Eastern Regional Health Authority

Consolidated financial statements

March 31, 2020

Eastern Regional Health Authority

Table of contents

March 31, 2020

Statement of management responsibility

The accompanying consolidated financial statements of the **Eastern Regional Health Authority** [the “Authority”] as at and for the year ended March 31, 2020 have been prepared by management in accordance with Canadian public sector accounting standards, and the integrity and objectivity of these consolidated financial statements are management’s responsibility. Management is also responsible for the notes to the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management developed and maintains systems of internal control to provide reasonable assurance that transactions are properly authorized and recorded, proper records are maintained, assets are safeguarded, and that the Authority complies with applicable laws and regulations.

The Board of Trustees [the “Board”] is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Finance Committee [the “Committee”]. The Committee meets with management and the external auditors to review any significant accounting and auditing matters, to discuss the results of audit examinations, and to review the consolidated financial statements and the external auditors’ report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements.

The external auditor, Ernst & Young LLP, conducts an independent examination in accordance with Canadian generally accepted auditing standards and expresses an opinion on the consolidated financial statements for the year ended March 31, 2020.

Scott Bishop, CPA,CGA
Chief Financial Officer

Fern Mitchelmore, CPA,CGA
Director of Financial Services

Independent auditor's report

To the Board of Trustees of
Eastern Regional Health Authority

Opinion

We have audited the consolidated financial statements of **Eastern Regional Health Authority** [the "Authority"], which comprise the consolidated statement of financial position as at March 31, 2020, the consolidated statement of operations and accumulated deficit, the consolidated statement of changes in net debt and the consolidated statement of cash flows for the year end ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2020, and its financial performance, net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

St. John's, Canada
Date, 2020

Chartered Professional Accountants

Eastern Regional Health Authority

Consolidated statement of financial position

[in thousands of Canadian dollars]

As at March 31

	2020	**2019**
	$	$
Financial assets		
Cash	**—**	—
Accounts receivable *[note 3]*	**24,535**	23,925
Due from government/other government entities *[note 4]*	**32,585**	50,941
Due from other entities	**112**	
Capital replacement reserve fund *[note 12]*	**474**	501
Sinking fund investment *[note 11]*	**24,418**	22,751
	82,124	98,118
Liabilities		
Bank indebtedness	**6,734**	20,334
Operating facility *[note 6]*	**61,192**	15,165
Accounts payable and accrued liabilities *[note 7]*	**132,529**	118,737
Due to government/other government entities *[note 8]*	**21,476**	20,731
Employee future benefits		
Accrued severance pay *[note 17]*	**11,755**	64,959
Accrued sick leave *[note 18]*	**68,134**	67,279
Accrued vacation pay	**58,069**	56,199
Deferred contributions *[note 9]*		
Deferred capital grants	**62,204**	30,749
Deferred operating revenue	**10,401**	9,030
Capital replacement reserve fund *[note 12]*	**474**	501
Long-term debt *[note 10]*	**132,655**	133,484
	565,623	537,168
Net debt	**(483,499)**	(439,050)
Non-financial assets		
Tangible capital assets *[note 5]*	**355,517**	357,292
Supplies inventory	**22,895**	16,968
Prepaid expenses	**13,582**	10,176
	391,994	384,436
Accumulated deficit	**(91,505)**	(54,614)

Contingencies *[note 15]*
Contractual obligations *[note 16]*
Operating facility *[note 6]*

See accompanying notes

Approved by the Board:

___________________________ Director ___________________________ Director

Consolidated statement of operations and accumulated deficit

[in thousands of Canadian dollars]

Year ended March 31

	Final Budget	2020	2019
	$	$	$
	[note 21]		
Revenue			
Provincial plan	1,361,248	**1,361,248**	1,411,442
Medical Care Plan	73,486	**73,486**	76,288
Provincial capital grant *[note 9]*	—	**23,957**	31,784
Other	51,190	**50,632**	46,785
Resident	16,707	**16,722**	17,406
Inpatient	11,546	**11,095**	13,954
Outpatient	11,525	**11,431**	11,701
Other capital contributions *[note 9]*	—	**7,491**	7,203
Cottages and Hostels operations	—	**3,009**	1,942
	1,525,702	**1,559,071**	1,618,505
Expenses *[note 22]*			
Patient and resident services	428,414	**427,195**	419,621
Client services	327,876	**329,628**	305,067
Diagnostic and therapeutic	221,919	**220,894**	222,500
Support	189,953	**192,817**	202,548
Ambulatory care	180,312	**182,630**	168,200
Administration	114,817	**123,135**	138,554
Medical services	100,977	**99,629**	101,104
Amortization of tangible capital assets *[note 5]*	—	**33,187**	34,490
Research and education	18,859	**17,388**	16,398
Interest on long-term debt	9,946	**9,103**	9,077
Other	9,613	**8,053**	10,249
Accrued severance pay recovery		**(53,204)**	(67,606)
Accrued sick leave expense	—	**855**	940
Accrued vacation pay expense	—	**1,870**	290
Cottages and Hostels operations	—	**2,782**	1,661
	1,602,686	**1,595,962**	1,563,093
Annual surplus (deficit)	**(76,984)**	**(36,891)**	55,412
Accumulated deficit, beginning of year	—	**(54,614)**	(110,026)
Accumulated deficit, end of year	**—**	**(91,505)**	(54,614)

See accompanying notes

Eastern Regional Health Authority

Consolidated statement of changes in net debt

[in thousands of Canadian dollars]

Year ended March 31

	2020	2019
	$	$
Annual surplus (deficit)	**(36,891)**	55,412
Changes in tangible capital assets		
Acquisition of tangible capital assets	**(31,448)**	(38,987)
Disposal of tangible capital assets	**36**	—
Amortization of tangible capital assets	**33,187**	34,490
Increase in net book value of tangible capital assets	**1,775**	(4,497)
Changes in other non-financial assets		
Net (increase) decrease in prepaid expenses	**(3,406)**	(4,578)
Net (increase) in supplies inventory	**(5,927)**	(138)
Increase in other non-financial assets	**(9,333)**	(4,716)
(Increase) decrease in net debt	(44,449)	46,199
Net debt, beginning of year	**(439,050)**	(485,249)
Net debt, end of year	**(483,499)**	(439,050)

See accompanying notes

Eastern Regional Health Authority

Consolidated statement of cash flows

[in thousands of Canadian dollars]

Year ended March 31

	2020	2019
	$	$
Operating transactions		
Annual surplus (deficit)	**(36,891)**	55,412
Adjustments for:		
Amortization of tangible capital assets	**33,187**	34,490
Capital grants – provincial and other	**(31,448)**	(38,987)
Decrease in accrued severance pay	**(53,204)**	(67,606)
Increase in accrued sick leave	**855**	940
Net change in non-cash assets and liabilities related to operations *[note 13]*	**26,079**	(11,405)
Cash (used in) provided by operating transactions	**(61,422)**	(27,156)
Capital transactions		
Acquisition of tangible capital assets	**(31,448)**	(38,987)
Disposal of tangible capital assets	**36**	—
Capital grants received *[note 9]*	**62,903**	22,604
Cash provided by capital transactions	**31,491**	(16,383)
Investing transactions		
Increase in sinking fund investment	**(1,667)**	(1,628)
Cash used in investing transactions	**(1,667)**	(1,628)
Financing transactions		
Repayment of long-term debt	**(829)**	(989)
Change in operating facility, net	**46,027**	15,165
Cash used in financing transactions	**45,198**	14,176
Net change in cash during the year	**13,600**	(30,991)
(Bank indebtness) cash, beginning of year	**(20,334)**	10,657
Bank indebtness, end of year	**(6,734)**	(20,334)
Supplementary disclosure of cash flow information		
Interest paid	**9,095**	9,104

See accompanying notes

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

1. Nature of operations

The Eastern Regional Health Authority ["Eastern Health" or the "Authority"] is responsible for the governance of health services in the Eastern Region [Avalon, Bonavista and Burin Peninsulas, west to Port Blandford] of the Province of Newfoundland and Labrador [the "Province"].

The mandate of Eastern Health spans the full health continuum, including primary and secondary level health and community services for the Eastern Region as well as tertiary and other provincial programs/services for the entire Province. The Authority also has a mandate to work to improve the overall health of the population through its focus on public health as well as on health promotion and prevention initiatives. Services are both community and institutional based. In addition to the provision of comprehensive health care services, Eastern Health also provides education and research in partnership with all stakeholders.

Eastern Health is incorporated under the laws of the Province of Newfoundland and Labrador and is a registered charitable organization under the provisions of the *Income Tax Act* (Canada) and, as such, is exempt from income taxes.

2. Summary of significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards ["PSAS"] established by the Public Sector Accounting Standards Board of the Chartered Professional Accountants of Canada. The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of presentation

These consolidated financial statements reflect the assets, liabilities, revenue and expenses of the reporting entity, which is composed of all organizations that are controlled by Eastern Health. These organizations are listed under basis of consolidation. Trusts administered by Eastern Health are not included in the consolidated statement of financial position *[note 14]*.

The Authority has also prepared separate non-consolidated financial statements for the operations of the operating fund of Eastern Health.

Basis of consolidation

The Authority controls the General Hospital Hostel Association ["GHHA"], Northwest Rotary ["NWR"] – Janeway Hostel Corporation, Lions Manor Inc., TCRHB Housing Complex Inc. ["TCRHB"], Blue Crest Cottages and Golden Heights Manor Cottages ["GHMC"] [together with Eastern Health, collectively referred to herein as "Eastern Health" or the "Authority"]. These entities were established to provide accommodations for family members of patients and housing to senior citizens. These consolidated financial statements reflect the assets, liabilities, revenues and expenses for the activities of these entities. All inter-entity assets, liabilities, revenues, and expenses have been eliminated.

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

Revenue recognition

Provincial plan revenue without eligibility criteria and stipulations restricting its use is recognized as revenue when the government transfers are authorized.

Government transfers with stipulations restricting their use are recognized as revenue when the transfer is authorized and the eligibility criteria are met by the Authority, except when and to the extent the transfer gives rise to an obligation that constitutes a liability. When the transfer gives rise to an obligation that constitutes a liability, the transfer is recognized in revenue when the liability is settled. Medical Care Plan [“MCP”], inpatient, outpatient and residential revenues are recognized in the period services are provided.

The Authority is funded by the Department of Health and Community Services [the “Department”] for the total of its operating costs, after deduction of specified revenue and expenses, to the extent of the approved budget. The final amount to be received by the Authority for a particular fiscal year will not be determined until the Department has completed its review of the Authority’s consolidated financial statements. Adjustments resulting from the Department’s review and final position statement will be considered by the Authority and reflected in the period of assessment. There were no changes from the previous year.

Other revenue includes dietary revenue, shared salaries and services, and rebates and salary recoveries from WorkplaceNL. Rebates and salary recovery amounts are recorded once the amounts to be recorded are known and confirmed by WorkplaceNL.

Expenses

Expenses are recorded on an accrual basis as they are incurred and measurable based on receipt of goods or services.

Asset classification

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not to be consumed in the normal course of operations. Non-financial assets are acquired, constructed or developed assets that do not provide resources to discharge existing liabilities but are employed to deliver healthcare services, may be consumed in normal operations and are not for resale.

Cash (bank indebtedness)

Bank balances, including bank overdrafts with balances that fluctuate from positive to overdrawn, are presented under cash or bank indebtedness, respectively.

Supplies inventory

Supplies inventory is valued at the lower of cost and replacement cost, determined on a first-in, first-out basis.

Tangible capital assets

Tangible capital assets are recorded at historical cost. Certain tangible capital assets, such as the Health Sciences Centre, Janeway Children's Health and Rehabilitation Centre, St. John's and Carbonear Long Term Care Facilities, are utilized by the Authority, and are not reflected in these consolidated financial statements as legal title is held by the Government of Newfoundland and Labrador [the "Government"]. The Government does not charge the Authority any amounts for the use of such assets. Certain additions and improvements made to such tangible capital assets are paid for by the Authority and are reflected in the consolidated financial statements of the Authority.

Amortization is calculated on a straight-line basis at the rates set out below.

It is expected that these rates will charge operations with the total cost of the assets less estimated salvage value over the useful lives of the assets, as follows:

Land improvements	10 years
Buildings and improvements	40 years
Equipment	5 – 7 years

Gains and losses on disposal of individual assets are recognized in operations in the period of disposal.

Construction in progress is not amortized until the project is substantially complete, at which time the project costs are transferred to the appropriate asset class and amortized accordingly.

Impairment of long-lived assets

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. The net write-downs are accounted for as expenses in the consolidated statement of operations and accumulated deficit throughout.

Capital and operating leases

A lease that transfers substantially all of the benefits and risks associated with ownership of property is accounted for as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair value. Assets acquired under capital leases are amortized on the same basis as other similar capital assets. All other leases are accounted for as operating leases and the payments are expensed as incurred.

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables,
which are presented in thousands of Canadian dollars]

March 31, 2020

Employee future benefits

Accrued severance

Employees of Eastern Health are entitled to severance benefits as stipulated in their conditions of employment. The right to be paid severance pay vests with employees with nine years of continual service with Eastern Health or another public sector employer. Severance is payable when the employee ceases employment with Eastern Health or the public sector employer, upon retirement, resignation or termination without cause. The severance benefit obligation has been actuarially determined using assumptions based on management's best estimates of future salary and wage changes, employee age, years of service, the probability of voluntary departure due to resignation or retirement, the discount rate and other factors. Discount rates are based on the Province's long-term borrowing rate. Actuarial gains and losses are deferred and amortized over the average remaining service life of employees, which is 13 years.

Accrued sick leave

Employees of Eastern Health are entitled to sick leave benefits that accumulate, but do not vest. Eastern Health recognizes the liability in the period in which the employee renders service. The obligation is actuarially determined using assumptions based on management's best estimates of the probability of use of accrued sick leave, future salary and wage changes, employee age, the probability of departure, retirement age, the discount rate and other factors. Discount rates are based on the Province's long-term borrowing rate. Actuarial gains and losses are deferred and amortized over the average remaining service life of employees, which is 13 years.

Accrued vacation pay

Vacation pay is accrued for all employees as entitlement is earned.

Pension costs

Employees are members of the Public Service Pension Plan or the Government Money Purchase Plan [the "Plans"] administered by the Government. The Plans, which are defined benefit plans, are considered multi-employer plans, and are the responsibility of the Province. Contributions to the Plans are required from both the employees and Eastern Health. The annual contributions for pensions are recognized as an expense as incurred and amounted to $56,160,686 for the year ended March 31, 2020 [2019 – $56,105,402].

Sinking fund investment

The sinking fund was established for the partial retirement of Eastern Health's sinking fund debenture, which is held and administered by the Provincial Government of Newfoundland and Labrador.

Contributed services

Volunteers contribute a significant amount of their time each year assisting Eastern Health in carrying out its service delivery activities. Due to the difficulty in determining fair value, contributed services are not recognized in these consolidated financial statements.

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value or [ii] cost or amortized cost. The Authority determines the classification of its financial instruments at initial recognition.

Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. Transaction costs related to the issuance of long-term debt are capitalized and amortized over the term of the instrument.

Cash and bank indebtedness are classified at fair value. Other financial instruments, including accounts receivable, sinking fund investment, accounts payable and accrued liabilities, due to/from government/other government entities are initially recorded at their fair value and are subsequently measured at amortized cost, net of any provisions for impairment.

Use of estimates

The preparation of consolidated financial statements in conformity with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Areas requiring the use of management estimates include the assumptions used in the valuation of employee future benefits. Actual results could differ from these estimates.

3. Accounts receivable

	2020					
			Past due			
	Total	Current	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
	$	$	$	$	$	$
Services to patients, residents and clients	**13,212**	**817**	**3,507**	**1,937**	**1,285**	**5,666**
Other	**13,809**	**9,465**	—	—	—	**4,344**
Gross accounts receivable	**27,021**	**10,282**	**3,507**	**1,937**	**1,285**	**10,010**
Less impairment allowance	**2,486**	—	—	—	—	**2,486**
Net accounts receivable	**24,535**	**10,282**	**3,507**	**1,937**	**1,285**	**7,524**

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

	2019					
			Past due			
	Total	**Current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Over 90 days**
	$	$	$	$	$	$
Services to patients, residents and clients	14,584	1,292	3,601	2,050	1,833	5,808
Other	12,227	7,371	—	—	—	4,856
Gross accounts receivable	26,811	8,663	3,601	2,050	1,833	10,664
Less impairment allowance	2,886	—	—	—	—	2,886
Net accounts receivable	23,925	8,663	3,601	2,050	1,833	7,778

4. Due from government/other government entities

	2020	**2019**
	$	$
Government of Newfoundland and Labrador	**29,090**	49,231
Other government entities	**3,495**	1,710
	32,585	50,941

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended March 31, 2020, the Authority has not recorded any impairment of receivables relating to the above amounts [2019 – nil].

5. Tangible capital assets

	Land and land improvements	**Buildings and improvements**	**Equipment**	**Construction in progress**	**Total**
	$	$	$	$	$
2020					
Cost					
Opening balance	**2,848**	**425,690**	**557,798**	**40,698**	**1,027,034**
Additions	—	**5,051**	**12,283**	**14,114**	**31,448**
Disposals	**(8)**	**(1,964)**	**(13,837)**	—	**(15,809)**
Closing balance	**2,840**	**428,777**	**556,244**	**54,812**	**1,042,673**
Accumulated amortization					
Opening balance	**127**	**204,995**	**464,620**	—	**669,742**
Additions	**5**	**10,383**	**22,799**	—	**33,187**
Disposals	—	**(1,936)**	**(13,837)**	—	**(15,773)**
Closing balance	**132**	**213,442**	**473,582**	—	**687,156**
Net book value	**2,708**	**215,334**	**82,663**	**54,812**	**355,517**

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

Included within the Construction in Progress is an Energy Performance Contract valued at $18,618,484.

	Land and land improvements	Buildings and improvements	Equipment	Construction in progress	Total
	$	$	$	$	$
2019					
Cost					
Opening balance	2,848	416,137	536,883	32,179	988,047
Additions	—	9,553	20,915	8,519	38,987
Closing balance	2,848	425,690	557,798	40,698	1,027,034
Accumulated amortization					
Opening balance	119	194,515	440,618	—	635,252
Additions	8	10,480	24,002	—	34,490
Closing balance	127	204,995	464,620	—	669,742
Net book value	2,721	220,695	93,178	40,698	357,292

During fiscal year 2020, management performed a review of the Authority's tangible capital assets with a net book value of nil. This resulted in a decrease in both cost and accumulated amortization of assets of $15,694,115.

6. Operating facility

The Authority has access to a line of credit totaling $108,000,000 in the form of revolving demand loans and/or bank overdrafts at its financial institution. In March 2020 the Authority used $61,191,777 from line of credit. [2019 – $15,165,118]. The Authority's ability to borrow has been approved by the Province's Minister of Health and Community Services.

7. Accounts payable and accrued liabilities

	2020	2019
	$	$
Accounts payable and accrued liabilities	**64,680**	54,864
Salaries and wages payable	**62,874**	59,076
Employee/employer remittances	**4,975**	4,797
	132,529	118,737

8. Due to government/other government entities

	2020	2019
	$	$
Federal government	**3,284**	4,512
Government of Newfoundland and Labrador	**13,567**	11,113
Other government entities	**4,625**	5,106
	21,476	20,731

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

9. Deferred contributions

	2020 $	2019 $
Deferred capital grants [a]		
Balance at beginning of year	**30,749**	47,132
Receipts during the year	**62,903**	22,604
Recognized in revenue during the year	**(31,448)**	(38,987)
Balance at end of year	**62,204**	30,749
Deferred operating revenue [b]		
Balance at beginning of year	**9,030**	10,584
Receipts during the year	**1,549,952**	1,473,752
Recognized in revenue during the year	**(1,548,581)**	(1,475,306)
Balance at end of year	**10,401**	9,030

[a] Deferred capital grants represent transfers from the Government and other government entities received with associated stipulations relating to the purchase of capital assets, resulting in a liability. These grants will be recognized as revenue when the related assets are acquired or constructed and the liability is settled.

[b] Deferred operating revenue represents externally restricted Government transfers with associated stipulations relating to specific projects or programs, resulting in a liability. These transfers will be recognized as revenue in the period in which the resources are used for the purpose specified.

10. Long-term debt

	2020 $	2019 $
Sinking fund debenture, Series HCCI, 6.90%, to mature on June 15, 2040, interest payable semi-annually on June 15 and December 15 [the “Debenture”]	**130,000**	130,000
Newfoundland and Labrador Housing Corporation [“NLHC”] [Placentia Health Centre], 1.01% mortgage, maturing in December 2020, repayable in blended monthly instalments of $17,469, secured by land and building with a net book value of $1,505,406	**157**	363
NLHC [GHHA], 1.05% first mortgage on land, building and equipment, with a net book value of $284,938, maturing on April 1, 2019, amortized to April 1, 2019, payable in blended monthly instalments of $12,226	—	12
Royal Bank of Canada [GHHA], 2.94% promissory note on land, building and equipment with a net book value of $284,938, maturing on June 1, 2021, amortized to June 1, 2026, payable in blended monthly instalments of $6,286	**91**	158
NLHC [TCRHB] 1.43% first mortgage on land and building, with a net book value of $174,513 maturing in April 2022, amortized to December 2027, repayable in blended monthly instalments of $2,008	**174**	196

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

	2020 $	2019 $
NLHC [Lions Manor], 1.43% first mortgage on land and building phase one, with a net book value of $495,943, maturing in April 2022, amortized to October 2023, repayable in blended monthly instalments of $6,031	**252**	321
NLHC [Lions Manor], 1.43% first mortgage on land and building phase two, with a net book value of $495,943, maturing in April 2022, amortized to December 2026, repayable in blended monthly instalments of $2,908	**224**	256
NLHC [Golden Heights Cottages], 1.82% first mortgage on land and building with a net book value of $20,000, chattel mortgage on equipment and an assignment of rents, maturing and amortized to July 1, 2019, repayable in blended monthly instalments of $5,394	**—**	22
NLHC [Blue Crest Cottages], 1.31% first mortgage on land and building, with a net book value of $116,352, maturing on December 1, 2021, amortized to December 1, 2021, repayable in blended monthly instalments of $3,712	**42**	120
NLHC [Blue Crest Cottages] 1.05% first mortgage on land and building, with a net book value of $116,352, maturing on May 1, 2021, amortized to May 1, 2026, repayable in blended monthly instalments of $3,076	**77**	79
Canada Mortgage and Housing Corporation ["CMHC"] [Blue Crest Seniors Home], 8.0% mortgage, maturing in November 2025, repayable in blended monthly instalments of $7,777, secured by land and buildings with a net book value of $2,423,976	**428**	485
CMHC [Golden Heights Manor Seniors Home], 10.5% mortgage, maturing in August 2027, repayable in blended monthly instalments of $7,549, secured by land and building with net book value of $6,357,934	**473**	512
CMHC [Golden Heights Manor Seniors Home], 1.12% mortgage, maturing in June 2023, repayable in blended monthly instalments of $19,246, secured by land and building with a net value of $6,357,934	**737**	960
	132,655	133,484

Future principal repayments to maturity are as follows:

	$
2021	762
2022	528
2023	484
2024	284
2025	207
Thereafter	130,390
	132,655

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

11. Sinking fund investment

A sinking fund investment, established for the partial retirement of the Debenture *[note 10]*, is held in trust by the Government. The balance as at March 31, 2020 includes interest earned in the amount of $10,213,637 [2019 – $9,294,442]. The annual principal payment to the sinking fund investment until the maturity of the Debenture on June 15, 2040 is $747,500. The semi-annual interest payments on the Debenture are $4,485,000. The semi-annual interest payments and mandatory annual sinking fund payments on the Debenture are guaranteed by the Government.

12. Capital replacement reserve fund

Effective June 2, 1997, Newfoundland and Labrador Housing Corporation ["NLHC"] assumed responsibility for agreements previously administered by Canada Mortgage and Housing Corporation.

With respect to the NLHC mortgages disclosed in note 10, the Authority has entered into an agreement for mortgage interest subsidization with NLHC. Under the agreement, the Authority is also required to fund $14,850 annually for capital replacement with the funds, including accrued interest, to be deposited in either Government of Canada Bonds or a separate savings account.

13. Net change in non-cash assets and liabilities related to operations

	2020 $	**2019** $
Accounts receivable	**(610)**	(257)
Supplies inventory	**(5,927)**	(138)
Prepaid expenses	**(3,406)**	(4,578)
Due from other entities	**(112)**	—
Accounts payable and accrued liabilities	**13,792**	361
Accrued vacation pay	**1,870**	290
Deferred operating revenue	**1,371**	(1,554)
Due from/to government/other government entities	**19,101**	(5,529)
	26,079	(11,405)

14. Trust funds

Trusts administered by the Authority have not been included in the consolidated financial statements as they are excluded from the Government reporting entity. As at March 31, 2020, the balance of funds held in trust for residents of long-term care facilities was $2,471,317 [2019 – $3,195,774]. These trust funds include a monthly comfort allowance provided to residents who qualify for subsidization of their boarding and lodging fees.

15. Contingencies

A number of legal claims have been filed against the Authority. An estimate of loss, if any, relative to these matters is not determinable at this time and no provision has been recorded in the accounts for these matters. In the view of management, the Authority's insurance program adequately addresses the risk of loss in these matters.

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables,
which are presented in thousands of Canadian dollars]

March 31, 2020

16. Contractual obligations

The Authority has entered into a number of multiple-year operating leases, contracts for the delivery of services and the use of assets. These contractual obligations will become liabilities in the future when the terms of the contracts are met. The table below relates to the future portion of the contracts:

	2021	**2022**	**2023**	**2024**	**Thereafter**
	$	$	$	$	$
Future operating lease payments	13,111	9,957	8,367	6,287	31,705
Managed print services	1,462	1,462	1,462	1,462	—
Vehicles	224	118	71	58	28
	14,797	11,537	9,900	7,807	31,733

17. Accrued severance pay

The Authority provides a severance payment to employees, as stipulated in their conditions of employment, upon retirement, resignation or termination without cause. In 2020, cash payments to retirees and eligible employees for the Authority's unfunded employee future benefits amounted to approximately $59,173,776 [2019 – $70,489,812].

The most recent actuarial valuation for the accrued severance obligation was performed March 31, 2018 with an extrapolation to March 31, 2020.

Due to changes in The Registered Nurses Union of Newfoundland and Labrador ["RNUNL"] Collective agreement, severance benefits accrued as of March 31, 2018 were paid out on or before March 31, 2020. The severance payout will be based on one week of salary for each full year of eligible employment to a maximum of 20 weeks.

Due to changes in the Canadian Union of Public Employees ["CUPE"] Collective Agreement effective January 9, 2019, severance benefits accrued as of March 31, 2018 will be paid out to eligible employees on or before March 31, 2020. The severance payout will be based on one week of salary for each full year of eligible employment to a maximum of 20 weeks.

All employees have the option to defer payment but will not accrue any further severance benefits. There will be no change to the amount payable in future years.

At the end March 31, 2020, salaried physicians have severance entitlement that have not been curtailed and settled. The actuarial value of severance for salaried physicians is $5,857,066.

At the end of March 31, 2020, the value of deferred severance payments for employees who selected to defer payment is $5,898,663.

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

The accrued benefit liability and benefits expense of the severance pay are outlined below:

	2020	2019
	$	$
Accrued benefit liability, beginning of year	**64,959**	132,565
Benefits expense		
Current period benefit cost	**537**	3,695
Interest on accrued benefit obligation	**172**	3,228
Amortization of actuarial losses and gains	**17**	81
Recognition of unamortized gain on settlement	**—**	(266)
Settlement loss (gain)	**5,244**	(3,854)
	70,929	135,449
Benefits paid	**(59,174)**	(70,490)
Accrued benefit liability, end of year	**11,755**	64,959

Current period benefit cost	**537**	3,695
Interest on Accrued Benefit Obligation	**172**	3,228
Amortization of actuarial losses and gains	**17**	81
Recognition of unamortized gain on settlement	**—**	(266)
Settlement loss (gain)	**5,244**	(3,854)
Total expense recognized for the year	**5,970**	2,884

The significant actuarial assumptions used in measuring the accrued severance pay benefit expense and liability are as follows:

Discount rate – liability	3.25% as at March 31, 2020 3.05% as at March 31, 2019
Discount rate – benefit expense	3.25% in fiscal 2020 3.05 in fiscal 2019
Rate of compensation increase	0.00% plus 0.75% for promotions and merit as at March 31, 2020 0.00% plus 0.75% for promotions and merit as at March 31, 2019

18. Accrued sick leave

The Authority provides sick leave to employees as the obligation arises and accrues a liability based on anticipation of sick days accumulating for future use. In 2020, cash payments to employees for the Authority's unfunded sick leave benefits amounted to approximately $9,227,260 [2019 – $8,956,378].

The most recent actuarial valuation for the accrued sick leave obligation was performed effective March 31, 2018 with an extrapolation to March 31, 2020.

Notes to consolidated financial statements

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

March 31, 2020

The accrued benefit liability and benefit expense of the sick leave are outlined below:

	2020	2019
	$	$
Accrued benefit liability, beginning of year	**67,279**	66,339
Benefits expense		
Current period benefit cost	**5,892**	5,615
Interest on accrued benefit obligation	**2,412**	2,595
Amortization of actuarial losses and gains	**1,778**	1,686
	77,361	76,235
Benefits paid	**(9,227)**	(8,956)
Accrued benefit liability, end of year	**68,134**	67,279

Current period benefit cost	**5,892**	5,615
Interest on accrued benefit obligation	**1,778**	1,686
Amortization of actuarial losses and gains	**2,412**	2,595
Total expense recognized for the year	**10,082**	9,896

The significant actuarial assumptions used in measuring the accrued sick leave benefit expense and liability are as follows:

Discount rate – liability	3.25% as at March 31, 2020 3.05% as at March 31, 2019
Discount rate – benefit expense	3.25% in fiscal 2020 3.05% in fiscal 2019
Rate of compensation increase	0.00% plus 0.75% for promotions and merit as at March 31, 2020 0.00% plus 0.75% for promotions and merit as at March 31, 2019

19. Related party transactions

The Authority's related party transactions occur with the Government and other government entities. Other government entities are those who report financial information to the Province.

Transfers from the Government are funding payments made to the Authority for both operating and capital expenditures. Transfers from other related government entities are payments made to the Authority from the MCP and WorkplaceNL. Transfers to other related government entities are payments made by the Authority to long-term care facilities, Central Regional Health Authority, Labrador Regional Health Authority and Western Regional Health Authority. Transactions are settled at prevailing market prices under normal trade terms.

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

The Authority had the following transactions with the Government and other government entities:

	2020 $	2019 $
Transfers from the Government of Newfoundland and Labrador	**1,418,092**	1,432,465
Transfers from other government entities	**88,854**	92,064
Transfers to other government entities	**(84,180)**	(90,331)
	1,422,766	1,434,198

20. Financial instruments and risk management

Financial risks

The Authority is exposed to a number of risks as a result of the financial instruments on its consolidated statement of financial position that can affect its operating performance. These risks include credit risk and liquidity risk. The Authority's Board of Trustees has overall responsibility for the oversight of these risks and reviews the Authority's policies on an ongoing basis to ensure that these risks are appropriately managed. The Authority is not exposed to interest rate risk as the majority of its long-term debt obligations are at fixed rates of interest. The sources of risk exposure and how each is managed are outlined below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligation. The Authority's credit risk is primarily attributable to accounts receivable. Eastern Health has a collection policy and monitoring processes intended to mitigate potential credit losses. Management believes that the credit risk with respect to accounts receivable is not material.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. In fiscal 2020 the Authority had an authorized credit facility [the "Facility"] of $108,000,000 [2019 - $64,000,000]. As at March 31, 2020, the Authority had $46,808,223 in funds available on the Facility [2019 – $48,834,882]. To the extent that the Authority does not believe it has sufficient liquidity to meet current obligations, consideration will be given to obtaining additional funds through third-party funding or from the Province, assuming these can be obtained.

21. Final Budget

The Authority prepares an initial budget for a fiscal period that is approved by the Board of Trustees and the Government [the "Original Budget"]. The Original Budget may change significantly throughout the year as it is updated to reflect the impact of all known service and program changes approved by the Government. Additional changes to services and programs that are initiated throughout the year would be funded through amendments to the Original Budget and an updated budget is prepared by the Authority. The updated budget [the "Budget"] amounts are reflected in the budget amounts as presented in the consolidated statement of operations and accumulated deficit.

[All amounts are in Canadian dollars, except amounts disclosed in tables, which are presented in thousands of Canadian dollars]

In addition to the impact of such service and program changes, the Original Budget and Budget prepared by the Authority do not include a budget for the operations of the cottages and hostels, as such amounts are not considered by the Authority to significantly impact decisions or the allocation of resources. Further, the Original Budget and Budget do not include amounts relating to certain non-cash and other items including tangible capital asset amortization, the recognition of provincial capital grants and other capital contributions, adjustments required to the accrued benefit obligations associated with severance and sick leave, and adjustments to accrued vacation pay as such amounts are not required by Government to be included in the Original Budget or the Budget. The Authority also does not prepare a full budget in respect of changes in net debt as the Authority does not include an amount for tangible capital asset amortization or the acquisition of tangible capital assets in the Original Budget or the Budget.

The following presents a reconciliation between the Original Budget and the final Budget as presented in the consolidated statement of operations and accumulated deficit for the year ended March 31, 2020:

	Revenue $	Expenses $	Annual deficit $
Original Budget	**1,443,540**	**1,525,559**	**(82,019)**
Adjustments during the year for service and program changes, net	**77,127**	**77,127**	**—**
Revised Original Budget	**1,520,667**	**1,602,686**	**(82,019)**
One-time fund approved by Government	**5,035**	**—**	**5,035**
Final Budget	**1,525,702**	**1,602,686**	**(76,984)**

22. Expenses by object

This disclosure supports the functional display of expenses provided in the consolidated statement of operations and accumulated deficit by offering a different perspective of the expenses for the year. The following presents expenses by object, which outlines the major types of expenses incurred by the Authority during the year.

	2020 $	2019 $
Salaries	**837,348**	836,768
Supplies – other	**277,309**	288,995
Direct client costs	**200,323**	176,739
Employee benefits	**87,020**	70,844
Supplies – medical and surgical	**66,533**	67,425
Drugs	**61,435**	55,118
Amortization of tangible capital assets	**33,187**	34,490
Maintenance	**20,922**	21,963
Interest on long-term debt	**9,103**	9,090
Cottages and hostels operations	**2,782**	1,661
Total expenses	**1,595,962**	1,563,093

23. COVID-19 – Global Pandemic

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ["COVID-19"] as a pandemic which has resulted in a series of public health and emergency measures that have been put into place to combat the spread of the virus. As a result of the Authority's COVID-19 response, the Authority is experiencing a change in demand for its services and is working diligently to mitigate the financial impacts while carrying out its response to the impacts of COVID-19.

The impact of COVID-19 has led to significant volatility and declines in the global equity and fixed income markets during the first quarter of 2020, and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

Management considered the impact of COVID-19 in its assessment of the Authority's assets and liabilities and its ability to continue as a going concern. Although COVID-19 has had an impact on funding and operations, mechanisms are in place to ensure that the Authority is still able to maintain its core operations.