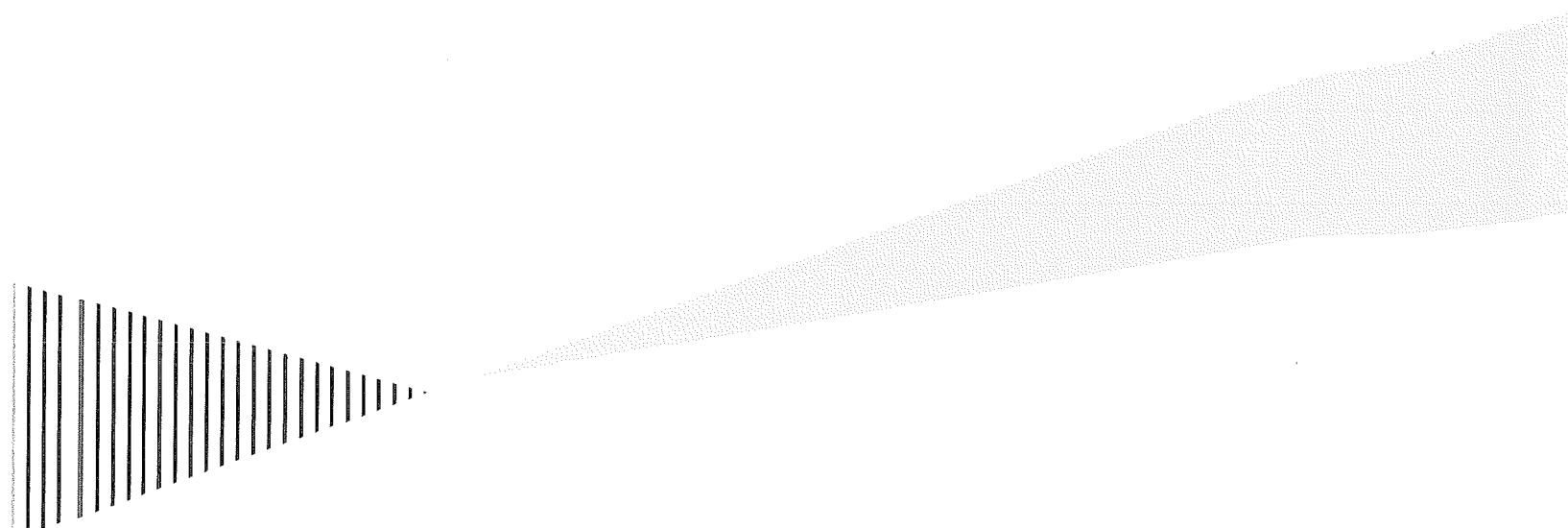


Consolidated financial statements

Eastern Regional Health Authority

March 31, 2017



Building a better
working world

Eastern Regional Health Authority

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March 31, 2017

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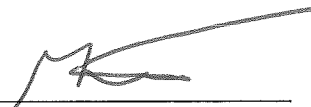
Statement of management responsibility


The accompanying consolidated financial statements of the **Eastern Regional Health Authority** [the "Authority"] as at and for the year ended March 31, 2017 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, 2017.


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, 2017, 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, 2017, 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
June 27, 2017

Chartered Professional Accountants



Eastern Regional Health Authority

Consolidated statement of financial position

[in thousands of Canadian dollars]

As at March 31

	2017	2016
	\$	\$
Financial assets		
Cash	347	8,699
Accounts receivable <i>[note 3]</i>	26,514	24,839
Due from government/other government entities <i>[note 4]</i>	73,043	65,350
Capital replacement reserve fund <i>[note 12]</i>	521	535
Sinking fund investment <i>[note 11]</i>	19,545	17,993
	<u>119,970</u>	<u>117,416</u>
Liabilities		
Accounts payable and accrued liabilities <i>[note 7]</i>	117,534	108,750
Due to government/other government entities <i>[note 8]</i>	21,691	13,054
Employee future benefits		
Accrued severance pay <i>[note 17]</i>	120,200	116,045
Accrued sick leave <i>[note 18]</i>	63,826	61,849
Accrued vacation pay	54,193	51,951
Deferred contributions <i>[note 9]</i>		
Deferred capital grants	66,747	84,364
Deferred operating revenue	12,456	17,017
Capital replacement reserve fund <i>[note 12]</i>	521	535
Long-term debt <i>[note 10]</i>	136,201	137,284
	<u>593,369</u>	<u>590,849</u>
Net debt	<u>(473,399)</u>	<u>(473,433)</u>
Non-financial assets		
Tangible capital assets <i>[note 5]</i>	347,515	346,334
Supplies inventory	14,994	15,298
Prepaid expenses	6,653	8,813
	<u>369,162</u>	<u>370,445</u>
Accumulated deficit	<u>(104,237)</u>	<u>(102,988)</u>
Contingencies <i>[note 15]</i>		
Contractual obligations <i>[note 16]</i>		
Operating facility <i>[note 6]</i>		

See accompanying notes

Approved by the Board:

 Director

 Director

Eastern Regional Health Authority

Consolidated statement of operations and accumulated deficit

[in thousands of Canadian dollars]

Year ended March 31

	Final Budget	2017	2016
	\$	\$	\$
	<i>[note 21]</i>		
Revenue			
Provincial plan	1,343,082	1,343,081	1,297,112
Medical Care Plan	72,911	72,911	73,444
Provincial capital grant <i>[note 9]</i>	—	32,854	27,081
Other	38,912	41,378	42,877
Resident	19,833	20,200	19,818
Inpatient	12,295	12,513	11,371
Outpatient	9,392	9,084	10,089
Other capital contributions <i>[note 9]</i>	—	5,068	6,586
Cottages and Hostels operations	—	2,002	2,369
	<u>1,496,425</u>	<u>1,539,091</u>	<u>1,490,747</u>
Expenses <i>[note 22]</i>			
Patient and resident services	393,001	398,180	402,656
Client services	285,421	278,625	258,671
Diagnostic and therapeutic	206,185	206,544	205,817
Support	183,263	183,927	180,563
Ambulatory care	157,669	159,186	162,251
Administration	120,376	124,395	121,561
Medical services	99,344	100,703	99,427
Amortization of tangible capital assets <i>[note 5]</i>	—	36,650	37,690
Research and education	17,440	15,270	15,523
Interest on long-term debt	10,075	9,188	9,224
Other	23,651	17,613	13,132
Accrued severance pay expense	—	4,155	5,193
Accrued sick leave expense	—	1,977	2,545
Accrued vacation pay expense	—	2,242	2,013
Cottages and Hostels operations	—	1,685	1,904
	<u>1,496,425</u>	<u>1,540,340</u>	<u>1,518,170</u>
Annual deficit	—	(1,249)	(27,423)
Accumulated deficit, beginning of year	—	(102,988)	(75,565)
Accumulated deficit, end of year	<u>—</u>	<u>(104,237)</u>	<u>(102,988)</u>

See accompanying notes

Eastern Regional Health Authority

Consolidated statement of changes in net debt

[in thousands of Canadian dollars]

Year ended March 31

	2017	2016
	\$	\$
Annual deficit	<u>(1,249)</u>	<u>(27,423)</u>
Changes in tangible capital assets		
Acquisition of tangible capital assets	(37,922)	(33,667)
Disposal of tangible capital assets	91	104
Amortization of tangible capital assets	36,650	37,690
Decrease (increase) in net book value of tangible capital assets	<u>(1,181)</u>	<u>4,127</u>
Changes in other non-financial assets		
Net decrease (increase) in prepaid expenses	2,160	(4,008)
Net decrease in supplies inventory	304	14
Decrease (increase) in other non-financial assets	<u>2,464</u>	<u>(3,994)</u>
Decrease (increase) in net debt	34	(27,290)
Net debt, beginning of year	<u>(473,433)</u>	<u>(446,143)</u>
Net debt, end of year	<u>(473,399)</u>	<u>(473,433)</u>

Eastern Regional Health Authority

Consolidated statement of cash flows

[in thousands of Canadian dollars]

Year ended March 31

	2017	2016
	\$	\$
Operating transactions		
Annual deficit	(1,249)	(27,423)
Adjustments for:		
Amortization of tangible capital assets	36,650	37,690
Capital grants – provincial and other	(37,922)	(33,667)
Increase in accrued severance pay	4,155	5,193
Increase in accrued sick leave	1,977	2,545
Net change in non-cash assets and liabilities related to operations <i>[note 13]</i>	(9,419)	6,611
Cash used in operating transactions	(5,808)	(9,051)
Capital transactions		
Acquisition of tangible capital assets	(37,922)	(33,667)
Disposal of tangible capital assets	91	104
Tangible capital asset contributions	37,922	33,667
Cash provided by capital transactions	91	104
Investing transactions		
Increase in sinking fund investment	(1,552)	(1,546)
Cash used in investing transactions	(1,552)	(1,546)
Financing transactions		
Repayment of long-term debt	(1,083)	(1,542)
Cash used in financing transactions	(1,083)	(1,542)
Net decrease in cash during the year	(8,352)	(12,035)
Cash, beginning of year	8,699	20,734
Cash, end of year	347	8,699
Supplementary disclosure of cash flow information		
Interest paid	9,243	9,301

See accompanying notes

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2017

[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 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.

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2017

[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 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

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

Supplies inventory

Supplies 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, 2017

[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 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, 2017

[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, 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 \$55,072,548 for the year ended March 31, 2017 [2016 – \$54,821,260].

Sinking fund investment

The sinking fund was established for the partial retirement of Eastern Health's sinking fund debenture, which is 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, 2017

[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

	2017					
	Total	Current	Past due			
			1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
\$	\$	\$	\$	\$	\$	
Services to patients, residents and clients	17,708	967	3,761	3,554	1,800	7,626
Other	11,122	5,238	—	—	—	5,884
Gross accounts receivable	28,830	6,205	3,761	3,554	1,800	13,510
Less impairment allowance	2,316	—	—	—	—	2,316
Net accounts receivable	26,514	6,205	3,761	3,554	1,800	11,194

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2017

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

	2016					
	Total	Current	Past due			Over 90 days
			1 – 30 days	31 – 60 days	61 – 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 accounts receivable	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

4. Due from government/other government entities

	2017	2016
	\$	\$
Government of Newfoundland and Labrador	71,970	63,088
Other government entities	1,073	2,262
	73,043	65,350

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended March 31, 2017, the Authority has not recorded any impairment of receivables relating to the above amounts [2016 – nil].

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2017

[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 \$	Construction in progress \$	Total \$
2017					
Cost					
Opening balance	3,359	436,703	552,571	15,141	1,007,774
Additions	—	4,740	30,751	2,431	37,922
Disposals	(23)	(193)	—	—	(216)
Closing balance	3,336	441,250	583,322	17,572	1,045,480
Accumulated amortization					
Opening balance	591	200,895	459,954	—	661,440
Additions	8	10,656	25,986	—	36,650
Disposals	—	(125)	—	—	(125)
Closing balance	599	211,426	485,940	—	697,965
Net book value	2,737	229,824	97,382	17,572	347,515

	Land and land improvements \$	Buildings and improvements \$	Equipment \$	Construction in progress \$	Total \$
2016					
Cost					
Opening balance	3,359	429,635	530,506	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	552,571	15,141	1,007,774
Accumulated amortization					
Opening balance	583	191,372	433,450	—	625,405
Additions	8	10,986	26,696	—	37,690
Disposals	—	(1,463)	(192)	—	(1,655)
Closing balance	591	200,895	459,954	—	661,440
Net book value	2,768	235,808	92,617	15,141	346,334

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, 2017 [unused as at March 31, 2016]. 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, 2017

[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

	2017	2016
	\$	\$
Accounts payable and accrued liabilities	64,761	54,975
Salaries and wages payable	49,403	47,827
Employee/employer remittances	3,370	5,948
	<u>117,534</u>	<u>108,750</u>

8. Due to government/other government entities

	2017	2016
	\$	\$
Federal government	3,333	3,106
Government of Newfoundland and Labrador	13,347	3,193
Other government entities	5,011	6,755
	<u>21,691</u>	<u>13,054</u>

9. Deferred contributions

	2017	2016
	\$	\$
Deferred capital grants [a]		
Balance at beginning of year	84,364	83,732
Receipts during the year	20,305	34,299
Recognized in revenue during the year	(37,922)	(33,667)
Balance at end of year	<u>66,747</u>	<u>84,364</u>
Deferred operating revenue [b]		
Balance at beginning of year	17,017	16,323
Receipts during the year	1,394,419	1,346,945
Recognized in revenue during the year	(1,398,980)	(1,346,251)
Balance at end of year	<u>12,456</u>	<u>17,017</u>

[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.

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2017

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

10. Long-term debt

	2017	2016
	\$	\$
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 \$2,132,382.	771	972
Canadian Imperial Bank of Commerce loan [A.A Wilkinson], unsecured, bearing interest at prime lending rate less 0.625 basis points, matured in August 2016, repayable in monthly instalments of \$21,200 plus interest.	—	103
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 \$803,238.	754	786
NLHC [GHHA], 1.67% first mortgage on land, building and equipment, with a net book value of \$796,077, maturing on April 1, 2017, amortized to April 1, 2019, payable in blended monthly instalments of \$12,304.	302	443
Royal Bank of Canada, 2.94% promissory note on land, building and equipment with a net book value of \$796,077, maturing on June 1, 2021, amortized to June 1, 2021, payable in blended monthly instalments of \$6,286.	300	366
NLHC [TCRHB] 1.67% first mortgage on land and building, with a net book value of \$237,034 maturing in April 2017, amortized to December 2027, repayable in blended monthly instalments of \$2,008.	237	257
NLHC [Lions Manor], 1.67% first mortgage on land and building phase one, with a net book value of \$790,686, maturing in April 2017, amortized to October 2023, repayable in blended monthly instalments of \$6,077.	454	519
NLHC [Lions Manor], 1.67% first mortgage on land and building phase two, with a net book value of \$790,686, maturing in April 2017, amortized to December 2026, repayable in blended monthly instalments of \$2,941.	317	347

Eastern Regional Health Authority

Notes to consolidated financial statements

March 31, 2017

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

	2017	2016
	\$	\$
NLHC [Golden Heights Cottages], 1.82% first mortgage on land and building with a net book value of \$134,943, chattel mortgage on equipment and an assignment of rents, maturing and amortized to July 1, 2019, repayable in blended monthly instalments of \$5,394.	148	209
NLHC [Blue Crest Cottages], 1.31% first mortgage on land and building, with a net book value of \$338,605, maturing on December 1, 2021, amortized to December 1, 2021, repayable in blended monthly instalments of \$3,712.	205	246
NLHC [Blue Crest Cottages] 1.05% first mortgage on land and building, with a net book value of \$338,605, maturing on August 1, 2021, amortized to May 1, 2026, repayable in blended monthly instalments of \$3,076.	151	185
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 \$2,621,262.	587	632
CMHC [Golden Heights Manor Seniors Home], 10.5% mortgage, maturing in August 2027, repayable in blended monthly instalments of \$7,549.	581	610
CMHC [Golden Heights Manor Seniors Home], 1.12% mortgage, maturing in June 2023, repayable in blended monthly instalments of \$19,246.	1,394	1,609
	<u>136,201</u>	<u>137,284</u>

Future principal repayments to maturity are as follows:

	\$
2018	1,003
2019	1,027
2020	873
2021	809
2022	579
Thereafter	131,910
	<u>136,201</u>

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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, 2017 includes interest earned in the amount of \$7,588,184 [2016 – \$6,779,330]. 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

	2017	2016
	\$	\$
Accounts receivable	(1,675)	5,896
Supplies inventory	304	14
Prepaid expenses	2,160	(4,008)
Accounts payable and accrued liabilities	8,784	(11,105)
Accrued vacation pay	2,242	2,013
Deferred operating revenue	(4,561)	694
Deferred capital grants	(17,617)	632
Due from/to government/other government entities	944	12,475
	<u>(9,419)</u>	<u>6,611</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, 2017, the balance of funds held in trust for residents of long-term care facilities was \$3,419,660 [2016 – \$4,187,753]. These trust funds include 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 future portion of the contracts:

	2018	2019	2020	2021	Thereafter
	\$	\$	\$	\$	\$
Future operating lease payments	13,885	12,231	8,461	6,561	52,870
Managed print services	1,688	1,688	1,688	1,688	—
Vehicles	288	221	124	21	—
	<u>15,861</u>	<u>14,140</u>	<u>10,273</u>	<u>8,270</u>	<u>52,870</u>

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 2017, cash payments to retirees for the Authority's unfunded employee future benefits amounted to approximately \$8,488,000 [2016 – \$8,575,000]. 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, 2017.

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

	2017 \$	2016 \$
Accrued benefit liability, beginning of year	116,045	110,852
Benefits expense		
Current service cost	7,896	8,807
Interest cost	4,335	3,640
Amortization of actuarial losses and gains	412	1,321
	<u>128,688</u>	<u>124,620</u>
Benefits paid	(8,488)	(8,575)
Accrued benefit liability, end of year	<u>120,200</u>	<u>116,045</u>
Current year benefit cost	7,896	8,807
Amortization of actuarial loss during the year	412	1,321
Benefits interest expense	4,335	3,640
Total expense recognized for the year	<u>12,643</u>	<u>13,768</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, 2017 3.70% as at March 31, 2016
Discount rate – benefit expense	3.70% in fiscal 2017 3.70% in fiscal 2016
Rate of compensation increase	3.00% plus 0.75% for promotions and merit as at March 31, 2017 3.00% plus 0.75% for promotions and merit as at March 31, 2016

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 2017, cash payments to employees for the Authority's unfunded sick leave benefits amounted to approximately \$9,707,000 [2016 – \$9,425,013]. 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, 2017

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

	2017 \$	2016 \$
Accrued benefit liability, beginning of year	61,849	59,304
Benefits expense		
Current service cost	6,394	6,709
Interest cost	3,131	2,640
Amortization of actuarial losses and gains	2,159	2,621
	<u>73,533</u>	<u>71,274</u>
Benefits paid	(9,707)	(9,425)
Accrued benefit liability, end of year	<u>63,826</u>	<u>61,849</u>
Current year benefit cost	6,394	6,709
Amortization of actuarial loss during the year	2,159	2,621
Benefits interest expense	3,131	2,640
Total expense recognized for the year	<u>11,684</u>	<u>11,970</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, 2017 3.70% as at March 31, 2016
Discount rate – benefit expense	3.70% in fiscal 2017 3.70% in fiscal 2016
Rate of compensation increase	3.00% plus 0.75% for promotions and merit as at March 31, 2017 3.00% plus 0.75% for promotions and merit as at March 31, 2016

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 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.

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

	2017	2016
	\$	\$
Transfers from the Government of Newfoundland and Labrador	1,361,789	1,334,691
Transfers from other government entities	80,521	81,511
Transfers to other government entities	(99,749)	(110,214)
	<u>1,342,561</u>	<u>1,305,988</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, 2017, the Authority had \$64,000,000 in funds available on the Facility [2016 – \$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. 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.

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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, 2017:

	Revenue	Expenses	Annual surplus
	\$	\$	\$
Original Budget	1,393,043	1,393,043	—
Adjustments during the year for service and program changes, net	55,932	55,932	—
Revised Original Budget	1,448,975	1,448,975	—
Stabilization fund approved by Government	47,450	47,450	—
Final Budget	1,496,425	1,496,425	—

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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.

	2017	2016
	\$	\$
Salaries	768,148	755,451
Supplies – other	278,179	282,450
Direct client costs	172,497	155,302
Employee benefits	144,424	145,573
Supplies – medical and surgical	60,993	59,999
Drugs	49,438	51,424
Amortization of tangible capital assets	36,650	37,690
Maintenance	19,138	19,153
Interest on long-term debt	9,188	9,224
Cottages and hostels operations	1,685	1,904
Total expenses	1,540,340	1,518,170

