

**NORTH OKANAGAN
COLUMBIA SHUSWAP
REGIONAL HOSPITAL DISTRICT**
Client Information Package
For the year ended December 31, 2016

Contact Information

Angie Spencer, CPA, CA
BDO Canada LLP
Chartered Professional Accountants
Ph: 250-832-7171 Fax: 250-832-2429
Email: aspencer@bdo.ca

**North Okanagan
Columbia Shuswap
Regional Hospital District
Financial Statements
For the year ended December 31, 2016**

| | Contents |
|--|-----------------|
| Management's Responsibility for Financial Reporting | 1 |
| Independent Auditors' Report | 2 |
| Financial Statements | |
| Statement of Financial Position | 3 |
| Statement of Operations | 4 |
| Statement of Change in Net Debt and Accumulated Deficit | 5 |
| Statement of Cash Flows | 6 |
| Summary of Significant Accounting Policies | 7 |
| Notes to Financial Statements | 8-10 |
| Schedule of Debt | 11 |

Management's Responsibility for Financial Reporting

The accompanying financial statements of North Okanagan Columbia Shuswap Regional Hospital District (the "Regional Hospital District") are the responsibility of management and have been approved by the Manager of Financial Services and Chief Administrative Officer on behalf of the Board of Directors (the "Board").

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Certain amounts used in the preparation of the financial statements are based on management's best estimates and judgements. Actual results could differ as additional information becomes available in the future. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly, in all material respects.

The Regional Hospital District maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Regional Hospital District's assets are appropriately accounted for and adequately safeguarded.

The Manager of Financial Services, the Chief Administrative Officer and the Board are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Manager of Financial Services, the Chief Administrative Officer and the Board members meet periodically with management, as well as, the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging its responsibilities, and to review the financial statements and the external independent auditor's report.

The financial statements have been audited by BDO Canada LLP Chartered Professional Accountants in accordance with Canadian generally accepted auditing standards on behalf of the board. The independent auditor's report expresses its opinion on these financial statements. The auditors have full and free access to the accounting records and to the Manager of Financial Services, the Chief Administrative Officer and the Board.



Manager, Financial Services



Chief Administrative Officer



Tel: 250 832 7171
Fax: 250 832 2429
www.bdo.ca

BDO Canada LLP
571 6th Street NE, Suite 201
Salmon Arm BC V1E 1R6 Canada

Independent Auditor's Report

To the Directors of
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, 2016, 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, 2016 and the results of its operations, change in net debt and accumulated deficit and cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants

Salmon Arm, British Columbia
March 28, 2017

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

| December 31 | 2016 | 2015 |
|---|------------------------|------------------------|
| Financial assets | | |
| Cash | \$ 451,852 | \$ 427,563 |
| Investment funds - Municipal Finance Authority (Note 1) | 4,329,466 | 4,403,106 |
| Accounts receivable | 17,295 | 11,562 |
| Due from member municipalities | 750,246 | 750,246 |
| Deposit and demand notes - MFA (Note 2) | 2,949,317 | 2,921,604 |
| | <u>8,498,176</u> | <u>8,514,081</u> |
| Liabilities | | |
| Accounts payable | 539,703 | 2,078,656 |
| Accrued MFA interest payable | 750,246 | 750,246 |
| MFA debt reserve (Note 2) | 2,949,317 | 2,921,604 |
| Temporary borrowing (Note 3 and Schedule) | 3,054,000 | 1,166,000 |
| Long-term debt (Note 3 and Schedule) | 68,906,864 | 71,565,498 |
| | <u>76,200,130</u> | <u>78,482,004</u> |
| Net debt and accumulated deficit | \$ (67,701,954) | \$ (69,967,923) |



Treasurer

North Okanagan Columbia Shuswap Regional Hospital District Statement of Operations

| For the year ended December 31 | 2016 | 2015 |
|--|---------------------|-----------------------|
| Revenue | Actual | Actual |
| Requisition on member municipalities | | |
| City of Armstrong | \$ 213,880 | \$ 210,730 |
| City of Revelstoke | 466,403 | 443,216 |
| City of Salmon Arm | 955,004 | 917,413 |
| District of Sicamous | 216,605 | 225,835 |
| City of Enderby | 109,362 | 109,638 |
| City of Vernon | 2,531,993 | 2,512,310 |
| District of Coldstream | 618,040 | 599,721 |
| Township of Spallumcheen | 273,159 | 271,576 |
| Village of Lumby | 80,140 | 80,563 |
| Electoral Areas | 1,937,624 | 1,932,775 |
| Little Shuswap Indian Band | 52,676 | 52,000 |
| Adams Lake Indian Band | 18,800 | 18,337 |
| | 7,473,686 | 7,374,114 |
| Payments in lieu of taxes | 20,696 | 22,197 |
| Interest | 31,429 | 40,830 |
| Actuarial adjustments on MFA debt | 463,417 | 361,162 |
| | 7,989,228 | 7,798,303 |
| Expenses | | |
| Administration | 72,055 | 72,000 |
| Audit | 4,830 | 4,809 |
| Director's remuneration | 5,640 | 5,590 |
| Director's travel | 2,028 | 2,089 |
| Project - Vernon Jubilee Hospital | 802,631 | 3,520,189 |
| Project - Shuswap Lake Hospital | 131,885 | 238,259 |
| Project - Queen Victoria Hospital | 143,534 | - |
| Project - Regional | 113,436 | 180,209 |
| Equipment - Vernon Jubilee Hospital | 228,338 | 702,124 |
| Equipment - Shuswap Lake Hospital | 92,130 | 422,706 |
| Equipment - Queen Victoria Hospital | (800) | 116,476 |
| Equipment - Regional | 155,563 | 48,633 |
| Interest on short-term debt | 38,264 | 4,735 |
| Interest on long-term debt | 3,327,700 | 3,327,700 |
| Supplies | - | 380 |
| Staff travel | 325 | 345 |
| Section 20-2 funding - Interior Health Authority | 605,700 | 624,600 |
| | 5,723,259 | 9,270,844 |
| Annual surplus (deficit) | \$ 2,265,969 | \$ (1,472,541) |

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

| For the year ended December 31 | 2016 | 2016 | 2015 |
|--|------------------------|----------------------------|------------------------|
| | Budget | Actual | Actual |
| Annual surplus (deficit) | \$ (1,997,367) | \$ 2,265,969 | \$ (1,472,541) |
| Net debt and accumulated deficit, beginning of year | <u>(69,967,923)</u> | <u>(69,967,923)</u> | <u>(68,495,382)</u> |
| Net debt and accumulated deficit, end of year | \$ (71,965,290) | \$ (67,701,954) | \$ (69,967,923) |
| | | | |
| Net debt and accumulated deficit represented by: | | | |
| Cash and investments | | 4,781,318 | 4,830,669 |
| Other current fund | | (522,408) | (2,067,094) |
| Debt recoverable from future taxation (Note 3) | | <u>(71,960,864)</u> | <u>(72,731,498)</u> |
| Net debt and accumulated deficit, end of year | | \$ (67,701,954) | \$ (69,967,923) |

North Okanagan Columbia Shuswap Regional Hospital District
Statement of Cash Flows

For the year ended December 31

2016

2015

Operating

| | | |
|--|---------------------|----------------|
| Annual surplus (deficit) | \$ 2,265,969 | \$ (1,472,541) |
| Decrease (increase) in accounts receivable | (5,733) | 31,831 |
| Increase (decrease) in accounts payable | (1,538,953) | 1,768,228 |
| | 721,283 | 327,518 |

Investing

| | | |
|------------------------------|---------------|---------|
| Decrease in investment funds | 73,640 | 865,624 |
|------------------------------|---------------|---------|

Financing

| | | |
|---------------------------|--------------------|-------------|
| Long-term debt retirement | (2,658,634) | (2,556,378) |
| Short-term debt issued | 1,888,000 | 1,166,000 |
| | (770,634) | (1,390,378) |

| | | |
|---|-------------------|------------|
| Net change in cash and cash equivalents | 24,289 | (197,236) |
| Opening cash and cash equivalents | 427,563 | 624,799 |
| Closing cash and cash equivalents | \$ 451,852 | \$ 427,563 |

North Okanagan Columbia Shuswap Regional Hospital District

Summary of Significant Accounting Policies

December 31, 2016

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 and include all funds belonging to the economic entity of the Regional Hospital District.

Revenue Recognition The Regional Hospital District does not accrue grants receivable for equipment and construction. Grants are recorded only when received.

Taxation revenues are recognized at the time the property tax requisitions for the fiscal year become receivable.

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, 2016

1. Investment Funds

The investments totalling \$4,329,466 (2015 - \$4,403,106) 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 2016 annual rate of return was .79% (2015 - .85%).

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, 2016, the cash balance in the debt reserve fund was \$1,019,199 (2015 - \$991,486). The Regional Hospital District also excludes demand notes in connection with each debenture totalling \$1,930,118 (2015 - \$1,930,118) 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:

| | 2016 | 2015 |
|---|----------------------|---------------------|
| Long-term debt: | | |
| 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 | 1,500,000 |
| Less accumulated amortization (Note 4) | (14,244,067) | (11,585,433) |
| | 68,906,864 | 71,565,498 |
| Short-term debt: | | |
| Vernon Jubilee Hospital | 3,054,000 | 1,166,000 |
| Debt recoverable from taxation | \$ 71,960,864 | \$ 72,731,498 |

North Okanagan Columbia Shuswap Regional Hospital District
Notes to Financial Statements

December 31, 2016

4. Accumulated Amortization

The accumulated amortization balance has been calculated as follows:

| | 2016 | 2015 |
|--|---------------|---------------|
| Balance - beginning of year | \$ 11,585,433 | \$ 9,029,055 |
| Principal payments applied in the year | 2,195,217 | 2,195,216 |
| Actuarial adjustments | 463,417 | 361,162 |
| Balance - end of year | \$ 14,244,067 | \$ 11,585,433 |

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.

| | 2016 Actual | 2016 Budget |
|--|------------------|--------------------|
| Revenue | | |
| Tax requisition total | \$ 7,402,210 | \$ 7,402,210 |
| Other revenue - Agreement - Indian Bands | 71,476 | 70,800 |
| Payments in lieu of taxes | 20,696 | 22,200 |
| Interest | 31,429 | 40,000 |
| Actuarial adjustment on MFA debt | 463,417 | 463,417 |
| | 7,989,228 | 7,998,627 |
| Expenses | | |
| Debt | | |
| Debenture debt - interest and expenses | 3,327,700 | 3,410,575 |
| Interim borrowing interest | 38,264 | 32,000 |
| Administration Expenditures | 84,880 | 87,000 |
| Capital Expenditures | | |
| Capital Projects | 302,823 | 600,000 |
| Capital equipment | 378,803 | 1,367,800 |
| Maintenance and equipment < \$ 100,000 | 605,700 | 605,700 |
| Capital Equip/Projects - carried forward from prior year | 985,089 | 3,892,919 |
| | 5,723,259 | 9,995,994 |
| Annual surplus (deficit) | 2,265,969 | (1,997,367) |
| plus: | | |
| Transfer (to) from accumulated deficit | (1,495,335) | 297,000 |
| Proceeds from issue of debt | 1,888,000 | 4,359,000 |
| Debenture debt - principal | (2,195,217) | (2,195,216) |
| less: | | |
| Actuarial adjustment | (463,417) | (463,417) |
| Financial plan balance | \$ - | \$ - |

North Okanagan Columbia Shuswap Regional Hospital District
Notes to Financial Statements

December 31, 2016

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:

| | | Total | Unexpended |
|---|--|---------------------|---------------------|
| Vernon Jubilee Hospital | - Diagnostic Imaging Redesign (planning) | \$ 60,000 | \$ 60,000 |
| | - Inpatient Psychiatry Redevelopment (planning) | 60,000 | 60,000 |
| | - Plumbing Replacement | 39,960 | 39,960 |
| | - Pneumatic Tube Station | 27,200 | 27,200 |
| | - Vocera | 60,000 | 282 |
| | - Chemistry Analyzer | 58,000 | 58,000 |
| | - Table, Surgery | 57,600 | 57,600 |
| | - Chillers in South Tower | 480,000 | 177,177 |
| | - Multipurpose System | 470,000 | 288,071 |
| | - General Radiographic System | 246,800 | 246,800 |
| | - Laser, CO2 | 78,000 | 78,000 |
| Shuswap Lake Hospital (Salmon Arm) | - Boiler Heating Water System Upgrade | 140,000 | 10,240 |
| | - Radiologist Diagnostic Monitor Replacement | 17,000 | 17,000 |
| | - General Radiographic System | 218,800 | 153,140 |
| | - C-Arm | 106,000 | 106,000 |
| Queen Victoria Hospital (Revelstoke) | - Replace Steam Boiler | 180,000 | 36,466 |
| | - Ultrasound | 58,400 | 2,720 |
| | - Replace Isolation Transformers | 120,000 | 120,000 |
| | - Wireless Infrastructure Refresh | 8,000 | 8,000 |
| Regional | - Enderby/Gateby Care Centres - Telephone Infrastructure | 44,000 | 1,841 |
| | - Gateby Care Centre - HVAC Upgrades (additional) | 38,000 | 23,932 |
| | - Noric House - Heating Boilers (x2) | 100,000 | 18,179 |
| | - Various Facilities - Forms on Demand and Patient ID | 114,400 | 27,745 |
| | - VJH/SLGH - Medistations, IH Wide Infrastructure | 32,000 | 14,189 |
| | - Parkview Place - Vocera Expansion | 28,000 | 1,251 |
| | - Pleasant Valley Health Centre - Laser, Retinal Fibre Optic | 48,800 | 48,800 |
| | | \$ 2,890,960 | \$ 1,682,593 |

- 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:

| | | Total | Unexpended |
|-------------------------|--------------------------------------|---------------------|---------------------|
| Vernon Jubilee Hospital | - Polson Tower Completion (Bylaw 58) | \$ 5,525,000 | \$ 2,364,754 |

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

For the year ended December 31,

Short-term Debt

| Security Issuing Bylaw | Rate | 2016 Net Debt | 2015 Net Debt |
|------------------------------|-------|---------------------|------------------|
| 58 | 1.44% | \$ 3,054,000 | \$ 1,166,000 |

Interest on short-term debt is paid monthly. There are no specific terms of repayment. Interest is a variable rate through the Municipal Finance Authority. 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 58 will be converted to long term debt in the earliest available debt issue after completion of the project anticipated to be fall 2017.

Long-term Debt

| Security Issuing Bylaw | Maturity Date | Rate | Original Debt Amount | 2016 Net Debt | 2015 Net Debt |
|------------------------------|------------------|-------|-------------------------|----------------------|----------------------|
| 27 | 2022 | 4.82% | \$ 1,329,843 | \$ 626,999 | \$ 717,891 |
| 32 | 2029 | 4.13% | 3,822,900 | 2,808,919 | 2,971,361 |
| 38 | 2035 | 3.73% | 7,480,000 | 6,288,655 | 6,507,177 |
| 43 | 2019 | 4.13% | 651,399 | 222,872 | 291,523 |
| 45/106 | 2034 | 4.13% | 27,280,235 | 22,106,442 | 22,935,291 |
| 45/116 | 2036 | 4.20% | 30,586,554 | 26,608,573 | 27,467,767 |
| 46 | 2036 | 3.25% | 10,500,000 | 9,134,406 | 9,429,358 |
| 44 | 2023 | 3.15% | 1,500,000 | 1,109,998 | 1,245,130 |
| \$ 83,150,931 | | | | \$ 68,906,864 | \$ 71,565,498 |

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

| Year | Principal & Actuarial Adj | Interest |
|------------|------------------------------|----------------------|
| 2017 | \$ 2,764,979 | \$ 3,327,700 |
| 2018 | 2,875,578 | 3,327,700 |
| 2019 | 2,990,601 | 3,327,700 |
| 2020 | 3,029,913 | 3,300,797 |
| 2021 | 3,151,110 | 3,300,797 |
| Thereafter | 54,094,683 | 43,696,836 |
| Totals | \$ 68,906,864 | \$ 60,281,530 |

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.