

NANAIMO REGIONAL HOSPITAL DISTRICT
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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Management's Responsibility

To the Members of the Board of the Nanaimo Regional Hospital District

This statement is provided to clarify and outline the roles and responsibilities of the management team, the elected Board of Directors and the independent auditors in relation to the preparation and review of the Nanaimo Regional Hospital District's annual financial results.

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgements and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgement is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Regional Hospital District's Board of Directors is composed entirely of Directors who are neither management nor employees of the Regional Hospital District. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for delegating authority for the approval of the consolidated financial statements. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management. The Board is also responsible for the appointment of the Regional Hospital District's external auditors. The external auditors have full and free access to the Board and management to discuss their audit findings.

MNP LLP, an independent firm of Chartered Accountants, has been appointed by the Regional Hospital District Board of Directors to audit the consolidated financial statements and report to them; their report follows.

April 20, 2015



Director of Finance

Independent Auditors' Report

To the Members of the Board of Directors of the Nanaimo Regional Hospital District

We have audited the accompanying consolidated financial statements of the Nanaimo Regional Hospital District, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of operations and accumulated deficit and cash flows and related schedule D for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Nanaimo Regional Hospital District as at December 31, 2014 and the results of its operations and changes in accumulated deficit and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The supplementary information on Schedule D has been subjected to the auditing procedures applied to the consolidated financial statements and, in our opinion, this supplementary information is presented fairly, in all material respects, in relation to the consolidated financial statements taken as a whole.

The supplementary information on Schedules A, B and C have been presented for purposes of additional analysis and are unaudited. We do not express an opinion on these schedules because our examination did not extend to the detailed information therein.

Nanaimo, British Columbia


May 12, 2015

MNP LLP
Chartered Accountants

**NANAIMO REGIONAL HOSPITAL DISTRICT
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014**

| | <u>2014</u> | <u>2013</u> |
|--|-----------------|-----------------|
| Financial Assets | | |
| Cash | \$ 8,200,433 | \$ 5,940,513 |
| Short term investments | 1,596,347 | 1,579,144 |
| Accounts receivable | 8,478 | 7,851 |
| | 9,805,258 | 7,527,508 |
| Financial Liabilities | | |
| Short term debt (Note 2) | 1,152,187 | 2,849,355 |
| Accounts payable | 1,439,644 | 1,330,998 |
| Accrued liabilities (Note 4) | 276,811 | 275,255 |
| Long term debt (Schedule D, Note 3) | 29,457,537 | 28,185,022 |
| | 32,326,179 | 32,640,630 |
| Net Debt and Accumulated Deficit (Note 7) | \$ (22,520,921) | \$ (25,113,122) |

Approved:




Director of Finance

See notes to consolidated financial statements

**NANAIMO REGIONAL HOSPITAL DISTRICT
CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | <u>Budget</u> (Note 8) | <u>2014</u> | <u>2013</u> |
|--|---------------------------|---------------------|---------------------|
| Revenues | | | |
| Property tax revenues | \$ 6,712,985 | \$ 6,712,985 | \$ 6,712,985 |
| Grants-in-lieu of taxes | 30,000 | 33,775 | 33,249 |
| Interest on investments | 50,000 | 102,575 | 83,805 |
| Other revenue | - | 498,572 | 193,628 |
| | <u>6,792,985</u> | <u>7,347,907</u> | <u>7,023,667</u> |
| Expenses | | | |
| Administration | 24,725 | 24,853 | 21,972 |
| Long term debt issue costs | 83,377 | 46,850 | 135,863 |
| Grants to health care facilities | 3,444,055 | 3,391,953 | 9,112,071 |
| Short term debt interest and bank charges | 81,638 | 54,800 | 100,388 |
| Interest on long term debt | 1,286,973 | 1,237,250 | 1,294,419 |
| | <u>4,920,768</u> | <u>4,755,706</u> | <u>10,664,713</u> |
| Surplus (deficit) for the year | 1,872,217 | 2,592,201 | (3,641,046) |
| Opening, Net Debt and Accumulated Deficit | <u>(25,113,122)</u> | <u>(25,113,122)</u> | <u>(21,472,076)</u> |
| Ending, Net Debt and Accumulated Deficit | <u>(23,240,905)</u> | <u>(22,520,921)</u> | <u>(25,113,122)</u> |

Approved:



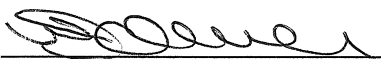
Director of Finance

See notes to consolidated financial statements

**NANAIMO REGIONAL HOSPITAL DISTRICT
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Operating transactions | | |
| Surplus (Deficit) for the year (Pg 3) | \$ 2,592,201 | \$ (3,641,046) |
| Decrease (Increase) in accounts receivable | (627) | (2,541) |
| Increase (decrease) in accounts payable | 108,647 | 237,117 |
| Increase in accrued liabilities | 1,556 | 159,810 |
| Net decrease in cash from operations | <u>2,701,777</u> | <u>(3,246,660)</u> |
| Financing transactions | | |
| Increase (decrease) in short term debt | (1,697,168) | (2,467,516) |
| Long term debt proceeds | 2,928,152 | 8,491,467 |
| Repayment of long term debt | (1,359,822) | (1,109,666) |
| Debt actuarial adjustments | (295,816) | (315,098) |
| Net increase in cash from financing | <u>(424,654)</u> | <u>4,599,187</u> |
| Net change in cash and investments | 2,277,123 | 1,352,527 |
| Cash and investments, beginning | <u>7,519,657</u> | <u>6,167,130</u> |
| Cash and investments, ending | <u>\$ 9,796,780</u> | <u>\$ 7,519,657</u> |
| CASH AND INVESTMENTS CONSIST OF: | | |
| Cash | \$ 8,200,433 | \$ 5,940,513 |
| Short term investments | <u>1,596,347</u> | <u>1,579,144</u> |
| | <u>\$ 9,796,780</u> | <u>\$ 7,519,657</u> |

Approved



Director of Finance

See notes to consolidated financial statements

NANAIMO REGIONAL HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The Nanaimo Regional Hospital District (“the Regional Hospital District”) 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 District. These activities are funded through current property taxes or property tax revenues set aside as reserves and long term debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board (PSAB).

(b) Long term debt

Long term debt is obtained through the Municipal Finance Authority of British Columbia (MFA) whose policy is to issue debt denominated in Canadian dollars.

(c) Short term investments

Short term investments are carried at the lower of cost and market value which approximates market value. All investments are held by the Revenue Fund and all interest earned is credited to the Revenue Fund to support operations.

(d) Financial instruments

Financial instruments consist of cash, accounts receivable, short term investments, short term debt, accounts payable, accrued liabilities and long term debt. Unless otherwise noted, it is management’s opinion that the Nanaimo Regional Hospital District is not exposed to significant currency or credit risk arising from these financial instruments. The Regional Hospital District is exposed to interest rate risk primarily through its variable rate short term financing with the Municipal Finance Authority. Interest rate risk is the risk that the Regional District may incur higher costs if interest rates increase more than anticipated over the course of short term financing.

(e) Revenue recognition

Property tax revenues are recognized in the period in which they are levied. Grants-in-lieu of property taxes and Other Revenues are recognized when received. Interest revenue is recognized when earned.

NANAIMO REGIONAL HOSPITAL DISTRICT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Significant areas requiring management estimates are the determination of accrued liabilities. Actual results may vary from the estimates and adjustments will be reported and reflected in operations as they become known.

2. SHORT TERM DEBT

Short term financing is secured through the Municipal Finance Authority for capital initiatives approved under loan authorizations. Interest rate was 1.8% as at December 31, 2014. Short term borrowing is replaced by long term debt periodically when balances and interest rates are considered appropriate.

3. LONG TERM DEBT

All long term debt is issued through the Municipal Finance Authority of British Columbia. The Authority is the borrowing agent for municipalities and regional districts in the Province of British Columbia. All long term debt issued by the Municipal Finance Authority is sinking fund debt. Long term debt may only be repaid earlier than maturity where the Municipal Finance Authority refinances an issue which includes a particular long term debt issued by the Regional Hospital District.

Issued and outstanding debt including issue numbers and maturity dates are listed on Schedule D to these consolidated financial statements.

Payments of principal on issued debt of the Regional Hospital District for the next five years are approximately as follows:

| | |
|------|--------------|
| 2015 | \$ 1,380,527 |
| 2016 | \$ 1,382,208 |
| 2017 | \$ 1,304,224 |
| 2018 | \$ 1,309,558 |
| 2019 | \$ 1,280,131 |

NANAIMO REGIONAL HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

4. ACCRUED LIABILITIES

Accrued liabilities arise from accrued interest on outstanding long term debt. Accrued liabilities are not recorded in the accounting records, nor in the annual budget but are recorded in these consolidated financial statements and will be funded on a cash paid basis through future years' tax requisitions. This presentation meets the PSAB standard for financial statement presentation.

5. APPROPRIATED EQUITY

The Hospital District has committed all of the Capital Grant Funds to approved capital purchases for the Vancouver Island Health Authority.

6. MUNICIPAL FINANCE AUTHORITY RESERVE DEPOSITS

The Municipal Finance Authority (MFA) requires the Regional Hospital District to establish a fund equal to one half the annual instalment of principal and interest of long term debt issued. The cash portion of the fund is equal to one percent of the total principal with the remainder made up of a non-interest bearing promissory note. The MFA calculates interest and expenses on the cash reserves. Due to their contingent nature neither the asset nor liability are recorded in the consolidated financial statements. The balance of the MFA debt reserve fund is as follows:

| | <u>2014</u> | <u>2013</u> |
|------|-------------------|-------------------|
| Cash | \$ <u>452,905</u> | \$ <u>459,237</u> |

7. ACCUMULATED DEFICIT

The Accumulated Deficit of \$22,520,921 (2013: \$25,113,122) is made up of the following individual fund equity amounts.

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|------------------------|------------------------|
| Revenue Fund (Schedule A) | \$ 4,306,286 | \$ 3,420,846 |
| Capital Grant Fund (Schedule B) | 4,760,395 | 3,744,610 |
| Capital Loan Fund (Schedule C) | <u>(31,310,791)</u> | <u>(32,003,323)</u> |
| Accrued liabilities | <u>(22,244,110)</u> | <u>(24,837,867)</u> |
| Accrued liabilities | <u>(276,811)</u> | <u>(275,255)</u> |
| Accumulated Deficit | \$ <u>(22,520,921)</u> | \$ <u>(25,113,122)</u> |

NANAIMO REGIONAL HOSPITAL DISTRICT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

7. ACCUMULATED DEFICIT (CONTINUED)

The Revenue Fund includes those transactions which are funded primarily by the annual property tax requisition and includes debt repayments and capital grants to the Vancouver Island Health Authority.

The Capital Grant Fund includes amounts disbursed or to be disbursed directly to the Vancouver Island Health authority in accordance with approved capital plans.

The Capital Loan Fund includes amounts related to long term debt raised to finance capital expenditures approved through bylaws adopted by the Regional Hospital District for the purposes of the Vancouver Island Health Authority.

8. BUDGET FIGURES

Budget figures represent the Financial Plan Bylaw adopted by the Board on March 25, 2014.

Reconciliation of Board approved budget:

| | |
|---|---------------------|
| Net surplus per approved budget Bylaw No. 157 | \$ 2,383,360 |
| Adjusted for: | |
| Prior year surplus | (3,420,875) |
| Interest on long-term debt | (1,286,973) |
| Transfer to reserve | 1,245,000 |
| Debt servicing | <u>2,951,705</u> |
| Surplus per Statement of Operations | <u>\$ 1,872,217</u> |

9. STATEMENT OF CHANGES IN NET DEBT

A consolidated statement of changes in net debt has not been prepared as the Regional Hospital District does not have any non-financial assets and a reconciliation of Net Debt to Accumulated Deficit does not provide any further meaningful information.

NANAIMO REGIONAL HOSPITAL DISTRICT
SCHEDULE OF REVENUE FUND ACTIVITIES (NON-CONSOLIDATED)
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)

SCHEDULE A

| | <u>Budget</u> | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|---------------------|
| Revenues | | | |
| Property tax revenues | \$ 6,712,985 | \$ 6,712,985 | \$ 6,712,985 |
| Grants-in-lieu of taxes | 30,000 | 33,775 | 33,249 |
| Interest on investments | 50,000 | 102,575 | 83,805 |
| Other revenue | - | 498,572 | 193,628 |
| | <u>6,792,985</u> | <u>7,347,907</u> | <u>7,023,667</u> |
| Expenditures | | | |
| Administration | 24,725 | 24,853 | 21,972 |
| Short term loan interest, bank charges, debt issuing | 165,015 | 101,650 | 236,251 |
| Long term debt interest | 1,581,233 | 1,531,510 | 1,449,707 |
| Grants to Health Authority | - | 577 | 435,435 |
| | <u>1,770,973</u> | <u>1,658,590</u> | <u>2,143,365</u> |
| Operating Surplus | <u>5,022,012</u> | <u>5,689,317</u> | <u>4,880,302</u> |
| Transfer to Capital Grant Fund (Pg 10) | 3,444,055 | 3,444,055 | 3,444,055 |
| Transfer to Capital Loan Fund for debt principal (Pg 11) | 1,370,472 | 1,359,822 | 1,109,666 |
| | <u>4,814,527</u> | <u>4,803,877</u> | <u>4,553,721</u> |
| Surplus (Deficit) for the year | 207,485 | 885,440 | 326,581 |
| Add: Prior years' surplus | <u>3,420,846</u> | <u>3,420,846</u> | <u>3,094,265</u> |
| Surplus, Ending (Note 7) | <u>\$ 3,628,331</u> | <u>\$ 4,306,286</u> | <u>\$ 3,420,846</u> |

See notes to consolidated financial statements

NANAIMO REGIONAL HOSPITAL DISTRICT **SCHEDULE B**
SCHEDULE OF CAPITAL GRANT FUND ACTIVITIES (NON-CONSOLIDATED)
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| FUND BALANCE, BEGINNING | \$ 3,744,610 | \$ 2,789,529 |
| Add: Transfer from Revenue Fund (Pg 9) | 3,444,055 | 3,444,055 |
| Less: Grants to Vancouver Island Health Authority | <u>(2,428,270)</u> | <u>(2,488,974)</u> |
| FUND BALANCE, ENDING (Note 7) | <u>\$ 4,760,395</u> | <u>\$ 3,744,610</u> |

See notes to consolidated financial statements

**NANAIMO REGIONAL HOSPITAL DISTRICT
SCHEDULE OF CAPITAL LOAN FUND ACTIVITIES (NON-CONSOLIDATED)
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

SCHEDULE C

| | <u>2014</u> | <u>2013</u> |
|--|------------------------|------------------------|
| FUND BALANCE, BEGINNING, as previously reported | \$ (32,003,323) | \$ (27,240,425) |
| Grants to Health Authority | (963,106) | (6,187,662) |
| Debt principal repayments | 1,359,822 | 1,109,666 |
| Debt actuarial adjustments | <u>295,816</u> | <u>315,098</u> |
| FUND BALANCE, ENDING (Note 7) | <u>\$ (31,310,791)</u> | <u>\$ (32,003,323)</u> |

See notes to consolidated financial statements

NANAIMO REGIONAL HOSPITAL DISTRICT
SCHEDULE OF LONG TERM DEBT
AS AT DECEMBER 31, 2014

SCHEDULE D

| Issue | Bylaw No. | Maturity | Interest Rate | Original Requested | Outstanding 2014 | Outstanding 2013 |
|-------|-----------------|--------------------|------------------|-----------------------|----------------------|----------------------|
| 517 | 110 | Nov 30, 2023 | 7.875 | 312,520 | 23,505 | 35,258 |
| 622 | 105 | Aug 15, 2014 | 7.500 | 826,194 | - | 62,301 |
| 624 | 105/106/110/111 | Aug 23, 2023 | 7.875 | 1,260,559 | 155,236 | 231,072 |
| 626 | 104/105/106 | Jun 09, 2014 | 9.625 | 1,789,496 | - | 140,897 |
| 72 | 110 | Jun 01, 2020 | 6.450 | 125,258 | 50,489 | 57,682 |
| 75 | 111 | Dec 01, 2021 | 5.690 | 318,086 | 147,692 | 164,967 |
| 80 | 122/124/128/129 | Oct 03, 2018 | 4.900 | 753,043 | 257,258 | 314,104 |
| 92 | 125/131 | April 6, 2020 | 4.550 | 215,868 | 87,409 | 104,021 |
| 93 | 127 | April 6, 2025 | 5.100 | 4,071,247 | 2,489,478 | 2,683,444 |
| 97 | 133 | April 19, 2016 | 4.660 | 288,479 | 67,082 | 98,701 |
| 102 | 127 | Dec 01, 2027 | 4.820 | 8,100,000 | 5,951,568 | 6,295,750 |
| 103 | 137 | Apr 23, 2023 | 4.650 | 324,943 | 217,303 | 237,047 |
| 110 | 139/127/144 | April 8, 2030 | 4.500 | 3,083,688 | 2,590,755 | 2,721,331 |
| 116 | 144 | April 4, 2031 | 4.200 | 1,727,207 | 1,546,146 | 1,608,881 |
| 121 | 150 | October 4, 2032 | 2.900 | 645,028 | 600,840 | 623,367 |
| 121 | 145.01 | October 4, 2032 | 2.900 | 4,065,041 | 3,786,558 | 3,928,529 |
| 121 | 142 | October 4, 2027 | 2.900 | 406,504 | 365,090 | 386,203 |
| 126 | 154 | September 26, 2033 | 3.850 | 4,500,000 | 4,348,882 | 4,500,000 |
| 126 | 145.01 | September 26, 2033 | 3.850 | 2,100,000 | 2,029,478 | 2,100,000 |
| 126 | 144 | September 26, 2033 | 3.850 | 1,076,467 | 1,040,317 | 1,076,467 |
| 126 | 140 | September 26, 2028 | 3.850 | 815,000 | 774,298 | 815,000 |
| 130 | 154 | October 14, 2034 | 3.000 | 1,815,997 | 1,815,998 | - |
| 130 | 156 | October 14, 2034 | 3.000 | 1,112,155 | 1,112,155 | - |
| | | | | <u>\$ 39,732,780</u> | <u>\$ 29,457,537</u> | <u>\$ 28,185,022</u> |

See notes to consolidated financial statements