Consolidated Financial Statements

Nova Scotia Health Authority

March 31, 2018

MANAGEMENT'S REPORT

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors [the "Board"] is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the finance, audit and risk committee. The audit finance and risk committee reviews internal consolidated financial statements on a monthly basis and external audited consolidated financial statements annually and recommends approval to the Board

The Office of the Auditor General provides an independent audit of the consolidated financial statements. Their examination is conducted in accordance with Canadian auditing standards and includes test and procedures which allow him to report on the fairness of the consolidated financial statements prepared by management.

On behalf of Nova Scotia Health Authority:

Janet Knox
Nova Scotia Health Authority
President and CEO

Allan Horsburgh, CPA, CA
Nova Scotia Health Authority
Vice President Stewardship & Accountability and CFO

June 27, 2018

5161 George Street
Royal Centre, Suite 400
Halifax, Nova Scotia
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Auditor General of Nova Scotia

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Nova Scotia Health Authority:

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Nova Scotia Health Authority, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statement of operations and accumulated surplus, consolidated statement of change in net debt and consolidated statement of cash flow 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.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Nova Scotia Health Authority as at March 31, 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information disclosed in Note 18 is presented for the purposes of additional information in accordance with the Health Authorities Act and is not a requirement of Canadian public sector accounting standards. Such supplementary information has been subjected to the auditing procedures applied, only to the extent necessary to express an opinion in the audit of the consolidated financial statements taken as a whole.

Michael A. Pickup, CPA, CA
Auditor General of Nova Scotia

June 27, 2018
Halifax, Nova Scotia

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Nova Scotia Health Authority

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2018
[in thousands of Canadian dollars]

	Note	2018 $	2017 $
Financial assets			
Cash		26,463	23,784
Restricted cash and portfolio investments	6	52,802	47,548
Accounts receivable	3	69,054	76,494
Due from governments	4	526,161	459,425
Due from foundations		6,853	8,417
Investment in Partners for Care		725	725
		682,058	616,393
Liabilities			
Accounts payable and accrued liabilities	8	247,583	195,129
Restricted liabilities	6	52,802	47,548
Employee future benefits	10	414,372	407,729
Deferred operating revenue	9	789	2,535
Deferred capital revenue	9	5,314	965
Long-term debt	14	4,320	5,420
		725,180	659,326
Net debt		(43,122)	(42,933)
Non-financial assets			
Tangible capital assets	7	923,586	918,371
Inventories of supplies	5	38,930	39,035
Prepaid expenses		5,350	5,056
		967,866	962,462
Accumulated surplus		924,744	919,529

Contractual obligations & contingencies (Notes 13 and 20)

The accompanying notes and schedule are an integral part of these consolidated financial statements.

On behalf of the Board:

Fran Schaaf

Board Chair

Vicki Harnish

Audit Committee Chair

Nova Scotia Health Authority

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

Year ended March 31, 2018
[in thousands of Canadian dollars]

	Note	Budget $ [Note 21]	2018 $	2017 $
REVENUE				
Operating grants - Provincial		1,757,891	1,903,175	1,789,000
Operating grants - Federal		49,484	48,960	47,481
Capital grants - Provincial		49,325	58,999	30,785
Capital grants - Other		19,675	15,458	15,978
Research & designated contributions		50,000	53,578	55,616
Other revenue		133,192	101,340	101,364
Recoveries		45,644	59,640	65,641
Investment revenue		671	652	466
Total revenue		2,105,882	2,241,802	2,106,331
EXPENSES				
Integrated Health Program Care 1		502,877	539,325	517,917
Integrated Health Program Care 2		496,557	538,526	521,838
Stewardship and Accountability		433,693	460,753	416,593
Integrated Health Community Support		257,834	253,675	250,878
Primary Care and Population Health		189,326	191,846	187,095
Medicine and Integrated Health Services		116,566	130,268	118,594
People Services		66,086	76,200	38,664
Learning, Research & Innovation		19,892	23,363	56,354
Quality and System Performance		15,992	16,389	12,837
Chief Public Engagement & Communication		5,867	5,439	5,216
Chief Executive Officer		2,192	803	1,625
Total expenses		2,106,882	2,236,587	2,127,611
Surplus (deficit)		(1,000)	5,215	(21,280)
Accumulated surplus, beginning of year			919,529	932,707
Adjustment to opening surplus PDDP			-	8,102
Accumulated surplus, end of year	*17*		924,744	919,529

The accompanying notes and schedule are an integral part of these consolidated financial statements. See Schedule A for expense schedule by object.

Nova Scotia Health Authority

CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

Year ended March 31, 2018
[in thousands of Canadian dollars]

	Budget $ [Note 21]	2018 $	2017 $
Net surplus (deficit)	**(1,000)**	**5,215**	**(21,280)**
Change in tangible capital assets			
Acquisition of tangible capital assets	(69,000)	(74,456)	(45,381)
Amortization of tangible capital assets	70,000	69,241	68,043
Disposals of tangible capital assets	—	–	—
(Increase) decrease in tangible capital assets	1,000	(5,215)	22,662
Change in other non-financial assets			
Net change in inventories	—	105	330
Net change in prepaid expenses	—	(294)	2,953
(Increase) decrease in other non-financial assets	—	(189)	3,283
(Increase) decrease in net debt	—	(189)	4,665
Net debt, beginning of year as previously reported	(42,933)	(42,933)	(52,020)
Net debt beginning of year PDDP (note 17)	—	—	4,422
Net debt, end of year	(42,933)	(43,122)	(42,933)

The accompanying notes and schedule are an integral part of these consolidated financial statements.

Nova Scotia Health Authority

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended March 31, 2018
[in thousands of Canadian dollars]

	2018 $	2017 $
OPERATING ACTIVITIES		
Net surplus (deficit)	5,215	(21,280)
Items not affecting cash		
Amortization of tangible capital assets	69,241	68,043
Unrealized gain	(566)	(2,220)
Realized gain	(1,421)	(458)
Employee future benefits expenses	33,044	26,387
Inventories of supplies	105	330
Prepaid expenses	(294)	2,953
Change in deferred revenue	2,603	(138)
Change in other non-cash working capital items (note 16)	(15,455)	26,765
Adjustment for PDDP, beginning of the year	-	4,442
Employee future benefits paid	(26,401)	(24,506)
Cash provided by operating activities	66,071	80,318
CAPITAL ACTIVITIES		
Cash applied to the acquisition of tangible capital assets	(64,279)	(50,893)
Cash applied to capital activities	(64,279)	(50,893)
FINANCING ACTIVITIES		
Debt retirement	(1,100)	(1,252)
Cash applied to financing activities	(1,100)	(1,252)
INVESTING ACTIVITIES		
Redemption of portfolio investments	20,766	8,392
Restricted funding	(18,779)	(5,714)
Cash provided by investing activities	1,987	2,678
Increase in cash and cash equivalents	2,679	30,851
Cash and cash equivalents, beginning of the year	23,784	(7,067)
Cash, end of year	26,463	23,784

The accompanying notes and schedule are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2018
[in thousands of Canadian dollars]

1. Nature of the Organization

The Nova Scotia Health Authority (NSHA) was established on April 1, 2015 under the *Health Authorities Act* (Nova Scotia) through the amalgamation of nine of the ten existing health authorities in Nova Scotia. All of the assets, liabilities, rights and obligations of the former health authorities were assumed by the NSHA.

The objectives of the provincial health authority are to govern, manage and provide health services in the Province and to implement the strategic direction set out in the provincial health plan. These services are grouped into key areas such as medical and surgical care, mental health care, community health programs, addiction prevention and treatment and environmental health services. These services are each grouped into a portfolio with Vice President oversight as shown in the consolidated statement of operations. Integrated Health Program Care 1 includes critical care, cancer care program, emergency care program and pharmacy. Integrated Health Program 2 includes diagnostic imaging, perioperative services, pathology and laboratory medicine.

The NSHA is a non-profit entity and, as such, is exempt from income taxes under the *Income Tax Act.*

2. Summary of Significant Accounting Policies

a. Basis of accounting

The consolidated financial statements are prepared by management of the NSHA in accordance with Canadian public sector accounting standards ["PSAS"] established by the Canadian public sector accounting board ["PSAB"].

b. Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations that are controlled by the NSHA.

As of April 1, 2016, NSHA assumed control of the Provincial Drug and Distribution Program (PDDP). As a result, the financial results of PDDP are consolidated with NSHA.

c. Cash

Cash include cash on hand and demand deposits.

2. Summary of Significant Accounting Policies (cont'd)

d. Financial instruments

Financial instruments are classified into either the cost/amortized cost or fair value categories. The cost/amortized cost category includes cash and cash equivalents, receivables, payables, long-term debt and accruals. These items are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Portfolio investments are measured at fair value. Once realized, the cumulative change in fair value is recognized in the statement of operations. Transaction costs of financial instruments in the fair value category, such as investment management fees, are expensed in the period in which they are incurred.

Management assesses financial instruments for impairment on an annual basis. All financial instruments are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

e. Restricted cash, portfolio investments and restricted liabilities

Restricted cash consists of short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. Restricted cash and portfolio investments are designated to be used only in support of initiatives specifically approved by external funding organizations and individuals. Related investments are stated at fair market value. Externally restricted funding is recognized as revenue in the period in which the funds are used for their intended purposes; the corresponding restricted liabilities represent unexpended funds as of the end of the fiscal year, and will be recognized as revenue when the funds are used for their intended purpose.

f. Employee future benefits

Employee future benefits include retiring allowances/public service awards paid to employees upon retirements, health & life insurance, and accumulating non-vesting sick leave. A liability for employee future benefits has been included in the financial statements in the current year.

The cost and obligations of the health & life insurance and accumulating, non-vesting sick leave benefits are actuarially determined using management's best estimate of salary escalation, employee retirement age, mortality rates and discount rates. The methods used in this valuation of costs and obligations were selected by the Nova Scotia Department of Finance and Treasury Board in accordance with the

2. Summary of Significant Accounting Policies (cont'd)

requirements of PSAS Section 3255. These assumptions are in accordance with accepted actuarial practice.

The Province of Nova Scotia funds the employees' retiring allowances/public service awards, health & life insurance, and accumulating non-vesting sick leave benefits and as a result a receivable for the same amount has been recorded from the Nova Scotia Department of Finance and Treasury Board.

g. Deferred revenue

Deferred revenue includes contributions received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the delivery of specific services and transactions. Deferred revenues include both operating and capital revenue.

These amounts are recognized as revenue in the fiscal year in which the related expenses are incurred, services are performed, or when related stipulations are met.

h. Tangible capital assets including capital leases

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets.

NSHA standardized the tangible capital assets depreciation rates, on a straight-line basis, for all assets purchased subsequent to April 1, 2015. Tangible capital assets are recorded at cost and depreciated on a straight-line basis at the following annual rates:

Buildings	5-50 years
Leasehold improvements	Lessor of term or 10 years
Equipment	3-20 years
Parking garage	40 years
Information technology	3-10 years

NSHA continues to depreciate the tangible capital assets transferred into the NSHA on April 1, 2015 based on the former district health authorities' historical rates. Amortization on construction in progress is not recorded until the projects are completed.

2. Summary of Significant Accounting Policies (cont'd)

The useful life of an asset may require revision during its life due to significant changes such as physical damage, upgrades/developments, a change in its use, etc. When the useful life is expected to change, NSHA would provide adequate documentation supporting the decision to amend the useful life of the asset. The effect of this change will be recorded in the year of revision and in future years. The consolidated financial statements of previous years are not restated due to the change in an estimated useful life.

Tangible capital assets are written down when conditions indicate that they no longer contribute to NSHA's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the consolidated statement of operations. Write downs are not reversed.

When a tangible capital asset is removed from service, destroyed, becomes obsolete, scrapped, etc. the asset is disposed as of the specified effective date. Assets will be retired from the accounts of NSHA when the asset is disposed. The gain or loss on disposal will be calculated as the difference between the proceeds received and the net book value of the asset. The gain or loss on disposal will be recorded as revenue or an expense in the consolidated statement of operations.

Contributed capital assets are recorded into revenues at their fair market value on the date of donation, except in circumstances where fair value cannot be reasonably determined, and such contributed capital assets are then recognized at nominal value. Transfers of capital assets from related parties are recorded at carrying value.

i. Inventories of supplies

Inventories of supplies held for consumption or use include drugs, linen, food, medical & surgical and departmental supplies, and are recorded using weighted average cost.

j. Prepaid expenses

Prepaid expenses include maintenance, support costs, memberships and subscriptions, and are charged as an expense over the periods the good or service is expected to be consumed.

2. Summary of Significant Accounting Policies (cont'd)

k. Liability for contaminated sites

Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from operations that are no longer in productive use and is recognized when all of the following criteria are met:

(i) an environmental standard exists;
(ii) contamination exceeds the environmental standard;
(iii) the Authority is directly responsible or accepts responsibility;
(iv) it is expected that future economic benefits will be given up; and
(v) a reasonable estimate of the amount can be made.

For the fiscal year ended March 31, 2018, NSHA has not identified a liability for contaminated sites.

l. Revenue Recognition

Provincial government transfers for operating and capital purposes are recognized as revenue in the period in which all eligibility criteria and/or stipulations have been met and the amounts are authorized. Any funding received prior to satisfying these conditions are deferred until conditions have been met. When revenue is received without eligibility credits or stipulations, it is recognized when the transfer from the Province of Nova Scotia is authorized, except when and to the extent the transfer gives rise to an obligation that meets the definition of a liability for the NSHA.

Any unrestricted non-government contributions or grants are recorded as revenue in the year received or in the years the funds are committed to the NSHA if the amount can be reasonable estimated and collection is reasonably assured. All non-government contribution or grants that are externally restricted such that they must be used for a specified purpose are recognized as revenue in the period in which the resources are used for the purpose or purposes specified. Any externally restricted inflow received before the criterion has been met is reported as a liability until the resources are used for the purpose or purposes specified.

NSHA recognizes as revenue provincial government transfers representing the year over year change in accrued benefit obligations as the transfer has been authorized.

Recovery revenues include reimbursement or coverage by a third party entity for expenses covered by NSHA. Expenses for which NSHA would typically recover include compensation and supplies.

2. Summary of Significant Accounting Policies (cont'd)

In patient, out-patient, food & laundry services, laboratory and parking revenue are recognized as revenue when the related service is rendered or goods are provided. Rental income is recognized on a straight-line basis over the term of the lease.

Investment income includes dividend and interest income, and realized gains or losses on the sale of portfolio investments and is reported in the period earned. Restricted investment income is recognized as revenue in the period the related expenses are incurred or the terms of use are met.

m. Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

n. Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent liabilities, at the date of the consolidated financial statements and the reported amounts of the revenues and expenses during the reporting periods.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these consolidated financial statements. Areas requiring the use of management estimates include retirement allowances, health benefit liabilities, amortization rates on tangible capital assets, inventory, payroll accruals and the allowance for doubtful accounts. Actual results could differ from those estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2018
[in thousands of Canadian dollars]

3. Accounts Receivable

	2018 $	2017 $
Patient care	39,797	38,895
Other	18,573	27,875
Workers Compensation Board	6,059	4,782
IWK Health Centre	5,951	2,609
Grant revenue receivable	5,914	5,602
Payroll advances receivable	1,153	2,173
Due from Partners for Care	1,337	2,474
Less: provision for doubtful accounts	(9,730)	(7,916)
	69,054	76,494

4. Due from Governments

	2018 $	2017 $
Province of Nova Scotia		
Department of Finance & Treasury Board (Employee Future Benefits - see Note 10a)	414,372	407,729
Department of Health & Wellness	105,969	46,133
Federal government - HST	5,820	5,563
	526,161	459,425

5. Inventories of Supplies

	2018 $	2017 $
Drugs	18,335	16,406
Departmental	11,467	10,549
Medical and surgical	6,416	9,479
Linen	2,712	2,601
	38,930	39,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2018
[in thousands of Canadian dollars]

6. Restricted Cash, Portfolio Investments and Restricted Liabilities

The restricted assets and liabilities represent funding from external organizations, the use of which is restricted as described below:

Restricted assets	2018 $	2017 $
Cash	5,209	2,634
Portfolio investments (at fair market value)	47,593	44,914
	52,802	47,548

Restricted liabilities	2018 $	2017 $
Centre for Clinical Research	42,353	37,705
Restricted Funds	10,449	9,843
	52,802	47,548

Contributions to the Centre for Clinical Research ["CCR"] Fund represents money that is available for spending at any time to meet the needs of the CCR and individual research investigators, according to specific, pre-approved terms of reference, and must be invested accordingly. Restricted liabilities related to the CCR Fund represent the amount that must be used in support of these approved initiatives and projects which are consistent with the CCR's goals and objectives. Other restricted liabilities relate to miscellaneous sources of external funding which are to be used for purposes specified by the related funding organization or individual. Sources of restricted funds include employee and employer paid premiums for employee health benefits, patient trust funds, endowments and funding specified for other restricted purposes.

For the year ended, amounts added to restricted liabilities, and the expenditures made there from, were as follows:

	2018 $		2017 $	
	Centre for Clinical Research	Restricted Funds	Centre for Clinical Research	Restricted Funds
Balance, beginning of year	37,705	9,843	36,000	9,338
Funds received	27,201	31,594	24,968	32,847
Expenditures	(22,553)	(30,988)	(23,263)	(32,342)
Balance, end of year	42,353	10,449	37,705	9,843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2018
[in thousands of Canadian dollars]

7. Tangible Capital Assets

Historical Costs	Land	Buildings	Equipment	Information technology	Construction in progress	2018 Total	2017 Total
Opening costs	4,434	1,574,371	786,827	58,091	55,163	2,478,886	2,433,505
Transfers	-	2,402	4,365	229	(6,996)	-	-
Additions	-	3,306	7,273	292	63,585	74,456	45,381
Write-downs	-	-	(295,688)	(47,146)	-	(342,834)	-
Closing costs	4,434	1,580,079	502,777	11,466	111,752	2,210,508	2,478,886

Accumulated Amortization	Land	Buildings	Equipment	Information technology	Construction in progress	2018 Total	2017 Total
Opening	-	867,386	638,504	54,625	-	1,560,515	1,492,472
Transfers	-	-	-	-	-	-	-
Write-downs	-	-	(295,688)	(47,146)	-	(342,834)	-
Amortization Expense	-	39,029	29,055	1,157	-	69,241	68,043
Closing	-	906,415	371,871	8,636	-	1,286,922	1,560,515

Net Book Value	4,434	673,664	130,906	2,830	111,752	923,586	918,371

**Write-downs are for the removal of equipment and IT assets with no remaining net book value and therefore, no longer in use.*

[in thousands of Canadian dollars]

8. Accounts Payable & Accrued Liabilities

	2018 $	2017 $
Trade payables	89,653	78,887
Salary & benefits	111,359	75,763
Accrued liabilities	30,451	25,592
Vacation pay	16,120	14,887
	247,583	195,129

9. Deferred Revenue

Deferred operating revenue of $789 [2017 - $2,535] represents advance funding received in prior years. Deferred capital revenue of $5,314 [2017 - $965] represents advance funding, received from Foundations and Partners for Care, for capital equipment that will be purchased or constructed in the coming year(s).

	2018		2017	
	Operating $	Capital $	Operating $	Capital $
Balance, beginning of year	2,535	965	1,835	1,803
Receipts during the year	-	4,634	991	-
Transfers to revenue during the year	(1,746)	(285)	(291)	(838)
Balance, end of year	789	5,314	2,535	965

10a. Employee Future Benefits - Summary

Employee future benefits summary	2018 $	2017 $
Ending balance, retiring allowances (Note 10b)	161,627	167,547
Ending balance, health and life insurance (Note 10c)	192,675	185,073
Ending balance, non-vested sick-leave benefits (Note 10d)	60,070	55,109
Ending balance, employee future benefits	414,372	407,729

For the year ended March 31, 2018
[in thousands of Canadian dollars]

10b. Employee Future Benefits - Retiring Allowances

Retiring allowances paid to employees upon retirement are actuarially determined. The retiring allowance value is calculated by the Nova Scotia Department of Finance and Treasury Board for NSHA. It is calculated using the projected unit credit method, prorated on services as required under Section 3250 of the CPA PSA Handbook. Experience gains and losses and assumption charges are amortized on a linear basis over the expected average remaining service life of 12 years. Annually, results along with values to record the liability and expenses are provided by the Department of Finance. Effective April 1, 2015, retiring allowances have been frozen resulting in no further increases in service time and rates of pay to be applied to the plan benefits. In January 2018, eligible management and non-unionized staff were offered a one-time service payout option in lieu of the retirement allowance available at the time of retirement. This resulted in a total service payout of $23 million to 82.6% of those eligible employees, which was paid in May 2018. NSHA expects retirement allowances for unionized staff to change in the near future during contract negotiations. Any changes in assumptions for actuarial valuation will be reflected at that time, if applicable.

The Nova Scotia Department of Finance and Treasury Board fully funds this liability; therefore, a corresponding accounts receivable amount is recorded. Under Union Collective agreements, employees are entitled to a payment of one week's salary for every year of full-time service [max. 26 weeks] that an employee has contributed to the organization. The Province of Nova Scotia contracts a third party to perform an actuarial valuation for all government departments, government agencies and boards. The most recent actuarial valuation was conducted as at June 30, 2017.

NSHA has provided for retiring allowances as follows:

Accrued benefit liability	2018 $	2017 $
Beginning balance, accrued benefit obligation	163,493	172,692
Interest cost during the year	5,381	5,933
Impact of curtailment	-	-
Other (past service, transfers, etc.)	5,561	(1,414)
Experience loss	5,218	1,678
Benefits paid	(16,704)	(15,396)
Accrued benefit obligation	162,949	163,493
Unamortized actuarial (loss) gain	(1,322)	4,054
Ending balance, accrued benefit liability	161,627	167,547

Employee future benefits retiring expense:	2018 $	2017 $
Interest on accrued benefits	5,381	5,933
Curtailment	-	(37)
Other	5,561	(1,414)
Amortization of experience loss	(159)	(520)

[in thousands of Canadian dollars]

	10,783	3,962

10b. Employee Future Benefits – Retiring Allowances (cont'd)

The significant actuarial assumptions adopted in measuring NSHA's retiring allowances are as follows [weighted average assumptions] as at March 31:

	2018	2017
Discount rate	3.42%	3.59%
Average age of employees	45.6	44.3
Average years of services	11.7	12.3
Future mortality rate	[none assumed]	
Rate of compensation increase plus promotion increase [based on average]	2%	2%

10c. Employee Future Benefits – Health and Life Insurance

NSHA provides health and life insurance benefits to employees upon retirement. Under Union Collective agreements, employees are entitled to receive this benefit upon retirement. The benefit is an optional choice for employees at retirement. NSHA contributes to the cost of these premiums. The Province of Nova Scotia contracts a third party to perform an actuarial valuation for all government departments, government agencies and boards. The most recent actuarial valuation was conducted as at December 31, 2015.

The health and life insurance value is calculated by the Provincial Department of Finance for NSHA. It is calculated using the projected unit credit method, prorated on service, as required under Section 3250 of the CPA PSA Handbook. Experience gains and losses and assumption changes are amortized on a linear basis over the expected average remaining service life of 12 years for active employees. Annually, results along with values to record the liability and expenses are provided by the Department of Finance. The Department of Finance covers this liability; therefore a corresponding accounts receivable balance is recorded.

NSHA has provided for health and life insurance as follows:

Accrued benefit liability	2018 $	2017 $
Beginning balance, accrued benefit obligation	167,975	173,095
Current service cost for the year	7,414	7,618
Interest cost during the year	5,947	6,385
Other (past service, transfers, etc.)	-	(389)
Experience loss (gain)	444	(14,407)
Benefits paid	(4,914)	(4,327)
Accrued benefit obligation	176,866	167,975
Unamortized actuarial gains	15,809	17,098
Ending balance, accrued benefit liability	192,675	185,073

[in thousands of Canadian dollars]

10c. Employee Future Benefits - Health and Life Insurance (cont'd)

Employee future benefits health and life expense:	2018 $	2017 $
Current service costs	7,414	7,618
Interest on accrued benefits	5,947	6,385
Amortization of experience (loss) gain	(846)	382
Other (past service, transfers, etc.)	-	(389)
Unamortized actuarial loss	-	(5)
	12,515	13,991

The significant actuarial assumptions adopted in measuring NSHA's health and life insurance are as follows [weighted-average assumptions] as at March 31:

	2018	2017
Discount rate	3.42%	3.59%
Participation rate - Health	80% - 95%	80% - 95%
Future mortality rate based on CPM 2014 Public sector table with mortality scale CPM-B	120%	120%
Rate of compensation increase plus promotion increase [based on average]	2%	2%
Rate of healthcare inflation, (reduced to a rate of 4.5% over 15 years)	7%	7%

[in thousands of Canadian dollars]

10d. Employee Future Benefits - Non-Vested Sick-Leave Benefits

NSHA provides non-vested sick-leave benefits to certain employees. These employees are allowed to accumulate unused sick day credits each year, up to the allowable maximum provided in their respective employment agreement. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick days for sick-leave compensation ceases on termination of employment. The benefit costs and liabilities related to the plan are included in the consolidated financial statements. The most recent actuarial valuation was conducted as at March 31, 2014.

NSHA has provided for non-vested sick-leave benefits as follows:

Accrued benefit liability	2018 $	2017 $
Beginning balance, accrued benefit obligation	48,046	42,892
Current service cost for the year	8,863	8,470
Interest cost during the year	1,730	1,601
Other (past service, transfers, etc.)	-	(407)
Experience (gain) loss	(15,536)	273
Benefits paid	(4,783)	(4,783)
Accrued benefit obligation	38,320	48,046
Unamortized actuarial gains	21,750	7,063
Ending balance, accrued benefit liability	60,070	55,109

Employee future benefits, non-vested sick-leave benefits:	2018 $	2017 $
Current service costs	8,863	8,470
Interest on accrued benefits	1,730	1,601
Amortization of experience loss	(849)	(1,149)
Other (past service, transfers, etc.)	-	(407)
Unamortized actuarial losses	-	(78)
	9,744	8,437

The significant actuarial assumptions adopted in measuring NSHA's non-vested sick leave benefits are as follows [weighted-average assumptions] as at March 31:

	2018	2017
Discount rate	3.42%	3.59%
Future mortality rate based on CPM 2014 Public Sector table with mortality scale CPM-B	120%	120%
Rate of compensation increase plus promotion increase	2%	2%

[based on average]

11. Pension Funds

Nova Scotia Health Employees' Pension Plan
The majority of NSHA employees participate in the multi-employer Nova Scotia Health Employees' Pension Plan. The NSHA's responsibility with regard to this plan is limited to its contributions and it has no claim on the surplus or responsibility for any unfunded amounts that may occur.

Nova Scotia Public Service Superannuation Plan
Certain employees of the former district health authorities belong to the Nova Scotia Public Service Superannuation Fund. This plan is funded equally by employee and employer contributions. The employer's contributions are included in NSHA's operating expenses. The Nova Scotia Government Department of Finance administers the pension plan. The NSHA's responsibility with regard to this plan is limited to its contributions and it has no claim on the surplus or responsibility for any unfunded amounts that may occur.

Public Sector Superannuation Account
A small group of employees of the former Camp Hill Medical Centre who were on staff when Camp Hill Hospital transferred from Federal to Provincial jurisdiction on May 29, 1978 opted to continue in this pension plan. The Plan is funded by employee and employer contributions. The employer's contributions are included in NSHA's operating expenses. Public Works & Government Services Canada administers the pension plan. The NSHA's responsibility with regard to this plan is limited to its contributions.

Total employer contributions to the above mentioned plans are as follows:

	2018 $	2017 $
Employer contributions	94,082	93,359

12. Long-Term Disability Plan

Health Association Nova Scotia
The majority of NSHA employees are members of this plan, which is funded equally by employee and employer contributions. The employer's contributions are included in NSHA's operating expenses. Health Association Nova Scotia administers this long-term disability plan. The NSHA's responsibility with regard to this plan is limited to its contributions and it has no claim on the surplus or responsibility for any unfunded amounts that may occur.

[in thousands of Canadian dollars]

12. Long-Term Disability Plan (cont'd)

Nova Scotia Public Service Long-Term Disability Plan Trust Fund
Certain employees of the former district health authorities are members of this plan which is funded equally by employee and employer contributions. The employer's contributions are included in NSHAs' operating expenses. The Plan is currently administered by the Province of Nova Scotia and Nova Scotia Government Employees Union. The NSHA's responsibility with regard to this plan is limited to its contributions and it has no claim on the surplus or responsibility for any unfunded amounts that may occur.

Canada Life Plan
Employees of the former Nova Scotia Rehabilitation Centre are members of this plan, which is funded equally by employee and employer contributions. The employer's contributions are included in NSHA's operating expenses. The plan is currently administered by Canada Life. The NSHA's responsibility with regard to this plan is limited to its contributions.

Total employer contributions to the long-term disability plans are as follows:

	2018 $	2017 $
Employer contributions	14,342	12,321

13. Contractual Obligations

NSHA has commitments for operating supplies and occupancy & equipment leases. Estimated annual minimum lease payments and purchases commitments in each of the next five years are expected as follows:

	$
2019	16,654
2020	12,784
2021	9,793
2022	8,381
2023	6,129
Thereafter in aggregate	17,826

For the year ended March 31, 2018
[in thousands of Canadian dollars]

14. Long-Term Debt

	2018 $	2017 $
Term loan - parking garage	4,095	4,780
DHW loan (Cobequid Foundation)	-	317
Term loan - building improvements	225	323
	4,320	5,420

In 2003/2004, the former Capital District Health Authority received approval from its Board of Directors and the Department of Health & Wellness to construct a new multi-level parking garage at its Halifax Infirmary site. The parking garage became fully operational in the 2004/2005 fiscal year. The final project cost was $11,000.

A debenture between the former Capital Health and the Nova Scotia Municipal Financing Corporation was signed on January 10, 2003 to finance this capital project. The Department of Health & Wellness issued a letter dated December 10, 2002 confirming an intercept mechanism on its provincial grant payments to Capital Health in case of loan default.

The term loan bears interest at 5.913%, matures on January 9, 2023, and is repayable in semi-annual installments of principal and interest totaling $479.

Total principal repayments required in respect of long term debt as at March 31, 2018 for each of the next five years and thereafter are as follows:

	$
2019	761
2020	805
2021	851
2022	900
2023	952
Thereafter in aggregate	50

The total gross interest paid on long term debt for the year ended March 31, 2018 was $328 [2017 - $318].

15. Financial Instruments

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities of another entity. Financial assets represent a contractual right to receive cash in the future and financial liabilities represent a contractual obligation to deliver cash in the future. NSHA's financial assets include cash and cash equivalents, portfolio investments and receivables. NSHA's financial liabilities include accounts payable, long-term debt and accrued liabilities.

For the year ended March 31, 2018
[in thousands of Canadian dollars]

15. Financial Instruments (cont'd)

Restricted portfolio investments consist of the following:

Investments at fair value	FV hierarchy level	2018 $	2017 $
Short term investments	Level 2	3,216	3,102
Canadian government & corporate bonds	Level 2	14,381	14,269
Common equities & related securities	Level 1	29,996	27,543
		47,593	44,914

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:

—Unadjusted quoted prices in an active market for an identical asset/liability [Level 1];
—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 2]; and
—Inputs for the asset or liability that are not based on observable market data [unobserved inputs] [Level 3].

Risk management

NSHA is exposed to a number of risks as a result of the financial instruments on its statement of financial position that can affect its operating performance. These risks include interest rate risk, market risk, credit risk, liquidity risk, and foreign exchange risk.

Under NSHA's Investment Policy, money market securities are limited to a rating of R-1or higher and no more than 10% may be invested in any one issuer. Investments in corporate bonds are limited to BBB or equivalent rated bonds and no more than 30% of the total fixed income securities.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. NSHA is subject to interest rate risk relating to the fixed-term investment portion of the portfolio, short-term borrowings and long-term debt.

Interest rate risk is mitigated through diversification of the investment portfolio and the use of fixed-rate financing where applicable.

15. Financial Instruments (cont'd)

NSHA has entered into fixed rate long-term debt and, accordingly, the impact of interest rate fluctuations has no effect on interest payments until such time as this debt is to be refinanced. However, changes in prevailing benchmark interest rates and credit spreads may impact the fair value of this debt. NSHA does not have any variable interest rate debt.

The future principal repayments required in respect of long term debt are described in Note 14.

Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

NSHA authorizes BMO Nesbitt Burns Inc. and RBC Dominion Securities Inc. to manage its short-term and long-term investment portfolio based on its established investment objectives: in determining the degree of risk, greater relevant importance is to be given to the objective of preservation of capital than to the extent to which an investment provides for maintenance of necessary liquidity, diversification of investment portfolio or a competitive return on investment.

Cash investments [including T-bills] shall have a minimum rating of R-1 by the Dominion Bond Rating Service [DBRS] or equivalent. Fixed income securities [Provincial/Federal, Municipal and Corporate Bonds] must have a minimum credit rating of "A" by DBRS or an equivalent rating by another recognized rating agency.

Equity investments may be made primarily in mid/large cap companies that are listed on a major North American or International stock exchange. Equities must be diversified in at least five of the 10 multiple sectors: Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunications Services and Utilities. A typical portfolio may be invested 60% in mid/large cap common shares, 35% in fixed income and no more than 5% in cash and equivalents.

Venture capital and speculative securities shall not be permitted. No more than 10% of the equity/debt portion of the portfolio may be invested in the equity of any one corporation, government or agency, with the exception of the Government of Canada or guarantees of the Government of Canada.

A 10% change in the market prices of these investments, with all other variables held constant, would have a $4,438 [2017 - $4,181] impact on net assets.

[in thousands of Canadian dollars]

15. Financial Instruments (cont'd)

Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligation. NSHA is exposed to credit risk with respect to accounts receivable. NSHA has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis. The allowance for doubtful accounts at March 31, 2018 amounts to $9,730 [2017 - $7,916].

The aging of trade accounts receivable was as follows:

	2018 $	2017 $
Current	49,484	44,199
61-90 days	1,997	4,291
90-120 days	736	5,380
Greater than 120 days	16,837	22,624
Total	69,054	76,494

Liquidity risk

NSHA has contractual obligations and financial liabilities and, therefore, is exposed to liquidity risk. NSHA monitors its liquidity risk by updating and reviewing its multi-year cash flow projections on a regular and as needed basis, and by matching its long-term financing arrangements with its cash flow needs.

Foreign exchange risk

NSHA's operating results and financial positions are reported in Canadian dollars. Some of NSHA's financial instruments and transactions are denominated in currencies other than Canadian dollar, and therefore, its operations are subject to currency transaction and translation risks. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates.

NSHA occasionally makes payments denominated in foreign currencies. Most of these foreign transactions are in US dollars with vendors located in the USA. Foreign currency is acquired in Canadian dollars at the spot rate in the amounts necessary to cover the foreign currency amount.

[in thousands of Canadian dollars]

15. Financial Instruments (cont'd)

The currency most contributing to the foreign exchange risk is the US dollar. Comparative foreign exchange rates as at March 31 are as follows:

	2018 $	2017 $
US dollar per Canadian dollar	0.77560	0.75130

NSHA has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks. The foreign currency financial instruments are short-term in nature and do not give rise to significant foreign currency risk.

Capital management

In managing capital, NSHA focuses on liquid resources available for operations. Its objective is to have sufficient liquid resources to continue operating despite events with adverse financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2018, NSHA has met its objective of having sufficient liquid resources to meet its current obligations.

16. Changes in Other Non-Cash Working Capital Items

	2018 $	2017 $
Decrease in accounts receivable	7,440	371
(Increase) decrease in due from governments	(66,738)	27,923
Decrease in due from foundations	1,564	934
Increase in accounts payable	52,455	4,423
Decrease due to capital assets recorded cash basis	(10,176)	(6,886)
Total changes in non-cash working capital items	(15,455)	26,765

For the year ended March 31, 2018
[in thousands of Canadian dollars]

17. Accumulated Surplus

The accumulated surplus is made up as follows:

	2018 $	2017 $
Beginning balance, accumulated surplus	919,529	932,707
Beginning balance of PDDP	-	8,102
Current year operating deficit	-	-
Current year capital surplus (deficit)	5,215	(21,280)
Ending balance, accumulated surplus	924,744	919,529

18. Operational & Capital Funding Reconciliation

As per the Nova Scotia Health Authorities Act, the NSHA is to reconcile the annual operating and capital funding surplus/deficit to the current year operating and capital surplus or deficit reported on the statement of operations and accumulated surplus. The below schedule is the reconciliation of the operating and capital funding:

	2018 $	2017 $
Annual surplus (deficit)	5,215	(21,280)
Amortization	69,241	68,043
Capital grants	(74,456)	(46,763)
Current year operating surplus (deficit)	-	-

19. Related Parties

NSHA is related in terms of common ownership to all Province of Nova Scotia created departments, agencies, boards and commissions. Related parties also include key management personnel having the authority and responsibility for planning, directing and controlling the activities of the Corporation. This includes the senior leadership team, and members of the Board of Directors and their close family members. NSHA enters into transactions with these entities in the normal course of business measured at the exchange amount. The following disclosure is in addition to the related party disclosure provided elsewhere in these consolidated financial statements.

The Province of Nova Scotia has centralized some of its administrative activities for efficiency and cost-effectiveness purposes. As a result, the Province of Nova Scotia uses a shared services model so that one department performs services for other departments, agencies, boards and commissions without charge. The costs of these services, such as Transportation and Infrastructure Renewal project management services and Internal Services information technology support provided by the Province of Nova Scotia to NSHA, are not recognized in the financial statements.

[in thousands of Canadian dollars]

20. Contingencies

NSHA may, from time to time, be involved in legal proceedings, claims and litigations that arise in the ordinary course of business. NSHA believes it is not exposed to a material adverse effect on its financial position as management is of the opinion that their insurance coverage is sufficient to meet or discharge any obligation arising from these lawsuits.

21. Budgeted Figures

Budgeted figures, detailed within NSHA's 2017-18 Business Plan, have been provided for comparison purposes and have been approved by the Department of Health and Wellness. Budgeted figures included in the consolidated financial statements are not audited.

The following presents a reconciliation between NSHA's original budget, the final budget approved by the Department of Health and Wellness and the budget as presented in the consolidated financial statement of operations and accumulated surplus to align with the presentation of the current year results

Department approved operating revenue	1,994,804
Operating revenue not captured in NSHA preliminary budget	
Investment in Health Reform Strategies	(9,400)
Transformation funding	(3,000)
Additional operating revenue captured in NSHA preliminary budget	3,391
NSHA preliminary budget	1,985,795
NSHA preliminary operating revenue budget	1,985,795
Recoveries	45,644
Capital grants - Provincial	49,325
Capital grants - Other	19,675
PDDP operating revenue	5,443
Consolidated revenue budget	2,105,882
NSHA preliminary operating expense budget	1,985,795
Recoveries	45,644
Amortization	70,000
PDDP operating expenses	5,443
Consolidated expense budget	2,106,882

22. Comparative Figures

The comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation adopted for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2018
[in thousands of Canadian dollars]

SCHEDULE OF EXPENSES

	2018 $	2017 $
Compensation	**1,535,343**	1,464,574
Medical/surgical supplies	**134,497**	126,626
Drugs	**109,198**	101,932
Equipment and maintenance	**70,284**	61,469
Amortization	**69,241**	68,043
Other	**65,302**	63,973
Clinical research and designated programs	**53,578**	55,616
Utilities	**50,831**	47,429
Plant operations	**42,202**	35,645
Clinical supplies	**40,811**	39,458
Professional fees	**19,293**	18,568
Laundry and linen supplies	**17,292**	16,707
Food and dietary supplies	**16,879**	16,560
Travel and education	**11,836**	11,011
Total expenses	**2,236,587**	2,127,611

See accompanying notes