Eastern Regional Health Authority

Consolidated financial statements
March 31, 2018

Building a better working world

Eastern Regional Health Authority

Table of contents

March 31, 2018

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, 2018 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, 2018.

Scott Bishop, CPA,CGA Chief Financial Officer	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, 2018, 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, 2018, 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

Chartered Professional Accountants

St. John's, Canada
June 28, 2018

Eastern Regional Health Authority

Consolidated statement of financial position

[in thousands of Canadian dollars]

As at March 31

	2018	2017
	$	$
Financial assets		
Cash	**10,657**	347
Accounts receivable *[note 3]*	**23,668**	26,514
Due from government/other government entities *[note 4]*	**44,956**	73,043
Capital replacement reserve fund *[note 12]*	**510**	521
Sinking fund investment *[note 11]*	**21,123**	19,545
	100,914	119,970
Liabilities		
Accounts payable and accrued liabilities *[note 7]*	**118,376**	117,534
Due to government/other government entities *[note 8]*	**20,275**	21,691
Employee future benefits		
Accrued severance pay *[note 17]*	**132,565**	120,200
Accrued sick leave *[note 18]*	**66,339**	63,826
Accrued vacation pay	**55,909**	54,193
Deferred contributions *[note 9]*		
Deferred capital grants	**47,132**	66,747
Deferred operating revenue	**10,584**	12,456
Capital replacement reserve fund *[note 12]*	**510**	521
Long-term debt *[note 10]*	**134,473**	136,201
	586,163	593,369
Net debt	**(485,249)**	(473,399)
Non-financial assets		
Tangible capital assets *[note 5]*	**352,795**	347,515
Supplies inventory	**16,830**	14,994
Prepaid expenses	**5,598**	6,653
	375,223	369,162
Accumulated deficit	**(110,026)**	(104,237)

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

See accompanying notes

Approved by the Board:

_______________ Director   Sharon Forsey _______________ Director

Eastern Regional Health Authority

Consolidated statement of operations and accumulated deficit

[in thousands of Canadian dollars]

Year ended March 31

	Budget $ *[note 21]*	2018 $	2017 $
Revenue			
Provincial plan	1,336,964	**1,336,964**	1,343,081
Medical Care Plan	76,269	**76,276**	72,911
Provincial capital grant *[note 9]*	—	**35,835**	32,854
Other	38,295	**38,506**	41,378
Resident	19,735	**20,035**	20,200
Inpatient	11,975	**12,253**	12,513
Outpatient	10,560	**10,291**	9,084
Other capital contributions *[note 9]*	—	**6,034**	5,068
Cottages and Hostels operations	—	**1,826**	2,002
Unallocated revenue	3,040	**—**	—
	1,496,838	**1,538,020**	1,539,091
Expenses *[note 22]*			
Patient and resident services	395,524	**393,467**	398,180
Client services	293,398	**285,288**	278,625
Diagnostic and therapeutic	203,217	**202,020**	206,544
Support	186,093	**186,699**	183,927
Ambulatory care	158,106	**160,003**	159,186
Administration	124,783	**126,311**	124,395
Medical services	102,150	**101,389**	100,703
Amortization of tangible capital assets *[note 5]*	—	**36,589**	36,650
Research and education	17,665	**15,407**	15,270
Interest on long-term debt	10,162	**9,424**	9,188
Other	5,740	**9,080**	17,613
Accrued severance pay expense	—	**12,365**	4,155
Accrued sick leave expense	—	**2,513**	1,977
Accrued vacation pay expense	—	**1,716**	2,242
Cottages and Hostels operations	—	**1,538**	1,685
	1,496,838	**1,543,809**	1,540,340
Annual deficit		**(5,789)**	(1,249)
Accumulated deficit, beginning of year		**(104,237)**	(102,988)
Accumulated deficit, end of year	—	**(110,026)**	(104,237)

See accompanying notes

Eastern Regional Health Authority

Consolidated statement of changes in net debt

[in thousands of Canadian dollars]

Year ended March 31

	Budget $ *[note 21]*	2018 $	2017 $
Annual deficit	—	**(5,789)**	(1,249)
Changes in tangible capital assets			
Acquisition of tangible capital assets	—	**(41,869)**	(37,922)
Disposal of tangible capital assets	—	**—**	91
Amortization of tangible capital assets	—	**36,589**	36,650
Increase in net book value of tangible capital assets	—	**(5,280)**	(1,181)
Changes in other non-financial assets			
Net decrease in prepaid expenses	—	**1,055**	2,160
Net (increase) decrease in supplies inventory	—	**(1,836)**	304
(Increase) decrease in other non-financial assets	—	**(781)**	2,464
(Increase) decrease in net debt	—	**(11,850)**	34
Net debt, beginning of year	—	**(473,399)**	(473,433)
Net debt, end of year	—	**(485,249)**	(473,399)

See accompanying notes

Eastern Regional Health Authority

Consolidated statement of cash flows

[in thousands of Canadian dollars]

Year ended March 31

	2018	2017
	$	$
Operating transactions		
Annual deficit	**(5,789)**	(1,249)
Adjustments for:		
Amortization of tangible capital assets	**36,589**	36,650
Capital grants – provincial and other	**(41,869)**	(37,922)
Increase in accrued severance pay	**12,365**	4,155
Increase in accrued sick leave	**2,513**	1,977
Net change in non-cash assets and liabilities related to operations *[note 13]*	**9,807**	(9,419)
Cash provided by (used in) operating transactions	**13,616**	(5,808)
Capital transactions		
Acquisition of tangible capital assets	**(41,869)**	(37,922)
Disposal of tangible capital assets	**—**	91
Tangible capital asset contributions	**41,869**	37,922
Cash provided by capital transactions	**—**	91
Investing transactions		
Sinking fund payments	**(1,578)**	(1,552)
Cash used in investing transactions	**(1,578)**	(1,552)
Financing transactions		
Repayment of long-term debt	**(1,728)**	(1,083)
Cash used in financing transactions	**(1,728)**	(1,083)
Net increase (decrease) in cash during the year	**10,310**	(8,352)
Cash, beginning of year	**347**	8,699
Cash, end of year	**10,657**	347
Supplementary disclosure of cash flow information		
Interest paid	**9,253**	9,243

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, 2018

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:

Adoption of new accounting standards

During the year, Eastern Health adopted the new accounting standards PS 2200, *Related Party Disclosures*, and PS 3420 *Inter-Entity Transactions*. These new standards are effective for fiscal years beginning on or after April 1, 2017. PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The adoption of these accounting standards will be applied on a prospective basis and did not have any impact on the consolidated financial statements.

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.

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, 2018

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.

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.

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.

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

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, 2018

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 $55,407,690 for the year ended March 31, 2018 [2017 – $55,072,548].

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.

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.

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, 2018

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

	2018					
			Past due			
	Total $	Current $	1 – 30 days $	31 – 60 days $	61 – 90 days $	Over 90 days $
Services to patients, residents and clients	15,161	1,066	3,672	3,402	1,353	5,668
Other	11,220	5,875	—	—	—	5,345
Gross accounts receivable	26,381	6,941	3,672	3,402	1,353	11,013
Less impairment allowance	2,713	—	—	—	—	2,713
Net accounts receivable	23,668	6,941	3,672	3,402	1,353	8,300

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, 2018

	2017					
			Past due			
	Total $	Current $	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

4. Due from government/other government entities

	2018 $	2017 $
Government of Newfoundland and Labrador	**43,549**	71,970
Other government entities	**1,407**	1,073
	44,956	73,043

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended March 31, 2018, the Authority has not recorded any impairment of receivables relating to the above amounts [2017 – nil].

5. Tangible capital assets

	Land and land improvements $	Buildings and improvements $	Equipment $	Construction in progress $	Total $
2018					
Cost					
Opening balance	3,336	441,250	583,322	17,572	1,045,480
Additions	—	3,176	24,086	14,607	41,869
Disposals	(488)	(28,289)	(70,525)	—	(99,302)
Closing balance	2,848	416,137	536,883	32,179	988,047
Accumulated amortization					
Opening balance	599	211,426	485,940	—	697,965
Additions	8	11,378	25,203	—	36,589
Disposals	(488)	(28,289)	(70,525)	—	(99,302)
Closing balance	119	194,515	440,618	—	635,252
Net book value	2,729	221,622	96,265	32,179	352,795

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, 2018

	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

In the current year, management performed a clean-up 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 $99,000,000.

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, 2018 [2017 - unused]. 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

	2018 $	2017 $
Accounts payable and accrued liabilities	**60,601**	64,761
Salaries and wages payable	**51,756**	49,403
Employee/employer remittances	**6,019**	3,370
	118,376	117,534

8. Due to government/other government entities

	2018 $	2017 $
Federal government	**4,163**	3,333
Government of Newfoundland and Labrador	**11,117**	13,347
Other government entities	**4,995**	5,011
	20,275	21,691

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, 2018

9. Deferred contributions

	2018 $	2017 $
Deferred capital grants [a]		
Balance at beginning of year	**66,747**	84,364
Receipts during the year	**22,254**	20,305
Recognized in revenue during the year	**(41,869)**	(37,922)
Balance at end of year	**47,132**	66,747
Deferred operating revenue [b]		
Balance at beginning of year	**12,456**	17,017
Receipts during the year	**1,398,482**	1,394,419
Recognized in revenue during the year	**(1,400,354)**	(1,398,980)
Balance at end of year	**10,584**	12,456

[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

	2018 $	2017 $
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 $1,925,343	**568**	771
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. Mortgage paid full November 2017	**—**	754
NLHC [GHHA], 1.05% first mortgage on land, building and equipment, with a net book value of $584,280, maturing on April 1, 2019, amortized to April 1, 2019, payable in blended monthly instalments of $12,226	**150**	302
Royal Bank of Canada, 2.94% promissory note on land, building and equipment with a net book value of $584,280, maturing on June 1, 2021, amortized to June 1, 2026, payable in blended monthly instalments of $6,286	**235**	300

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, 2018

	2018 $	2017 $
NLHC [TCRHB] 1.43% first mortgage on land and building, with a net book value of $216,504 maturing in April 2022, amortized to December 2027, repayable in blended monthly instalments of $2,008	**217**	237
NLHC [Lions Manor], 1.43% first mortgage on land and building phase one, with a net book value of $693,883, maturing in April 2022, amortized to October 2023, repayable in blended monthly instalments of $6,031	**388**	454
NLHC [Lions Manor], 1.43% first mortgage on land and building phase two, with a net book value of $693,883, maturing in April 2022, amortized to December 2026, repayable in blended monthly instalments of $2,908	**287**	317
NLHC [Golden Heights Cottages], 1.82% first mortgage on land and building with a net book value of $78,677, chattel mortgage on equipment and an assignment of rents, maturing and amortized to July 1, 2019, repayable in blended monthly instalments of $5,394	**85**	148
NLHC [Blue Crest Cottages], 1.31% first mortgage on land and building, with a net book value of $265,398, maturing on December 1, 2021, amortized to December 1, 2021, repayable in blended monthly instalments of $3,712	**163**	205
NLHC [Blue Crest Cottages] 1.05% first mortgage on land and building, with a net book value of $265,398, maturing on May 1, 2021, amortized to May 1, 2026, repayable in blended monthly instalments of $3,076	**115**	151
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	**538**	587
CMHC [Golden Heights Manor Seniors Home], 10.5% mortgage, maturing in August 2027, repayable in blended monthly instalments of $7,549	**548**	581
CMHC [Golden Heights Manor Seniors Home], 1.12% mortgage, maturing in June 2023, repayable in blended monthly instalments of $19,246	**1,179**	1,394
	134,473	136,201

Future principal repayments to maturity are as follows:

	$
2019	982
2020	830
2021	763
2022	526
2023	481
Thereafter	130,891
	134,473

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

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, 2018 includes interest earned in the amount of $8,413,558 [2017 – $7,588,184]. 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

	2018 $	**2017** $
Accounts receivable	**2,846**	(1,675)
Supplies inventory	**(1,836)**	304
Prepaid expenses	**1,055**	2,160
Accounts payable and accrued liabilities	**842**	8,784
Accrued vacation pay	**1,716**	2,242
Deferred operating revenue	**(1,872)**	(4,561)
Deferred capital grants	**(19,615)**	(17,617)
Due from/to government/other government entities	**26,671**	944
	9,807	(9,419)

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, 2018, the balance of funds held in trust for residents of long-term care facilities was $3,397,627 [2017 – $3,419,660]. 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.

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

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:

	2019 $	2020 $	2021 $	2022 $	Thereafter $
Future operating lease payments	8,989	7,099	6,978	6,592	38,564
Managed print services	1,534	1,534	1,534	1,534	—
Vehicles	133	30	5	—	—
	10,656	8,663	8,517	8,126	38,564

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 2018, cash payments to retirees for the Authority's unfunded employee future benefits amounted to approximately $9,931,097 [2017 – $8,488,000].

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

The most recent actuarial valuation for the accrued severance obligation was performed effective December 31, 2017 with an extrapolation of the value to March 31, 2018 for NAPE employees due to changes in the Collective Agreement. For all remaining employees, the most recent actuarial valuation for the accrued severance obligation was performed March 31, 2015 and an extrapolation of the value has been performed to March 31, 2018.

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

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

	2018 $	2017 $
Accrued benefit liability, beginning of year	**120,200**	116,045
Transfers from Masonic Park and Pentecostal Home	**1,350**	—
Benefits expense		
Current period benefit cost	**8,222**	7,896
Interest on accrued benefit obligation	**4,503**	4,335
Amortization of actuarial losses and gains	**412**	412
NAPE settlement loss	**7,809**	—
	142,496	128,688
Benefits paid	**(9,931)**	(8,488)
Accrued benefit liability, end of year	**132,565**	120,200
Current period benefit cost	**8,222**	7,896
Interest on Accrued Benefit Obligation	**4,503**	4,335
Amortization of actuarial losses and gains	**412**	412
NAPE settlement loss	**7,809**	—
Total expense recognized for the year	**20,946**	12,643

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

Discount rate – liability	3.30% as at March 31, 2018 3.70% as at March 31, 2017
Discount rate – benefit expense	3.30% in fiscal 2018 3.70% in fiscal 2017
Rate of compensation increase	0.00% plus 0.75% for promotions and merit as at March 31, 2018 0.00% plus 0.75% for promotions and merit as at March 31, 2017

The Authority will pay out approximately $64,000,000 in accrued severance to its NAPE employees in the 2019 fiscal year.

The Authority has reached an agreement with its non-unionized and management employees subsequent to year-end to discontinue severance. The accumulated benefit will be paid out by 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 2018, cash payments to employees for the Authority's unfunded sick leave benefits amounted to approximately $10,119,983 [2017 – $9,707,000]. 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, 2018.

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, 2018

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

	2018 $	2017 $
Accrued benefit liability, beginning of year	**63,826**	61,849
Transfers from Masonic Park and Pentecostal Home	**673**	
Benefits expense		
Current period benefit cost	**6,654**	6,394
Interest on accrued benefit obligation	**3,147**	3,131
Amortization of actuarial losses and gains	**2,159**	2,159
	76,459	73,533
Benefits paid	**(10,120)**	(9,707)
Accrued benefit liability, end of year	**66,339**	63,826

	2018 $	2017 $
Current period benefit cost	**6,654**	6,394
Interest on accrued benefit obligation	**3,147**	3,131
Amortization of actuarial losses and gains	**2,159**	2,159
Total expense recognized for the year	**11,960**	11,684

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

Discount rate – liability	3.30% as at March 31, 2018 3.70% as at March 31, 2017
Discount rate – benefit expense	3.30% in fiscal 2018 3.70% in fiscal 2017
Rate of compensation increase	0.00% plus 0.75% for promotions and merit as at March 31, 2018 0.00% plus 0.75% for promotions and merit as at March 31, 2017

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.

[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:

	2018 $	2017 $
Transfers from the Government of Newfoundland and Labrador	**1,359,144**	1,361,789
Transfers from other government entities	**83,666**	80,521
Transfers to other government entities	**(86,523)**	(99,749)
	1,356,287	1,342,561

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. The Authority has an authorized credit facility [the "Facility"] of $64,000,000. As at March 31, 2018, the Authority had $64,000,000 in funds available on the Facility [2017 – $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.

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, 2018

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, 2018:

	Revenue $	Expenses $	Annual surplus $
Original Budget	**1,480,168**	**1,480,168**	**—**
Adjustments during the year for service and program changes, net	**(1,530)**	**(1,530)**	**—**
Revised Original Budget	**1,478,638**	**1,478,638**	**—**
Stabilization fund approved by Government	**18,200**	**18,200**	**—**
Final Budget	**1,496,838**	**1,496,838**	**—**

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.

	2018 $	2017 $
Salaries	**769,471**	768,148
Supplies – other	**272,826**	278,179
Direct client costs	**168,493**	172,497
Employee benefits	**151,376**	144,424
Supplies – medical and surgical	**63,130**	60,993
Drugs	**50,848**	49,438
Amortization of tangible capital assets	**36,589**	36,650
Maintenance	**20,114**	19,138
Interest on long-term debt	**9,424**	9,188
Cottages and hostels operations	**1,538**	1,685
Total expenses	**1,543,809**	1,540,340