of monies held in trust for the following purposes:

	2015	2014
Nurse policy commitments	\$ 2,511,292	\$ 2,485,010
Health Safety in Action Initiative	2,000,000	-
Enhanced disability management project (NBA)	371,090	134,244
Enhanced disability management project (FBA)	251,992	155,966
Enhanced disability management project (CBA)	175,024	-
Occupational health, safety & violence prevention (NBA)	2,859,910	1,871,860
Occupational health, safety & violence prevention (FBA)	1,142,214	638,418
Practice ready assessment - BC program (PRA-BC)	644,130	360,000
	<hr/>	<hr/>
	\$ 9,955,652	\$ 5,645,498

Beginning on April 1, 2015 and until the end of fiscal year 2016/17, the Province authorized the Association and its Health Match BC division to provide administrative and financial management of the Practice Ready Assessment – BC Program and its funding. The PRA-BC program will become one of Health Match BC Division's programs.

HEALTH EMPLOYERS ASSOCIATION OF BRITISH COLUMBIA

Schedule of Segment Disclosure

Schedule 1

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

	Operating Fund	Tangible Capital Assets Fund	2015 Total	2014 Total
Revenue:				
Provincial government funding received	\$ 9,068,215	\$ -	\$ 9,068,215	\$ 9,068,215
Member assessment	180,804	-	180,804	180,804
Interest and other revenue	136,737	-	136,737	128,521
Fee for service	149,358	-	149,358	129,530
	9,535,114	-	9,535,114	9,507,070
Funding from deferred contributions - operations	4,967,662	-	4,967,662	4,776,060
	14,502,776	-	14,502,776	14,283,130
Expenses:				
Strategic negotiations and contract administration	3,455,097	-	3,455,097	3,681,977
Knowledge management and information technology	2,489,810	48,721	2,538,531	2,433,360
Legal services	1,307,830	-	1,307,830	1,344,827
Executive services and board governance	900,360	-	900,360	836,297
Finance and administration	712,092	-	712,092	749,228
Communications	374,413	-	374,413	366,709
General	115,504	202,733	318,237	421,479
Expenses from ongoing operations	9,355,106	251,454	9,606,560	9,833,877
Contracted operations:				
Recruitment services - Health Match BC	2,142,553	-	2,142,553	2,064,850
Physician services	1,199,476	-	1,199,476	993,175
Health cross jurisdictional labour relations database	577,260	-	577,260	545,785
Care aide registry	526,877	-	526,877	554,882
Intergrated Health Human Resource Planning	31,292	-	31,292	
	4,477,458	-	4,477,458	4,158,692
Total expenses from operations	13,832,564	251,454	14,084,018	13,992,569
Surplus (deficiency) for the year	670,212	(251,454)	418,758	290,561
Acquisition of tangible capital assets	(85,343)	85,343	-	-
Disposal of tangible capital assets	-	-	-	-
Accumulated surplus, beginning of year	2,995,211	758,941	3,754,152	3,463,591
Accumulated surplus, end of year	\$ 3,580,080	\$ 592,830	\$ 4,172,910	\$ 3,754,152



cutting through complexity

AUDIT

Health Employers Association of British Columbia

Audit Findings Report
For the year ended March 31, 2015

May 19, 2015

kpmg.ca



The contacts at KPMG in connection with this report are:

Carol Chiang, CPA, CA
Lead Audit Partner

Tel: 604-527-3652
cchiang@kpmg.ca

Aanu Adeleye, CPA, CA
Audit Senior Manager

Tel: 604-527-3746
aadeleye@kpmg.ca

Eric Tse, CPA, CA
Audit Manager

Tel: 604-527 -3731
etse@kpmg.ca

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Audit Committee, in your review of the results of our audit of the financial statements of the Health Employers Association of British Columbia (the "Association" as at and for the year ended March 31, 2015.

This Audit Findings Report builds on the Audit Plan we presented to the Finance and Audit Committee on February 13, 2015.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Audit and business risks results

We discussed with you at the start of the audit a number of audit and business risks. These included deferred contributions, investments, and negotiation costs. We are satisfied that our audit work has appropriately dealt with the risks.

See *pages 9 for more details*

Adjustments and differences

Corrected Adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected Differences

We did not identify differences that remain uncorrected in the financial statements.

See *page 8 for more details*.

* This Audit Findings Report should not be used for any other purpose or by anyone other than the finance and audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary (continued)

Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures:

- Completing our discussions with the Finance and Audit Committee;
- Subsequent event updates to the date of the auditors' report;
- Receipt of signed management representation letter; and
- Obtaining evidence of the Board's approval of the financial statements.

We will update the Finance and Audit committee, on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Significant qualitative aspects of accounting policies and practices.

Overall we are satisfied with the reasonability of the significant accounting policies, critical accounting estimates, and critical disclosures and financial statement presentation taken.

See pages 5-7 for more details

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR, however we identified other observations with respect to payroll and investments.

See pages 10 and appendix 3 for more details

Independence

We confirm that we are independent with respect to the Association within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from April 1, 2014 to the date of this report

Audit and Business risks results

Areas of focus Our significant findings from the audit

Misstatements

Significant Deficiencies/Material Weaknesses

Deferred Contributions

Contributions received are recorded in accordance with the terms associated with the funding provided by the government, which requires contributions with stipulations be deferred until spent on the specified purpose. Such contributions received by the Association relate to specific projects and negotiations. As costs are incurred relating to the funding that was received, the funding is taken into revenue in an amount equal to the expenses incurred.

None Noted

No control deficiencies noted.

Results of our procedures from the audit:

- We have obtained an understanding of the process over contributions and government grants received and amounts spent as well as deferral of unspent amounts.
- We have reviewed the terms and conditions of funding received for which deferred contribution balances remain as of March 31, 2015 and noted restrictions relating to all such balances.
- We have performed testing over expenses incurred and associated restricted revenue recognized to ensure the expenses relate to the specific project stipulations and were appropriately classified with no issues noted.
- We have agreed revenues to expenses incurred for deferred contribution projects and noted no differences.
- We have reviewed general expenses to assess whether any other expenses should be allocated to deferred contribution projects and noted no issues.

Audit and Business risks results (continued)

Investments

HEABC maintains significant investment balances through a variety of short-term and long-term investments. The Association's short-term investments consist of units in Phillips, Hager & North Canadian Money Market Fund Series O recorded at fair value and guaranteed investment certificates recorded at amortized cost as allowed under public sector accounting standards.

None Noted

No significant control deficiencies noted. We have provided a recommendation with respect to investment policy in attached appendix 3.

Results of our procedures from the audit:

- We have reviewed internal controls relating to the investment process of the investment manager and understood the relationship between investment managers and custodians of investment portfolios.
- We have sent and received directly investment confirmation letters from the Association's external investment managers and confirmed the ending balances.

Negotiation Costs

There is an inherent risk of negotiation costs due to the nature of different arrangements and timing of the receipt of underlying grants.

None Noted

No control deficiencies noted.

Results of our procedures from the audit:

- We have obtained an understanding of the activities over negotiation costs incurred and ensured that the expenses are appropriately recorded as at and for the year ended March 31, 2015.
- We have reviewed the status of negotiations and noted no outstanding negotiations and no accruals for negotiation costs incurred as at year end.
- We have evaluated management's accounting for grants received for future negotiations and review subsequent events with respect to such negotiations.

Audit and Business risks results (continued)

CRA - GST Audit	During the year, CRA conducted a GST/HST audit for the period of January 1, 2012 to June 30, 2014. CRA has provided its preliminary findings with regards to the treatment of various funding agreements and Trust Under Administration to determine whether these activities are taxable.	None Noted	No control deficiencies
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In particular, HEABC has been treating contract services funding received from the Ministry of Health (MOH) as non-taxable. Based on CRA preliminary comments and KPMG indirect tax review, management concurs with CRA's position that this funding should be taxable. As a result, HEABC has billed to MOH and recorded an amount of \$80,813 as at year-end which represents GST receivable from the MOH related to funding on a go-forward basis for the period of July 1, 2014 to March 31, 2015. This has no net impact to the Statement of Operations as the amount receivable from the Ministry of Health is directly offset by a payable to be remitted to the CRA.

Pending final assessment by CRA, HEABC has preliminarily determined that the total GST to be billed to the MOH for funding for the period under audit from January 1, 2012 to June 30, 2014 is a total of \$721,270. This amount has been billed to MOH and recorded at year-end as GST receivable from MOH and a payable to CRA. The amount was received from MOH subsequent to year-end.

Additionally, HEABC is exposed to a 4% penalty for non-remittance of GST for the period of January 1, 2012 to June 30, 2014. HEABC has recorded an amount of \$28,851 as at year-end which represents the penalty on the total GST to be recovered from the Ministry of Health for the audit period as noted above.

The Association has been claiming 50% GST rebates on all its expenses in the past. With the change to treating the MOH funding as taxable, HEABC is entitled to claim 100% input tax credits (ITCs) on expenses incurred in providing the related services. This amount has not been recorded and will be recognized as ITC recovery when CRA assessment is finalized and the claim is filed and accepted.

Audit and Business risks results (continued)

Hence, on a go-forward basis for the period subsequent to July 1, 2014, HEABC is including 100% ITCs claims in its GST filings for expenditures related to MOH funding.

HEABC is currently awaiting CRA's response with their findings.

Results of our procedures from the audit:

- With the assistance of KPMG Indirect Tax, we assessed the position taken by the Association with respect to the CRA comments letter.
 - We reviewed the calculations prepared by HEABC and noted no unusual or unsupported transactions.
 - We have reviewed the journal entries and adjustments recorded at year-end and agree with the amounts recorded as at March 31, 2015.
-

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected "adjustments" or Uncorrected "differences." These include disclosure adjustments and differences.

Professional standards require that we request of management and the Finance and Audit Committee that all identified adjustments of differences be corrected.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected in the financial statements.

Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of individuals making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed are not contrary to positions KPMG has taken

<p>Significant accounting policies</p>	<p>Significant accounting policies and practices as disclosed in Note 2 to the financial statements comprise a subset of the Association’s accounting policies and practices. The reason why certain accounting policies and practices are considered significant is because they are important to the portrayal of the Association’s financial position and financial performance, and require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.</p> <ul style="list-style-type: none"> • Critical accounting policies and practices adopted by the Association are appropriate and properly disclosed in the financial statements. • There were no significant changes in accounting policies during 2015. • There are no significant accounting policies in controversial or emerging areas. • The transactions were correctly recorded in relation to the period in which they are related to. • There were no significant unusual transactions undertaken during the year.
<p>Critical accounting estimates</p>	<ul style="list-style-type: none"> • Management’s identification of accounting estimates and process for making such accounting estimates are appropriate. • There are no indications of possible management bias noted during our audit. • Disclosure of estimation uncertainty in the financial statements is appropriate.
<p>Critical disclosures and financial statement presentation</p>	<ul style="list-style-type: none"> • There are no particularly sensitive financial statements disclosures. • The disclosures in the financial statements are consistent and clear. Any potential effect on the financial statements of significant risks, exposures and uncertainties has been appropriately disclosed.

Control observations and other matters

Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies we determined to be significant deficiencies in ICFR. Refer to our Management Letter in Appendix 3 of this report for improvement opportunities identified. Management's responses included in the letter have not been subjected to the audit procedures applied in the audit, and accordingly, we express no opinion on them.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

Appendices

Appendix 1: Required communications

Appendix 2: Management representation letter

Appendix 3: Management letter

Appendix 4: Audit Quality and Risk Management

Appendix 5: Current developments

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter and any subsequent amendment letters provided to management. The engagement letter dated February 13, 2015 was previously provided to management Finance and Audit Committee.
- **Audit planning communication**– our planned scope and timing for the audit are set forth in the audit planning letter provided to management and Finance and Audit Committee on February 13, 2015.
- **Fraud related inquiries** – professional standards required that during the planning of our audit we obtain your views on risk of fraud. We have made similar inquiries to management as part of our planning process; responses to these assisted us in planning our overall audit strategy and audit approach accordingly
- **Audit findings report** – as attached.
- **Auditors’ report** – the conclusion of our audit is set out in our draft auditors’ report.
- **Management representation letter** – in accordance with professional standards, copies of the representation letter will be provided to the Finance and Audit Committee. See appendix 2 for a copy of the draft representation letter.
- **Independence** – As required by professional standards, we have considered all relationships between KPMG and the Association that may have a bearing on independence. We confirm that we are independent with respect to the Association within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from April 1, 2014 up to the date of this letter.

Appendix 2: Management representation letter

MANAGEMENT REPRESENTATION LETTER

KPMG LLP
Chartered Accountants
Metrotower II
4720 Kingsway, Suite 2400
Burnaby, BC V5H 4N2
Canada

May __, 2015

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as “financial statements”) of Health Employers’ Association of British Columbia (“the Association”), as at and for the period ended March 31, 2015.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 13, 2015 for:
 - a) the preparation of the financial statements and believe that these financial statements have been prepared in accordance with the relevant financial reporting framework
 - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

- 2) Significant interpretations related to the financial provisions of the relevant framework are appropriately disclosed in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 3) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 4) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Association and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Association's financial statements, communicated by employees, former employees, analysts, regulators, or others
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

SUBSEQUENT EVENTS:

- 5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 6) We have disclosed to you the identity of the Association's related parties and all the related party relationships and transactions/balances of which we are aware and all related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 7) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 8) We confirm that the Association is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Association will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

ASSETS & LIABILITIES – GENERAL:

- 9) We have no knowledge of material unrecorded assets or liabilities or contingent assets or liabilities (such as claims, unfulfilled contracts, etc., whose values depend on fulfillment of conditions regarded as uncertain, guarantees, additional taxes for prior years, etc.) that have not been disclosed to you.
- 10) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in cash, negotiable instruments, etc.).
- 11) We have no knowledge of arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements and not disclosed to you.
- 12) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

ACCOUNTING POLICIES:

- 13) The accounting policies selected and applied are appropriate for the Association's business and consistent with accounting policies used in the Association's industry.

ACCOUNTING CHANGES:

- 14) There have been no changes in accounting policies that have not been disclosed to you and appropriately reflected in the financial statements.

MEASUREMENT UNCERTAINTY:

- 15) There are no material measurement uncertainties that require disclosure in the financial statements, either in nature or extent that are not appropriately disclosed in the financial statements.

Yours very truly,

Tony Collins, Interim CEO (*December 2014 – April 2015*)

Lyn Kocher, CFO and Executive Director, Corporate Services

We have the recognized authority to take, and assert that we have taken, responsibility for the financial statements

cc: Finance and Audit Committee

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of the Association's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian generally accepted accounting principles *related party* is defined as:

- “Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.”

In accordance with Canadian generally accepted accounting principles a *related party transaction* is defined as:

- “A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.”

Attachment II – Summary of Audit Misstatements Schedule

Summary of Uncorrected Audit Misstatements

Year ended March 31, 2015

There are no uncorrected audit misstatements for the year ended March 31, 2015.

Summary of Corrected Audit Misstatements

Year ended March 31, 2015

There are no corrected audit misstatements for the year ended March 31, 2015.

Summary of Presentation and Disclosures

Year ended March 31, 2015

There are no presentation or disclosure items for the year ended March 31, 2015

Appendix 3: Management Letter



KPMG Enterprise™
Metrotower II 2400 – 4720 Kingsway
Burnaby BC V5H 4N2
Canada

Telephone (604) 527-3600
Fax (604) 527-3636
Internet www.kpmg.ca/enterprise

MANAGEMENT LETTER

Ms. Lyn Kocher
CFO and Executive Director, Corporate Services
Health Employers Association of British Columbia
#200-1333 West Broadway
Vancouver, BC, V6H 4C6

May 19, 2015

Dear Ms. Kocher:

In planning and performing our audit of the financial statements of the Health Employers Association of British Columbia (“the Association”) for the period ended March 31, 2015, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Association’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR. Accordingly, we do not express an opinion on the effectiveness of the Association’s ICFR.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

IDENTIFICATION

Refer to the Appendix A for the definitions of various control deficiencies.

Refer to Appendix B for our observations on various control deficiencies that came to our attention during the current year’s audit.

The matters being reported are limited to those deficiencies in internal control that we identified during the audit.



SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL	We did not identify any control deficiencies that we consider to be significant deficiencies in internal control.
OTHER INTERNAL CONTROL DEFICIENCIES	We identified control deficiencies during fiscal 2015 audit that we consider to be other deficiencies in internal control that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

MANAGEMENT'S RESPONSES

The Associations' written actual or proposed responses to our communications on control deficiencies has not been subjected to the audit procedures applied in the financial statement audit, and accordingly, we express no opinion on it.

USE OF LETTER

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or by anyone other than management and those charged with governance. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

Chartered Accountants

cc: Members of the Finance and Audit Committee

Appendix A

Terminology	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
Significant Deficiency in Internal Control	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix B

1. Payroll Processes – Hiring, Terminations, and Wage Changes

During our audit, we noted the following observations relating to the payroll processes for termination and wage changes of employees:

a) Review of Terminated Employees

Observation

The Association has a policy that upon the termination of an employee, three termination forms are created to ensure the proper deactivation of HR related information, IT access, and miscellaneous Finance administration. The termination forms are maintained in the employee's file. During our audit, we noted an instance when the completed forms were not maintained in the employee's file. We were able to retrieve the completed termination forms directly from the IT and Finance departments. There is a risk that terminated employees continue to have access to the Association's systems and financial reporting if the termination forms are not properly completed, reviewed, and properly actioned.

Recommendation

We recommend that the Association strengthens its policy of completing all termination forms and storing them in the employee's file upon completion. Additionally, a final review should be performed over the termination forms to ensure they have been adequately completed and all action items executed.

Management Response

The Association follows a process, when an employee terminates, that involves three areas within the Corporate Services Department, to ensure an employee's access is appropriately terminated and departing employee procedures are followed. It is important to note that the process is working as intended and that no employees were identified as being improperly terminated. That being said, we are in agreement that a more co-ordinated process needs to occur, therefore, we have modified our processes and procedures so that one individual is responsible to ensure that each of IT, Administration Services, and Finance/HR terminate departing employee access correctly and that all completed documentation is filed in the employee's personnel file, within 30 days of their termination. The HR Advisor will review this documentation and sign off that all is in order at the conclusion of the process.

b) Review of Wage Changes

Observation

The Association has a policy that all salary changes are reviewed by the CFO to ensure that the increase does not exceed the board approved salary grid for that particular position. During our audit, however we noted several instances of salary changes not reviewed by the CFO. It was noted that the reviews were performed by the Human Resources Advisor. In lieu of a detailed review of the salary changes being performed by the CFO, the monthly financial results are reviewed and significant variances are followed up on. As a mitigating control, overall monthly results were reviewed by the CFO. There is a risk that the level of review is not detailed enough to detect unauthorized or erroneous wage changes of individuals outside of the board approved salary grid. This can lead to a potential risk of inaccurate payment of payroll or financial reporting.

Recommendation

We recommend that the Association revise its policies and procedures to formally authorize the Human Resources Advisor review all payroll wage increases to ensure that the increase does not exceed the board approved salary grid or budget.

Management Response

Management agrees to review its processes and procedures and determine what reviews/controls can be delegated to the HR Advisor and what oversight responsibilities should remain with the CFO.

2) Review of Investment Policy

Observation

The Association has a policy that the investment policy is reviewed by the Finance & Audit (F&A) Committee on an annual basis and they are tasked with making appropriate recommendations to the Board. During our audit, we noted that the latest investment policy was reviewed and approved in September 2013. There is a risk that the current investment policies are out of date and not reflective of current market conditions and considerations. Lack of regular review can result in unfavorable impacts in investments or lost opportunities to take advantage of favorable market conditions.

Recommendation

We recommend that the Association adhere to its policy that the investment policy be reviewed annually by the Finance & Audit (F&A) Committee.

Management Response

The F&A Committee reviews the Association's investment results (and indirectly the investment policy) at each of its quarterly meetings. The discussion that flows from this review informs staff of any recommended changes in policy or direction and the investment policy would then be modified accordingly. It was this type of review/discussion that led to the changes that were made to the investment policy effective September 2013. The organization has a very low risk tolerance and, as a result, its investment options are quite limited. Therefore, it is expected that substantive changes to our investment policy would occur on an infrequent basis. On a go forward basis, the F&A Committee will annually minute their confirmation of the Association's Investment Policy, regardless of whether changes have been made to it, so it is clearer that they are in agreement when it remains unchanged.

Appendix 4: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit <http://www.kpmg.com/Can/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
 - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 5: Current developments

Related Party Transactions and Inter-entity Transactions

- Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017.
- Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.
- Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Determining which related party transactions to disclose is a matter of judgment based on assessment of:
 - the terms and conditions underlying the transactions;
 - the financial significance of the transactions;
 - the relevance of the information; and
 - the need for the information to enable users' understanding of the financial statements and for making comparisons.
- A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.
- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

Assets, Contingent Assets and Contractual Rights

- Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017.
- The intended outcome of the three new Handbook Sections is improved consistency and comparability.
- The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity.
- Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.

Restructurings

- A new Handbook section was approved in March 2015, effective for fiscal years beginning on or after April 1, 2018.
- A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred.
- The new standard requires the transferor remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense.
- Restructuring-related costs are recognized as expenses when incurred.
- Financial information prior to the restructuring date would not be restated.

Revenue

- PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and comments are currently under deliberation.
- A request for information is under development and expected for release in 2015. Adoption of these principles would result in a need to assess current accounting policies.
- In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Cyber Security - It's more than just Technology

Organizations are subject to increasing amounts of legislative and public pressures to show they are managing and protecting their information appropriately. Simultaneously, the threats from cyber criminals and hackers are growing in scale and sophistication. Organizations are also increasingly vulnerable as a result of technological advances and changing working practices including remote access, cloud computing, mobile technology and services on demand. The financial and reputational costs of not being prepared against a cyber-attack could be significant.

Cyber Security is not solely about Information Technology; it is fundamentally an operational and governance issue. Organizations should develop an operations-wide understanding of their threats, safeguards, and responses. Preparing this summary diagnostic will require the involvement of individuals in all areas of the organization, including those involved in hiring, procurement, customer relations and management. Key elements to consider include:

- Assessing the likelihood and intensity of a cyber-attack, based on the value of your information and your public profile
- Assessing your vulnerabilities to a cyber-attack
- Preparing your people, processes, infrastructure and technology to resist a cyber-attack, and to minimize its impact
- Detecting a cyber-attack and initiating your response
- Containing and investigating the cyber-attack
- Recovering from a cyber-attack and resuming business operations
- Reporting on and improving security

Organizations are at particular risk due to the information they maintain, including research data, member or student data, and health information. The reputational risk of this information not being adequately protected can often outweigh the financial consequences of a breach.

Organizations need to review their operations and consider cyber risks, then assess the organization's cyber maturity in addressing those risks. Structured models for completing this exercise exist for organizations of all sizes, as no one is immune to the risk of a cyber-attack.

KPMG in Canada, in collaboration with Imagine Canada, recently presented a webinar called "Cyber Security: The new threat for Not-for-Profit Organizations". We encourage you to view this webinar on Imagine Canada's website at:

<http://sectorsource.ca/resource/video/cyber-security-not-profit-organizations-presented-kpmg>

British Columbia Society Act

The B.C. Ministry of Finance is currently reviewing the Society Act (the "Act") to modernize and update the statute that provides rules for the incorporation and governance of not-for-profit organizations in B.C. A White Paper was issued by the Ministry in August 2014 that sets out policy recommendations and includes draft legislation. Draft legislation found in the White Paper looks similar to the current Society Act, and maintains the basic framework of the current Act. The framework has been updated and supplemented with new provisions that enhance flexibility by providing societies more internal governance options.

Significant proposals in the White Paper include new corporate and governance procedures, reduced regulatory burden for member funded societies, increased regulatory burden for charities and publicly funded societies. British Columbia societies that have charitable status or that receive significant public funding will continue to be subject to the current *Society Act's* requirements respecting the number of directors, financial statements and distributions on dissolution. Additionally, a majority of their directors must not be entitled to receive remuneration under contracts of employment or service. These societies will also be required to publicly disclose the amount of remuneration paid to their directors and their ten highest paid employees and contractors.

The bill with the proposed new Societies Act was subsequently introduced in the BC Legislature on March 25, 2015 with a number of revisions from the original draft legislation that accompanied the White Paper. Management should consult with their legal counsel on the potential implications of the Act to the Association.

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