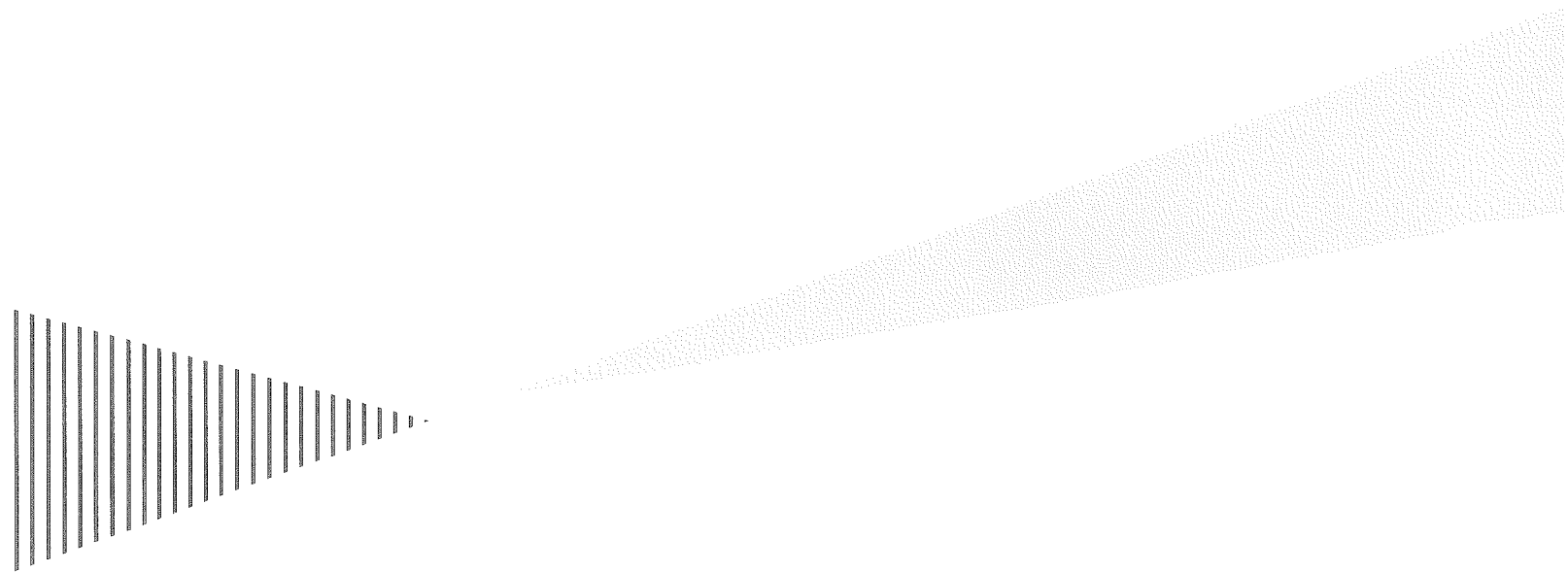


Consolidated financial statements

Eastern Regional Health Authority

March 31, 2016




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, 2016 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, 2016.



George Butt, CPA, CA
Vice President, Corporate Services



Fern Mitchelmore, CPA, CGA
Director of Financial Services

Independent auditors' report

To the Board of Trustees of the
Eastern Regional Health Authority

We have audited the accompanying consolidated financial statements of the **Eastern Regional Health Authority**, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations and accumulated deficit, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Eastern Regional Health Authority** as at March 31, 2016, and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

St. John's, Canada
July 18, 2016

Chartered Professional Accountants



Eastern Regional Health Authority

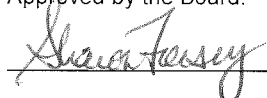
Consolidated statement of financial position

As at March 31
[in thousands of Canadian dollars]

	2016	2015
	\$	\$
Financial assets		
Cash	8,699	20,734
Accounts receivable [note 3]	24,839	30,735
Due from government/other government entities [note 4]	65,350	79,016
Capital replacement reserve fund [note 12]	535	719
Sinking fund investment [note 11]	17,993	16,447
	<u>117,416</u>	<u>147,651</u>
Liabilities		
Accounts payable and accrued liabilities [note 7]	108,750	119,855
Due to government/other government entities [note 8]	13,054	14,245
Employee future benefits		
Accrued severance pay [note 17]	116,045	110,852
Accrued sick leave [note 18]	61,849	59,304
Accrued vacation pay	51,951	49,938
Deferred contributions [note 9]		
Deferred capital grants	84,364	83,732
Deferred operating revenue	17,017	16,323
Capital replacement reserve fund [note 12]	535	719
Long-term debt [note 10]	137,284	138,826
	<u>590,849</u>	<u>593,794</u>
Net debt	<u>(473,433)</u>	<u>(446,143)</u>
Non-financial assets		
Tangible capital assets [note 5]	346,334	350,461
Supplies inventory	15,298	15,312
Prepaid expenses	8,813	4,805
	<u>370,445</u>	<u>370,578</u>
Accumulated deficit	<u>(102,988)</u>	<u>(75,565)</u>
Contingencies [note 15]		
Contractual obligations [note 16]		
Operating facility [note 6]		

See accompanying notes

Approved by the Board:

 Director

 Director

Eastern Regional Health Authority

Consolidated statement of operations and accumulated deficit

Year ended March 31
[in thousands of Canadian dollars]

	Budget	2016	2015
	\$	\$	\$
	<i>[note 21]</i>		
Revenue			
Provincial plan	1,297,112	1,297,112	1,232,070
Medical Care Plan	73,441	73,444	77,434
Provincial capital grant <i>[note 9]</i>	—	27,081	31,878
Other	38,628	42,877	40,896
Resident	18,955	19,818	18,479
Inpatient	12,933	11,371	12,422
Outpatient	9,381	10,089	8,225
Other capital contributions <i>[note 9]</i>	—	6,586	7,025
Cottages and Hostels operations	—	2,369	2,500
	<u>1,450,450</u>	<u>1,490,747</u>	<u>1,430,929</u>
Expenses <i>[note 23]</i>			
Patient and resident services	387,734	402,656	385,335
Client services	257,709	258,671	228,683
Diagnostic and therapeutic	202,239	205,817	191,343
Support	177,816	180,563	176,686
Ambulatory care	158,952	162,251	154,303
Administration	115,458	121,561	118,376
Medical services	97,860	99,427	99,809
Amortization of tangible capital assets <i>[note 5]</i>	—	37,690	34,768
Research and education	17,248	15,523	16,124
Interest on long-term debt	10,078	9,224	9,276
Other	25,356	13,132	7,171
Accrued severance pay expense	—	5,193	11
Accrued sick leave expense (recovery)	—	2,545	(350)
Accrued vacation pay expense	—	2,013	2,159
Cottages and Hostels operations	—	1,904	2,101
	<u>1,450,450</u>	<u>1,518,170</u>	<u>1,425,795</u>
Annual (deficit) surplus	—	(27,423)	5,134
Accumulated deficit, beginning of year	—	(75,565)	(80,699)
Accumulated deficit, end of year	—	(102,988)	(75,565)

See accompanying notes

Eastern Regional Health Authority

Consolidated statement of changes in net debt

Year ended March 31
[in thousands of Canadian dollars]

	Budget	2016	2015
	\$	\$	\$
	<i>[note 21]</i>		
Annual (deficit) surplus	—	(27,423)	5,134
Changes in tangible capital assets			
Acquisition of tangible capital assets	—	(33,667)	(38,903)
Disposal of tangible capital assets	—	104	—
Amortization of tangible capital assets	—	37,690	34,768
Decrease (increase) in net book value of tangible capital assets	—	4,127	(4,135)
Changes in other non-financial assets			
Net (increase) decrease in prepaid expenses	—	(4,008)	111
Net decrease in supplies inventory	—	14	225
(Increase) decrease in other non-financial assets	—	(3,994)	336
(Increase) decrease in net debt	—	(27,290)	1,335
Net debt, beginning of year	—	(446,143)	(447,478)
Net debt, end of year	—	(473,433)	(446,143)

See accompanying notes

Eastern Regional Health Authority

Consolidated statement of cash flows

Year ended March 31
[in thousands of Canadian dollars]

	2016	2015
	\$	\$
Operating transactions		
Annual (deficit) surplus	(27,423)	5,134
Adjustments for:		
Amortization of tangible capital assets	37,690	34,768
Capital grants – provincial and other	(33,667)	(38,903)
Increase in accrued severance pay	5,193	11
Increase (decrease) in accrued sick leave	2,545	(350)
Net change in non-cash assets and liabilities related to operations <i>[note 13]</i>	6,611	25,801
Cash (used in) provided by operating transactions	(9,051)	26,461
Capital transactions		
Acquisition of tangible capital assets	(33,667)	(38,903)
Disposal of tangible capital assets	104	—
Tangible capital asset contributions	33,667	38,903
Cash provided by capital transactions	104	—
Investing transactions		
Sinking fund payments	(1,546)	(1,478)
Cash used in investing transactions	(1,546)	(1,478)
Financing transactions		
Repayment of long-term debt	(1,542)	(1,478)
Cash used in financing transactions	(1,542)	(1,478)
Net (decrease) increase in cash during the year	(12,035)	23,505
Cash (bank indebtedness), beginning of year	20,734	(2,771)
Cash, end of year	8,699	20,734
Supplementary disclosure of cash flow information		
Interest paid	9,301	9,366

See accompanying notes

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

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 entities are included in the consolidated financial statements. All inter-entity assets and liabilities and expenses and revenues have been eliminated.

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

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 Workplace NL. Rebates and salary recovery amounts are recorded once the amounts to be recorded are known and confirmed by the Workplace NL.

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

Cash includes cash on hand and balances with banks that fluctuate from positive to negative.

Inventory

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

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

Tangible capital assets

Tangible capital assets are recorded at historical cost. Certain tangible capital assets, including buildings utilized by the Authority, 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.

Contributed tangible capital assets represent assets that are donated or contributed to the Authority by third parties. Revenue is recognized in the year the assets are contributed and have been recognized at fair value as at the date of contribution.

Amortization is calculated on a straight-line or declining balance 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
Equipment under capital leases	7 – 10 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.

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

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. 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 \$54,821,260 for the year ended March 31, 2016 [2015 – \$43,319,353].

Sinking fund investment

Sinking funds established for the partial retirement of Eastern Health's sinking fund debenture are held and administered in trust by the Government.

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.

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

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

	2016					
	Total	Current	Past due			
			1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
\$	\$	\$	\$	\$	\$	
Services to patients, residents and clients	16,350	1,805	4,058	2,011	1,347	7,129
Other	11,696	5,370	—	—	—	6,326
Gross receivables	28,046	7,175	4,058	2,011	1,347	13,455
Less impairment allowance	3,207	—	—	—	—	3,207
Net accounts receivable	24,839	7,175	4,058	2,011	1,347	10,248

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

	2015					
	Total	Current	Past due			
			1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
\$	\$	\$	\$	\$	\$	
Services to patients, residents and clients	14,893	1,166	3,471	2,669	809	6,778
Other	18,786	11,840	—	—	—	6,946
Gross receivables	33,679	13,006	3,471	2,669	809	13,724
Less impairment allowance	2,944	—	—	—	—	2,944
Net accounts receivable	30,735	13,006	3,471	2,669	809	10,780

4. Due from government/other government entities

	2016	2015
	\$	\$
Government of Newfoundland and Labrador	63,088	77,778
Other government entities	2,262	1,238
	65,350	79,016

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended March 31, 2016, the Authority has not recorded any impairment of receivables relating to the above amounts [2015 – nil].

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

5. Tangible capital assets

	Land and land improvements \$	Buildings and improvements \$	Equipment \$	Equipment under capital leases \$	Construction in progress \$	Total \$
2016						
Cost						
Opening balance	3,359	429,635	515,061	15,445	12,366	975,866
Additions	—	8,635	22,257	—	2,775	33,667
Disposals	—	1,567	192	—	—	1,759
Closing balance	3,359	436,703	537,126	15,445	15,141	1,007,774
Accumulated amortization						
Opening balance	583	191,372	418,005	15,445	—	625,405
Additions	8	10,986	26,696	—	—	37,690
Disposal	—	1,463	192	—	—	1,655
Closing balance	591	200,895	444,509	15,445	—	661,440
Net book value	2,768	235,808	92,617	—	15,141	346,334
2015						
Cost						
Opening balance	3,204	396,737	482,188	15,445	39,389	936,963
Additions (transfers)	155	32,898	32,873	—	(27,023)	38,903
Closing balance	3,359	429,635	515,061	15,445	12,366	975,866
Accumulated amortization						
Opening balance	575	180,848	393,769	15,445	—	590,637
Additions	8	10,524	24,236	—	—	34,768
Closing balance	583	191,372	418,005	15,445	—	625,405
Net book value	2,776	238,263	97,056	—	12,366	350,461

6. Operating facility

The Authority has access to a line of credit totaling \$64,000,000 in the form of revolving demand loans and/or bank overdrafts at its financial institution, which was unused as at March 31, 2016 [unused as at March 31, 2015]. The Authority's ability to borrow has been approved by the Province's Minister of Health and Community Services.

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

7. Accounts payable and accrued liabilities

	2016	2015
	\$	\$
Accounts payable and accrued liabilities	54,975	76,361
Salaries and wages payable	47,827	41,494
Employee/employer remittances	5,948	2,000
	<u>108,750</u>	<u>119,855</u>

8. Due to government/other government entities

	2016	2015
	\$	\$
Federal government	3,106	2,625
Government of Newfoundland and Labrador	3,193	5,935
Other government entities	6,755	5,685
	<u>13,054</u>	<u>14,245</u>

9. Deferred contributions

	2016	2015
	\$	\$
Deferred capital grants [a]		
Balance at beginning of year	83,732	80,190
Receipts during the year	34,299	42,445
Recognized in revenue during the year	(33,667)	(38,903)
Balance at end of year	<u>84,364</u>	<u>83,732</u>
Deferred operating revenue [b]		
Balance at beginning of year	16,323	20,883
Receipts during the year	1,346,945	1,268,435
Recognized in revenue during the year	(1,346,251)	(1,272,995)
Balance at end of year	<u>17,017</u>	<u>16,323</u>

[a] Deferred capital grants represent transfers from 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.

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

10. Long-term debt

	2016	2015
	\$	\$
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 \$2,337,523.	972	1,162
Canadian Imperial Bank of Commerce loan (A.A Wilkinson), unsecured, bearing interest at prime lending rate less 0.625 basis points, maturing in August 2016, repayable in monthly instalments of \$21,200 plus interest.	103	358
NLHC (Inter Faith Citizens Home), 10.0% mortgage, maturing in December 2028, repayable in blended monthly instalments of \$8,955, secured by land and building with a net book value of \$835,278.	786	815
NLHC (Access House), 2.40% mortgage, maturing in July 2020, repayable in blended monthly instalments of \$1,022, secured by property with a net book value of \$50,477.	—	61
NLHC (GHHA), 1.67% first mortgage on land, building and equipment, with a net book value of \$3,496,037, maturing in April 1, 2017, amortized to April 1, 2019, payable in blended monthly instalments of \$12,304.	443	582
Royal Bank of Canada, 3.58% promissory note on land, building and equipment with a net book value of \$3,496,037, maturing on June 1, 2016, amortized to May 24, 2021, payable in blended monthly instalments of \$7,447.	366	438
NLHC (NWR), 1.67% first mortgage on land and building, with a net book value of \$468,014, with an assignment of rents and leases, maturing on June 1, 2018, amortized to April 1, 2018, payable in blended monthly instalments of \$7,472.	—	269
NLHC (Lions Manor), 1.67% first mortgage on land and building phase one, with a net book value of \$885,232, maturing in April 2017, amortized to October 2023, repayable in blended monthly instalments of \$6,077.	519	583
NLHC (Lions Manor), 1.67% first mortgage on land and building phase two, with a net book value of \$885,232, maturing in April 2017, amortized to December 2026, repayable in blended monthly instalments of \$2,941.	347	376

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2016

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

	2016 \$	2015 \$
NLHC (TCRHB), 1.67% first mortgage on land and building, with a net book value of \$257,017, maturing in April 2017, amortized to December 2027, repayable in blended monthly instalments of \$2,008.	257	277
NLHC (Golden Heights Cottages), 2.61% first mortgage on land and building with a net book value of \$201,668, chattel mortgage on equipment and an assignment of rents, maturing and amortized to July 1, 2019, repayable in blended monthly instalments of \$5,397.	209	270
NLHC (Blue Crest), 1.64% first mortgage on land and building, with a net book value of \$431,412, maturing on December 1, 2016, amortized to December 1, 2021, repayable in blended monthly instalments of \$3,743.	246	287
NLHC (Blue Crest), 2.26% first mortgage on land and building, with a net book value of \$431,412, maturing on August 1, 2016, amortized to May 1, 2021, repayable in blended monthly instalments of \$3,165.	185	218
Canada Mortgage and Housing Corporation ["CMHC"], (Blue Crest Cottages), 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 \$2,713,500.	632	674
CMHC (Golden Heights Manor Seniors Home), 10.5% mortgage, maturing in August 2027, repayable in blended monthly instalments of \$7,549.	610	636
CMHC (Golden Heights Manor Seniors Home), 1.12% mortgage, maturing in June 2023, repayable in blended monthly instalments of \$19,246.	1,609	1,820
	137,284	138,826

NLHC (Access House) mortgage was repaid in full in October 2015.

NLHC (NWR) mortgage was repaid in full in November 2015.

Future principal repayments to maturity are as follows:

	\$
2017	1,095
2018	1,016
2019	1,041
2020	888
2021	781
Thereafter	132,463
	137,284

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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, 2016 included interest earned in the amount of \$6,779,330 [2015 – \$5,981,612].

The semi-annual interest payments on the Debenture are \$4,485,000. 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 and mandatory annual sinking fund payments on the Debenture are guaranteed by the Government.

12. Agreement with Newfoundland and Labrador Housing Corporation

Effective June 2, 1997, Newfoundland and Labrador Housing Corporation 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

	2016	2015
	\$	\$
Accounts receivable	5,896	(5,795)
Supplies inventory	14	225
Prepaid expenses	(4,008)	111
Accounts payable and accrued liabilities	(11,105)	12,768
Accrued vacation pay	2,013	2,159
Deferred operating revenue	694	(4,560)
Deferred capital grants	632	3,542
Due from/to government/other government entities	12,475	17,351
	<u>6,611</u>	<u>25,801</u>

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, 2016, the balance of funds held in trust for residents of long-term care facilities was \$4,187,753 [2015 – \$4,220,965]. These trust funds consist of a monthly comfort allowance provided to residents who qualify for subsidization of their boarding and lodging fees.

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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.

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 unperformed portion of the contracts:

	2017	2018	2019	2020	Thereafter
	\$	\$	\$	\$	\$
Future operating lease payments	12,551	11,594	9,682	6,390	52,065
Managed print services	2,000	2,000	2,000	2,000	—
Vehicles	294	238	173	78	14
	14,845	13,832	11,855	8,468	52,079

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 2016, cash payments to retirees for the Authority's unfunded employee future benefits amounted to approximately \$8,575,000 [2015 – \$8,608,000]. The most recent actuarial valuation for the accrued severance obligation was performed effective March 31, 2015, and an extrapolation of that valuation has been performed to March 31, 2016.

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

	2016 \$	2015 \$
Accrued benefit liability, beginning of year	110,852	110,841
Benefits expense		
Current service cost	8,807	7,362
Interest cost	3,640	4,298
Amortization of actuarial losses and gains	1,321	(3,041)
	<u>124,620</u>	<u>119,460</u>
Benefits paid	(8,575)	(8,608)
Accrued benefit liability, end of year	<u>116,045</u>	<u>110,852</u>
Current year benefit cost	8,807	7,362
Amortization of actuarial loss during the year	1,321	435
Benefits interest expense	3,640	4,298
Total expense recognized for the year	<u>13,768</u>	<u>12,095</u>

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

Discount rate – liability	3.70% as at March 31, 2016 2.90% as at March 31, 2015
Discount rate – benefit expense	2.90% in fiscal 2016 3.90% in fiscal 2015
Rate of compensation increase	3.00% plus 0.75% for promotions and merit as at March 31, 2016 0% for 2012, 0% for 2013, 2% for 2014, 3% for 2015, and 3.25% thereafter plus 0.75% for promotions and merit as at March 31, 2015

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 2016, cash payments to employees for the Authority's unfunded sick leave benefits amounted to approximately \$9,425,013 [2015 – \$8,480,000]. The most recent actuarial valuation for the accrued sick leave obligation was performed effective March 31, 2015, and an extrapolation of that valuation has been performed to March 31, 2016.

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

	2016 \$	2015 \$
Accrued benefit liability, beginning of year	59,304	59,654
Benefits expense		
Current service cost	6,709	6,117
Interest cost	2,640	2,280
Amortization of actuarial losses and gains	2,621	(267)
	<u>71,274</u>	<u>67,784</u>
Benefits paid	(9,425)	(8,480)
Accrued benefit liability, end of year	<u>61,849</u>	<u>59,304</u>
Current year benefit cost	6,709	6,117
Amortization of actuarial loss during the year	2,621	98
Benefits interest expense	2,640	2,280
Total expense recognized for the year	<u>11,970</u>	<u>8,495</u>

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

Discount rate – liability 3.70% as at March 31, 2016
2.90% as at March 31, 2015

Discount rate – benefit expense 2.90% in fiscal 2016
3.90% in fiscal 2015

Rate of compensation increase 3.00% plus 0.75% for promotions and merit as at March 31, 2016
0% for 2012, 0% for 2013, 2% for 2014, 3% for 2015, and 3.25% thereafter
plus 0.75% for promotions and merit as at March 31, 2015

19. Related party transactions

The Authority's related party transactions occur between the Government and other government entities. Other government entities are those who report financial information to the Province. Transactions between the Authority and related parties are conducted as arm's length transactions.

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 Medical Care Plan and Workplace NL. 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.

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

	2016	2015
	\$	\$
Transfers from the Government of Newfoundland and Labrador	1,334,691	1,275,763
Transfers from other government entities	81,511	86,722
Transfers to other government entities	(110,214)	(107,995)
	<u>1,305,988</u>	<u>1,254,490</u>

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 source of risk exposure and how each is managed is 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. The Authority has an authorized credit facility [the "Facility"] of \$64,000,000. As at March 31, 2016, the Authority had \$64,000,000 in funds available on the Facility [2015 – \$64,000,000]. 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. 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.

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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, 2016:

	Revenue	Expenses	Annual surplus
	\$	\$	\$
Original Budget	1,337,562	1,337,562	—
Adjustments during the year for service and program changes, net	83,245	83,245	—
Revised Original Budget	1,420,807	1,420,807	—
Stabilization fund approved by Government	29,643	29,643	—
Final Budget	1,450,450	1,450,450	—

22. Comparative figures

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation adopted for the current year.

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23. 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.

	2016	2015
	\$	\$
Salaries	755,451	730,851
Supplies – other	282,450	261,938
Direct client costs	155,302	134,643
Employee benefits	145,573	121,567
Supplies – medical and surgical	59,999	59,019
Drugs	51,424	50,655
Amortization of tangible capital assets	37,690	34,768
Maintenance	19,153	20,977
Interest on long-term debt	9,224	9,276
Cottages and hostels operations	1,904	2,101
Total expenses	1,518,170	1,425,795