

Consolidated Financial Statements of the

WINNIPEG REGIONAL HEALTH AUTHORITY

March 31, 2016

WINNIPEG REGIONAL HEALTH AUTHORITY

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2016**

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Winnipeg Regional Health Authority. The consolidated financial statements were prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations as issued by the Public Sector Accounting Board. Of necessity, the consolidated financial statements include some amounts that are based on estimates and judgments.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains a system of internal accounting controls comprising written policies, standards and procedures, a formal authorization structure, and satisfactory processes for reviewing internal controls. This system is designed to provide management with reasonable assurance that transactions are in accordance with governing legislation, are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

Ernst & Young LLP provides an independent audit of the consolidated financial statements. Their examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures, which allow them to report on the fairness of the consolidated financial statements prepared by management.



Milton Sussman
President & Chief Executive Officer



Glenn McLennan, CPA, CMA
Vice-President & Chief Financial Officer

Independent auditors' report

To the Directors of the
Winnipeg Regional Health Authority

We have audited the accompanying consolidated financial statements of the **Winnipeg Regional Health Authority** [the "Authority"], which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations, changes in net assets, remeasurement gains and losses and cash flows 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 auditors consider internal control relevant to the Authority'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 Authority'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 **Winnipeg Regional Health Authority** as at March 31, 2016, and the results of its operations and changes in its net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Winnipeg, Canada
June 28, 2016

Ernst & Young LLP

Chartered Professional Accountants



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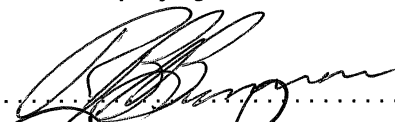

WINNIPEG REGIONAL HEALTH AUTHORITY
Consolidated Statement of Financial Position

As at March 31

(in thousands of dollars)

| | 2016 | 2015 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT | | |
| Cash and cash equivalents | \$ 65,383 | \$ 15,924 |
| Accounts receivable (Note 3) | 228,764 | 221,238 |
| Inventory | 46,509 | 31,624 |
| Prepaid expenses | 18,740 | 13,762 |
| Investments (Note 6) | 4,760 | 8,753 |
| Employee benefits recoverable from Manitoba Health, Healthy Living and Seniors (Note 4) | 78,957 | 78,957 |
| | 443,113 | 370,258 |
| | | |
| CAPITAL ASSETS, NET (Notes 5 and 9) | 1,764,454 | 1,671,934 |
| | | |
| OTHER ASSETS | | |
| Employee future benefits recoverable from Manitoba Health, Healthy Living and Seniors (Note 16) | 82,499 | 82,499 |
| Investments (Note 6) | 29,515 | 61,099 |
| | \$ 2,319,581 | \$ 2,185,790 |
| | | |
| LIABILITIES AND NET ASSETS | | |
| CURRENT | | |
| Bank indebtedness (Note 9) | \$ 127,213 | \$ 52,875 |
| Accounts payable and accrued liabilities (Notes 7 and 10) | 255,211 | 262,209 |
| Deferred contributions, future expenses (Note 8) | 56,955 | 55,192 |
| Employee benefits payable (Note 4) | 121,299 | 109,604 |
| Current portion of long-term debt (Note 9) | 33,976 | 42,763 |
| | 594,654 | 522,643 |
| | | |
| NON-CURRENT | | |
| Long-term debt (Note 9) | 31,542 | 33,573 |
| Employee future benefits payable (Note 16) | 225,533 | 223,097 |
| Deferred contributions, capital (Note 11) | 1,466,811 | 1,400,295 |
| | 1,723,886 | 1,656,965 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 13) | | |
| | | |
| NET ASSETS | 7,319 | 10,144 |
| ACCUMULATED REMEASUREMENT LOSSES | (6,278) | (3,962) |
| | \$ 2,319,581 | \$ 2,185,790 |

The accompanying notes and schedules are an integral part of the consolidated financial statements.


 R. B. Brennan, FCA
 Chair, Board of Directors

 Craig M. Stahlke, FCPA, FCMA
 Treasurer

WINNIPEG REGIONAL HEALTH AUTHORITY

Consolidated Statement of Operations

For the year ended March 31

(in thousands of dollars)

| | 2016 | 2015 |
|--|-------------------|--------------------|
| REVENUE | | |
| Manitoba Health, Healthy Living and Seniors operating income | \$ 2,722,389 | \$ 2,537,413 |
| Separately funded primary health programs | 5,583 | 4,775 |
| Patient and resident income | 41,920 | 44,052 |
| Recoveries from external sources | 53,141 | 61,536 |
| Investment income | 2,374 | 2,816 |
| Other revenue | 6,807 | 5,794 |
| Amortization of deferred contributions, capital | 84,605 | 84,086 |
| Recognition of deferred contributions, future expenses | 18,917 | 51,170 |
| | 2,935,736 | 2,791,642 |
| EXPENSES | | |
| Direct operations | 2,446,576 | 2,335,931 |
| Interest | 1,256 | 880 |
| Amortization of capital assets | 93,253 | 101,062 |
| | 2,541,085 | 2,437,873 |
| FACILITY FUNDING | | |
| Long-term care facility funding | 310,835 | 299,733 |
| Community health agency funding | 47,769 | 46,074 |
| Adult day care facility funding | 2,954 | 2,954 |
| Long-term care community therapy services | 806 | 827 |
| GRANT FUNDING | | |
| Grants to facilities and agencies | 41,745 | 36,453 |
| | 2,945,194 | 2,823,914 |
| OPERATING DEFICIT | (9,458) | (32,272) |
| NON-INSURED SERVICES | | |
| Non-insured services income | 66,442 | 66,094 |
| Non-insured services expenses | 59,815 | 59,158 |
| NON-INSURED SERVICES SURPLUS | 6,627 | 6,936 |
| DEFICIT FOR THE YEAR | \$ (2,831) | \$ (25,336) |

The accompanying notes and schedules are an integral part of the consolidated financial statements.

WINNIPEG REGIONAL HEALTH AUTHORITY
Consolidated Statement of Changes in Net Assets
For the year ended March 31
(in thousands of dollars)

| | 2016 | | | | |
|---------------------------------|-------------------------|------------------------------|--|--------------------|-----------------|
| | Unrestricted Net Assets | Investment in Capital Assets | Internally Restricted Net Assets (Note 12) | Endowment Accounts | Total |
| Balance, beginning of year | \$ (189,732) | \$ 174,091 | \$ 23,628 | \$ 2,157 | \$ 10,144 |
| Surplus (deficit) for the year | 7,990 | (11,398) | 577 | - | (2,831) |
| Purchase of capital assets, net | (13,559) | 15,417 | (1,858) | - | - |
| Net asset restrictions | (3,485) | - | 3,485 | - | - |
| Endowments received | - | - | - | 6 | 6 |
| Balance, end of year | \$ (198,786) | \$ 178,110 | \$ 25,832 | \$ 2,163 | \$ 7,319 |

| | 2015 | | | | |
|-----------------------------------|-------------------------|------------------------------|--|--------------------|------------------|
| | Unrestricted Net Assets | Investment in Capital Assets | Internally Restricted Net Assets (Note 12) | Endowment Accounts | Total |
| Balance, beginning of year | \$ (143,872) | \$ 156,233 | \$ 28,787 | 2,129 | \$ 43,277 |
| Misericordia Adjustment (Note 18) | - | (6,221) | (1,604) | - | (7,825) |
| Deficit for the year | (6,583) | (17,901) | (852) | - | (25,336) |
| Purchase of capital assets, net | (36,578) | 41,980 | (5,402) | - | - |
| Net asset restrictions | (2,699) | - | 2,699 | - | - |
| Endowments received | - | - | - | 28 | 28 |
| Balance, end of year | \$ (189,732) | \$ 174,091 | \$ 23,628 | \$ 2,157 | \$ 10,144 |

The accompanying notes and schedules are an integral part of the consolidated financial statements.

WINNIPEG REGIONAL HEALTH AUTHORITY
Consolidated Statement of Remeasurement Gains and Losses
For the year ended March 31
(in thousands of dollars)

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| Accumulated remeasurement losses at beginning of year | \$ (3,962) | \$ (1,673) |
| Unrealized (losses) gains attributable to: | | |
| Derivative – interest rate swap (Note 10) | (608) | (3,062) |
| Investments | (712) | 1,170 |
| Realized (gains) losses reclassified to statement of operations | | |
| Investments | (996) | (397) |
| <hr/> Net remeasurement loss for the year | <hr/> (2,316) | <hr/> (2,289) |
| <hr/> Accumulated remeasurement losses at end of year | <hr/> \$ (6,278) | <hr/> \$ (3,962) |

The accompanying notes and schedules are an integral part of the consolidated financial statements.

WINNIPEG REGIONAL HEALTH AUTHORITY
Consolidated Statement of Cash Flows
For the year ended March 31
(in thousands of dollars)

| | 2016 | 2015 |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Deficit for the year | \$ (2,831) | \$ (25,336) |
| Items not affecting cash | | |
| Amortization of capital assets | 102,363 | 101,062 |
| Amortization of deferred contributions, capital assets | (88,406) | (84,086) |
| Recognition of deferred contributions, future expenses | (19,386) | (51,170) |
| Net change in employee benefits | 14,131 | 4,886 |
| | 5,871 | (54,644) |
| Net change in non-cash operating working capital balances | (36,697) | (79,939) |
| Deferred contributions received - future expenses | 21,149 | 19,675 |
| | (9,677) | (114,908) |
| FINANCING ACTIVITIES | | |
| Deferred contributions, capital received | 154,922 | 148,303 |
| Proceeds of line of credit | 74,338 | 52,875 |
| Proceeds of long-term debt | - | 4,767 |
| Long-term debt repayments | (10,818) | (4,868) |
| | 218,442 | 201,077 |
| CAPITAL ACTIVITIES | | |
| Purchase of capital assets | (194,883) | (214,526) |
| | (194,883) | (214,526) |
| INVESTING ACTIVITIES | | |
| Decrease in investments, net | 35,577 | 46,729 |
| | 35,577 | 46,729 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 49,459 | (81,628) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 15,924 | 97,552 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 65,383 | \$ 15,924 |

The accompanying notes and schedules are an integral part of the consolidated financial statements.

WINNIPEG REGIONAL HEALTH AUTHORITY

Notes to the Consolidated Financial Statements

As at March 31, 2016

(in thousands of dollars)

1. NATURE OF BUSINESS

The Winnipeg Regional Health Authority (“the Authority” or “WRHA”) was established as of May 28, 2012 under the *Regional Health Authorities Act*, as the successor to the Winnipeg Regional Health Authority established on December 1, 1999.

The Authority provides community health services, long term care services and acute care services. In addition, the Authority provides information technology services to all regional health authorities in Manitoba, Diagnostic Services of Manitoba, CancerCare Manitoba, the Addictions Foundation of Manitoba, as well as health-care providers and their colleges and associations through its operations of Manitoba eHealth.

The scope of the Authority’s operations is classified into these three distinct segments:

- i. Direct Operations - provided through:
 - Direct Ownership – Home Care services, Mental Health services, Public Health services, Primary Care services, Manitoba eHealth services, Long Term Care Services (Middlechurch Home of Winnipeg and Riverpark Gardens sites), Acute Care services (Churchill Health Centre, Deer Lodge Centre, Grace General Hospital, Health Sciences Centre, Pan Am Clinic, and Victoria General Hospital sites), and Medical Remuneration.
 - Community Hospitals (Concordia Hospital, Seven Oaks General Hospital) – by means of agreements to further regionalization and operating agreements.
 - Other Hospitals (Misericordia Health Centre, Riverview Health Centre, St. Boniface General Hospital), Volunteer Enterprises of the Health Sciences Centre Inc. (“VENT”) and Manitoba Adolescent Treatment Centre (“MATC”) – by means of operating agreements.
- ii. Long-term care and community health services – provided through non-proprietary and proprietary personal care homes and community health agencies by means of service purchase agreements.
- iii. Other health services – provided through various agencies by means of grant funding mechanisms.

The Authority is a not-for-profit organization. Under the *Income Tax Act (Canada)*, the Authority is exempt from income taxes, provided certain requirements of the *Income Tax Act (Canada)* are met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Canadian public sector accounting standards including PS 4200 - 4270 (“PSAB for GNFPO”).

a) Controlled entities

The Authority consolidates organizations involved in the delivery of health care services that it controls through the ability to determine the strategic operating, capital, investing and financial policies. Controlled organizations not directly involved in the delivery of health care services are not consolidated (Note 15).

b) Revenue recognition

The Authority follows the deferral method of accounting for contributions:

WINNIPEG REGIONAL HEALTH AUTHORITY

Notes to the Consolidated Financial Statements

As at March 31, 2016

(in thousands of dollars)

- i. Unrestricted contributions – recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- ii. Externally restricted contributions – recognized as revenue in the year in which the related expenses are recognized.
- iii. 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.
- iv. Endowment contributions requiring the externally restricted contribution be maintained in perpetuity – recognized as direct increase to net assets.

Non-insured services income is recognized when services are rendered.

Investment income, including realized gains and losses, is recorded as revenue when earned. Investment income from endowment net assets is recognized (a) as revenue when earned if no external restriction exists; (b) as revenue in the year in which the related expenses are incurred if an external restriction on the use of investment income exists; or (c) is added to endowment net assets if external restriction requires investment income to be held in perpetuity.

c) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid instruments, such as certificates of deposit, term deposits, treasury notes and other money market instruments, which generally have original maturities of less than three months from the date of issuance.

d) Inventory

Inventory held for internal use consists of medical supplies, drugs, linen and other supplies that are measured at the lower of cost and replacement cost. Inventory held for sale is measured at the lower of cost and net realizable value. Cost for all types of inventory is calculated using the weighted average cost formula.

e) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis at the following annual rates:

| | |
|--------------------------------|----------------------------|
| Buildings | 2-10% |
| Furniture and equipment | 4-33% |
| Computer hardware and software | 10-33% |
| Leasehold improvements | over the life of the lease |

Interest on the debt associated with construction in progress projects is capitalized as incurred.

WINNIPEG REGIONAL HEALTH AUTHORITY

Notes to the Consolidated Financial Statements

As at March 31, 2016

(in thousands of dollars)

f) Employee future benefits

The Authority accrues its obligations under employee benefit plans and the related costs. The Authority has adopted the following policies:

Multi-employer plans

Defined contribution accounting is applied for multi-employer pension plans, whereby contributions are expensed on an accrual basis, as the Authority has insufficient information to apply defined benefit plan accounting.

Other defined benefit plans

The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected unit credit service pro-rated on the service actuarial cost method and management's best estimate assumptions. Actuarial gains (losses) are amortized on a straight-line basis. The period of amortization is equal to the expected average remaining service life ("EARSL") of active employees. Past service costs are expensed when incurred. Liabilities are measured using a discount rate determined by reference to the Authority's cost of borrowing. Adjustments to these costs arising from changes in actuarial assumption and/or experience are recognized over the estimated average remaining service period of the active employees.

g) Endowment net assets

Endowment accounts are to be invested in perpetuity, and investment income earned is to be used for designated purposes. Investment income earned may be added back directly to the endowment net asset if this is explicitly directed by the donor.

h) Use of estimates

The preparation of consolidated financial statements in conformity with PSAB for GNFP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The Authority is funded by the Province of Manitoba using Manitoba Health, Healthy Living and Seniors ("Manitoba Health") funding mechanisms. These consolidated financial statements use funding mechanisms approved by Manitoba Health for the year ended March 31, 2016.

The amount of revenue recognized from Manitoba Health requires a number of estimates. Since Manitoba Health does not communicate certain adjustments related to revenue until after the completion of the consolidated financial statements, the amount of revenue recognized during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these consolidated financial statements represents management's best estimate of amounts that have been earned during the year.

WINNIPEG REGIONAL HEALTH AUTHORITY

Notes to the Consolidated Financial Statements

As at March 31, 2016

(in thousands of dollars)

Other amounts estimated by management include amortization of capital assets, employee future benefits payable and allowance for doubtful accounts.

i) Financial instruments

The Authority classifies its financial instruments at either fair value or amortized cost. The Authority determines the classification of its financial instruments at initial recognition. The Authority's accounting policy for each category is as follows:

Fair value

The fair value category includes derivatives and investments.

Derivatives and investments are measured at fair value and the unrealized gains or losses arising from remeasurement are recorded and presented in the consolidated statement of remeasurement gains and losses. In the year of settlement or disposal, the gains or losses are reclassified to the consolidated statement of operations.

The Authority recognizes investments based on trade dates. Transaction costs related to investments are added to the carrying value of the instrument.

Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from accumulated remeasurement gains and losses and recognized in the consolidated statement of operations. If the loss in value subsequently reverses, the write-down in the consolidated statement of operations is not reversed until the investment is sold.

Amortized cost

The amortized cost category includes accounts receivable, accounts payable, accrued liabilities and long-term debt. These financial instruments are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write-downs are recognized when the amount of a loss is known with sufficient accuracy, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the consolidated statement of operations. If the loss in value subsequently reverses, the write-down in the consolidated statement of operations is not reversed.

WINNIPEG REGIONAL HEALTH AUTHORITY

Notes to the Consolidated Financial Statements

As at March 31, 2016

(in thousands of dollars)

3. ACCOUNTS RECEIVABLE

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Manitoba Health - operating, capital and fee for service | \$ 183,945 | \$ 179,171 |
| Accounts receivable from other Province of Manitoba departments | 867 | 1,024 |
| Facility advances and receivables | 4,776 | 3,482 |
| Patient related and other | 44,239 | 41,691 |
| Allowance for doubtful accounts | (5,063) | (4,130) |
| | <u>\$ 228,764</u> | <u>\$ 221,238</u> |

Aging of accounts receivable as at March 31, 2016 are as follows:

| | <u>Total</u> | <u>Current</u> | <u>31 - 60 days</u> | <u>61 - 90 days</u> | <u>>91 days</u> |
|---|--------------|----------------|-------------------------|-------------------------|--------------------|
| Patient related and Other | \$ 44,239 | \$ 28,813 | \$ 2,536 | \$ 2,995 | \$ 9,895 |
| Accounts receivable from other Province of Manitoba departments | 867 | 867 | - | - | - |
| Bridge Funding (PCHs) | 4,776 | 480 | - | 255 | 4,041 |
| Gross Receivables | 49,882 | 30,160 | 2,536 | 3,250 | 13,936 |
| Manitoba Health (See below) | 183,945 | | | | |
| Allowance for doubtful accounts | (5,063) | | | | (5,063) |
| Net receivables | 228,764 | 30,160 | 2,536 | 3,250 | 8,873 |

Manitoba Health receivables by funding year as at March 31, 2016 are as follows:

| | <u>Total</u> | <u>2015/16</u> | <u>2014/15</u> | <u>2013/14</u> | <u>2012/13 and prior</u> |
|--|--------------|----------------|----------------|----------------|------------------------------|
| Manitoba Health – operating, capital and fee for service | \$ 183,945 | \$ 137,973 | \$ 34,362 | \$ 6,569 | \$ 5,041 |

WINNIPEG REGIONAL HEALTH AUTHORITY
Notes to the Consolidated Financial Statements
As at March 31, 2016
(in thousands of dollars)

Aging of accounts receivable as at March 31, 2015 are as follows:

| | <u>Total</u> | <u>Current</u> | <u>31 - 60 days</u> | <u>61 - 90 days</u> | <u>>91 days</u> |
|---|--------------|----------------|-------------------------|-------------------------|--------------------|
| Patient related and Other | \$ 41,691 | \$ 28,013 | \$ 1,555 | \$ 1,461 | \$ 10,662 |
| Accounts receivable from other Province of Manitoba departments | 1,024 | 838 | 56 | 4 | 126 |
| Bridge Funding (PCHs) | 3,482 | 100 | 300 | 1,062 | 2,020 |
| Gross Receivables | 46,197 | 28,951 | 1,911 | 2,527 | 12,808 |
| Manitoba Health (See below) | 179,171 | | | | |
| Allowance for doubtful accounts | (4,130) | | | | (4,130) |
| Net receivables | 221,238 | 28,951 | 1,911 | 2,527 | 8,678 |

Manitoba Health receivables by funding year as at March 31, 2016 are as follows:

| | <u>Total</u> | <u>2014/15</u> | <u>2013/14</u> | <u>2012/13</u> | <u>2011/12 and prior</u> |
|--|--------------|----------------|----------------|----------------|------------------------------|
| Manitoba Health - operating, capital and fee for service | \$ 179,171 | \$ 121,735 | \$ 44,051 | \$ 7,438 | \$ 5,947 |

As at March 31, 2016, there are significant amounts owing to the Authority that are past due. The majority of these amounts are from Manitoba Health and the Authority's experience is that these will be collected. None of these amounts are impaired.

4. EMPLOYEE BENEFITS

The Authority records a provision for employee benefits including accrued vacation, overtime, and statutory holiday entitlements. Prior to March 31, 2004, changes in the liability related to employee benefits were recoverable from Manitoba Health. The amount of funding that will be provided by Manitoba Health for employee benefits has been capped at the amount owing as at March 31, 2004 and has been recorded as a receivable of \$78,957 on the consolidated statement of financial position. Manitoba Health has indicated that payment of this receivable, when required, is guaranteed by the Province of Manitoba. Any changes from the March 31, 2004 liability amount are reflected in the consolidated statement of operations.

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

| | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Balance, beginning of year | \$ 109,604 | \$ 106,736 |
| Increase in vacation/overtime/statutory holiday entitlements | 11,695 | 2,868 |
| Balance, end of year | \$ 121,299 | \$ 109,604 |

WINNIPEG REGIONAL HEALTH AUTHORITY

Notes to the Consolidated Financial Statements

As at March 31, 2016

(in thousands of dollars)

5. CAPITAL ASSETS

| | 2016 | | |
|--------------------------------|---------------------|--------------------------|---------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Land | \$ 18,911 | \$ - | \$ 18,911 |
| Buildings | 1,389,307 | (567,436) | 821,871 |
| Buildings under capital lease | 16,690 | (1,287) | 15,403 |
| Furniture and equipment | 977,147 | (817,939) | 159,208 |
| Computer hardware and software | 309,072 | (150,610) | 158,462 |
| Leasehold improvements | 77,181 | (36,735) | 40,446 |
| Construction in progress | 550,153 | - | 550,153 |
| | \$ 3,338,461 | \$ (1,574,007) | \$ 1,764,454 |

| | 2015 | | |
|--------------------------------|---------------------|--------------------------|---------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Land | \$ 18,926 | \$ - | \$ 18,926 |
| Buildings | 1,339,199 | (542,714) | 796,485 |
| Buildings under capital lease | 16,690 | (869) | 15,821 |
| Furniture and equipment | 939,335 | (784,463) | 154,872 |
| Computer hardware and software | 238,354 | (125,765) | 112,589 |
| Leasehold improvements | 76,338 | (31,861) | 44,477 |
| Construction in progress | 528,764 | - | 528,764 |
| | \$ 3,157,606 | \$ (1,485,672) | \$ 1,671,934 |

The Authority has capitalized interest on some projects up until they are substantially complete. The amount of interest capitalized during the year amounted to \$2,642 (2015 - \$3,355).

6. INVESTMENTS

| | Fair Value Hierarchy level | 2016 | 2015 |
|---|----------------------------|------------------|------------------|
| Investments at fair value | | | |
| Money market investments | Level 2 | \$ 341 | \$ 321 |
| Government bonds | Level 2 | 4,662 | 12,740 |
| Corporate bonds | Level 2 | 16,887 | 40,333 |
| Guaranteed Investment Certificates (GICs) | Level 2 | 12,435 | 16,676 |
| | | 34,325 | 70,070 |
| Less: amounts included with accrued interest | | (50) | (218) |
| | | 34,275 | 69,852 |
| Less: amounts maturing/redeemable within one year, included in current assets | | (4,760) | (8,753) |
| | | \$ 29,515 | \$ 61,099 |

WINNIPEG REGIONAL HEALTH AUTHORITY

Notes to the Consolidated Financial Statements

As at March 31, 2016

(in thousands of dollars)

The fair value hierarchy level is provided to present the degree of objectivity of the fair values of the investment portfolio. The levels are defined as follows:

Level 1: Unadjusted quoted prices in an active market for an identical asset or liability

Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

None of the above investments are considered impaired, and no write-down was recorded during the year as there were no declines in the values of these investments that were concluded to be other than a temporary decline in value.

The Authority manages the liquidity risk associated with its investments by limiting the types of eligible investments. At the time of purchase, corporate bonds and government bonds are limited to a rating of A or higher and money market investments are limited to R1 or better.

The Authority is exposed to the effects of future changes in the prevailing level of interest rates. Changes in the market interest rates have a direct effect on the fair value of the Authority's investments. The Authority mitigates the interest rate risk exposure of its Government and Corporate bonds and GICs by staggering maturity dates. As at March 31, 2016, the maturity dates are as follows:

| | Government | Corporate | GICs | Effective Yield |
|---------------|-----------------|------------------|------------------|-----------------|
| Within 1 year | \$ 589 | \$ 2,341 | \$ 1,490 | 3.35% |
| 2 to 5 years | 3,945 | 12,158 | 10,945 | 2.73% |
| 5 to 10 years | 100 | 1,639 | - | 2.24% |
| Over 10 years | 28 | 749 | - | 2.82% |
| | <u>\$ 4,662</u> | <u>\$ 16,887</u> | <u>\$ 12,435</u> | |

Money market investments are not exposed to significant interest rate risk due to the short-term maturity of these investments.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 193,178 | \$ 190,683 |
| Accounts payable to Manitoba Health | 7,089 | 5,565 |
| Accrued salaries | 39,042 | 53,554 |
| Holdbacks on construction contracts | 15,902 | 12,407 |
| | <u>\$ 255,211</u> | <u>\$ 262,209</u> |

WINNIPEG REGIONAL HEALTH AUTHORITY

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8. DEFERRED CONTRIBUTIONS, FUTURE EXPENSES

Deferred contributions related to future expenses represent the unspent amount of funding received for the Authority's operating expenses not yet incurred. The recognition of deferred contributions, future expenses is recorded as revenue in the consolidated statement of operations.

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|------------------|------------------|
| Funding provided by Manitoba Health | \$ 10,422 | \$ 11,090 |
| Funding provided by other sources | 46,533 | 44,102 |
| | <u>\$ 56,955</u> | <u>\$ 55,192</u> |

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Balance, beginning of year | \$ 55,192 | \$ 86,686 |
| Amount received during the year | 21,156 | 20,927 |
| Transferred to deferred contributions, capital | (7) | (6) |
| Less: amount recognized as revenue – programs | (18,917) | (51,170) |
| Less: amount recognized as revenue – non-insured services | (469) | (1,245) |
| Balance, end of year | <u>\$ 56,955</u> | <u>\$ 55,192</u> |

9. LONG-TERM DEBT

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| 1.720% banker's acceptance, maturing April 15, 2016 Health Science Centre Tecumseh Street Parkade (Note 10) | \$ 30,469 | \$ 31,762 |
| 5.9% obligation under capital lease, maturing March 31, 2053 WRHA capital lease for Access St. James Monthly principal and interest payments \$92 | 16,196 | 16,196 |
| 3.58% bank loan, maturing October 30, 2024 Monthly principal and interest payments \$48 St. Boniface General Hospital Atrium | 12,628 | 12,877 |
| Prime minus 0.65% mortgage payable, maturing December 31, 2015 Health Sciences Centre Kleysen Institute | - | 6,643 |
| 7.38% mortgage payable, maturing August 31, 2018 Monthly principal and interest payments \$157 Nutrition and Food Services | 4,166 | 5,684 |

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| | | |
|--|------------------|-----------|
| 1.405% banker's acceptance, maturing April 27, 2016 | | |
| Health Sciences Centre Emily Street Parkade (Note 10) | 1,262 | 2,163 |
| Prime minus 0.65% term loan, maturing September 30, 2022 | | |
| Monthly principal and interest payments \$9 | | |
| Grace General Hospital Ancillary Parking Lot | 635 | 739 |
| Prime non-revolving term credit facility, no fixed maturity | | |
| Riverview Health Centre Boilers | 62 | 137 |
| 5.75% mortgage payable, maturing March 31, 2018 | | |
| Monthly principal and interest payments \$3 | | |
| Middlechurch | 100 | 135 |
| | 65,518 | 76,336 |
| Less: amounts due within one year, included in current liabilities | (33,976) | (42,763) |
| | \$ 31,542 | \$ 33,573 |

The Health Sciences Centre Tecumseh Street Parkade Loan has been collateralized by the Tecumseh Street Parkade, which at March 31, 2016 had a net book value of \$34,280 (2015 - \$35,730). The Health Sciences Centre Emily Street Parkade Loan has been collateralized by the Emily Street Parkade, which at March 31, 2016 had a net book value of \$4,119 (2015 - \$4,429). The assigned results of the HSC Business and Innovative Services have also been secured against both of the parkade loans.

The St. Boniface General Hospital Atrium loan maturing on October 30, 2024 is collateralized by an assignment of existing and future leases and rents related to the St. Boniface General Hospital Atrium. In accordance with the terms of the loan agreement, the Hospital cannot sell, transfer, assign, mortgage, lease, encumber, or otherwise dispose of any building or land associated with the Atrium without the lender's consent.

The Grace General Hospital Ancillary Parking Lot Loan has been collateralized by the revenue from the Grace Ancillary parking lot.

In addition to the long-term debt above, the Authority has unsecured operating lines of credit which at March 31, 2016 amount to \$124,000 (2015 - \$99,900). As at March 31, 2016, \$127,213 is being utilized (2015 - \$52,875).

The principal repayments over the next five fiscal years and thereafter are as follows:

| | Bank Loans | Capital Lease |
|------------|------------------|------------------|
| 2016/17 | \$ 33,826 | \$ 150 |
| 2017/18 | 2,167 | 162 |
| 2018/19 | 1,188 | 201 |
| 2019/20 | 393 | 213 |
| 2020/21 | 405 | 226 |
| Thereafter | 11,343 | 15,244 |
| | \$ 49,322 | \$ 16,196 |

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10. DERIVATIVE FINANCIAL INSTRUMENTS

The Authority has entered into interest rate swaps to convert a floating interest rate debt instrument into a fixed interest rate debt instrument for each of the Emily Street Parkade ("Emily") and Tecumseh Street Parkade ("Tecumseh") at the Health Sciences Centre. These interest rate swaps relate to banker's acceptances (listed in Note 9), which are automatically renewed monthly until the end of the swap agreement.

The notional amount of the Emily swap at March 31, 2016 is \$1,262 (2015 - \$2,163), maturing on July 23, 2017 with a fixed rate of 4.105%. The fair value of this swap has been calculated as \$(24) (2015 - \$(80)), resulting in a derivative liability of \$24 (2015 - \$80) included in accounts payable and accrued liabilities.

The notional amount of the Tecumseh swap at March 31, 2016 is \$30,469 (2015 - \$31,762) maturing on November 15, 2039 with a fixed rate of 4.4%. The fair value of this swap has been calculated at \$(6,602) (2015 - \$(5,939)), resulting in a derivative liability of \$6,602 (2015 - \$5,939) included in accounts payable and accrued liabilities.

The counterparty to this contract is a major Canadian financial institution. The Authority does not anticipate any material adverse effect on its financial position resulting from the involvement in this type of contract, nor does it anticipate non-performance by the counterparty given their high credit rating.

11. DEFERRED CONTRIBUTIONS, CAPITAL

Deferred contributions related to capital assets represent the unamortized and unspent amount of funding received for the purchase of the Authority's capital assets. The amortization of deferred contributions, capital is recorded as revenue in the consolidated statement of operations.

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|--------------|
| Balance, beginning of year | \$ 1,400,295 | \$ 1,336,078 |
| Amount received during the year | 154,915 | 151,313 |
| Transferred to deferred contributions, future expenses | 7 | 6 |
| Less: amount recognized as revenue – programs | (84,605) | (84,086) |
| Less: amount recognized as revenue – non-insured services | (3,801) | (3,016) |
| Balance, end of year | \$ 1,466,811 | \$ 1,400,295 |

The Authority entered into long-term loan agreements with various financial institutions to provide debt financing to the Authority. The Province of Manitoba continues to pay the principal and interest on this long-term debt. During the 2005 fiscal year, this long-term debt was assumed by the Province of Manitoba and was recognized as borrowings in the Public Accounts (Special Purpose Financial Statements) of the Province of Manitoba as at April 1, 2004. Accordingly, since the Province of Manitoba has recognized the long-term debt as its borrowings, the Authority incorporated the long-term debt balance of \$267,766 (2015 - \$273,674) as part of its deferred contributions, capital balance.

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Notes to the Consolidated Financial Statements

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12. INTERNALLY RESTRICTED NET ASSETS

Annually, the Board of Directors determines the amount, if any, to be transferred between unrestricted and internally restricted net assets. Internally restricted net assets include amounts set aside by the Authority and its consolidated entities for the following purposes:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| Laundry Capital Assets | \$ 3,194 | \$ 1,380 |
| Concordia Capital Assets | 664 | 664 |
| Deer Lodge Capital Assets | 281 | 281 |
| Grace Capital Assets | 3,333 | 3,321 |
| Victoria Capital Assets | 329 | 329 |
| Seven Oaks Ancillaries & Wellness Institute | 4,834 | 5,017 |
| Health Sciences Centre Internally Restricted | 1,292 | 1,033 |
| Riverview Internally Restricted | 4,017 | 3,874 |
| Middlechurch | 206 | 179 |
| Misericordia Ancillary Fund | 874 | 749 |
| St. Boniface Internally Restricted | 6,808 | 6,801 |
| Total | <u>\$ 25,832</u> | <u>\$ 23,628</u> |

13. COMMITMENTS AND CONTINGENCIES

- a) The Authority is subject to legal actions arising in the normal course of business. It is not expected that these legal actions will have a material adverse effect on the financial position of the Authority.
- b) As at March 31, 2016, the Authority had agreements to lease various premises occupied by the Authority, as well as commitments to lease various equipment. Lease payments for the next five years are as follows:

| | <u>Premises</u> | <u>Equipment</u> |
|---------|-----------------|------------------|
| 2016/17 | \$18,202 | \$4,894 |
| 2017/18 | 17,933 | 3,117 |
| 2018/19 | 17,114 | 628 |
| 2019/20 | 16,116 | 321 |
| 2020/21 | 15,040 | 25 |

- c) As at March 31, 2016, the Authority had capital commitments of approximately \$39,696 (2015 - \$71,010) and equipment purchase commitments of approximately \$19,857 (2015 - \$21,448).

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14. HIROC

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 to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces and territories where it is licensed. 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.

15. RELATED ENTITIES

The Authority provides community health services through operations directly owned by the Authority, as well as through other organizations and agencies via a variety of agreements (Note 1). Transactions between the related parties are recorded at the exchange amount.

The Authority is the majority funder of the Community Hospitals, the Other Hospitals and MATC, which act as the Authority’s agents in providing health care services mandated by the Province of Manitoba. These health care services are delivered under the control of the Authority from an accounting perspective. This determination of control is based largely on the fact that the Community Hospitals’, the Other Hospitals’, MATC’s, and VENT’s services and purposes are integrated with that of the Authority such that they and the Authority have common and complementary objectives. Moreover, due to the existence of operating agreements between the Authority and the Community Hospitals, Other Hospitals and MATC, the Authority has the ability to determine their strategic operating, capital, investing and financing policies.

The controlled Community Hospitals, Other Hospitals, MATC, and VENT have been consolidated into the Authority’s financial statements due to the nature of the agreements in existence, while the controlled Seven Oaks General Hospital Foundation Inc. and St. Boniface General Auxiliary Inc. have not been consolidated since they are not directly involved in the delivery of health care services. Note 15 (a) provides a financial summary of these controlled non-consolidated entities.

For accounting purposes the relationships with these organizations and agencies are as follows:

a) **Controlled entities**

The Community Hospitals, Other Hospitals, MATC and VENT are controlled and have been consolidated into the Authority’s financial statements.

The consolidated entities within the Authority exercise control over the following entities by virtue of their ability to determine their operating, investing, or financing policies. The following entities are controlled, but not consolidated:

Seven Oaks General Hospital Foundation Inc.
St. Boniface General Auxiliary Inc.

These entities were incorporated under the *Corporations Act* of Manitoba, are registered charities for the purposes of the *Income Tax Act (Canada)* and, accordingly, are exempt

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from income taxes. The aim of these entities is to advance the welfare of their respective hospitals and patients.

A financial summary of these entities is as follows:

| | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|
| <i>Financial Position</i> | | |
| Total assets | \$ 2,017 | \$ 1,748 |
| Total liabilities | 266 | 193 |
| <u>Total net assets</u> | <u>\$ 1,751</u> | <u>\$ 1,555</u> |
| <i>Results of Operations</i> | | |
| Total revenue | \$ 1,378 | \$ 1,204 |
| Total expenses | 1,189 | 1,206 |
| <u>Surplus (deficit) from operations</u> | <u>\$ 189</u> | <u>\$ (2)</u> |
| <i>Cash Flows</i> | | |
| Used in operating activities | \$ 330 | \$ (54) |
| Provided by (used in) financing, capital and investing activities | 1,032 | (28) |
| <u>Increase (decrease) in cash</u> | <u>\$ 1,362</u> | <u>\$ (82)</u> |

During the year, the controlled and not consolidated entities contributed \$255 (2015 - \$340) to various facilities within the Authority. The Authority incurred expenses of \$nil (2015 - \$nil) with the listed entities. As at March 31, 2016, various facilities within the Authority had aggregate amounts of \$167 (2015 - \$45) receivable from and \$nil (2015 - \$nil) payable to the entities above.

b) Significant influence

The consolidated entities within the Authority exercise significant influence over a number of hospital foundations and other similar organizations by virtue of their ability to affect the entities' strategic operating, investing, and financing policies. These entities were incorporated under the *Corporations Act* of Manitoba, are registered charities for the purposes of the *Income Tax Act (Canada)* and, accordingly, are exempt from income taxes. The aim of these entities is to advance the welfare of their respective hospitals and patients.

During the year, these entities contributed \$4,318 (2015 - \$4,741) to various facilities within the Authority. The Authority incurred expenses of \$nil (2015 - \$nil) with the above entities. As at March 31, 2016, various facilities within the Authority had aggregate amounts of \$1,091 (2015 - \$2,248) receivable from and \$369 (2015 - \$194) payable to the entities above.

c) Economic interest

The consolidated entities within the Authority have an economic interest in a number of organizations that support a hospital by virtue of the organizations holding resources that must be used to produce revenue for the consolidated entities within the Authority.

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(in thousands of dollars)

During the year, these entities contributed \$2,405 (2015 - \$2,841) to various facilities within the Authority. The Authority incurred expenses of \$nil (2015 - \$nil) with these entities. As at March 31, 2016, various facilities within the Authority had aggregate amounts of \$93 (2015 - \$448) receivable from and \$nil (2015 - \$nil) payable to these entities.

In addition to these entities, the Authority has an economic interest in proprietary and non-proprietary personal care homes and community health agencies. Funding is provided to these entities through service purchase agreements to deliver service on behalf of the Authority. As at March 31, 2016, the Authority had aggregate amounts of \$nil (2015 - \$nil) receivable from and \$35,420 (2015 - \$26,670) payable to proprietary and non-proprietary personal care homes and community health agencies.

16. EMPLOYEE FUTURE BENEFITS

a) Accrued retirement entitlement

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 a formula (dependent on the agreement/policy applicable to the employee).

The most recent valuation of the obligation was performed as at December 31, 2014, projected to March 31, 2015. The March 31, 2016 amounts are based on an extrapolation of the data used in the December 31, 2014 valuation. The next full valuation will be completed as at December 31, 2017 projected to March 31, 2018.

Information about the Authority's accrued retirement benefit plan at March 31 is as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|--------------|--------------|
| Accrued benefit obligation | \$ 182,055 | \$ 173,119 |
| Funded status – plan deficit | \$ (182,055) | \$ (173,119) |
| Unamortized net actuarial gain | (10,438) | (14,084) |
| Accrued benefit liability | \$ (192,493) | \$ (187,203) |

The change in the Authority's accrued retirement benefit plan consists of the following:

| | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|
| Accrued benefit liability – beginning of year | \$ (187,203) | \$ (184,006) |
| In-year (expense) | (14,919) | (12,674) |
| Benefits paid | 9,629 | 9,477 |
| Accrued benefit liability – end of year | \$ (192,493) | \$ (187,203) |

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As at March 31, 2016

(in thousands of dollars)

The expense related to the Authority's accrued retirement benefit plans consists of the following:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|------------------|------------------|
| Current service cost | \$ 11,859 | \$ 9,905 |
| Amortization of actuarial gain | (1,096) | (2,244) |
| Interest cost | 4,156 | 5,013 |
| | <u>\$ 14,919</u> | <u>\$ 12,674</u> |

The significant actuarial assumptions adopted for measuring the Authority's accrued benefit obligations are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------|-------------|-------------|
| Discount rate | 3.000 % | 2.550 % |
| Salary escalation | 3.500 % | 3.500 % |
| EARSL | 7.5 Yrs | 7.6 Yrs |

The significant actuarial assumptions adopted in measuring the Authority's expense for the retirement benefit plan are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------|-------------|-------------|
| Discount rate | 2.550 % | 3.350 % |
| Salary escalation | 3.500 % | 3.000 % |

The amount of funding that will be provided by Manitoba Health for pre-retirement entitlement obligations has been capped at the amount owing as at March 31, 2004 and has been recorded as a receivable of \$82,499 on the consolidated statement of financial position. Manitoba Health has indicated that payment of this receivable, when required, is guaranteed by the Province of Manitoba. Any changes from the March 31, 2004 liability amount are reflected in the consolidated statement of operations.

b) Pension plans

Most of the employees are members of the Healthcare Employees Pension Plan (the "Plan"), which is a multi-employer, defined benefit, highest consecutive average earnings, contributory pension plan available to all eligible employees. The Authority is a Signatory Board and Settlor of the Plan. All of the relevant financial information is contained within the financial information of the Plan.

Actual contributions to the Plan made during the year by the Authority on behalf of its employees amounted to \$90,765 (2015 - \$82,575) and are included as an expense in the consolidated statement of operations.

The most recent valuation for financial reporting purposes completed by the Plan as at December 31, 2014 disclosed total actuarial value of assets of \$5,609,305 with total actuarial liabilities of \$5,803,853, resulting in an unfunded liability of \$194,548.

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(in thousands of dollars)

Some employees are eligible for membership in the provincially operated Civil Service Superannuation Plan. The pension liability for Authority employees is included in the Province of Manitoba's liability for Civil Service Superannuation Fund. Accordingly, no provision is required in the consolidated financial statements relating to the effects of participating in this plan by the Authority and its employees.

Some employees are eligible for membership in the multi-employer City of Winnipeg Employees' Benefits Program, which includes the Civic Employees' Pension Plan. The Civic Employees' Pension Plan is a defined benefit pension plan operated by the City of Winnipeg. During the year, the Authority expensed \$1,816 (2015 - \$1,871) for current year's contributions. The most recent valuation for financial reporting purposes completed by this plan as at December 31, 2014 disclosed total actuarial value of assets of \$4,136,564 with total actuarial liabilities of \$4,054,660, resulting in a surplus of \$81,904.

Some employees are eligible for membership in the multi-employer Home Care Workers' Benefit Trust, which includes the Manitoba Home Care Pension Plan. The Manitoba Home Care Pension Plan is a defined contribution pension plan. During the year, the Authority expensed contributions of \$1,619 (2015 - \$1,500) to this plan.

c) Sick leave liability

The Authority provides sick leave benefits that accumulate, but do not vest.

Information about the Authority's sick leave liability at March 31 is as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------|-------------|
| Accrued benefit obligation | \$ 27,980 | \$ 30,970 |
| Funded status – plan deficit | \$ (27,980) | \$ (30,970) |
| Unamortized net actuarial gain | (5,060) | (4,924) |
| Accrued benefit liability | \$ (33,040) | \$ (35,894) |

The change in the Authority's sick leave liability consists of the following:

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Accrued benefit liability – beginning of year | \$ (35,894) | \$ (37,073) |
| In-year (expense) | (2,734) | (2,191) |
| Benefits paid | 5,588 | 3,370 |
| Accrued benefit liability – end of year | \$ (33,040) | \$ (35,894) |

The expense related to the Authority's sick leave liability consists of the following:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------|-------------|
| Current service cost | \$ 2,613 | \$ 1,838 |
| Amortization of actuarial gain | (664) | (637) |
| Interest cost | 785 | 1,066 |
| | \$ 2,734 | \$ 2,267 |

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As at March 31, 2016

(in thousands of dollars)

The significant actuarial assumptions adopted for measuring the Authority's sick leave liability are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------|----------------|-------------|
| Discount rate | 3.000 % | 2.550 % |
| Salary escalation | 3.500 % | 3.500 % |
| EARSL | 7.5 Yrs | 7.6 Yrs |

The significant actuarial assumptions adopted in measuring the Authority's expense for the sick leave liability are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------|----------------|-------------|
| Discount rate | 2.550 % | 3.350 % |
| Salary escalation | 3.500 % | 3.000 % |

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

The Authority is exposed to various financial risks through transactions in financial instruments.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Authority is exposed to credit risk in connection with its accounts receivable, interest rate swap, and investment activities.

The Authority's accounts receivable consists mostly of amounts due from the Government of Manitoba and from the facilities that it funds, minimizing credit risk. These receivable balances are monitored on an on-going basis. An impairment allowance is set up based on the Authority's judgment on a case-by-case basis. There are no significant amounts that are past due or impaired.

The Authority's credit risk associated with an interest rate swap is minimized by entering into an agreement with a major Canadian financial institution.

With respect to credit risk arising from investment activities, the Authority manages this risk by developing an investment policy that establishes criteria for the selection of investments that include benchmarks for the creditworthiness of entities.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures, and methods used to measure the risk.

Market risk

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

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The Authority is exposed to market risks through the derivative instruments entered into. The Authority uses derivative instruments only for risk management purposes and not for generating trading profit. As such, any change in cash flows associated with derivative instruments due to their exposure to market risks is designed to be offset by changes in cash flows related to the risk being hedged.

Interest rate risk

Interest rate risk includes the risk arising from fluctuations in short-term interest rates and the volatility of those rates on the issuance of floating rate debt. The Authority is exposed to interest rate risk with respect to its investments because the fair value will fluctuate due to changes in market interest rates. In addition, the Authority is exposed to interest rate risk with respect to its long-term debt because cash flows will fluctuate because the interest rate is linked to the bank's prime rate, which changes from time to time.

The Authority uses derivative instruments to manage exposure to changes in interest rates. The Authority's objective for holding these derivatives is to minimize risk using the most efficient methods to eliminate or reduce the impacts of this exposure.

The Authority has entered into an interest rate swap to manage the interest rate cash flow exposure associated with a proportion of total debt that is subject to variable rates. The contracts have an effect of converting the floating rate of interest to a fixed rate.

Under the swap, the Authority has agreed with other parties to exchange, at specified intervals, the difference between fixed-rate contracts and floating-rate interest amounts calculated by reference to the agreed notional amounts, as well as amounts reflecting the amortization of principal amounts.

The fair value of the bond portfolio is also subject to changes in the interest rate. The bonds held as investments have interest rates ranging from 1.75% to 5.7%, and maturities from May 3, 2016 to March 5, 2037. A 1% change in the interest rates, with all other variables held constant, would result in an estimated impact of \$810 (2015 - \$1,652) on net assets and accumulated remeasurement gains (losses).

The interest payments on the variable rate long-term debt are subject to changes in the interest rate. A 1% change in the interest rate would result in an impact of \$324 (2015 - \$75) on interest expense on the consolidated statement of operations.

Offsetting the change on the variable rates of the Tecumseh and Emily Street Parkades is the interest rate swap. A 1% increase in interest rates, with all other variables held constant, would result in an estimated impact of \$3,288 (2015 - \$3,435) on net assets and accumulated remeasurement gains (losses).

Liquidity Risk

The Authority is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. The Authority manages its liquidity risk by monitoring cash requirements through cash forecasts to ensure sufficient resources are available to meet its obligations.

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The maturities of financial liabilities are provided in the notes to the consolidated financial statements related to these liabilities.

Foreign exchange and other price risk

The Authority has minimal exposure to foreign exchange and other price risks.

18. MISERICORDIA TRANSFER

Effective March 31, 2015, Misericordia Health Centre transferred assets to a separately held corporation for the purposes of supporting the work of the Misericordia General Hospital in providing assistance for programs designed to support the needs of an aging population in accordance with the legacy of the Misericordia Sisters. The value of the assets transferred amounted to \$7,825, resulting in a corresponding decrease in net assets of \$7,825 on the consolidated WRHA financial statements.

19. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

WINNIPEG REGIONAL HEALTH AUTHORITY

Supplementary Information

As at March 31, 2016

(unaudited)

(in thousands of dollars)

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.

The most current definition of administrative costs determined by CIHI includes: General Administration (including Acute/Long-term Care/Community Administration, Patient Relations, Community Needs Assessment, Risk Management, Quality Assurance, and Executive costs), Finance, Human Resources, Labour Relations, Nurse/Physician Recruitment and Retention, and Communications.

The administrative cost percentage indicator (administrative costs as a percentage of total operating costs) adheres to CIHI definitions.

At the request of Manitoba Health, the presentation of administrative costs has been modified to include new categorizations in order to increase transparency in financial reporting. These categories and their inclusions are as follows:

Corporate

Includes: General Administration, Acute Care/Long-term Care/Community Services Administration, Executive Offices, Board of Trustees, Planning & Development, Community Health Assessment, Risk Management, Internal Audit, Finance & Accounting, Communications, Telecommunications, and Mail Service.

Recruitment & Human Resources

Includes: Personnel Records, Recruitment & Retention (General, Physicians, Staff, and Nurses), Labour Relations, Employee Compensation & Benefits Management, Employee Health & Assistance Programs, Occupational Health & Safety, and Provincial Labour Relations Secretariat.

Patient Care Related

Includes: Utilization Management, Cancer Standards & Guidelines, Patient Relations, Infection Control, Quality Assurance (Medical, Nursing, and Other), and Accreditation.

WINNIPEG REGIONAL HEALTH AUTHORITY
Supplementary Information
As at March 31, 2016
(unaudited)
(in thousands of dollars)

ADMINISTRATIVE COSTS (continued)

Administrative costs and percentages for the Authority (including hospitals, non-proprietary personal care homes and community health agencies) are:

| | 2016 | | | | | | 2015 | | | | | |
|----------------------|--|--------------|---|--------------|------------------|--------------|--|--------------|---|--------------|------------------|--------------|
| | Acute Care Facilities and Corporate Office | | Personal Care Homes and Community Health Agencies | | Total | | Acute Care Facilities and Corporate Office | | Personal Care Homes and Community Health Agencies | | Total | |
| | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % |
| Corporate | \$62,106 | 2.29% | \$13,456 | 5.14% | \$75,562 | 2.54% | \$59,816 | 2.07% | \$13,385 | 5.16% | \$73,201 | 2.53% |
| HR and Recruitment | 28,122 | 1.04% | 2,209 | 0.84% | 30,331 | 1.02% | 26,728 | 0.93% | 2,132 | 0.82% | 28,860 | 1.00% |
| Patient Care Related | 18,181 | 0.67% | 1 | 0.00% | 18,182 | 0.61% | 18,096 | 0.69% | 1 | 0.00% | 18,097 | 0.63% |
| | \$108,409 | 4.00% | \$15,666 | 5.98% | \$124,075 | 4.17% | \$104,640 | 3.69% | \$15,518 | 5.98% | \$120,158 | 4.16% |

The 2016 figures presented are based on preliminary data available at time of publication. Restatements were made to the 2015 figures to reflect the final data that was submitted after the publication date.

Under the Regional Health Authorities Act of Manitoba, the Authority must ensure that its Corporate cost do not exceed 2.99% of the total operating costs of the Authority for the fiscal year. The Authority is in compliance with this requirement with a Corporate cost of 2.54% (2015 - 2.53%).