

**North Okanagan Columbia Shuswap
Regional Hospital District
Financial Statements
For the year ended December 31, 2011**

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Independent Auditor's Report

**To the Directors
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, 2011, 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

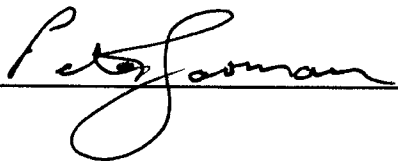
In our opinion, the financial statements present fairly, in all material respects, the financial position of the North Okanagan Columbia Shuswap Regional Hospital District as at December 31, 2011 and the results of its operations, changes in net debt and accumulated deficit and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

Chartered Accountants

**Salmon Arm, British Columbia
March 27, 2012**

North Okanagan Columbia Shuswap Regional Hospital District
Statement of Financial Position

December 31	2011	2010
Financial assets		
Cash and cash equivalents	\$ 2,938,888	\$ 685,339
Investment funds - Municipal Finance Authority (Note 1)	2,274,298	3,821,464
Accounts receivable	49,479	2,284
Due from member municipalities	743,345	359,215
Deposit and demand notes - MFA (Note 2)	2,773,875	1,443,853
	<u>8,779,885</u>	<u>6,312,155</u>
Liabilities		
Accounts payable	483,531	225,787
Accrued MFA interest payable	743,345	359,215
MFA debt reserve (Note 2)	2,773,875	1,443,853
Long-term debt (Note 3 and Schedule)	79,700,723	39,843,520
Short-term debt (Note 3 and Schedule)	1,100,000	34,986,375
	<u>84,801,474</u>	<u>76,858,750</u>
Net debt and accumulated deficit	\$ (76,021,589)	\$ (70,546,595)



Treasurer

North Okanagan Columbia Shuswap Regional Hospital District

Statement of Operations

For the year ended December 31

2011

2010

Revenue

Requisition on member municipalities

City of Armstrong	\$ 140,880	\$ 135,994
City of Revelstoke	327,255	331,720
District of Salmon Arm	612,571	580,309
District of Sicamous	185,754	182,729
City of Enderby	79,743	78,498
City of Vernon	1,705,863	1,651,953
District of Coldstream	398,800	396,841
Township of Spallumcheen	194,419	194,691
Village of Lumby	58,066	55,077
Electoral Areas	1,432,782	1,406,149
Little Shuswap Indian Band	35,484	34,362
Adams Lake Indian Band	11,923	11,124

5,183,540 5,059,447

Interest due not requisitioned

384,130 65,138

Grants in lieu of taxes

15,034 3,375

Interest

48,295 25,472

MFA dividend

- 13,290

Actuarial adjustments on MFA debt

49,634 9,260

5,680,633 5,175,982

Expenses

Administration	72,000	72,000
Audit	9,531	4,775
Director's remuneration	6,910	5,640
Director's travel	2,193	1,973
Project - Vernon Jubilee Hospital	5,628,037	27,736,215
Project - Shuswap Lake Hospital	74,983	1,143,804
Project - Queen Victoria Hospital	349,968	123,771
Project - Pleasant Valley Manor	-	22,163
Equipment - Vernon Jubilee Hospital	291,555	446,118
Equipment - Shuswap Lake Hospital	106,689	23,608
Equipment - Queen Victoria Hospital	91,927	2,822
Equipment - Regional	298,990	115,459
Interest on short-term debt	248,044	379,097
Interest on long-term debt	2,318,982	1,397,661
Accrued interest on long-term debt	384,130	65,138
MFA debt reserve fund and expenses	657,385	119,680
Bank charges	80	-
Staff travel	323	358
Section 20-2 funding - Interior Health Authority	613,900	621,000

11,155,627 32,281,282

Annual deficit

\$ (5,474,994) \$ (27,105,300)

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

For the year ended December 31	2011	2011	2010
	Budget	Actual	Actual
Annual deficit	\$ (7,014,361)	\$ (5,474,994)	\$ (27,105,300)
Net debt and accumulated deficit, beginning of year	<u>(70,546,595)</u>	<u>(70,546,595)</u>	<u>(43,441,295)</u>
Net debt and accumulated deficit, end of year	\$(77,560,956)	\$ (76,021,589)	\$ (70,546,595)
Net debt and accumulated deficit represented by:			
Cash and investments		\$ 5,213,186	\$ 4,506,803
Other current fund		(434,052)	(223,503)
Debt recoverable from future taxation (Note 3)		<u>(80,800,723)</u>	<u>(74,829,895)</u>
Net debt and accumulated deficit, end of year		\$ (76,021,589)	\$ (70,546,595)

North Okanagan Columbia Shuswap Regional Hospital District
Statement of Cash Flows

For the year ended December 31	2011	2010
Operating		
Annual deficit	\$ (5,474,994)	\$ (27,105,300)
Increase in accounts receivable	(47,195)	(442)
Increase in due from member municipalities	(384,130)	(65,138)
Increase (decrease) in accounts payable	257,744	(88,267)
Increase in accrued interest on long-term debt	384,130	65,138
	<u>(5,264,445)</u>	<u>(27,194,009)</u>
Investing		
Decrease in investment funds	<u>1,547,166</u>	<u>1,179,258</u>
Financing		
Long-term debt issues	41,086,554	7,480,000
Long-term debt retirement	(1,229,351)	(1,009,367)
Short-term debt issues	1,100,000	20,142,780
Short-term debt retirement	(34,986,375)	-
	<u>5,970,828</u>	<u>26,613,413</u>
Net change in cash and cash equivalents	<u>2,253,549</u>	<u>598,662</u>
Opening cash and cash equivalents	<u>685,339</u>	<u>86,677</u>
Closing cash and cash equivalents	<u>\$ 2,938,888</u>	<u>\$ 685,339</u>

North Okanagan Columbia Shuswap Regional Hospital District

Summary of Significant Accounting Policies

December 31, 2011

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 (CICA) 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, 2011

1. Investment Funds

The investments totalling \$2,274,298 (2010 - \$3,821,464) 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 2011 annual rate of return was 1.03% (2010 - 0.61%).

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, 2011, the cash balance in the debt reserve fund was \$860,997 (2010 - \$426,336). The Regional Hospital District also excludes demand notes in connection with each debenture totalling \$1,912,878 (2010 - \$1,017,517) 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:

	2011	2010
Long-term debt:		
Shuswap Lake General Hospital Phase 1	\$ 520,000	\$ 520,000
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	-
Shuswap Lake General Hospital Phase 1 Renovations	7,480,000	7,480,000
Vernon Jubilee Hospital two additional shelled in floors	10,500,000	-
Accumulated amortization (Note 4)	(2,470,208)	(1,240,857)
	79,700,723	39,843,520
Short-term debt:		
Vernon Jubilee Hospital	1,100,000	34,986,375
Debt recoverable from future taxation	\$ 80,800,723	\$ 74,829,895

North Okanagan Columbia Shuswap Regional Hospital District
Notes to Financial Statements

December 31, 2011

4. Accumulated Amortization

The accumulated amortization balance has been calculated as follows:

	2011	2010
Balance - beginning of year	\$ 1,240,857	\$ 231,490
Principal payments applied in the year	1,179,717	1,000,107
Actuarial adjustments	49,634	9,260
Balance - end of year	\$ 2,470,208	\$ 1,240,857

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.

	2011 Actual	2011 Budget
Revenue		
Tax requisition total	\$ 5,136,133	\$ 5,136,133
Other revenue - Agreement - Indian Bands	47,407	40,000
Interest due not requisitioned	384,130	331,682
Grants in lieu of taxes	15,034	3,500
Interest	48,295	20,000
MFA dividend	-	15,000
Actuarial adjustment on MFA debt	49,634	49,634
	5,680,633	5,595,949
Expenses		
Debt		
Debenture debt - interest	3,360,497	3,390,228
Interim borrowing interest	248,044	335,450
Administrative expenditures	91,037	84,000
Capital expenditures		
Projects > \$ 100,000	6,052,987	6,818,178
Capital equipment	789,162	1,368,554
Maintenance and equipment < \$ 100,000	613,900	613,900
	11,155,627	12,610,310
Annual Deficit	(5,474,994)	(7,014,361)
plus:		
Transfer (to) from accumulated deficit	(495,834)	846,765
Debenture debt - principal	(1,179,717)	(1,179,717)
Repayment to interim borrowing, net	(33,886,375)	(33,186,375)
Proceeds from issue of long term debt	41,086,554	40,583,322
less:		
Actuarial adjustment	(49,634)	(49,634)
Financial plan balance	\$ -	\$ -

North Okanagan Columbia Shuswap Regional Hospital District
Notes to Financial Statements

December 31, 2011

6. Commitments

- a) The Regional 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:

		<u>Total</u>	<u>Unexpended</u>
Vernon Jubilee Hospital	- Pyxis medstations	\$ 200,000	\$ 4,501
	- Dishwasher	100,000	30,809
Shuswap Lake & Vernon Jubilee	- Cardiology PACS phase II	103,000	42,174
Shuswap Lake Hospital (Salmon Arm)	- Elevator	168,000	147,154
	- PACS equipment replacement	6,200	357
Queen Victoria Hospital (Revelstoke)	- Boilers and energy management	524,389	169,325
	- Transformer & electrical service replacement	140,000	140,000
Bastion Place (Salmon Arm)	- Nurse call upgrades	134,668	16,241
	- Nurse communication system (Vocera)	20,000	498
Noric House, Vernon	- Air conditioning system	60,000	60,000
	- Nurse call	70,000	11,957
Vernon Community Care	Telephone system upgrade	32,000	32,000
Regional	- Connex	488,000	115,508
	- Parkview Place, Enderby resident bus	44,000	2,657
		\$ 2,090,257	\$ 773,181

- b) The Regional 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:

		<u>Total</u>	<u>Unexpended</u>
Vernon Jubilee Hospital	- Infrastructure modifications (Bylaw 44)	\$ 1,800,000	\$ 531,342

North Okanagan Columbia Shuswap Regional Hospital District
Schedule of Debt

For the year ended December 31

Short-term Debt

Security Issuing Bylaw	Rate	2011 Net Debt	2010 Net Debt
44	1.70%	\$ 1,110,000	\$ -
45	1.70%	-	30,097,169
46	1.70%	-	4,889,206
		\$ 1,110,000	\$ 34,986,375

Interest on short-term debt is paid monthly. There are no specific terms of repayment. 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 44 is anticipated to be converted during the fall of 2012.

Long-term Debt

Security Issuing Bylaw	Maturity Date	Rate	Original Debt Amount	2011 Net Debt	2010 Net Debt
27	2022	4.82%	\$ 1,329,843	\$ 1,047,819	\$ 1,122,526
31	2013	4.25%	520,000	220,307	324,148
32	2029	4.13%	3,822,900	3,561,005	3,694,520
38	2035	3.73%	7,480,000	7,300,391	7,480,000
43	2019	4.13%	651,399	540,718	597,143
45/106	2034	4.13%	27,280,235	25,943,929	26,625,183
45/116	2036	4.20%	30,586,554	30,586,554	-
46	2036	3.25%	10,500,000	10,500,000	-
			\$ 82,170,931	\$ 79,700,723	\$ 39,843,520

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

Year	Principal & Actuarial Adj	Interest
2012	\$ 2,265,094	\$ 3,302,550
2013	2,355,698	3,291,500
2014	2,333,119	3,280,450
2015	2,426,444	3,280,450
2016	2,523,502	3,280,450
Thereafter	67,796,866	59,974,405
Totals	\$ 79,700,723	\$ 76,409,805

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.