

**North Okanagan
Columbia Shuswap
Regional Hospital District
Financial Statements
For the year ended December 31, 2013**

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Independent Auditor's Report

**To the Directors
North Okanagan Columbia Shuswap Regional Hospital District**

We have audited the accompanying financial statements of North Okanagan Columbia Shuswap Regional Hospital District, which comprise the statement of financial position as at December 31, 2013, and the statements of operations, change in net debt and accumulated deficit, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 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 North Okanagan Columbia Shuswap Regional Hospital District as at December 31, 2013 and the results of its operations, changes in net debt and accumulated deficit and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

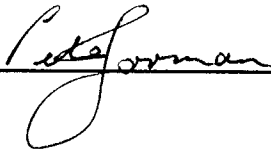
BDO Canada LLP

Chartered Accountants

**Salmon Arm, British Columbia
March 26, 2014**

**North Okanagan Columbia Shuswap Regional Hospital District
Statement of Financial Position**

December 31	2013	2012
Financial assets		
Cash	\$ 389,688	\$ 1,833,922
Investment funds - Municipal Finance Authority (Note 1)	5,227,340	2,104,435
Accounts receivable	89,692	18,034
Due from member municipalities	750,246	743,550
Deposit and demand notes - MFA (Note 2)	2,869,623	2,799,886
	<u>9,326,589</u>	<u>7,499,827</u>
Liabilities		
Accounts payable and accrued liabilities	65,461	169,714
Accrued MFA interest payable	750,246	743,550
MFA debt reserve (Note 2)	2,869,623	2,799,886
Long-term debt (Note 3 and Schedule)	76,579,932	77,435,629
Short-term debt (Note 3 and Schedule)	-	1,100,000
	<u>80,265,262</u>	<u>82,248,779</u>
Net debt and accumulated deficit	\$ (70,938,673)	\$ (74,748,952)



Treasurer

North Okanagan Columbia Shuswap Regional Hospital District
Statement of Operations

For the year ended December 31	2013	2012
Revenue	Actual	Actual
Requisition on member municipalities		
City of Armstrong	\$ 195,770	\$ 171,630
City of Revelstoke	445,211	391,166
City of Salmon Arm	869,161	747,089
District of Sicamous	225,883	216,872
City of Enderby	107,491	94,155
City of Vernon	2,360,663	2,078,408
District of Coldstream	549,046	475,794
Township of Spallumcheen	263,283	232,634
Village of Lumby	79,412	67,246
Electoral Areas	1,897,840	1,671,443
Little Shuswap Indian Band	49,836	44,108
Adams Lake Indian Band	14,591	12,841
	<u>7,058,187</u>	<u>6,203,386</u>
Interest due not requisitioned	6,696	204
Payments in lieu of taxes	28,302	21,491
Debenture surplus payout	5,200	-
Debt reserve fund refund	927	-
Refund on VJH expansion project	1,064,855	-
Interest	47,250	43,635
Actuarial adjustments on MFA debt	189,412	98,808
	<u>8,400,829</u>	<u>6,367,524</u>
Expenses		
Administration	72,000	72,000
Audit	4,818	4,731
Director's remuneration	5,800	5,320
Director's travel	1,961	1,851
Project - Vernon Jubilee Hospital	78,436	121,195
Project - Shuswap Lake Hospital	34,418	165,851
Project - Queen Victoria Hospital	-	135,755
Project - Regional	25,156	48,400
Equipment - Vernon Jubilee Hospital	284,158	263,064
Equipment - Shuswap Lake Hospital	54,066	42,174
Equipment - Queen Victoria Hospital	22,805	114,498
Equipment - Regional	46,127	184,282
Interest on short-term debt	5,031	18,914
Interest on long-term debt	3,315,125	3,302,550
Accrued interest on long-term debt	6,696	204
MFA debt reserve fund and expenses	24,000	-
Bank charges	25	-
Staff travel	314	320
Section 20-2 funding - Interior Health Authority	609,614	613,778
	<u>4,590,550</u>	<u>5,094,887</u>
Annual surplus	\$ 3,810,279	\$ 1,272,637

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

North Okanagan Columbia Shuswap Regional Hospital District
Statement of Change in Net Debt and Accumulated Deficit

For the year ended December 31	2013	2013	2012
	Budget	Actual	Actual
Annual surplus	\$ 548,933	\$ 3,810,279	\$ 1,272,637
Net debt and accumulated deficit, beginning of year	(74,748,952)	(74,748,952)	(76,021,589)
Net debt and accumulated deficit, end of year	\$ (74,200,019)	\$ (70,938,673)	\$ (74,748,952)
Net debt and accumulated deficit represented by:			
Cash and investments		\$ 5,617,028	\$ 3,938,357
Other current fund		24,231	(151,680)
Debt recoverable from future taxation (Note 3)		(76,579,932)	(78,535,629)
Net debt and accumulated deficit, end of year		\$ (70,938,673)	\$ (74,748,952)

**North Okanagan Columbia Shuswap Regional Hospital District
Statement of Cash Flows**

For the year ended December 31

	2013	2012
Operating		
Annual surplus	\$ 3,810,279	\$ 1,272,637
Decrease (increase) in accounts receivable	(71,658)	31,445
Increase in due from member municipalities	(6,696)	(205)
Decrease in accounts payable	(104,253)	(313,817)
Increase in accrued interest on long-term debt	6,696	205
	<u>3,634,368</u>	<u>990,265</u>
Investing		
(Increase) decrease in investment funds	<u>(3,122,905)</u>	169,863
Financing		
Long-term debt issues	1,500,000	-
Long-term debt retirement	(2,355,697)	(2,265,094)
Short-term debt retirement	(1,100,000)	-
	<u>(1,955,697)</u>	<u>(2,265,094)</u>
Net change in cash	<u>(1,444,234)</u>	<u>(1,104,966)</u>
Opening cash	<u>1,833,922</u>	<u>2,938,888</u>
Closing cash	<u>\$ 389,688</u>	<u>\$ 1,833,922</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

North Okanagan Columbia Shuswap Regional Hospital District

Summary of Significant Accounting Policies

December 31, 2013

The North Okanagan Columbia Shuswap Regional Hospital District ("Regional Hospital District") is a governing agency for the hospitals in the North Okanagan Columbia Shuswap region and is incorporated under the Hospital District Act. Its principal activities are to finance capital construction projects and capital equipment purchases for health care facilities within the Regional Hospital District.

Management's Responsibility for the Financial Statements and Basis of Presentation	The Regional Hospital District financial statements have been prepared by management in accordance with the recommendations of the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants (CICA) and include all funds belonging to the economic entity of the Regional Hospital District.
Revenue Recognition	<p>The Regional Hospital District does not accrue grants receivable for equipment and construction. Grants are recorded only when received.</p> <p>Taxation revenues are recognized at the time the property tax requisitions for the fiscal year become receivable.</p>
MFA Debt Reserve	The MFA requires a cash contribution of 1% of the face value of debt when issued. The MFA debt reserve earns interest income and is used to pay expenses of the debt issue. Any remaining balance will be returned to the Regional Hospital District at the maturity of the underlying debt issue.
Use of Estimates	The financial statements of the Regional Hospital District have been prepared by management in accordance with Canadian public sector accounting standards. As such, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial estimates have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies identified.
Long-term Debt	Long-term debt is recorded net of any sinking fund balances. Debt service charges, including principal and interest, are charged against current revenue in the period incurred.

North Okanagan Columbia Shuswap Regional Hospital District
Notes to Financial Statements

December 31, 2013

1. Investment Funds

The investments totaling \$5,227,340 (2012 - \$2,104,435) are held under the name of the Columbia Shuswap Regional District. They are held with the Municipal Finance Authority and are invested in money market funds; as such, fair market value is equal to carrying value. The 2013 annual rate of return was 1.1% (2012 - 1.06%).

2. MFA Debt Reserve Deposits and Demand Notes

The MFA administers the debenture debt of the Regional Hospital District. As a condition of these borrowings, a portion of the debenture proceeds are withheld as a debt reserve fund. At December 31, 2013, the cash balance in the debt reserve fund was \$939,505 (2012 - \$887,008). The Regional Hospital District also excludes demand notes in connection with each debenture totaling \$1,930,118 (2012 - \$1,912,878) whereby the Regional Hospital District may be required to loan certain amounts to MFA.

3. Debt Recoverable from Future Taxation

These financial statements only recognize that proportion of the equipment and construction grants that the Regional Hospital District is obligated to finance through future taxation.

Grants to hospitals will be amortized to the extent of the principal payments and the increment in the sinking fund for the related debt. Grants that are fully amortized are removed from accumulated amortization figures.

The debt recoverable from future taxation has been calculated as follows:

	2013	2012
Long-term debt:		
Shuswap Lake General Hospital Phase 1	\$ -	\$ 520,000
Queen Victoria HCC Residential Care Facility	1,329,843	1,329,843
Pleasant Valley Manor fire alarm	3,822,900	3,822,900
Shuswap Lake General Hospital Geothermal heat/cooling	651,399	651,399
Vernon Jubilee Hospital Diagnostic/Treatment building (MFA issue 106)	27,280,235	27,280,235
Vernon Jubilee Hospital Diagnostic/Treatment building (MFA issue 116)	30,586,554	30,586,554
Shuswap Lake General Hospital Phase 1 Renovations	7,480,000	7,480,000
Vernon Jubilee Hospital two additional shelled in floors	10,500,000	10,500,000
Vernon Jubilee Hospital Infrastructure Modifications	1,500,000	-
Less accumulated amortization (Note 4)	(6,570,999)	(4,735,302)
	76,579,932	77,435,629
Short-term debt:		
Vernon Jubilee Hospital	-	1,100,000
	\$ 76,579,932	\$ 78,535,629

North Okanagan Columbia Shuswap Regional Hospital District
Notes to Financial Statements

December 31, 2013

4. Accumulated Amortization

The accumulated amortization balance has been calculated as follows:

	2013	2012
Balance - beginning of year	\$ 4,735,302	\$ 2,470,208
Principal payments applied in the year	2,166,285	2,166,286
Grants fully amortized	(520,000)	-
Actuarial adjustments	189,412	98,808
Balance - end of year	\$ 6,570,999	\$ 4,735,302

5. Budget

The scope of the financial activity reported in the Statement of Operations is not the same as that reported in the Annual Budget. For comparative purposes, actual financial activities have been summarized below in the same manner as was budgeted.

	2013 Actual	2013 Budget
Revenue		
Tax requisition total	\$ 6,993,760	\$ 6,993,760
Other revenue - Agreement - Indian Bands	64,427	60,000
Interest due not requisitioned	6,696	384,130
Payments in lieu of taxes	28,302	22,000
MFA Debt Reserve Funds payouts	6,127	-
Refund on VJH expansion project	1,064,855	-
Interest	47,250	40,000
Actuarial adjustment on MFA debt	189,412	189,412
	8,400,829	7,689,302
Expenses		
Debt		
Debtenture debt - interest and expenses	3,345,821	3,723,180
Interim borrowing interest	5,031	5,000
Administration Expenditures	84,918	86,000
Capital Expenditures		
Capital Projects	138,010	1,760,895
Capital equipment	407,156	955,686
Maintenance and equipment < \$ 100,000	609,614	609,608
	4,590,550	7,140,369
Annual Surplus	3,810,279	548,933
plus:		
Transfer (to) from accumulated deficit	(1,854,582)	1,406,765
Debtenture debt - principal	(2,166,285)	(2,166,286)
Repayment to interim borrowing	(1,100,000)	(1,100,000)
Proceeds from issue of long-term debt	1,500,000	1,500,000
less:		
Actuarial adjustment	(189,412)	(189,412)
Financial Plan Balance	\$ -	\$ -

North Okanagan Columbia Shuswap Regional Hospital District
Notes to Financial Statements

December 31, 2013

6. Commitments

- a) The Hospital District has committed to the following expenditures which have been approved by the Interior Health Authority and the Regional Hospital District Board and are to be financed from reserve funds:

		<u>Total</u>	<u>Unexpended</u>
Vernon Jubilee Hospital	- Pharmacy Department Upgrade	\$ 485,200	\$ 424,061
	- Pharmacy Department Upgrade (additional)	200,000	200,000
	- Lab Ventilation	280,000	266,606
	- Ultrasound	56,800	6,536
	- High Definition ENT Video System	52,000	12,145
	- General Rad Room	90,000	90,000
	- C-Arm	84,000	84,000
	- Washer Extractor (#1)	52,000	52,000
	- Washer Extractor (#2)	44,000	44,000
Shuswap Lake Hospital (Salmon Arm)	- Ultrasound	56,800	2,734
	- Elevator Controls upgrade	70,000	70,000
	- Pyxis Medstations	144,000	144,000
Queen Victoria Hospital (Revelstoke)	- Cooling Tower replacement	52,000	52,000
	- Master Clock System replacement	24,000	1,194
Noric House, Vernon	- Covered Patio Area and Ramp installation	26,000	844
Vernon Community Care	- Telephone System upgrade	32,000	32,000
	- Rooftop Heating Units replacement	32,000	32,000
Regional	- Gateby Care Centre - HVAC upgrades	140,000	140,000
	- Parkview Place, Enderby - Nurse Call	40,400	4,174
		\$ 1,961,200	\$ 1,658,294

- b) The Hospital District has committed to the following expenditure which has been approved by the Interior Health Authority and the Regional Hospital District Board and to be financed through a borrowing bylaw:

		<u>Total</u>	<u>Unexpended</u>
Vernon Jubilee Hospital	- Polson Tower Completion (Bylaw 58)	\$ 5,525,000	\$ 5,525,000

**North Okanagan Columbia Shuswap Regional Hospital District
Schedule of Debt**

For the year ended December 31

Short-term Debt

Security Issuing Bylaw	Rate	2013 Net Debt	2012 Net Debt
44	1.73%	\$ -	\$ 1,100,000

Interest on short-term debt is paid monthly. There are no specific terms of repayment. Repayment of short-term debt is either by cash payment at the completion of the project or by conversion to long-term debt. The interim financing for Bylaw 44 was converted to long term debt during the spring of 2013.

Long-term Debt

Security Issuing Bylaw	Maturity Date	Rate	Original Debt Amount	2013 Net Debt	2012 Net Debt
27	2022	4.82%	\$ 1,329,843	\$ 889,322	\$ 970,124
31	2013	4.25%	520,000	-	112,314
32	2029	4.13%	3,822,900	3,277,740	3,422,150
38	2035	3.73%	7,480,000	6,919,331	7,113,597
43	2019	4.13%	651,399	421,004	482,034
45/106	2034	4.13%	27,280,235	24,498,581	25,235,425
45/116	2036	4.20%	30,586,554	29,088,290	29,852,111
46	2036	3.25%	10,500,000	9,985,664	10,247,874
44	2023	3.15%	1,500,000	1,500,000	-
			\$ 83,670,931	\$ 76,579,932	\$ 77,435,629

Principal payments, actuarial adjustments and interest obligations for the next five years and thereafter:

Year	Principal & Actuarial Adj	Interest
2014	\$ 2,458,056	\$ 3,327,700
2015	2,556,378	3,327,700
2016	2,658,633	3,327,700
2017	2,764,979	3,327,700
2018	2,875,578	3,327,700
Thereafter	63,266,308	53,626,130
Totals	\$ 76,579,932	\$ 70,264,630

Interest is calculated on a semi-annual basis and is based on the original debt amount. An actuarial adjustment is recorded to adjust the outstanding loan balance to actual.