

Okanagan-Similkameen Regional Hospital District
Financial Statements
For the year ended December 31, 2017

Okanagan-Similkameen Regional Hospital District

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Management's Responsibility for Financial Reporting

The accompanying financial statements of Okanagan-Similkameen Regional Hospital District are the responsibility of management and have been approved by the Board Chair on behalf of the Board of Directors.

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise since they include certain amounts based on estimates and judgments. 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.

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

Okanagan-Similkameen Regional Hospital District is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Board of Directors reviews the Hospital District's financial statements and recommends their approval to the Chief Administrative Officer and the Board Chair. The Board meets 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 their responsibilities, and to review the annual report, financial statements and external auditor's report.

The financial statements have been audited by BDO Canada LLP in accordance with Canadian generally accepted auditing standards. BDO Canada LLP has full and free access to the Board of Directors.



Chief Administrative Officer



Board Chair



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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Okanagan-Similkameen Regional Hospital District (the Hospital District), which comprise the statement of financial position as at December 31, 2017, and the statement of operations and accumulated surplus, the statement of change in net financial assets (debt) and the statement of 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 Hospital District as at December 31, 2017, and its results of operations, its change in net financial assets, 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 Hospital District in accordance with the ethical requirements that are relevant to our audit of the financial statements of 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.

Other Matters - Comparative Information

The financial statements of the Hospital District for the year ended December 31, 2016 were audited by another auditor who expressed an unqualified opinion on those financial statements on October 19, 2017.

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

Management is responsible for the preparation and fair presentation of the 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 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 Hospital District or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the 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 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 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 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 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.

BDO Canada LLP

Chartered Professional Accountants

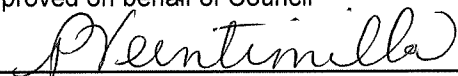
Penticton, British Columbia
August 15, 2019

Okanagan-Similkameen Regional Hospital District

Statement of Financial Position

December 31	2017	2016
Financial assets		
Cash and cash equivalents (Note 2)	\$ 550,935	\$ 587,226
Short-term investments (Note 2)	14,224,677	18,911,969
Accounts receivable (Note 3)	30,897	133,266
Debt reserve fund (Note 4)	104,784	104,081
	<u>14,911,293</u>	<u>19,736,542</u>
Liabilities		
Accounts payable and accrued liabilities (Note 5)	772,455	432,531
MFA short-term financing (Note 6)	31,527,000	-
Debt reserve fund (Note 4)	104,784	104,081
Long-term debt (Note 7)	492,495	614,761
	<u>32,896,734</u>	<u>1,151,373</u>
Net financial assets (debt)	<u>(17,985,441)</u>	<u>18,585,169</u>
Non-financial assets		
Tangible capital assets (Note 8)	<u>93,000</u>	<u>93,000</u>
Accumulated surplus (deficit) (Note 9)	<u>\$ (17,892,441)</u>	<u>\$ 18,678,169</u>

Approved on behalf of Council



Board Chair



Chief Administrative Officer

Okanagan-Similkameen Regional Hospital District Statement of Operations and Accumulated Surplus

For the year ended December 31,	(Note 11) Budget	2017	2016
Revenues			
Tax requisitions	\$ 6,136,460	\$ 6,136,461	\$ 5,839,485
Interest income	280,000	327,900	581,443
Actuarial earnings	-	62,228	58,024
Grant in lieu of taxes	-	30,584	43,066
MFA debt surplus	-	-	3,238
Total revenues for the year	6,416,460	6,557,173	6,525,256
Expenditures			
Capital grants	47,150,000	42,442,302	26,462,579
Interest - short-term	-	206,701	-
Interest - long-term	512,760	34,346	47,250
Office supplies	5,000	295	90
Professional fees	6,000	5,355	5,750
Salaries and benefits	67,000	35,084	37,332
Section 20 grants	403,700	403,700	399,400
Total expenditures for the year	48,144,460	43,127,783	26,952,401
Deficiency of revenue for the year	(41,728,000)	(36,570,610)	(20,427,145)
Annual Deficit	(41,728,000)	(36,570,610)	(20,427,145)
Accumulated surplus, beginning of year		18,678,169	39,105,314
Accumulated surplus (deficit), end of year		\$ (17,892,441)	\$ 18,678,169

Okanagan-Similkameen Regional Hospital District
Statement of Change in Net Financial Assets (Debt)

For the year ended December 31,	(Note 11) Budget	2017	2016
Annual deficit	\$ (41,728,000)	\$ (36,570,610)	\$ (20,427,145)
Net financial assets, beginning of year		18,585,169	39,012,314
Net financial assets (debt), end of year		\$ (17,985,441)	\$ 18,585,169

Okanagan-Similkameen Regional Hospital District Statement of Cash Flows

For the year ended December 31,	2017	2016
Cash flows from operating activities		
Cash received in the year	\$ 6,331,642	\$ 5,910,955
Cash paid in the year	(42,546,811)	(27,521,168)
Interest paid	(241,047)	(47,250)
Interest earned	327,900	581,443
	<u>(36,128,316)</u>	<u>(21,076,020)</u>
Cash flows from financing activities		
Repayment of debenture debt	(60,038)	(62,184)
Reduction of debenture debt by actuarial adjustments	(62,228)	(58,025)
Increase in MFA interim financing	31,527,000	-
	<u>31,404,734</u>	<u>(120,209)</u>
Cash flows from investing activities		
Decrease (increase) in short-term investments	4,687,291	17,702,954
Increase (decrease) in cash for the year	(36,291)	(3,493,275)
Cash, beginning of year	587,226	4,080,501
Cash, end of year	\$ 550,935	\$ 587,226

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies

**Government Reporting
Entity**

The Okanagan-Similkameen Regional Hospital District ("the 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 the health care facilities within the Okanagan-Similkameen Health Region.

The Hospital District provides funding for portions of hospital development and capital projects as set out by the Ministry of Health. The Board of Directors is composed of appointees from the municipalities in the Regional District of Okanagan-Similkameen and a director elected from each electoral area in the Regional District of Okanagan-Similkameen. Municipal directors serve until council decides to change the appointment. Directors from electoral areas serve for a four year term. The number of directors and the number of votes each may cast is based upon the population of the municipality or electoral area.

Basis of Accounting

These financial statements have been prepared in accordance with Canadian public sector accounting standards prescribed for governments, as recommended by the Public Sector Accounting Board (PSAB).

PSAB requires expenditures to be presented by function on the statement of operations. As there is only one function for expenditures for the Hospital District, expenditures have been presented by object.

Asset Classification

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired assets that do not provide resources to discharge existing liabilities but are employed to deliver government services and are not for resale. Non-financial assets include tangible capital assets.

Short-Term Investments

Short-term investments are recorded at cost.

Okanagan-Similkameen Regional Hospital District

Notes to the Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies (continued)

Measurement Uncertainty	The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent liabilities. Significant estimates in these financial statements include the determination of the valuation of the contaminated sites obligation and assessment of legal claims. For common financial statement items, such as accounts payable and allowances for doubtful accounts, measurement uncertainty is inherent but not assessable. These estimates and assumptions are based on management's judgment and the best information available at the time of preparation and may differ significantly from actual results. Estimates are reviewed annually to reflect new information as it becomes available.
Revenue Recognition	Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. For property taxes, the taxable event is the period for which the tax is levied. As taxes recorded are initially based on management's best estimate of the taxes that will be received, it is possible that changes in future conditions, such as reassessments due to audits, appeals and court decisions, could result in a change in the amount of tax revenue recognized.
Capital Project Expenses	The 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.
Capital Grants	Capital grants are recorded in the accounts when approved to the extent that qualifying expenses are incurred. It is the 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 Hospital District's financial instruments consist of cash, portfolio investments, GICs, accounts receivable, accounts payable and accrued liabilities, and debenture debt. Unless otherwise noted, it is management's opinion that the Hospital District is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The fair value of these instruments approximate the 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.
Long-term Debt	Long-term debt is recorded net of related sinking fund balances and actuarial earnings.

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies (continued)

Tangible Capital Assets and Amortization

Tangible capital assets are not available to discharge existing liabilities and are held for use in the provision of goods and services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Tangible capital assets are valued at acquisition cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset.

Tangible capital assets are made up of land only. No amortization is recorded against these assets.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Hospital District'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.

Okanagan-Similkameen Regional Hospital District

Notes to the Financial Statements

December 31, 2017

2. Cash and Short-term Investments

	2017	2016
Consists of:		
Cash	\$ 550,935	\$ 587,226
Short-term Investments		
Term deposits	5,026,972	-
MFA short-term bond fund	9,197,705	18,911,969
(Market value-\$8,968,871 (2016-\$18,911,969))		
	<u>14,224,677</u>	<u>18,911,969</u>
	<u>\$ 14,775,612</u>	<u>\$ 19,499,195</u>

Term deposits consist of the following:

One-year cashable GICs at 1.70% - 1.85% per annum, maturing September 2018.

3. Accounts Receivable

	2017	2016
Due from Regional District of Okanagan-Similkameen	\$ -	\$ 102,721
MFA debt interest accrual (net of actuarial earnings)	17,125	15,368
Federal government grant in lieu of taxes	7,193	7,305
Provincial government grant in lieu of taxes	4,398	4,609
The Corporation of the Village of Keremeos	1,651	3,000
Other	530	263
	<u>\$ 30,897</u>	<u>\$ 133,266</u>
Net accounts receivable		

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2017

4. Debt Reserve Fund - Municipal Finance Authority

The Hospital District is required to obtain its long-term debt through the Municipal Finance Authority ("MFA"). As a condition of borrowing, 1% of the gross debenture proceeds are withheld by the MFA as a debt reserve fund and 0.06% of the gross debenture proceeds are withheld as a debt issue expense. The debt reserve fund is invested by the MFA and interest earned and expenses incurred are reported annually to the Hospital District. If at any time the MFA does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments will be made from the debt reserve fund. Details of cash deposits held in the debt reserve fund are as follows:

Debt reserve fund - cash deposits	<u>2017</u>	<u>2016</u>
Demand notes	\$ 68,029	\$ 68,029
Cash deposits	<u>36,755</u>	<u>36,052</u>
	<u>\$ 104,784</u>	<u>\$ 104,081</u>

5. Accounts Payable and Accrued Liabilities

	<u>2017</u>	<u>2016</u>
Interior Health Authority (accrued capital project costs)	\$ 762,416	\$ 423,531
Accrued liabilities	5,500	5,000
Wages payable	4,000	4,000
Due to Regional District of Okanagan-Simiklameen	<u>539</u>	<u>-</u>
	<u>\$ 772,455</u>	<u>\$ 432,531</u>

6. Short-term debt

The MFA provides short-term financing under various pieces of legislation to help local governments with their cash flow needs. There are no fees to set up a short-term loan and there is no security required to be pledged. Interest is calculated daily, compounded monthly and automatically collected the 2nd business day of the following month. The debt is payable on demand at MFABC's discretion. No security as at December 31, 2017 the Hospital District had been advanced \$31,527,000 (2016 - \$0) in short-term financing at a variable interest rate of 1.940% (2016 - N/A).

Okanagan-Similkameen Regional Hospital District

Notes to the Financial Statements

December 31, 2017

7. Long-term Debt

All long-term debt is reported net of sinking fund balances. Sinking fund instalments are invested by the MFA and earn income, which together with principal payments are expected to be sufficient to retire the debt issue at maturity. Where the MFA has determined that sufficient funds exist to retire a debt issue on its maturity date without further instalments, payments are suspended by the MFA and the Hospital District's liability is reduced to nil. Should those funds prove to be insufficient at maturity, the resulting deficiency becomes a liability of the Hospital District. The 2017 earnings in the sinking fund were calculated to be \$62,228 (2017 - \$58,024) and are included in interest and investment income on the Statement of Operations.

Debentures issued mature at various dates ranging from 2020-2022 with interest rates ranging from 3.05% to 3.15%. The weighted average interest rate on long-term debt was 3.08% (2016 - 2.73%) and interest expense was \$34,347 (2016 - \$47,250).

MFA BC Issue #	Maturity Date	Rate	2017 Net Debt	2016 Net Debt
73	2020	3.150%	160,910	209,994
74	2021	3.050%	228,617	279,133
75	2021	3.050%	101,172	123,528
77	2022	3.050%	1,796	2,106
Total			<u>492,495</u>	<u>614,761</u>

Principal payments and sinking fund instalments due in the next five years and thereafter are as follows:

	Total Payment
2018	\$ 60,037
2019	60,037
2020	146,460
2021	224,789
2022	<u>1,172</u>
Total	<u>\$ 492,495</u>

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2017

8. Tangible Capital Assets

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

9. Accumulated Surplus (Deficit)

Reserves are non-statutory reserves which represent an appropriation of surplus for specific purposes and are comprised of the following.

	Balance Dec. 31, 2016	Transfers to (from)	Surplus (Deficit)	Balance Dec. 31, 2017
Unrestricted deficit	\$ (614,761)	\$ 60,038	\$ 62,228	\$ (492,495)
Investment in tangible capital assets	93,000	-	-	93,000
	(521,761)	60,038	62,228	(399,495)
Capital Health	18,894,735	(60,038)	(36,632,838)	(17,798,141)
South Similkameen Health	305,195	-	-	305,195
	19,199,930	(60,038)	(36,632,838)	(17,492,946)
	\$ 18,678,169	\$ -	\$ (36,570,610)	\$ (17,892,441)

In 2016, Interior Health commenced the construction of the David E. Kampe Tower at Penticton Regional Hospital. The total capital cost for this project was \$312,455,000 of which the share attributed to the Hospital District was \$116,983,000. The Hospital District funded its share through the drawing down of reserves accumulated in prior years together with acquisition of debt funded through the Municipal Finance Authority. Under PSAB Standards both of these sources of funds can not be recognized as revenue for financial statement purposes. The Statement of Operations and Accumulated Surplus reflect this as indicated by deficits in 2016 and 2017.

10. Comparative Figures

Certain comparative figures presented in the financial statements have been restated to conform to the current year's presentation.

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2017

11. Budget

The Okanagan-Similkameen Regional Hospital District Budget Bylaw adopted by the Board of Directors on February 15, 2017 was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards). The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis. The budget figures anticipated use of surpluses accumulated in previous years to reduce current year expenditures in excess of current year revenues to nil. As a result, the budget figures presented in the statements of operations and change in net financial assets represent the Budget adopted by the Board of Directors on February 15, 2017 with adjustments as follows:

	<u>2017</u>
Budget bylaw deficit for the year	\$ -
Less:	
Debt principal	60,000
Add:	
Budgeted transfers from accumulated surplus	(19,150,000)
Bank loan proceeds	<u>(22,638,000)</u>
Budget deficit per statement of operations	<u>\$ (41,728,000)</u>