

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT

Consolidated Financial Statements

December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Okanagan-Similkameen Regional Hospital District

We have audited the accompanying financial statements of Okanagan- Similkameen Regional Hospital District, which comprise the statement of financial position as at December 31, 2016, and the statement of operations, net financial assets 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 principles, 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 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 auditors' 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 auditors 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.

(1)

Operating as Incorporated Professionals through White Kennedy LLP

Independent Auditors' Report to the Chairman and Directors of Okanagan-Similkameen Regional Hospital District (continued)

Opinion

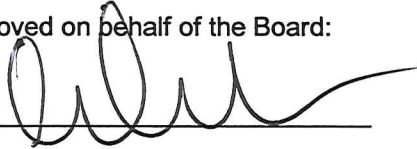
In our opinion, the financial statements present fairly, in all material respects, the financial position of Okanagan-Similkameen Regional Hospital District as at December 31, 2016, and the results of its operations, net financial assets and its cash flows for the year then ended in accordance with Canadian Public Sector accounting principles.

Penticton, British Columbia
October 19, 2017

White Kennedy LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT
Statement of Financial Position
December 31, 2016

	<u>2016</u>	<u>2015</u>
	\$	\$
FINANCIAL ASSETS		
Cash (Note 2)	587,226	4,080,501
Municipal Finance Authority deposits (Note 3)	104,081	106,382
Accounts receivable (Note 4)	133,266	100,408
Portfolio investments (<i>market value</i>) (Note 5)	18,911,969	36,614,921
	<u>19,736,542</u>	<u>40,902,212</u>
FINANCIAL LIABILITIES		
Municipal Finance Authority debt reserve (Note 3)	104,081	106,382
Accounts payable and accrued liabilities (Note 6)	432,531	1,048,547
Debenture debt (Note 7) (Schedule 1)	614,761	734,969
	<u>1,151,373</u>	<u>1,889,898</u>
NET FINANCIAL ASSETS	18,585,169	39,012,314
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	<u>93,000</u>	<u>93,000</u>
ACCUMULATED SURPLUS	18,678,169	39,105,314
REPRESENTED BY:		
Equity in tangible capital assets	93,000	93,000
Restricted surplus (Note 9)	19,199,930	39,747,285
Unrestricted deficit	<u>(614,761)</u>	<u>(734,971)</u>
	<u>18,678,169</u>	<u>39,105,314</u>

Approved on behalf of the Board:


See the accompanying notes to the financial statements



OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT**Statement of Operations****Year Ended December 31, 2016**

	Actual 2016	Budget 2016	Actual 2015
	\$	\$	\$
REVENUES			
Tax requisitions	5,839,485	5,839,480	5,551,962
Interest income	581,443	255,000	802,720
Actuarial earnings	58,024	-	121,451
Grants in lieu of taxes	43,066	25,000	62,117
MFA debt surplus	3,238	-	521,333
	6,525,256	6,119,480	7,059,583
EXPENSES			
Capital projects	26,462,579	13,305,600	1,940,631
Grant to Okanagan-Similkameen Health Region	399,400	399,400	435,000
Interest on debentures	47,250	62,250	150,676
Administrative overhead	37,422	69,500	53,989
Professional fees	5,750	6,000	5,650
	26,952,401	13,842,750	2,585,946
EXCESS (DEFICIENCY) FOR THE YEAR	(20,427,145)	(7,723,270)	4,473,637
ACCUMULATED SURPLUS, beginning of year	39,105,314	39,105,314	34,631,677
ACCUMULATED SURPLUS, end of year	18,678,169	31,382,044	39,105,314

See the accompanying notes to the financial statements

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT
Statement of Net Financial Assets
Year Ended December 31, 2016

	2016	2015
	\$	\$
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(20,427,145)	4,473,637
NET FINANCIAL ASSETS, BEGINNING OF THE YEAR	39,012,314	34,538,677
NET FINANCIAL ASSETS, END OF THE YEAR	18,585,169	39,012,314

See the accompanying notes to the financial statements

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT
Statement of Cash Flows
Year Ended December 31, 2016

	2016	2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	(20,427,145)	4,473,637
Change in non-cash operating assets and liabilities:		
Accounts receivable	(32,857)	1,300,446
Accounts payable and accrued liabilities	(616,018)	100,982
	<u>(21,076,020)</u>	<u>5,875,065</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Repayment of debenture debt	(62,184)	(93,944)
Reduction of debenture debt by actuarial adjustments	(58,025)	(121,451)
	<u>(120,209)</u>	<u>(215,395)</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Net decrease (increase) in portfolio investments	<u>17,702,954</u>	<u>(5,761,853)</u>
NET DECREASE IN CASH	(3,493,275)	(102,183)
CASH, beginning of year	<u>4,080,501</u>	<u>4,182,684</u>
CASH, end of year	<u>587,226</u>	<u>4,080,501</u>

See the accompanying notes to the financial statements

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

General

The Okanagan-Similkameen Regional Hospital District (Regional Hospital District) is a governing agency of the hospitals in the Okanagan and Similkameen Health region and is incorporated under the Hospitals District Act. Its principal activities include financing capital construction projects and capital equipment purchases for health care facilities within the Okanagan-Similkameen Health Region.

Basis of Presentation

The Regional Hospital District's accounting policy is to follow Canadian Public Sector accounting principles for British Columbia Regional Hospital Districts as prescribed by the Public Sector Accounting Board (PSAB), and to apply such principles consistently.

1. Summary of Significant Accounting Policies

PORTFOLIO INVESTMENTS

Portfolio investments consist of both Municipal Finance Authority of British Columbia (MFABC) and Valley First Credit Union short term bonds and money market instruments. These investments are carried at market value, which approximates cost.

DEBENTURE DEBT CHARGES

Debt charges are recorded as a reduction of debenture debt in the period in which they are paid. In accordance with PSAB, the Regional Hospital District has accrued interest charges from the dates of the last payment to the end of the fiscal year.

NON-FINANCIAL ASSETS

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. Such non-financial assets include tangible capital assets.

TANGIBLE CAPITAL ASSETS

Tangible capital assets are the physical assets owned by the Regional Hospital District and are stated at cost less accumulated amortization. Donated tangible capital assets are reported at fair market value at the time of the donation.

Tangible capital assets are amortized over their estimated useful lives on a straight-line basis using cost, less any salvage value. No assets are being amortized in the current period.

REVENUE RECOGNITION

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

Grants and interest income are recognized on an accrual basis when they are earned.

MFABC debt surplus and actuarial earnings are recognized as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

1. Summary of Significant Accounting Policies (Continued)

CAPITAL PROJECT EXPENSES

The Regional Hospital District has no claim on the assets purchased as part of capital project expenses and, as such, has adopted the policy of expensing these amounts. The debenture debt interest expense associated with these capital projects is considered to be a normal part of operations.

GRANTS TO OKANAGAN-SIMILKAMEEN HEALTH REGION

Capital grants are recorded in the accounts when approved to the extent that qualifying expenses are incurred. It is the Regional Hospital District's policy to expense the grant amounts when paid, as there is no claim of ownership on the assets purchased with these funds.

FINANCIAL INSTRUMENTS

The Regional Hospital District's financial instruments consist of cash, portfolio investments, accounts receivable, accounts payable and accrued liabilities, and debenture debt. Unless otherwise noted, it is management's opinion that the Regional Hospital District is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

BUDGET FIGURES

The budget figures are from the Annual Budget Bylaw that is adopted annually. Subsequent amendments, if any, have been made by the Board to reflect changes in the budget as required by law.

MANAGEMENT ESTIMATES

The preparation of financial statements in accordance with Canadian Public Sector accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Cash

The Regional Hospital District has a line of credit with Valley First Credit Union in the amount of \$500,000, bearing interest at prime rate, currently 2.95%, which is due on demand, and secured by a general security agreement. At year end, the line of credit was unutilized (2015 - nil).

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

3. Municipal Finance Authority Deposits

The Regional Hospital District issues its debt instruments through MFABC. As a condition of these borrowings, a portion of the debenture proceeds are withheld by MFABC as a debt reserve fund. The Regional Hospital District also executes demand notes in connection with each debenture, whereby the Regional Hospital District may be required to loan certain amounts to MFABC. These demand notes are contingent in nature and are not reflected in the accounts.

The details of the cash deposits and demand notes at the year end are as follows:

	2016	2015
	\$	\$
Demand Notes	68,029	70,211
Cash Deposits	36,052	36,171
	104,081	106,382

4. Accounts Receivable

	2016	2015
	\$	\$
Due from Regional District of Okanagan-Similkameen	102,721	-
MFA Debt Interest Accrual (net of actuarial earnings)	15,368	12,142
Federal government grant-in-lieu of taxes	7,305	7,168
Provincial government grant in lieu of taxes	4,609	4,166
The Corporation of the Village of Keremeos	3,000	-
GST rebate	263	-
Regional government grant in lieu of taxes	-	65,092
The Corporation for the City of Penticton grant in lieu of taxes	-	11,840
	133,266	100,408

5. Portfolio Investments

The market value of portfolio investments at period end is \$18,911,969 (2016 - \$36,614,921) and the book value at period end is \$19,057,904 (2015 - \$36,614,921).

6. Accounts Payable and Accrued Liabilities

	2016	2015
	\$	\$
Regional government payables	423,031	1,027,415
Trade payables	5,500	5,000
Wages payable	4,000	2,500
Due to Regional District of Okanagan-Similkameen	-	13,632
	432,531	1,048,547

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

7. Debenture Debt

The Regional Hospital District obtains debenture debt through the MFABC to finance capital projects. Financing is secured by deposits and claims against specific property. The maturity dates and interest rates of the debenture debt vary and depend on the date of issue of the debt instrument. Debenture debt is comprised of numerous issues as detailed on the attached Schedule 1 - Debenture Debt. The minimum principal repayments over the next five years are estimated as follows:

	\$
2017	60,037
2018	60,037
2019	60,037
2020	60,037
2021	35,208
Subsequent	<u>339,405</u>
	<u>614,761</u>

The financing for Regional Hospital District's capital projects is the responsibility of the MFABC. All debt servicing is recorded net of the provincial grant portions.

8. Tangible Capital Assets

Tangible capital assets consist of land only and as such there are no assets subject to amortization.

9. Restricted Surplus

The Section 20(4) contingency reserve fund represents an appropriation of surplus for specific purposes which are established and approved by the Board.

	<u>2016</u>	<u>2015</u>
	\$	\$
Appropriation of surplus for capital health requests	18,894,735	39,450,111
Reserved for South Similkameen Health Centre	305,195	297,174
	<u>19,199,930</u>	<u>39,747,285</u>

10. Budget Figures

Canadian Public Sector accounting principles require budget amounts be reported on the Statement of Operations for comparative purposes.

	<u>2016</u>
	<u>Budget</u>
	\$
Budget reconciliation	
Deficiency of revenue over expenses	(7,723,270)
Transfer from reserve	12,000,000
Transfer to reserve	(4,212,980)
Debt principal repayments	<u>(63,750)</u>
Budget balanced	<u>-</u>

OKANAGAN-SIMILKAMEEN REGIONAL HOSPITAL DISTRICT

Schedule 1 - Debenture Debt

Year Ended December 31, 2016

	MFABC Issue #	Security Issue By-law	Maturity Date	Rate	Original Issue	2016 Net Debt	2015 Net Debt
					\$	\$	\$
South Similkameen Health Centre	73	131	2020	2.10%	749,010	209,994	256,967
South Similkameen Health Centre	74	131	2021	3.05%	803,472	279,133	327,243
South Similkameen Health Centre	75	131	2021	3.05%	355,569	123,528	144,818
South Similkameen Health Centre	77	131	2022	3.05%	5,170	2,106	2,400
SGH - Fire sprinkler	624	109	2016	7.875%	57,075	-	3,541
					1,970,296	614,761	734,969

