

NANAIMO REGIONAL HOSPITAL DISTRICT

**REGULAR BOARD MEETING
TUESDAY, MAY 13, 2014
6:30 PM**

(RDN Board Chambers)

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FINANCE

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2013 Audited Financial Statements and Audit Findings Report.



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**NANAIMO REGIONAL
HOSPITAL DISTRICT
MEMORANDUM**

TO: Wendy Idema
Director of Finance

DATE: May 8, 2014

FROM: Manvir Manhas
Senior Accountant

FILE:

SUBJECT: 2013 Audited Financial Statements and Audit Findings Report

PURPOSE:

To request approval of the 2013 audited financial statements for the Nanaimo Regional Hospital District (NRHD) and to present MNP LLP’s audit findings report related to the audit of the Nanaimo Regional Hospital District for the year ended December 31, 2013.

BACKGROUND:

The *Hospital District Act* requires a Regional Hospital District to prepare audited financial statements. The Regional Hospital District is a financing agency for health care facilities. Its financial activities consist of raising 40% of the costs of approved capital projects and purchases recommended by the Vancouver Island Health Authority. Compared to the Regional District itself, the activities and financial results of the Regional Hospital District are less complicated and involve a relatively small number of transactions.

The Canadian Institute of Chartered Accountants auditing standards require that audit firms communicate the results of the audit process to the organization’s Board of Directors as well as management staff and that the financial statements of an organization be approved by the Board of Directors prior to the signing of the audit report.

The firm of MNP LLP carried out the 2013 audit work and their findings are attached to this report. The full set of approved audited financial statements will be provided as a separate handout to the Board in June.

DISCUSSION:

Audit Findings Report

Attachment 1 from MNP summarizes the responsibilities of the audit firm, the scope of investigations, and the audit results. There were no items of note requiring adjustment in 2013.

Independent Auditors' Draft Report

The Regional Hospital District, in the same manner as the Regional District, maintains a system of accounting controls that ensures that assets, revenues and expenses are properly recorded and accounted for and that the financial records and results are accurate. The firm of MNP LLP is responsible for reporting to the Board the results of their audit.

Attachment 2 is the Independent Auditors' draft report to be signed after approval of the financial statements by the Board. As in prior years the draft auditor's report is unqualified, assuring readers that based on the audit procedures conducted, the financial statements are considered to be free of material errors and are prepared in accordance with generally accepted accounting standards.

Consolidated Financial Statements

Attachment 3 is the consolidated financial statements of the Regional Hospital District for the year ended December 31, 2013, which are discussed in more detail below.

Consolidated Statement of Financial Position (Page 2)

Because the Regional Hospital District is essentially a financing agency for the local health facilities, it will typically show a Net Debt and Accumulated Deficit position on its Statement of Financial Position.

Short term debt represents interim borrowing for major capital projects currently underway. Accounts Payable includes project advances or minor capital purchases which had been received but were not paid at the end of December 2013. Short term debt is converted to long term debenture debt periodically as the project or equipment expenditures reach a conclusion. All borrowing is through the Municipal Finance Authority.

The balance of short term debt shown on these statements is largely made up of \$1.7 million advanced to date for the Oceanside Health Care center (total \$15.7 million; RDN share \$6.3 million - \$4.5 million secured in long term debt to date), \$0.6 million for the Emergency Room Redevelopment Project (total \$36.8 million; RDN share \$13.1 million - \$6.9 million secured in long term debt and \$3.8 million funded from surplus to date), \$0.2 million for the MRI replacement project (total \$2.8 million; RDN share \$1.1 million) with the remainder for other capital equipment and smaller scale projects.

Note 7 to the financial statements itemizes the Net Debt and Accumulated Deficit as follows:

Revenue Fund <i>(the accumulated amounts from annual taxes not yet required for debt servicing or other expenses)</i>	\$ 3,420,846
Capital Grant Fund <i>(tax levies raised for equipment and projects costing less than \$1.5 million which have not yet been drawn down)</i>	\$ 3,744,610
Capital Loan Fund <i>(outstanding long term and short term debt, plus accrued project advances payable)</i>	\$(32,003,323)
Accrued liabilities <i>(long term debt interest accrued to December 31, 2013 but not payable until 2014)</i>	\$(275,255)
Accumulated Deficit	\$(25,113,122)

Outstanding long term debt (Schedule D) totals \$28,185,022 (2012; \$21,118,320), with retirement dates ranging from 2014 to 2033. Long term debt principal in the amount of \$1,109,000 was repaid during the year. In 2013 \$8.4 million was secured in new long term debt, \$4.5 million with respect to the progress of the Oceanside Health Care Centre, \$3.9 million for the Renal Centre and Emergency Room Redevelopment Projects at the Nanaimo Regional General Hospital.

Consolidated Statement of Operations (Page 3)

This statement is prepared on a consolidated basis and includes all of the transactions associated with the Revenue Fund, Capital Grant Fund and the Capital Loan Fund. This statement shows the sources of revenue and expenses of the Hospital District as a whole based on Public Sector Accounting Board standards for governments as legislated under the Local Government Act.

The revenue for the year was slightly higher than forecast as a result of receiving a return of surplus debt sinking funds of \$193,000 and higher interest revenues. Interest revenues (interest on cash balances) vary from year to year depending on the timing of reimbursing costs to the Vancouver Island Health Authority and accordingly, how long cash from tax levies is available to earn interest.

Under expenses, the grant to health care facilities is considerably higher than the budget. The budget amount shows the allocation of grants to health care facilities of \$3.8 million for the current year from the Revenue Fund only. The actual expense includes the annual grant expense from the Revenue Fund as well as the Capital Fund expenditures where debt was incurred to finance major capital projects (\$6.1 million in 2013). The consolidated actual expenses reflect the financial statements as required under public sector accounting guidelines where the budget is meant to reflect actual impacts on cash flows.

Schedule of Capital Grant Fund Activities (Page 10)

This schedule provides a summary of the amounts raised for capital grants approved as part of the annual budget and the expenditure of those funds during the year. The approved grant allocation was \$3.4 million for 2013. At December 31, 2013, \$3.7 million remains committed from both 2013 and prior years.

Schedule of Long Term Debt (Page 12)

The Hospital District has outstanding debt obligations of \$28.2 million with maturity dates from 2014 to 2033. The Emergency Room Redevelopment and the MRI Replacement project at the Nanaimo Regional General Hospital and the Oceanside Health Care center are the current major projects approved at this time. Long term debt in the amount of approximately \$5.3 million remains available for these projects and may be secured through the Municipal Finance Authority within the next two years.

ALTERNATIVES:

1. Receive the Audit Findings Report and 2013 financial statements, and approve the 2013 consolidated financial statements of the Nanaimo Regional Hospital District for final signatures.
2. Receive the Audit Findings Report and provide alternate direction to staff.

FINANCIAL IMPLICATIONS:

The annual audit fee of \$4,800 is included in the Hospital District's 2013 budget. There are no additional costs at this time.

SUMMARY/CONCLUSIONS:

The Canadian Institute of Chartered Accountants auditing standards require that audit firms communicate the results of the audit process to the organization's Board of Directors as well as management staff and that the financial statements of an organization be approved by the Board of Directors prior to the signing of the audit report.

The Regional Hospital District is required to prepare annual audited financial statements. This report summarizes the results of the audited statements for the year ended December 31, 2013. The statements present, in all significant respects, the financial position of the Nanaimo Regional Hospital District as at December 31, 2013. This is confirmed by the Audit Findings Report and the draft Independent Auditors' Report attached with this report. Staff recommend that these reports be approved and received.

RECOMMENDATION:

1. That the Audit Findings Report and the financial statements of the Nanaimo Regional Hospital District for the year ended December 31, 2013 be received.
2. That the consolidated financial statements of the Nanaimo Regional Hospital District for the year ended December 31, 2013 be approved as presented.



Report Writer



Director of Finance Concurrence



C.A.O. Concurrence



May 13, 2013

Board of Directors
Nanaimo Regional Hospital District
6300 Hammond Bay Road
Nanaimo, BC V9T 6N2

Re: **Audit Findings Report to the Board of Directors**
Year ending December 31, 2013

Dear Members of the Board:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Nanaimo Regional Hospital District (the "Hospital District") for the year ended December 31, 2013. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Board of Directors.

1. The Audit

Our responsibility, as auditor of the Hospital District, is to report to the Board of Directors on the fair presentation of the 2013 financial statements, in accordance with Canadian public sector accounting standards. To properly discharge this responsibility, we designed our audit process to assess the risk of material misstatement within the statements by examining and assessing the effectiveness of the Hospital District's controls and accounting systems and the evidence supporting the amounts and disclosures in the statements, including the appropriateness of accounting principles and significant estimates made by management.

We have considered the Hospital District's internal control as part of the financial statement audit. This included obtaining an understanding of the internal controls (regardless of whether we intended to rely on them for the purpose of our audit); evaluating the design of these controls; and determining whether they have been implemented. This understanding was sufficient to allow us to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures. We have not determined whether relevant controls are operating effectively, as such, our understanding of internal controls should not be relied upon for any other purposes.

Our audit procedures, consisting of separate examination of each material year-end balance, key transaction, and other event considered significant to the financial statements, were concentrated in areas where risks were identified, and therefore, differences were most likely to arise.

Management has provided us with written representations, acknowledging, among other things, their responsibility for the implementation and maintenance of appropriate reporting systems and controls, including those designed to detect and prevent fraud, and to ensure the appropriateness of the amounts recorded in the accounting records, and the amounts and disclosures in the financial statements.

2. Audit Results

We have satisfactorily completed our audit and are prepared to sign our Auditors' Report after the Board of Directors' review and approval of the financial statements. A substantive approach was used in auditing the Hospital District's financial statements; thus, the Hospital District's controls were not relied upon.



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Nanaimo Regional Hospital District

Final materiality calculated and used to assess the significance of misstatements or omissions identified during the audit and determine the level of audit testing performed was \$139,000. The independent audit report will provide an unqualified opinion to the Board of Directors. Key matters noted during our audit are summarized in the table below.

SUBJECTS	2013	2012
Material uncertainties related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern	None	None
Illegal or fraudulent acts	None noted	None noted
Non-compliance with laws and regulations	None	None
Fraud by employees/management with key roles in control activities	None noted	None noted
Differences that may:		
- Have a material effect on comparative information and the current period financial statements	None	None
- Cause future statements to be materially misstated	None	None
- Indicate significant deficiencies in controls	None	None
Irregularities having a material financial statement effect	None	None
Limitations placed on the scope of our audit	None	None
Significant transactions not in the ordinary course of business	None	None
Unusual significant transactions given the entity and its environment	None	None
Non-monetary transactions	None	None
Transactions that increase risk	None	None
Concerns with management breach of corporate conduct	None	None
Conflicts of interest	None	None
Disagreements with management	None	None
Emphasis of matter or other matter paragraph included in the independent auditor's report	None	None
Matters influencing audit appointment	None	None
Difficulties encountered during the audit	None	None
Disagreements with management's accounting estimates	None	None
Disagreements with management's adoption of accounting policies or emphasis on the need for a particular accounting treatment	None	None
Significant deficiencies in the entity's risk assessment process within the design and implementation of controls	None	None
Significant deficiencies in controls resulting from inappropriate response by management regarding implementing controls over significant risks	None	None
Matters giving rise to questions regarding the honesty and integrity of management	None	None

There were no unadjusted differences of any significance noted.

Nanaimo Regional Hospital District

3. Auditor Independence

We confirm to the Board of Directors that we are independent of the Hospital District. Our letter to the Board of Directors discussing our independence is included under separate cover.

We would like to take this opportunity to formally acknowledge the excellent cooperation and assistance we received from the management and staff of the Hospital District.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We appreciate having the opportunity to meet with you and respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Yours truly,

MNP LLP

MNP LLP

May 13, 2014

The Board of Directors
Nanaimo Regional Hospital District
6300 Hammond Bay Road
Nanaimo, BC V9T 6N2

Dear Members of the Board:

We have been engaged to audit the financial statements of Nanaimo Regional Hospital District ("the Hospital District") as at December 31, 2013 and for the year then ended.

CAS 260 *Communication With Those Charged With Governance ("the Standard")* requires that we communicate at least annually with you regarding all relationships between the Hospital District and MNP LLP ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the appropriate provincial institute and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) Economic dependence on a client; and
- (e) Provision of services in addition to the audit engagement.

We are not aware of any relationship between the Hospital District and MNP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from January 1, 2013 to May 13, 2014.

Generally Accepted Auditing Standards require that we confirm our independence to the Board of Directors. Accordingly, we hereby confirm that MNP is independent with respect to the Hospital District within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of May 13, 2014.

The total fees charged to the Hospital District for audit services were \$4,500 during the period from January 1, 2013 to May 13, 2014.

This report is intended solely for the use of the Board of Directors, management and others within the Hospital District and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours truly,

MNP LLP

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, 2013 and the consolidated statements of operations and accumulated deficit and cash flows and related schedules 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, 2013 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.

Nanaimo, British Columbia

May 13, 2014

Chartered Accountants

ATTACHMENT 3

**NANAIMO REGIONAL HOSPITAL DISTRICT
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

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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 25, 2014

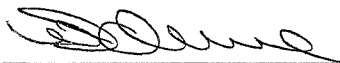


Director of Finance

NANAIMO REGIONAL HOSPITAL DISTRICT
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
Financial Assets		
Cash	\$ 5,940,513	\$ 4,605,152
Short term investments	1,579,144	1,561,978
Accounts receivable	7,851	5,310
	<u>7,527,508</u>	<u>6,172,440</u>
Financial Liabilities		
Short term debt (Note 2)	2,849,355	5,316,871
Accounts payable	1,330,998	1,093,880
Accrued liabilities (Note 4)	275,255	115,445
Long term debt (Schedule D, Note 3)	28,185,022	21,118,320
	<u>32,640,630</u>	<u>27,644,516</u>
Net Debt and Accumulated Deficit (Note 7)	<u>\$ (25,113,122)</u>	<u>\$ (21,472,076)</u>

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, 2013**

	<u>Budget</u> (Note 8)	<u>2013</u>	<u>2012</u>
Revenues			
Property tax revenues	\$ 6,712,985	\$ 6,712,985	\$ 6,549,256
Grants-in-lieu of taxes	28,000	33,249	32,585
Interest on investments	40,000	83,805	69,814
Other revenue	-	193,628	336,760
	<u>6,780,985</u>	<u>7,023,667</u>	<u>6,988,415</u>
Expenses			
Administration	23,770	21,972	21,501
Long term debt issue costs	201,360	135,863	81,865
Grants to health care facilities	3,879,490	9,112,071	11,894,472
Short term debt interest and bank charges	146,980	100,388	78,078
Interest on long term debt	1,180,379	1,294,419	1,066,569
	<u>5,431,979</u>	<u>10,664,713</u>	<u>13,142,485</u>
Surplus (deficit) for the year	1,349,006	(3,641,046)	(6,154,070)
Opening, Net Debt and Accumulated Deficit	<u>(21,472,076)</u>	<u>(21,472,076)</u>	<u>(15,318,006)</u>
Ending, Net Debt and Accumulated Deficit	<u><u>(20,123,070)</u></u>	<u><u>(25,113,122)</u></u>	<u><u>(21,472,076)</u></u>

Approved:



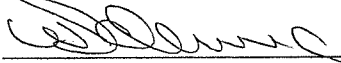
Director of Finance

See notes to consolidated financial statements

**NANAIMO REGIONAL HOSPITAL DISTRICT
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>2013</u>	<u>2012</u>
Operating transactions		
Deficit for the year (Pg 3)	\$ (3,641,046)	\$ (6,154,070)
Decrease (Increase) in accounts receivable	(2,541)	468
Increase (decrease) in accounts payable	237,117	(102,234)
Increase in accrued liabilities	159,810	31,936
Net decrease in cash from operations	<u>(3,246,660)</u>	<u>(6,223,900)</u>
Financing transactions		
Increase (decrease) in short term debt	(2,467,516)	1,779,717
Long term debt proceeds	8,491,467	5,116,573
Repayment of long term debt	(1,109,666)	(977,329)
Debt actuarial adjustments	(315,098)	(349,950)
Net increase in cash from financing	<u>4,599,187</u>	<u>5,569,011</u>
Net change in cash and investments	1,352,527	(654,889)
Cash and investments, beginning	<u>6,167,130</u>	<u>6,822,019</u>
Cash and investments, ending	\$ <u><u>7,519,657</u></u>	\$ <u><u>6,167,130</u></u>
CASH AND INVESTMENTS CONSIST OF:		
Cash	\$ 5,940,513	\$ 4,605,152
Short term investments	<u>1,579,144</u>	<u>1,561,978</u>
	\$ <u><u>7,519,657</u></u>	\$ <u><u>6,167,130</u></u>

Approved



Director of Finance

See notes to consolidated financial statements

NANAIMO REGIONAL HOSPITAL DISTRICT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

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, 2013

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 is calculated daily on a variable rate basis at prime less 1.28%. In 2013 the rate was 1.72%. 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:

2014	1,379,303
2015	1,301,676
2016	1,303,357
2017	1,225,373
2018	1,230,707

NANAIMO REGIONAL HOSPITAL DISTRICT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

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>2013</u>	<u>2012</u>
Cash	\$ <u>459,237</u>	\$ <u>376,133</u>

7. ACCUMULATED DEFICIT

The Accumulated Deficit of \$25,113,122 (2012: \$21,472,076) is made up of the following individual fund equity amounts.

	<u>2013</u>	<u>2012</u>
Revenue Fund (Schedule A)	\$ 3,420,846	\$ 3,094,265
Capital Grant Fund (Schedule B)	3,744,610	2,789,529
Capital Loan Fund (Schedule C)	<u>(32,003,323)</u>	<u>(27,240,425)</u>
Accrued liabilities	<u>(24,837,667)</u>	<u>(21,356,631)</u>
Accrued liabilities	<u>(275,255)</u>	<u>(115,445)</u>
Accumulated Deficit	\$ <u>(25,113,122)</u>	\$ <u>(21,472,076)</u>

NANAIMO REGIONAL HOSPITAL DISTRICT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

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 26, 2013.

Reconciliation of Board approved budget:

Net surplus per approved budget Bylaw No. 155	\$ 2,866,965
Adjusted for:	
Prior year surplus	(2,896,955)
Interest on long-term debt	(1,180,379)
Debt servicing	<u>2,559,375</u>
Surplus per Statement of Operations	<u>\$ 1,349,006</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
FOR THE YEAR ENDED DECEMBER 31, 2013**

SCHEDULE A

	<u>Budget</u> (unaudited)	<u>2013</u>	<u>2012</u>
Revenues			
Property tax revenues	\$ 6,712,985	\$ 6,712,985	\$ 6,549,256
Grants-in-lieu of taxes	28,000	33,249	32,585
Interest on investments	40,000	83,805	69,814
Other revenue	-	193,628	336,760
	<u>6,780,985</u>	<u>7,023,667</u>	<u>6,988,415</u>
Expenditures			
Administration	23,770	21,972	21,501
Short term loan interest, bank charges, debt issuing	348,340	236,251	78,078
Long term debt interest	1,449,709	1,449,707	1,384,583
Grants to Health Authority	435,435	435,435	1,500,000
	<u>2,257,254</u>	<u>2,143,365</u>	<u>2,984,162</u>
Operating Surplus	<u>4,523,731</u>	<u>4,880,302</u>	<u>4,004,253</u>
Transfer to Capital Grant Fund (Pg 10)	3,444,055	3,444,055	2,143,745
Transfer to Capital Loan Fund for debt principal (Pg 11)	1,109,666	1,109,666	977,329
	<u>4,553,721</u>	<u>4,553,721</u>	<u>3,121,074</u>
Surplus (Deficit) for the year	(29,990)	326,581	883,179
Add: Prior years' surplus	<u>3,094,265</u>	<u>3,094,265</u>	<u>2,211,086</u>
Surplus, Ending (Note 7)	<u>\$ 3,064,275</u>	<u>\$ 3,420,846</u>	<u>\$ 3,094,265</u>

See notes to consolidated financial statements

NANAIMO REGIONAL HOSPITAL DISTRICT
 SCHEDULE OF CAPITAL GRANT FUND ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2013

SCHEDULE B

	<u>2013</u>	<u>2012</u>
FUND BALANCE, BEGINNING	\$ 2,789,529	\$ 4,295,690
Add: Transfer from Revenue Fund (Pg 9)	3,444,055	2,143,745
Less: Grants to Vancouver Island Health Authority	(2,488,974)	(3,649,906)
FUND BALANCE, ENDING (Note 7)	\$ 3,744,610	\$ 2,789,529

See notes to consolidated financial statements

NANAIMO REGIONAL HOSPITAL DISTRICT
 SCHEDULE OF CAPITAL LOAN FUND ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2013

SCHEDULE C

	<u>2013</u>	<u>2012</u>
FUND BALANCE, BEGINNING, as previously reported	\$ (27,240,425)	\$ (21,741,273)
Grants to Health Authority	(6,187,662)	(6,744,566)
Debt issue costs capitalized	-	(81,865)
Debt principal repayments	1,109,666	977,329
Debt actuarial adjustments	<u>315,098</u>	<u>349,950</u>
FUND BALANCE, ENDING (Note 7)	<u>\$ (32,003,323)</u>	<u>\$ (27,240,425)</u>

See notes to consolidated financial statements

**NANAIMO REGIONAL HOSPITAL DISTRICT
SCHEDULE OF LONG TERM DEBT
AS AT DECEMBER 31, 2013**

SCHEDULE D

Issue	Bylaw No.	Maturity	Interest Rate	Original Requested	Outstanding	Outstanding
					2013	2012
517	110	Nov 30, 2023	7.875	312,520	35,258	53,874
612	104	Aug 23, 2013	8.500	10,378	-	883
620	79/94/96/100	Aug 23, 2013	8.500	401,852	-	31,656
621	79/105/100/104	Aug 23, 2013	8.500	458,920	-	35,997
622	105	Aug 15, 2014	7.500	826,193	62,301	121,636
624	105/106/110/111	Aug 23, 2023	7.875	1,260,559	231,072	305,725
626	104/105/106	Jun 09, 2014	9.625	1,789,496	140,897	275,084
627	104/105/106	Aug 23, 2013	9.600	145,386	-	11,944
72	110	Jun 01, 2020	6.450	125,258	57,682	64,566
75	111	Dec 01, 2021	5.690	318,086	164,967	181,420
80	122/124/128/129	Oct 03, 2018	4.900	998,081	314,104	398,463
92	125/131	April 6, 2020	4.550	215,868	104,021	119,995
93	127	April 6, 2025	5.100	4,071,247	2,683,444	2,872,588
97	133	April 19, 2016	4.660	288,478	98,701	129,104
102	127	Dec 01, 2027	4.820	8,100,000	6,295,750	6,626,694
103	137	Apr 23, 2023	4.650	324,943	237,047	256,031
110	139/127/144	April 8, 2030	4.500	3,083,688	2,721,331	2,846,883
116	144	April 4, 2031	4.200	1,727,207	1,608,881	1,669,204
121	150	October 4, 2032	2.900	645,028	623,367	645,028
121	145.01	October 4, 2032	2.900	4,065,041	3,928,529	4,065,041
121	142	October 4, 2027	2.900	406,504	386,203	406,504
126	154	September 26, 2033	3.850	4,500,000	4,500,000	-
126	145.01	September 26, 2033	3.850	2,100,000	2,100,000	-
126	144	September 26, 2033	3.850	1,076,467	1,076,467	-
126	140	September 26, 2028	3.850	815,000	815,000	-
				\$ 38,066,200	\$ 28,185,022	\$ 21,118,320

See notes to consolidated financial statements