

**INTERLAKE-EASTERN REGIONAL
HEALTH AUTHORITY**

**Consolidated Financial Statements
For the year ended March 31, 2016**

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Consolidated Financial Statements

For the year ended March 31, 2016

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Independent Auditor's Report

To the Board of Directors of Interlake-Eastern Regional Health Authority

We have audited the accompanying consolidated financial statements of **Interlake-Eastern Regional Health Authority**, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statement of operations, consolidated statement of changes in net assets and consolidated statement of 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 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.

Auditor's 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 auditor's 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 **Interlake-Eastern Regional Health Authority** as at March 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
June 23, 2016

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Consolidated Statement of Financial Position

March 31

2016

2015

Assets

Current Assets

Cash and term deposits (Note 2)	\$ 6,973,046	\$ 9,884,748
Accounts receivable	3,431,638	3,361,360
Due from Manitoba Health, Seniors and Active Living (Note 3 and 16)	20,306,778	6,322,917
Inventories	839,228	838,889
Prepaid expense	670,059	733,991
Vacation entitlements receivable (Note 4)	5,484,424	5,484,424
	<u>37,705,173</u>	<u>26,626,329</u>

Retirement obligations receivable (Note 12)	5,912,865	5,912,865
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Other assets	194,501	192,800
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Capital assets (Note 5)	187,047,582	115,947,135
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	<u>\$ 230,860,121</u>	<u>\$ 148,679,129</u>
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Liabilities and Net Assets

Current Liabilities

Bank indebtedness (Note 6)	\$ 4,220,073	\$ -
Accounts payable and accrued liabilities	26,579,423	16,871,662
Accrued vacation entitlements (Note 4)	9,912,022	9,510,239
Current portion of long-term debt (Note 7)	222,337	209,727
	<u>40,933,855</u>	<u>26,591,628</u>

Accrued retirement obligations (Note 12)	14,004,853	13,697,173
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Sick leave liability (Note 12)	2,820,915	3,248,575
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Long-term debt (Note 7)	741,154	972,848
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Deferred contributions (Note 8)	181,329,293	113,090,636
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	<u>239,830,070</u>	<u>157,600,860</u>
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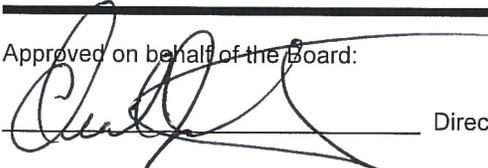
Commitments and contingencies (Note 5 and 11)

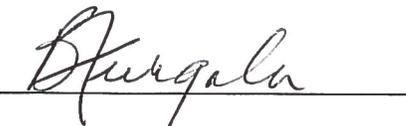
Net Assets

Investment in capital assets (Note 9)	8,849,771	5,975,387
Externally restricted (Note 14)	444,372	493,409
Internally restricted (Note 14)	90,795	78,147
Unrestricted - RHA	(17,900,543)	(15,014,330)
Unrestricted - Contract Facilities	(454,344)	(454,344)
	<u>(8,969,949)</u>	<u>(8,921,731)</u>

	<u>\$ 230,860,121</u>	<u>\$ 148,679,129</u>
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Approved on behalf of the Board:


 _____ Director


 _____ Director

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Consolidated Statement of Operations

For the year ended March 31	2016	2015
Revenue		
Province of Manitoba		
Health, Seniors and Active Living (Note 10)	\$220,572,013	\$195,627,004
Other	2,491,676	2,256,274
Client non-insured	11,770,739	11,402,319
Interest	94,008	233,119
Offset and other income	6,152,755	7,255,664
Ancillary income	461,362	444,724
Amortization of deferred contributions	6,091,046	6,264,364
	247,633,599	223,483,468
Expenditures		
Acute care services	63,118,963	58,663,945
Amortization of capital assets	6,289,337	6,494,291
Chemotherapy	803,675	754,451
Community health	18,996,576	16,934,229
Home based care	33,955,462	30,963,579
Diagnostic services	13,446,740	12,653,996
Dialysis	3,706,740	3,454,444
Emergency response and transport	18,274,952	17,562,282
Long-term care services	50,312,800	48,561,948
Mental health services	8,661,020	8,046,078
Medical remuneration	15,196,373	14,291,528
Nurse recruitment and retention	124,531	114,955
Northern patient transportation program	179,676	181,435
Regional undistributed expenditures	13,429,335	13,704,419
Safety and renovations	1,137,419	867,764
	247,633,599	233,249,344
Excess (deficiency) of revenue over expenditures for the year	\$ -	\$ (9,765,876)
Allocated as follows:		
Regional services	\$ -	\$ 9,550,323
Contracted services	-	215,553
	\$ -	\$ 9,765,876

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY
Consolidated Statement of Changes in Net Assets

For the year ended March 31

2016

2015

	Investment in Capital Assets (Note 9)	Externally Restricted (Note 14)	Internally Restricted (Note 14)	Unrestricted - RHA	Unrestricted - Contract Facilities	Total	Total
Balance, beginning of year	\$ 5,975,387	\$ 493,409	\$ 78,147	\$ (15,014,330)	\$ (454,344)	\$ (8,921,731)	988,290
Reallocation of interest earned on donation and externally restricted funds	-	2,520	9,309	(11,829)	-	-	
Change in restricted net assets	-	(51,557)	3,339	-	-	(48,218)	(144,145)
Excess (deficiency) of revenue over expenditures for the year	(198,291)	-	-	198,291	-	-	(9,765,876)
Net changes in investment in capital assets	<u>3,072,675</u>	-	-	<u>(3,072,675)</u>	-	-	-
Balance, end of year	<u>\$ 8,849,771</u>	<u>\$ 444,372</u>	<u>\$ 90,795</u>	<u>\$ (17,900,543)</u>	<u>\$ (454,344)</u>	<u>\$ (8,969,949)</u>	<u>\$ (8,921,731)</u>

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Consolidated Statement of Cash Flows

For the year ended March 31	2016	2015
Cash Flows from Operating Activities		
Excess (deficiency) of revenue over expenditures for the year	\$ -	\$ (9,765,876)
Adjustments for:		
Amortization of capital assets	6,289,337	6,494,291
Amortization of deferred contributions related to capital assets	(6,091,046)	(6,264,364)
Deferred contributions - expenses of future periods		
Receipts	10,309,774	4,613,491
Expenditures	(10,516,264)	(5,435,946)
	<u>(8,199)</u>	<u>(10,358,404)</u>
Changes in non-cash working capital		
Accounts receivable	(70,278)	470,535
Due from Manitoba Health, Seniors and Active Living	(13,983,861)	(3,918,373)
Inventories	(339)	79,008
Prepaid expense	63,932	(41,222)
Accounts payable and accrued liabilities	9,707,761	4,003,888
Accrued vacation entitlements	401,783	654,362
	<u>(3,889,201)</u>	<u>(9,110,206)</u>
Sick leave liability	(427,660)	231,866
Accrued retirement obligations	307,680	(410,350)
	<u>(4,009,181)</u>	<u>(9,288,690)</u>
Cash Flows from Capital Activities		
Purchase of capital assets	<u>(77,389,784)</u>	<u>(27,227,655)</u>
Cash Flows from Investing Activities		
Other assets	<u>(1,701)</u>	<u>3,773</u>
Cash Flows from Financing Activities		
Advances on long-term debt	-	438,772
Repayment of long-term debt	(219,084)	(200,723)
Receipt of deferred contributions related to capital assets	74,536,193	26,811,059
Payout of internally restricted net assets	3,339	855
Payout of externally restricted net assets	(51,557)	(145,000)
	<u>74,268,891</u>	<u>26,904,963</u>
Net decrease in cash and term deposits	(7,131,775)	(9,607,609)
Cash and term deposits, beginning of year	9,884,748	19,492,357
Cash and term deposits, end of year	\$ 2,752,973	\$ 9,884,748
Comprised of		
Cash and term deposits	\$ 6,973,046	\$ 9,884,748
Bank indebtedness	(4,220,073)	-
	<u>\$ 2,752,973</u>	<u>\$ 9,884,748</u>
Supplementary Information		
Interest paid during the year	\$ 19,418	\$ 32,246

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

1. Summary of Significant Accounting Policies

(a) Management's Responsibility for the Financial Statements and Basis of Accounting

These financial statements of Interlake-Eastern Regional Health Authority ("Authority") are the responsibility of management. They have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations established by the Public Sector Accounting Board.

(b) Nature of the Organization

Interlake-Eastern Regional Health Authority was established on May 28, 2012 by a Regional Health Authorities Act Regulation. The Authority is a registered charity under The Income Tax Act and accordingly, is exempt from income taxes, provided certain requirements of The Income Tax Act are met.

All operations, property, liabilities and obligations and agreements with contract facilities of the predecessor organizations were transferred to the Authority on this date.

Two facilities within the region operate under contract arrangements for funding with the Authority. They are Betel Home - Gimli and Betel Home - Selkirk. The operations of these facilities have been consolidated in these financial statements as the Authority exercises significant influence over them by virtue of acting as funding agent.

(c) Revenue Recognition

The Authority follows the deferral method of accounting for contributions which include donations and government grants.

Under the Health Services Insurance Act and regulations thereto, the Authority is funded primarily by the Province of Manitoba in accordance with budget arrangements established by Manitoba Health, Seniors and Active Living (MHSAL). Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect agreed funding arrangements with MHSAL with respect to the year ended March 31, 2016.

With respect to actual operating results, certain adjustments to funding will be made by MHSAL after completion of their review of the Authority's accounts.

In-Globe Funding is funding approved by MHSAL for the five service categories of Acute Care, Long-term Care, Community and Mental Health, Home Care and Emergency Response and Transport.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

1. Summary of Significant Accounting Policies (continued)

(c) Revenue Recognition (continued)

Any operating surplus greater than 2% of budget related to global funding arrangements is recorded on the statement of financial position as a payable to MHSAL until such time as MHSAL reviews the financial statements. At that time, MHSAL determines what portion of the approved surplus may be retained by the Authority, or repaid to MHSAL.

Under MHSAL policy, the Authority is responsible for In-Globe deficits, unless otherwise approved by MHSAL.

Out-of-Globe Funding is funding approved by MHSAL for specific programs.

Any operating surpluses related to Out-of-Globe funding arrangements are recorded on the statement of financial position as a payable to MHSAL until such time as MHSAL reviews the financial statements. At that time, MHSAL determines what portion of the approved surplus may be retained by the Authority, or repaid to MHSAL.

Conversely, any operating deficits related to Out-of-Globe funding arrangements are recorded on the statement of financial position as a receivable from MHSAL until such time as MHSAL reviews the financial statements. At that time, MHSAL determines their final funding approvals which indicate the portion of the deficit that will be paid to the Authority. Any unapproved costs not paid by MHSAL are absorbed by the Authority.

Any adjustments will be reflected in the year the final statement of recommended costs is received from MHSAL.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue in the year in which it is earned.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value, cost being determined by the first-in, first-out method.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

1. Summary of Significant Accounting Policies (continued)

(e) Employee Future Benefits

Pension and other employee future benefit costs are determined using the projected benefit method prorated on years of service and based on best estimate assumptions.

(f) Compensated Absences

Compensation expense is accrued to all employees as entitlement to these payments is earned in accordance with the Authority's benefit plans for vacation, sick and retirement allowances.

For non-vesting accumulating sick days, the benefit costs are recognized, if deemed material, based on a projection of expected future utilization of sick time, discounted using net present value techniques.

(g) Use of Estimates

In preparing the Authority's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the period. Actual results could differ from these estimates.

(h) Contributed Services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(i) Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Authority's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Land improvements	5%
Leasehold improvements	10%
Buildings	3.33% and 5%
Ambulances	20%
Equipment and computers	10% to 20%
Software and license fees	20%

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

1. Summary of Significant Accounting Policies (continued)

(j) Liability for Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the Authority is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

(k) Allocated Expenditures

A number of general support expenses are not allocated to the five main health sectors of Acute Care, Long-term Care, Home Care, Community and Mental Health and Emergency Services. The following costs are included in Regional Undistributed expenditures: payroll, information technology, finance, human resources, executive administration, board, public relations, accreditation, spiritual care, scheduling, purchasing, risk management, community health assessment, quality assurance, education and infection control expenses.

(l) Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. Cash and term deposits has been designated to be in the fair value category. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each balance sheet date and charged to the financial instrument for those measured at amortized cost.

Due to the nature of the financial instruments held by the Authority, there are no unrealized gains or losses, and therefore a statement of remeasurement gains and losses is not required for these financial statements.

2. Cash and Term Deposits

Included in cash and term deposits are holdback bank accounts in the amount of \$6,192,041 (\$1,701,565 in 2015) that are directly related to the construction projects.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

3. Due from (to) Manitoba Health, Seniors and Active Living

	2016	2015
Deficit funding (Note 16)	\$ 12,726,000	\$ -
Retroactive salary and benefit increases	6,533,848	5,401,038
Inter-facility ambulance transfers	503,074	1,422,404
Other operations	841,194	477,822
Safety and security	321,466	105,578
Small IT projects	132,600	-
Out of Globe - 2014/15	-	(1,083,925)
Out of Globe - 2015/16	(751,404)	-
	\$ 20,306,778	\$ 6,322,917

4. Vacation Entitlements Receivable

The Authority records a provision for accrued vacation entitlements. Prior to March 31, 2004 changes in the liability related to vacation were recoverable from MHSAL. At that date, MHSAL advised that subsequent to March 31, 2004 all funding related to past and future vacation entitlement costs would be included in in-globe funding and that the maximum liability to be recognized by MHSAL to facilities would be capped at March 31, 2004 levels. Accordingly, each year as vacation entitlements are paid and earned by the Authority's employees, the related vacation entitlement receivable is collected and re-established up to this maximum amount.

An analysis of the changes in the vacation entitlements receivable from MHSAL is as follows:

	2016	2015
Balance, beginning of year	\$ 5,484,424	\$ 5,484,424
Net changes in vacation entitlements receivable	-	-
Balance, end of year	\$ 5,484,424	\$ 5,484,424

An analysis of the changes accrued in the vacation entitlements is as follows:

	2016	2015
Balance, beginning of year	\$ 9,510,239	\$ 8,855,877
Net increase in accrued vacation entitlements	401,783	654,362
Balance, end of year	\$ 9,912,022	\$ 9,510,239

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

5. Capital Assets

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 513,702	\$ -	\$ 513,702	\$ -
Land improvements	868,145	830,021	868,145	809,861
Buildings	128,718,571	69,275,459	128,457,396	65,993,613
Ambulances	-	-	91,811	91,811
Leasehold improvements	1,172,375	373,864	1,172,375	210,204
Equipment	40,859,513	30,048,252	38,038,808	27,920,345
Building service equipment	2,369,086	1,013,463	2,369,086	867,323
Equipment - computers	3,271,492	2,487,812	4,169,708	3,308,944
Software licenses	2,374,623	2,351,683	3,024,322	2,820,143
Construction in progress	113,280,629	-	39,264,026	-
	\$293,428,136	\$106,380,554	\$217,969,379	\$102,022,244
Net book value		<u>\$187,047,582</u>		<u>\$115,947,135</u>

Construction in Progress Commitment

a) Selkirk Regional Health Centre

A contract was signed with Ellis Don Corporation in June 2014 for the construction of the Selkirk Regional Health Centre with an estimated completion date of 2017. Costs incurred to-date for building and equipment are \$101,937,546 (\$36,357,257 in 2015). Total expected project cost is \$159,243,183.

b) Primary Health Care and Traditional Healing Centre

A contract was signed with Parkwest Projects Ltd. in May 2015 for the construction of the Powerview - Pine Falls Primary Health Care and Traditional Healing Centre with an estimated completion date of 2016. Costs incurred to-date are \$5,522,138 (\$902,660 in 2015). Total expected project costs are \$11,687,800.

c) Construction in Progress

Other projects with total costs incurred to-date of \$5,820,945 (\$2,004,109 in 2015) are in various stages of completion. Total expected costs for these projects are \$8,531,485.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

6. Bank Indebtedness

The Authority has an approved operating line of credit with the Royal Bank of Canada to a maximum amount of \$8,800,000 (\$5,300,000 in 2015). The line of credit bears interest at Royal Bank of Canada prime rate less 1.05% and is supported by an authorization letter from MHSAL. As at March 31, 2016, \$4,343,138 (nil in 2015) was accessed on the line of credit. On April 20, 2016, authorization was received from MHSAL to increase the line of credit to \$9,500,000.

7. Long-term Debt

	2016	2015
CMHC mortgage payable, bearing interest at 1.71% compound semi-annual, due September 1, 2017 and requiring monthly principal and interest payments of \$5,902, secured by a first charge on land and building (Stonewall).	\$ 104,811	\$ 173,466
CMHC mortgage payable, bearing interest at 1.39%, due January 1, 2020 and requiring monthly principal and interest payments of \$7,093, secured by a first charge on land and building (Beausejour).	317,564	397,693
CMHC mortgage payable, bearing interest at 1.04%, due June 1, 2020 and requiring monthly principal and interest payments of \$3,325, secured by a first charge on land and building (Lac du Bonnet).	165,802	202,699
Royal Bank of Canada demand loan payable, bearing interest at prime rate less 1.05%, due August 31, 2027, requiring monthly principal and interest payments of \$3,350, secured by a borrowing resolution. The bank has confirmed that the loan will not be demanded and will be repaid over the term (Beausejour).	375,314	408,717
	963,491	1,182,575
Current portion of long-term debt	222,337	209,727
	\$ 741,154	\$ 972,848

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

7. Long-term Debt (continued)

The fair value of the mortgage payable is estimated to be approximately equal to carrying value as the interest rate is comparable to current market rates.

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

2017	\$	222,337
2018		190,164
2019		157,158
2020		145,260
2021		45,836
Thereafter		202,736
	\$	963,491

8. Deferred Contributions

Deferred contributions consist of:

	2016	2015
Expenses of future periods	\$ 4,094,973	\$ 4,301,463
Capital assets	177,234,320	108,789,173
	\$181,329,293	\$113,090,636

a) Expenses of Future Periods

Deferred contributions related to expenses of future periods represent the unspent amount of donations, grants received and grants for major repairs.

	2016	2015
Balance, beginning of year	\$ 4,301,463	\$ 5,123,918
Additional amounts received during year	10,175,341	4,481,802
Funding for reserve for major repairs	134,433	131,689
Less expenditures	(10,516,264)	(5,435,946)
Balance, end of year	\$ 4,094,973	\$ 4,301,463

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

8. Deferred Contributions (continued)

b) Capital Assets

Deferred capital contributions related to capital assets represent the unamortized amount of donations, grants received and funding of approved borrowings for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations at rates which match the amortization of the related capital asset purchased with the donations, grants or approved borrowings.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$108,789,173	\$ 88,242,478
Additional contributions received, net	74,536,193	26,811,059
Less amounts amortized to revenue	(6,091,046)	(6,264,364)
Balance, end of year	<u>\$177,234,320</u>	<u>\$108,789,173</u>

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

9. Investment in Capital Assets

a) Investment in capital assets is calculated as follows:

	2016	2015
Capital assets	\$187,047,582	\$115,947,135
Amounts financed by:		
Deferred contributions	177,234,320	108,789,173
Long-term debt	963,491	1,182,575
	\$ 8,849,771	\$ 5,975,387

b) Change in net assets invested in capital assets is calculated as follows:

	2016	2015
Deficiency of revenue over expenditures		
Amortization of deferred contributions related to capital assets	\$ 6,091,046	\$ 6,264,364
Amortization of capital assets	(6,289,337)	(6,494,291)
	\$ (198,291)	\$ (229,927)
Net changes in investment in capital assets		
Purchase of capital assets	\$ 77,389,784	\$ 27,227,655
Amounts funded by:		
MHSAL funding	(74,425,758)	(26,762,451)
Advances on long-term debt	-	(438,772)
Donations	(110,435)	(48,608)
Repayment of long-term debt	219,084	200,723
	\$ 3,072,675	\$ 178,547

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

10. Revenue from Manitoba Health, Seniors and Active Living

	<u>2016</u>	<u>2015</u>
Revenue from MHSAL's		
Revenue as per MHSAL's final funding document	\$191,542,678	\$185,994,112
Debt interest allocation	(677,684)	(224,214)
Funds for loans held by the Province of Manitoba	(1,180,673)	(618,696)
Reserve for major repairs funding	(52,175)	(52,175)
	189,632,146	185,099,027
Add (Deduct)		
Retroactive salary and benefit increases	5,925,367	4,318,748
Leap Year Funding	521,543	-
Physician Assistant	-	53,580
Inter-facility ambulance transfers	3,091,950	3,772,387
Influenza and immunizations	130,272	172,470
Colonoscopies funding	-	122,150
Renal Outreach Program	-	186,877
Southern Air Ambulance Program	613,000	613,000
DSM directed funding	17,467	83,152
One-time funding - deficit (Note 16)	12,726,000	-
One-time funding - volume increase	6,000,000	-
One-time funding - other	240,821	16,796
One-time funding - deferred from prior fiscal year	-	1,000,000
Out-of-globe items and adjustments	(465,844)	(1,018,800)
Drug Cap Fees increase	71,443	142,884
Software amalgamation	-	92,666
Mobile Clinic funding	441,311	-
Bounce Back pilot project	100,000	-
Inter-Professional Team Demonstration Initiative	135,262	-
Clinical Psychology Intern	90,462	-
Hospital Home Team	62,400	-
Harm Reduction Activities	12,429	-
Healthy Together Now	88,565	104,303
Safety and renovations	1,137,419	867,764
	\$220,572,013	\$195,627,004

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

11. Commitments and Contingencies

- a) The nature of the health care industry's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at March 31, 2016, management believes the Authority has valid defences and appropriate insurance coverage's in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Authority's financial position.
- b) On July 1, 1987, a group of health care organizations, ("subscribers"), formed Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts, which permit persons reciprocal contracts of the indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2016.

The Authority's coverage also includes contract facilities as named insured parties.

- c) Lease commitments exist at a variety of facilities with leases expiring at various dates up to November 30, 2027. For April 1, 2016 to March 31, 2017 the amount of the commitment is \$1,208,321. The aggregate commitment to March 31, 2021 is \$4,666,550.
- d) The Authority has not recognized a liability for decommissioning the Selkirk and District General Hospital. Decommissioning concerns include asbestos and known sewer issues. During a demolition, asbestos could be released into the air and therefore, precautions will need to be taken in order to protect the environment. As well, the aging facility has known sewer problems, which will require environmental cleanup and repatriation following destruction of the existing facility. A liability has not been recorded as the MHSAL budget for the new Selkirk Regional Health Centre includes \$1,000,000 for decommissioning the existing site, which is the current estimated cost.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

12. Employee Future Benefits

a) Accrued Retirement Obligations

Accrued retirement obligations are estimated based on an actuarial valuation as at March 31, 2015, which has been adjusted for interest rate changes and for actual benefits payments paid out to members. The next actuarial valuation will be completed for March 31, 2018. Based upon collective agreements and/or non-union policy, employees are entitled to a pre-retirement leave benefit if they are retiring in accordance with the provisions of the applicable group pension plan. The Authority's contractual commitment is to pay based upon one of the following (dependent on the agreement/policy applicable to the employee):

- i) Four days of salary for each year of service upon retirement if the employee complies with one of the following conditions:
 - has ten years service and has reached the age of 55 or;
 - qualifies for the "eighty" rule which is calculated by adding the number of years service to the age of the employee or;
 - retires at or after age 65 or;
 - terminates employment at any time due to permanent disability.

- ii) One week of pay for each year of accumulated service or portion thereof to a maximum of fifteen weeks pay upon retirement if the employee complies with the following conditions:
 - has ten or more years of service
 - has reached the age of 55

The significant actuarial assumptions adopted in measuring the Authority's accrued retirement entitlements include mortality and withdrawals rates, a discount rate of 3.00% (2.55% in 2015) and a rate of salary increase of 3.5% (3.5% in 2015) plus an age related merit/promotion scale with a provision for potential disability.

The amount recorded as a receivable from the Province for pre-retirement costs was initially determined based on the value of the corresponding actuarial liability for known pre-retirement costs as at March 31, 2004. Subsequent to March 31, 2004, the Province has included in its ongoing annual in-globe funding to the Authority, an amount equivalent to the change in the pre-retirement liability, which includes annual interest accretion related to the receivable. The receivable will be paid by the Province when required.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

12. Employee Future Benefits (continued)

An analysis of the changes in the employee benefits payable is as follows:

	2016	2015
Balance, beginning of year	\$ 13,697,173	\$ 14,107,523
Net increase (decrease) in pre-retirement entitlements	307,680	(410,350)
Balance, end of year	\$ 14,004,853	\$ 13,697,173

b) Pension Plan

Substantially all of the employees of the Authority are members of the Healthcare Employees Pension Plan (a successor of the Manitoba Health Organization Inc. Plan) (the "Plan") which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Plan. Plan members will receive benefits based on the length of service and on the average of annualized earnings during the best five years of the last eleven years prior to retirement, termination or death, that provides the highest earnings.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing Plan assets in trust and through the Plan investment policy.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with 7.9% of salary under \$53,600 and 9.5% of salary over \$53,600 contributed by employees, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

The most recent actuarial valuation of the plan as at December 31, 2014 indicated a solvency deficiency. The deficiency will be funded out of the current contributions in the subsequent years. Contributions to the Plan made during the year by the Authority on behalf of its employees amounted to \$9,678,526 (\$8,824,197 in 2015) and are included in the statement of operations.

The Cost of Living Adjustment Funds ("COLA Funds") that were announced in 2010 have now been implemented. The COLA Funds contribution rate is 1.0% (0.8% in 2015) of pensionable earnings. The earliest date a COLA may be granted from these Funds is 2018. A COLA will only be granted if sufficient funds are available.

The remainder of employees are members of the Province of Manitoba's defined benefit Civil Service Superannuation Plan. Liability for variances between actuarial funding estimates and actual experience lies with the Province.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

12. Employee Future Benefits (continued)

c) Sick Leave

Non-vesting accumulated sick leave benefits are calculated using the average usage history and present value techniques. The significant assumptions adopted in measuring the Authority's sick leave entitlements include an interest rate of 3.00% (2.55% in 2015) and a salary increase rate of 3.5% (3.5% in 2015). The accumulated liability is estimated to be \$2,820,915 (\$3,248,575 in 2015).

13. Related Parties

The contract facilities, Betel Home - Selkirk and Betel Home - Gimli, are operated by the Betel Home Foundation. Any fundraising of the Betel Home Foundation is solely for the benefit of the contract facilities.

14. Net Assets - Internal Restrictions and External Restrictions

The Authority considers its capital to comprise its internally and externally restricted net assets, unrestricted net assets and investment in capital assets balances. There have been no changes to what the Authority considers to be its capital since the previous period.

The Authority's objective for managing capital is to safeguard its ability to provide health services to Interlake-Eastern RHA residents. Debt is utilized for projects where specific approvals from MHSAL have been obtained in advance of borrowings.

As a not-for-profit entity, the Authority's operations are reliant on revenues generated annually. The Authority has accumulated a deficit over its history, which is included in the unrestricted net assets in the statement of financial position.

The Authority is currently endeavouring to eliminate this accumulated deficit and return to a position which would enable it to more adequately fund its working capital requirements.

Internal Restrictions

The Board of Directors has internally restricted \$9,309 (\$15,488 in 2015) of interest earned on donation funds. The cumulative balance of internally restricted net assets is \$90,795 (\$78,147 in 2015). These are Board restricted community based health promotion projects and recruitment initiatives. The Authority is in compliance with these restrictions.

External Restrictions

Net assets subject to externally imposed restrictions represent the former balances of net assets of facilities integrated into the Authority, including accumulated interest. Such net assets are restricted to community contributions and/or for the benefit of the community from which the net assets originated. The Authority is in compliance with these restrictions.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

15. Financial Risk Management

The Authority is exposed to different types of risk in the normal course of operations, including credit risk and market risk. The Authority's objective in risk management is to optimize the risk return trade-off, within set limits, by applying integrated risk management and control strategies, policies and procedures throughout the Authority's activities.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Authority to credit risk consist principally of accounts receivable.

The Authority's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

Accounts Receivable

	1-30 Days	31-60 Days	61-90 Days	91+Days	Total
Patients/residents	\$ 174,904	\$ 90,515	\$ 39,052	\$ 263,190	\$ 567,661
Trade receivables	382,207	148,019	53,740	1,152,468	1,736,434
Miscellaneous	281,313	90,597	4,230	710,437	1,086,577
GST receivable	400,536	-	-	-	400,536
	1,238,960	329,131	97,022	2,126,095	3,791,208
Less allowance for doubtful accounts:					
Patients/residents	-	-	-	(85,608)	(85,608)
Trade receivables	-	-	-	(239,977)	(239,977)
Miscellaneous	-	-	-	(33,985)	(33,985)
Total	\$ 1,238,960	\$ 329,131	\$ 97,022	\$ 1,766,525	\$ 3,431,638

The Authority is not exposed to significant credit risk as the receivable is spread among a large client base (including government agencies), and geographic region and payment in full is typically collected when it is due. The Authority establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

15. Financial Risk Management (continued)

Due from (to) Manitoba Health, Seniors and Active Living

	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>91+Days</u>	<u>Total</u>
Deficit funding	\$ 12,726,000	\$ -	\$ -	\$ -	\$ 12,726,000
Retroactive salary	4,717,896	-	-	1,815,952	6,533,848
Interfacility ambulance	260,337	242,737	-	-	503,074
Other operations	841,194	-	-	-	841,194
Out of Globe 15/16	(751,404)	-	-	-	(751,404)
Safety and security	213,585	107,881	-	-	321,466
Small IT Projects	132,600	-	-	-	132,600
	\$ 18,140,208	\$ 350,618	\$ -	\$ 1,815,952	\$ 20,306,778

With respect to amounts due from MHSAL, including vacation entitlements receivable and retirement obligations receivables, the Authority is not exposed to significant credit risk as these receivables are from the Province of Manitoba.

Market Risk

Market risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: Interest rate risk, foreign exchange risk and other price risk.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Authority is not exposed to significant interest rate risk. Its cash and short-term deposits are held in short-term or variable rate products and its exposure arising from its fixed rate long-term debt is not significant.

The Authority is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency and the number of transactions in foreign currency are minimal and the Authority is not exposed to other price risk.

Fair Value

The carrying values of cash and term deposits, accounts receivable, amounts due from MHSAL, vacation entitlements receivable and retirement obligations receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY

Notes to Consolidated Financial Statements

For the year ended March 31, 2016

16. Subsequent Event

On May 30, 2016, notification was received from MHSAL that one-time funding will be provided to cover the March 31, 2016 operating deficit. A receivable and offsetting revenue have been recorded in the March 31, 2016 financial statements.

17. Allocated Expenditures

The Authority provides health care services to the residents of the Interlake-Eastern region of Manitoba across five main health sectors: Acute Care, Long-term Care, Home Care, Community and Mental Health Services and Emergency Services. In the delivery of these services, a number of costs are incurred which are either directly attributable to the relevant sector, or of a general support nature. General support expenses include the following department and staffing costs are allocated to sectors based on estimated time spent: Maintenance, facility administrative support and support services management.

<u>General Support Function</u>	<u>Allocated from General Support</u>	<u>Allocated to Health Sector</u>		
		<u>Acute</u>	<u>Long-term Care</u>	<u>Community</u>
Maintenance	\$ 3,639,896	\$ 2,495,260	\$ 1,144,636	\$ -
Facility administrative support	1,976,007	1,035,297	913,080	27,630
Support services management	1,458,518	574,777	883,741	-
Total	\$ 7,074,421	\$ 4,105,334	\$ 2,941,457	\$ 27,630

INTERLAKE-EASTERN REGIONAL HEALTH AUTHORITY Notes to Consolidated Financial Statements

For the year ended March 31, 2016

18. Administrative Costs

The Canadian Institute of Health Information (CIHI) defines a standard set of guidelines for the classification and coding of financial and statistical information for use by all Canadian health service organizations. The Authority adheres to these coding guidelines.

Administrative costs include corporate operations (including hospitals, non-proprietary personal care homes and community health agencies), as well as patient care related functions such as infection control and patient relations and recruitment of health professionals.

The figures presented are based on data available at the time of publication. Restatements may be made in the subsequent year to reflect final data and changes in the CIHI definition, if any. The administrative cost percentage of total spending indicator (administrative costs as a percentage of total operating costs) adheres to the CIHI definitions.

Administrative costs (% of total)	<u>2016</u>	<u>2015</u>
Corporate operations	3.19 %	3.88 %
Patient care related functions	0.71	0.41
Human resources and recruitment functions	1.99	2.00
	5.89 %	6.29 %

19. Comparative Figures

Certain of the comparative figures have been reclassified to provide better comparison with the current year's results.