

Okanagan-Similkameen Regional Hospital District
Financial Statements
For the year ended December 31, 2019

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

May 21, 2020



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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, 2019, and the statement of operations and accumulated deficit, the statement of change in net 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, 2019, and its results of operations and accumulated deficit, 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 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.

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

Vernon, British Columbia
May 21, 2020

Okanagan-Similkameen Regional Hospital District
Statement of Financial Position

December 31	2019	2018
Financial assets		
Cash and cash equivalents (Note 2)	\$ 4,040,706	\$ 3,578,564
Temporary investments (Note 2)	12,807,152	14,123,403
Accounts receivable (Note 3)	128,995	43,059
Debt reserve fund (Note 4)	106,458	105,584
	17,083,311	17,850,610
Liabilities		
Accounts payable and accrued liabilities (Note 5)	1,007,940	468,011
MFA short-term financing (Note 6)	61,881,000	57,519,000
Debt reserve fund (Note 4)	106,458	105,584
Long-term debt (Note 7)	230,077	364,361
	63,225,475	58,456,956
Net debt	(46,142,164)	(40,606,346)
Non-financial assets		
Tangible capital assets (Note 8)	93,000	93,000
Accumulated deficit (Note 9)	\$ (46,049,164)	\$ (40,513,346)

Approved on behalf of Council

Board Chair

**Okanagan-Similkameen Regional Hospital District
Statement of Operations and Accumulated Deficit**

For the year ended December 31,	Budget	2019	2018
Revenues			
Tax requisitions	\$ 6,447,140	\$ 6,447,140	\$ 6,377,840
Interest income	255,000	360,368	300,474
Actuarial earnings	-	74,246	68,096
Grant in lieu of taxes	25,000	67,282	49,160
Total revenues for the year	6,727,140	6,949,036	6,795,570
Expenditures			
Capital grants	14,430,160	10,501,838	27,614,644
Section 20 grants	392,300	392,300	392,300
Interest - short-term	1,845,000	1,519,524	1,101,257
Interest - long-term	36,100	33,968	34,259
Office supplies	5,000	123	206
Professional fees	6,100	5,706	5,000
Salaries and benefits	70,500	49,859	39,975
Total expenditures for the year	16,785,160	12,503,318	29,187,641
Deficiency of revenue for the year	(10,058,020)	(5,554,282)	(22,392,071)
Gain (loss) on disposal of investments	-	18,464	(228,834)
Annual deficit (Note 10)	(10,058,020)	(5,535,818)	(22,620,905)
Accumulated deficit, beginning of year	(40,513,346)	(40,513,346)	(17,892,441)
Accumulated deficit, end of year	\$ (50,571,366)	\$ (46,049,164)	\$ (40,513,346)

The accompanying notes are an integral part of these financial statements.

**Okanagan-Similkameen Regional Hospital District
Statement of Change in Net Debt**

<u>For the year ended December 31,</u>	<u>Budget</u>	<u>2019</u>	<u>2018</u>
Annual deficit	\$ (10,058,020)	\$ (5,535,818)	\$ (22,620,905)
Debt, beginning of year	<u>(40,606,346)</u>	<u>(40,606,346)</u>	(17,985,441)
Debt, end of year	<u>\$ (50,664,366)</u>	<u>\$ (46,142,164)</u>	<u>\$ (40,606,346)</u>

Okanagan-Similkameen Regional Hospital District Statement of Cash Flows

For the year ended December 31,	2019	2018
Cash flows from operating activities		
Cash from tax requisitions	\$ 6,502,732	\$ 6,482,935
Cash paid to suppliers and for grants	(10,409,896)	(28,356,569)
Interest paid	(1,553,493)	(1,135,517)
Interest earned	360,368	300,474
	(5,100,289)	(22,708,677)
Cash flows from financing activities		
Repayment of debenture debt	(60,038)	(60,038)
Reduction of debenture debt by actuarial adjustments	(74,246)	(68,096)
Increase in MFA interim financing	4,362,000	25,992,000
	4,227,716	25,863,866
Cash flows from investing activities		
Decrease in temporary investments	1,316,251	101,274
Gain (loss) on disposal of investments	18,464	(228,834)
	1,334,715	(127,560)
Increase in cash for the year	462,142	3,027,629
Cash, beginning of year	3,578,564	550,935
Cash, end of year	\$ 4,040,706	\$ 3,578,564

The accompanying notes are an integral part of these financial statements.

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2019

1. Summary of Significant Accounting Policies

Nature of Business

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 Presentation

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.

Temporary Investments

Temporary investments are recorded at cost.

Revenue Recognition

Taxation revenues are recognized at the time of the property tax requisitions for the fiscal year become receivable. Interest income is recognized as it is earned.

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.

Government Transfers

Government transfers, which include legislative grants, are recognized in the financial statements in the period in which events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2019

1. Summary of Significant Accounting Policies (continued)

Financial Instruments	The Hospital District's financial instruments consist of cash, temporary investments, MFA short-term financing, and long-term 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.
Tangible Capital Assets and Amortization	<p>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.</p> <p>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.</p> <p>Tangible capital assets are made up of land only. No amortization is recorded against these assets.</p> <p>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.</p>

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2019

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.

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2019

2. Cash and Temporary Investments

	2019	2018
Consists of:		
Cash	\$ 4,040,706	\$ 3,578,564
Temporary investments		
Term deposits	8,277,199	13,093,627
High interest savings account	4,529,953	1,029,776
(Current year cost - \$4,517,510 (2018 - \$997,979))		
	12,807,152	14,123,403
	\$ 16,847,858	\$ 17,701,967

Term deposits consist of the following:

Three three-year cashable GICs at 2.60% per annum maturing September 2022, and one eighteen-month cashable GIC at 2.90% maturing March 2020 .

The Hospital District has a line-of-credit with Valley First Credit Union with a credit limit of \$500,000. This line-of-credit was not drawn upon in 2019 or 2018.

3. Accounts Receivable

	2019	2018
Due from Regional District of Okanagan-Similkameen	\$ 78,793	\$ 12,984
MFA debt interest accrual (net of actuarial earnings)	21,102	18,968
Federal government grant in lieu of taxes	10,971	11,716
Provincial government grant in lieu of taxes	152	155
The Corporation of the Village of Keremeos	(1,300)	(1,294)
City of Penticton grant in lieu of taxes	17,960	-
Town of Oliver grant in lieu of taxes	1,317	-
Other	-	530
	\$ 128,995	\$ 43,059
Net accounts receivable	\$ 128,995	\$ 43,059

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2019

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, 1.00% 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	2019	2018
Demand notes	\$ 68,029	\$ 68,029
Cash deposits	38,429	37,555
	\$ 106,458	\$ 105,584

5. Accounts Payable and Accrued Liabilities

	2019	2018
Interior Health Authority (accrued capital project costs)	\$ 998,440	\$ 453,511
Accrued liabilities	5,500	10,500
Wages payable	4,000	4,000
	\$ 1,007,940	\$ 468,011

6. MFA Short-term Financing

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. As at December 31, 2019 the Hospital District had been advanced \$4,362,000 (2018 - \$25,992,000) in short-term financing at a variable interest rate of 2.50% (2018 - 2.80%).

Total MFABC short-term debt as of December 31, 2019 was \$61,881,000 (2018 - \$57,519,000).

**Okanagan-Similkameen Regional Hospital District
Notes to the Financial Statements**

December 31, 2019

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 2019 earnings in the sinking fund were calculated to be \$74,246 (2018 - \$68,096) and are included in actuarial earnings 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% (2018 - 3.08%) and interest expense was \$33,969 (2018 - \$34,347).

MFA BC Issue #	Maturity Date	Rate	2019 Net Debt	2018 Net Debt
73	2020	3.15%	\$ 56,014	\$ 109,616
74	2021	3.05%	119,881	175,575
75	2021	3.05%	53,052	77,699
77	2022	3.05%	1,130	1,471
Total			\$ 230,077	\$ 364,361

Princial payments and sinking fund instalments due in the next three years and thereafter are as follows:

	Total Payment
2020	\$ 91,222
2021	138,037
2022	818
Total	\$ 230,077

Okanagan-Similkameen Regional Hospital District Notes to the Financial Statements

December 31, 2019

8. Tangible Capital Assets

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

	2019	2018
Land	\$ 93,000	\$ 93,000

9. Accumulated Deficit

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

	Balance Dec. 31, 2018	Transfers to (from)	Surplus (Deficit)	Balance Dec. 31, 2019
Unrestricted deficit	\$ (364,361)	\$ 60,038	\$ 74,246	\$ (230,077)
Investment in tangible capital assets	93,000	-	-	93,000
	(271,361)	60,038	74,246	(137,077)
Capital Health	(40,547,180)	(60,038)	(5,610,064)	(46,217,282)
South Similkameen Health	305,195	-	-	305,195
	(40,241,985)	(60,038)	(5,610,064)	(45,912,087)
	\$ (40,513,346)	\$ -	\$ (5,535,818)	\$ (46,049,164)

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 deficit reflect this as indicated by deficits in 2018 and 2019.

**Okanagan-Similkameen Regional Hospital District
Notes to the Financial Statements**

December 31, 2019

10. Budget

The Hospital District Budget Bylaw adopted by the Board of Directors on March 21, 2019 was not prepared on a basis consistent with that used to report actual results. The budget was prepared on a modified accrual basis while PSAB 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 debt represent the Budget adopted by the Board of Directors on March 21, 2019 with adjustments as follows:

	<u>2019</u>
Budget Bylaw deficit for the year	\$ -
Less:	
Transfer to capital reserve	3,318,800
Debt principal	60,040
Add:	
Budgeted transfers from accumulated surplus	(4,517,860)
Bank loan proceeds	<u>(8,919,000)</u>
Budget deficit per statement of operations	<u>\$ (10,058,020)</u>

11. Subsequent Event Note: COVID-19

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. As the impacts of COVID-19 continue, there could be further impact on the Hospital District, its citizens, employees, suppliers and other third party business associates that could impact the timing and amounts realized on the Hospital District's assets and future ability to deliver services and projects. At this time, the full potential impact of COVID-19 on the Hospital District is not known.