

**North Okanagan Columbia
Shuswap Regional Hospital District
Client Information Package
For the Year Ended December 31, 2018**

Contact Information

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**North Okanagan Columbia Shuswap
Regional Hospital District
Financial Statements
For the Year Ended December 31, 2018**

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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

Independent Auditor's Report

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

Opinion

We have audited the financial statements of North Okanagan Columbia Shuswap Regional Hospital District, which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net debt and accumulated deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the North Okanagan Columbia Shuswap Regional Hospital District as at December 31, 2018, and its results of operations, its change in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the North Okanagan Columbia Shuswap Regional Hospital District in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of 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.

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

Those charged with governance are responsible for overseeing the North Okanagan Columbia Shuswap Regional Hospital District's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise

professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Okanagan Columbia Shuswap Regional Hospital District's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the North Okanagan Columbia Shuswap Regional Hospital District's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the North Okanagan Columbia Shuswap Regional Hospital District to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

**Salmon Arm, British Columbia
March 26, 2019**

North Okanagan Columbia Shuswap Regional Hospital District

Statement of Financial Position

December 31	2018	2017
Financial assets		
Cash	\$ 650,599	\$ 204,990
Investment funds - Municipal Finance Authority ("MFA") (Note 1)	4,421,607	4,359,757
Accounts receivable	17,818	17,440
Due from member municipalities	778,246	747,437
Deposit and demand notes - MFA (Note 2)	3,137,163	2,969,194
	<u>9,005,433</u>	<u>8,298,818</u>
Liabilities		
Accounts payable	232,003	298,212
Accrued MFA interest payable	778,246	747,437
MFA debt reserve (Note 2)	3,137,163	2,969,194
Temporary borrowing (Note 3 and schedule)	706,000	3,494,000
Long-term debt (Note 3 and Schedule)	66,650,145	66,141,885
	<u>71,503,557</u>	<u>73,650,728</u>
Net debt and accumulated deficit	\$ (62,498,124)	\$ (65,351,910)

Treasurer

North Okanagan Columbia Shuswap Regional Hospital District

Statement of Operations

For the year ended December 31	2018	2017
Revenue	Actual	Actual
Requisition on member municipalities		
City of Armstrong	\$ 225,977	\$ 218,117
City of Revelstoke	507,258	469,127
City of Salmon Arm	997,511	992,112
District of Sicamous	218,811	219,160
City of Enderby	117,705	113,224
City of Vernon	2,663,179	2,630,653
District of Coldstream	666,757	641,016
Township of Spallumcheen	276,684	277,912
Village of Lumby	82,850	81,164
Electoral Areas	2,014,924	2,012,353
Little Shuswap Indian Band	54,698	53,625
Adams Lake Indian Band	19,521	19,138
	7,845,875	7,727,601
Payments in lieu of taxes	23,156	17,778
Debt reserve fund refund	-	579
Interest	76,233	37,892
Actuarial adjustments on MFA debt	680,362	569,763
	8,625,626	8,353,613
Expenses		
Administration	72,000	72,000
Audit	6,402	7,205
Director's remuneration	2,980	9,050
Director's travel	1,033	2,957
Project - Vernon Jubilee Hospital	398,428	759,332
Project - Shuswap Lake Hospital	-	5,106
Project - Queen Victoria Hospital	94,618	235,431
Project - Regional	21,938	23,270
Equipment - Vernon Jubilee Hospital	191,448	460,091
Equipment - Shuswap Lake Hospital	251,314	158,548
Equipment - Queen Victoria Hospital	56,106	7,836
Equipment - Regional	671,398	267,929
Interest on short-term debt	59,197	52,125
Interest on long-term debt	3,293,523	3,327,700
MFA debt reserve fund and expenses	33,838	-
Staff travel	417	289
Section 20-2 funding - Interior Health Authority	617,200	614,700
	5,771,840	6,003,569
Annual surplus	\$ 2,853,786	\$ 2,350,044

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

For the year ended December 31	2018	2018	2017
	Budget (Note 5)	Actual	Actual
Annual surplus	\$ (3,774,122)	\$ 2,853,786	\$ 2,350,044
Net debt and accumulated deficit, beginning of year	(65,351,910)	(65,351,910)	(67,701,954)
Net debt and accumulated deficit, end of year	\$ (69,126,032)	\$ (62,498,124)	\$ (65,351,910)
Net debt and accumulated deficit represented by:			
Cash and investments		5,072,206	4,564,747
Other current fund		(214,185)	(280,772)
Debt recoverable from future taxation (Note 3)		(67,356,145)	(69,635,885)
Net debt and accumulated deficit, end of year		\$ (62,498,124)	\$ (65,351,910)

North Okanagan Columbia Shuswap Regional Hospital District

Statement of Cash Flows

For the year ended December 31

2018

2017

Operating

Annual surplus	\$ 2,853,786	\$ 2,350,044
Increase in accounts receivable	(378)	(145)
Decrease/(Increase) in due from member municipalities	(30,809)	2,809
Decrease in accounts payable	(66,209)	(241,491)
Increase in accrued interest on long-term debt	30,809	(2,809)
	<u>2,787,199</u>	<u>2,108,408</u>

Investing

Increase in investment funds	<u>(61,850)</u>	<u>(30,291)</u>
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Financing

Long-term debt retirement	(2,875,578)	(2,764,979)
Long-term debt issues	3,383,838	-
Short-term debt issues	266,000	440,000
Short-term debt retirement	<u>(3,054,000)</u>	<u>-</u>
	<u>(2,279,740)</u>	<u>(2,324,979)</u>

Net change in cash and cash equivalents	445,609	(246,862)
Opening cash and cash equivalents	<u>204,990</u>	<u>451,852</u>
Closing cash and cash equivalents	<u>\$ 650,599</u>	<u>\$ 204,990</u>

North Okanagan Columbia Shuswap Regional Hospital District

Summary of Significant Accounting Policies

December 31, 2018

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 Municipal Finance Authority ("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.

Financial Instruments

Financial instruments consist of cash, investment funds, accounts receivable, accounts payable and other payables. The fair values of the Regional Hospital District's financial instruments approximate their carrying value unless

North Okanagan Columbia Shuswap Regional Hospital District

Notes to Financial Statements

December 31, 2018

1. Investment Funds

The investments totalling \$4,421,607 (2017 - \$4,359,757) 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 2018 annual rate of return was 1.65% (2017 - .97%).

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, 2018, the cash balance in the debt reserve fund was \$1,095,773 (2017 - \$1,039,076). The Regional Hospital District also excludes demand notes in connection with each debenture totalling \$2,041,390 (2017 - \$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:

	2018	2017
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
Vernon Jubilee Hospital Polson Tower Completion	3,383,838	-
Less accumulated loan amortization (Note 4)	(19,884,624)	(17,009,046)
	66,650,145	66,141,885
Short-term debt:		
Vernon Jubilee Hospital (inpatient bed expansion)	-	3,054,000
Vernon Jubilee Hospital (MRI)	706,000	440,000
	706,000	3,494,000
Debt recoverable from taxation	\$ 67,356,145	\$ 69,635,885

North Okanagan Columbia Shuswap Regional Hospital District

Notes to Financial Statements

December 31, 2018

4. Accumulated Loan Amortization

Debt is borrowed through the Municipal Finance Authority ("MFA") to finance capital grants to designated hospital facilities. Under the terms of the debt, the Regional Hospital District is required to make principal payments once annually while interest is calculated semi-annually and is based on the original debt principal borrowed. Associated with these principal payments, the MFA provides an 'actuarial adjustment', which is a non-cash reduction in the loan balance representing the investment earnings the MFA expects to realize on the sinking fund investment associated with the debenture. The accumulated loan amortization balance has been calculated as follows:

	2018	2017
Balance - beginning of year	\$ 17,009,046	\$ 14,244,067
Principal payments applied in the year	2,195,216	2,195,216
Actuarial adjustments	680,362	569,763
Balance - end of year	<u>\$ 19,884,624</u>	<u>\$ 17,009,046</u>

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.

	2018 Actual	2018 Budget
Revenue		
Tax requisition total	\$ 7,771,656	\$ 7,771,656
Other revenue - Agreement - Indian Bands	74,219	73,500
Payments in lieu of taxes	23,156	18,500
Interest	76,233	35,000
Actuarial adjustment on MFA debt	680,362	680,362
	<u>8,625,626</u>	<u>8,579,018</u>
Expenses		
Debt		
Debenture debt - interest and expenses	3,327,361	3,327,700
Interim borrowing interest	59,197	114,875
Administration Expenditures	82,832	91,500
Capital Expenditures		
Capital Projects	33,596	270,000
Capital equipment	759,253	1,771,200
Maintenance and equipment < \$ 100,000	617,200	617,200
Capital Equip/Projects - carried forward from prior year	892,401	6,160,665
	<u>5,771,840</u>	<u>12,353,140</u>
Annual Surplus	<u>2,853,786</u>	<u>(3,774,122)</u>
plus:		
Transfer (to) from accumulated deficit	(3,594,208)	1,750,000
Proceeds from issue of debt	3,616,000	4,899,700
Debenture debt - principal	(2,195,216)	(2,195,216)
less:		
Actuarial adjustment	(680,362)	(680,362)
Financial Plan Balance	<u>\$ -</u>	<u>\$ -</u>

North Okanagan Columbia Shuswap Regional Hospital District

Notes to Financial Statements

December 31, 2018

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
	- Chemistry Analyzer	58,000	58,000
	- Table, Surgery	57,600	4,775
	- HVAC Upgrade	240,000	240,000
	- Wireless Infrastructure Expansion	8,000	8,000
	- Integrated Immunochemistry Analyzer	70,800	70,800
	- Hematology Analyzer	68,000	68,000
	- Autopsy Suite/Morgue Update	60,000	60,000
	- Access Control System Upgrade	28,000	28,000
	- Vocera	72,000	43,973
	- Wireless Infrastructure Refresh	39,600	9,080
Shuswap Lake Hospital (Salmon Arm)	- Sterilizer	63,600	63,600
	- Electronic Emergency Department Medical Summary	88,000	67,427
	- Medistation, Pyxis replacement	195,600	25,637
Queen Victoria Hospital (Revelstoke)	- Video Conferencing Infrastructure Refresh	12,000	3,647
	- Parking Lot Upgrades	36,000	2,404
	- Anaesthetic Unit with Monitor	48,000	247
Regional	- VJH/SLGH - Medistations, IH Wide Infrastructure	32,000	400
	- Pleasant Valley Health Centre - Laser/Retinal Fibre Optic	48,800	48,800
	- Bastion Place - Parking Lot Upgrades	34,000	3,052
	- IH Wide IMIT over \$100,000	273,800	80,004
	- IH Wide IMIT under \$100,000	138,600	19,067
	- Various Facilities - Specialized Surgical Services	42,800	17,518
	- Vernon Health Centre - Wireless Infrastructure Expansion	16,000	9,157
	- Various Facilities - Telehealth Expansion	13,300	2,587
	- Noric House - Wireless Infrastructure Expansion	6,000	6,000
	- Bastion Place - Cooler/Freezer, Walk In	54,000	18,579
	- Bastion Place - Resident Bus	46,800	500
	- Noric House - Domestic Hot Water Boiler Upgrade (x2)	34,000	34,000
	- Pleasant Valley Manor - Water Softener (x2)	24,000	24,000
	- IH Wide IMIT 2018/2019	1,309,600	847,184
	- Polson Care Centre - Vocera Expansion	39,600	39,600
	- Salmon Arm Health Centre - Wireless Infrastructure	12,000	12,000
	- Bastion Place - Wireless Infrastructure Expansion	8,000	8,000
	- Gateby Care Centre/Noric House - Resident Bus	46,800	46,800
		\$ 3,445,300	\$ 2,090,838

- 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	- MRI (Bylaw 68)	2,840,000	1,934,926
		\$ 2,840,000	\$ 1,934,926

North Okanagan Columbia Shuswap Regional Hospital District

Schedule of Debt

For the year ended December 31, 2018

Short-term Debt

Security Issuing Bylaw	Rate	2018 Net Debt	2017 Net Debt
58		\$ -	\$ 3,054,000
68	2.80%	706,000	440,000
		\$ 706,000	\$ 3,494,000

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 68 will be converted to long term debt in the earliest available debt issue after completion of the project anticipated to be Fall 2019.

Long-term Debt

Security Issuing Bylaw	Maturity Date	Rate	Original Debt Amount	2018 Net Debt	2017 Net Debt
27	2022	2.25%	\$ 1,329,843	\$ 434,163	\$ 532,471
32	2029	4.13%	3,822,900	2,464,284	2,639,981
38	2035	3.73%	7,480,000	5,825,038	6,061,391
43	2019	4.13%	651,399	77,223	151,475
45/106	2034	4.13%	27,280,235	20,347,954	21,244,438
45/116	2036	4.20%	30,586,554	24,785,705	25,715,010
46	2036	3.25%	10,500,000	8,508,638	8,827,657
44	2023	3.15%	1,500,000	823,304	969,462
58	2033	3.20%	3,383,836	3,383,836	-
			\$ 86,534,767	\$ 66,650,145	\$ 66,141,885

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

Year	Principal & Actuarial Adj	Interest
2019	3,172,538	3,401,806
2020	3,217,309	3,374,903
2021	3,344,127	3,374,903
2022	3,475,962	3,374,903
2023	3,493,405	3,321,357
Thereafter	49,946,804	38,265,793
Totals	\$ 66,650,145	\$ 55,113,665

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.