

Labrador-Grenfell Regional Health Authority

Consolidated financial statements
March 31, 2018



Labrador-Grenfell Regional Health Authority

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Statement of management's responsibility

The accompanying consolidated financial statements of the Labrador-Grenfell 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 statements are management's responsibility. Management is also responsible for all 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 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 Audit 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 auditors, 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.



Boyd C. Noel
Board Chair



Heather Brown
Chief Executive Officer

Independent auditors' report

To the Board of Trustees of the
Labrador-Grenfell Regional Health Authority

We have audited the accompanying consolidated financial statements of the **Labrador-Grenfell 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 the **Labrador-Grenfell 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

St. John's, Canada
July 19, 2018

Chartered Professional Accountants

Labrador-Grenfell Regional Health Authority

Consolidated statement of financial position

As at March 31

	2018 \$	2017 \$
Financial assets		
Cash	2,260,099	1,956,840
Restricted cash <i>[note 3]</i>	1,762,118	1,742,470
Accounts receivable <i>[note 4]</i>	3,131,083	3,173,478
Due from Government/other government entities <i>[note 5]</i>	10,158,226	13,932,863
Inventories for resale	1,069,222	960,664
	<u>18,380,748</u>	<u>21,766,315</u>
Liabilities		
Bank overdraft <i>[note 7]</i>	2,756,434	2,912,844
Demand credit facility <i>[note 7]</i>	19,365,000	18,685,000
Accounts payable and accrued liabilities <i>[note 8]</i>	13,848,877	14,593,763
Due to Government/other government entities <i>[note 9]</i>	1,277,802	1,131,392
Employee future benefits		
Accrued severance pay <i>[note 10]</i>	16,314,722	14,809,687
Accrued sick leave <i>[note 10]</i>	8,392,766	8,136,176
Accrued vacation pay and other accrued benefits	7,873,314	7,575,229
Deferred contributions <i>[note 11]</i>		
Deferred capital grants	6,095,599	9,154,056
Deferred operating contributions	2,106,305	2,682,859
Special purpose funds	1,112,016	1,381,305
National Child Benefit ["NCB"] initiatives	97,015	728,208
Long-term debt <i>[note 12]</i>	434,001	550,661
	<u>79,673,851</u>	<u>82,341,180</u>
Net debt	<u>(61,293,103)</u>	<u>(60,574,865)</u>
Non-financial assets		
Tangible capital assets, net <i>[note 6]</i>	54,547,957	54,118,190
Prepaid expenses	1,816,031	2,053,368
Supplies inventory	1,786,113	1,598,279
	<u>58,150,101</u>	<u>57,769,837</u>
Accumulated deficit	<u>(3,143,002)</u>	<u>(2,805,028)</u>
Contractual obligations <i>[note 13]</i>		
Contingencies <i>[note 14]</i>		

See accompanying notes

On behalf of the Board:

 Trustee
  Trustee

Labrador-Grenfell Regional Health Authority

Consolidated statement of operations and
accumulated deficit

Year ended March 31

	Budget	2018	2017
	\$	\$	\$
	<i>[note 18]</i>		
Revenue			
Provincial plan – operating	152,632,563	152,176,219	151,951,928
Medical care plan	20,351,500	19,214,604	19,469,149
Provincial capital grant	—	6,239,726	4,053,145
Outpatient	2,687,929	2,571,605	2,861,740
Inpatient	868,500	1,182,917	865,458
Long-term care	1,698,400	2,047,987	1,803,436
Transportation and works	1,285,500	1,285,500	1,285,580
NCB	—	—	924,666
Apartment complexes	—	291,766	290,733
Foundation	—	339,656	602,602
Other	8,137,486	7,493,176	8,425,110
	187,661,878	192,843,156	192,533,547
Expenses <i>[note 16]</i>			
Support services	36,892,797	37,862,447	37,781,592
Community and social services	32,564,062	31,506,021	31,306,611
Nursing inpatient services	31,543,647	31,924,463	33,155,605
Medical services	22,656,010	22,007,492	22,760,331
Ambulatory care services	25,045,321	24,172,368	24,196,069
Diagnostic and therapeutic services	19,946,378	19,744,505	20,142,288
Administration	17,893,612	16,192,287	17,697,509
Amortization of tangible capital assets <i>[note 6]</i>	—	6,144,581	6,745,478
Education and research	1,120,051	1,107,912	1,018,269
Accrued severance pay	—	1,554,633	623,295
Accrued vacation pay	—	515,825	(745,310)
Accrued sick leave	—	256,590	261,039
Apartment complexes	—	177,166	168,650
Foundation	—	14,840	28,325
	187,661,878	193,181,130	195,139,751
Annual deficit	—	(337,974)	(2,606,204)
Accumulated (deficit) surplus, beginning of year	—	(2,805,028)	(198,824)
Accumulated deficit, end of year	—	(3,143,002)	(2,805,028)

See accompanying notes

Labrador-Grenfell Regional Health Authority

Consolidated statement of changes in net debt

Year ended March 31

	2018	2017
	\$	\$
Annual deficit	<u>(337,974)</u>	<u>(2,606,204)</u>
Changes in tangible capital assets		
Acquisition of tangible capital assets	(6,574,348)	(4,492,692)
Amortization of tangible capital assets	<u>6,144,581</u>	<u>6,745,478</u>
Decrease (Increase) in net book value of tangible capital assets	<u>(429,767)</u>	<u>2,252,786</u>
Changes in other non-financial assets		
Net decrease in prepaid expenses	237,337	575,486
Net decrease (increase) in supplies inventory	<u>(187,834)</u>	<u>21,340</u>
Decrease (Increase) in other non-financial assets	<u>49,503</u>	<u>596,826</u>
Change in net debt	<u>(718,238)</u>	<u>243,408</u>
Net debt, beginning of year	<u>(60,574,865)</u>	<u>(60,818,273)</u>
Net debt, end of year	<u>(61,293,103)</u>	<u>(60,574,865)</u>

See accompanying notes

Labrador-Grenfell Regional Health Authority

Consolidated statement of cash flows

Year ended March 31

	2018	2017
	\$	\$
Operating activities		
Annual deficit	(337,974)	(2,606,204)
Adjustments for non-cash items		
Amortization of tangible capital assets	6,144,581	6,745,478
Increase in accrued severance pay	1,505,035	742,013
Increase in accrued sick leave	256,590	261,069
Net change in non-cash assets and liabilities related to operations [note 15]	(1,077,907)	(10,664,746)
Cash provided by (used in) operating activities	6,490,325	(5,522,390)
Capital activities		
Acquisition of tangible capital assets	(6,574,348)	(4,492,692)
Cash used in capital activities	(6,574,348)	(4,492,692)
Investing activities		
Changes to restricted cash	(19,648)	(14,375)
Cash used in investing activities	(19,648)	(14,375)
Financing activities		
Advances from demand credit facility	680,000	10,920,000
Repayment of long-term debt	(116,660)	(117,432)
Cash provided by financing activities	563,340	10,802,568
Increase (decrease) in cash during the year	459,669	773,111
Bank indebtedness, beginning of year	(956,004)	(1,729,115)
Bank indebtedness, end of year	(496,335)	(956,004)
Bank indebtedness comprised of:		
Cash	2,260,099	1,956,840
Bank overdraft	(2,756,434)	(2,912,844)
Bank indebtedness	(496,335)	(956,004)

See accompanying notes

Labrador-Grenfell Regional Health Authority

Notes to consolidated financial statements

March 31, 2018

1. Nature of operations

The Labrador-Grenfell Regional Health Authority ["Labrador-Grenfell Health" or the "Authority"] manages and operates all health facilities, services and programs on the Northern Peninsula and all of Labrador in the Province of Newfoundland and Labrador. The Authority manages and controls the operations of the following facilities:

- Labrador Health Centre, Happy Valley-Goose Bay
- Long-Term Care Facility, Happy Valley-Goose Bay
- Labrador West Health Centre, Labrador City
- Charles S. Curtis Memorial Hospital, St. Anthony
- John M. Gray Centre, St. Anthony

Labrador-Grenfell Health also manages and controls the operations of all community clinics, health centres, facilities programs and other services in the geographic area. The Authority 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. In addition to the provision of comprehensive health care services, Labrador-Grenfell Health also provides education and research in partnership with all stakeholders.

The operations of the Authority are primarily funded by the Government of Newfoundland and Labrador [the "Government"].

Labrador-Grenfell Health is incorporated under the *Regional Health Authorities Act* 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, Labrador-Grenfell Regional Health Authority 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 non-consolidated financial statements.

Labrador-Grenfell Regional Health Authority

Notes to consolidated financial statements

March 31, 2018

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 the Authority. These organizations are listed under basis of consolidation. Trusts administered by the Authority are not included in the consolidated statement of financial position [note 17].

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

Basis of consolidation

The Authority controls The St. Anthony Interfaith Home 12 Unit Apartment Complex [the "12-unit"], The St. Anthony Interfaith Home 20 Unit Apartment Complex [the "20-unit"], and the Grenfell Foundation Incorporated [the "Foundation"]. The consolidated financial statements of the Authority include the Labrador-Grenfell Health Regional Health Authority – Operating Fund, the 12-unit, the 20-unit and the Foundation [collectively referred to herein as "Labrador-Grenfell Health" or the "Authority"]. All inter-entity assets and liabilities and revenue and expenses have been eliminated.

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 health care services, may be consumed in normal operations and are not for resale.

Revenue

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 long-term care revenue is 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 consolidated statement of financial position will be considered by the Authority and reflected in the period of assessment. There were no changes from the previous year.

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Apartment complex revenue includes rental revenue, subsidies and other government assistance related to operations from the 12-Unit and 20-Unit, and is recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Foundation revenue includes grants and donations. Grants, bequests and other donations are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims.

Other revenue includes, but is not limited to, drug revenue, rental revenue from accommodations, dental revenue and salary recoveries from Workplace, Health and Safety and Compensation Commission of Newfoundland and Labrador ["WorkplaceNL"]. Rebates and salary recovery amounts are recorded once the amounts to be recorded are known and confirmed by WorkplaceNL.

Cash, bank overdraft and restricted cash

Bank balances, including bank overdrafts with balances that fluctuate from positive to overdrawn, are presented under cash and bank overdraft, respectively. Cash also includes cash on hand.

Restricted cash relates to amounts held for special purpose funds and endowment funds [note 3].

Inventories for resale

Inventories for resale include pharmaceuticals and are recorded at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Employee future benefits

Accrued severance pay

Employees of the Authority 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 continuous service with the Authority or another public sector employer. Severance pay is payable when the employee ceases employment with the Authority 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 Government'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. Adjustments to the liability arising from plan amendments are recognized immediately.

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Accrued sick leave

Employees of the Authority are entitled to sick leave benefits that accumulate but do not vest. In accordance with PSAS for post-employment benefits and compensated balances, the Authority 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 Government'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. Adjustments to the liability arising from plan amendments are recognized immediately.

Accrued vacation pay and other accrued benefits

Vacation pay and other accrued benefits are accrued for all employees as entitlement is earned.

Pension costs

The employees of the Authority are included in the Public Service Pension Plan ["PSPP"], a multi-employer defined benefit plan, and the Government Money Purchase Plan administered by the Government [collectively, the "Plans"]. The Government also provides for the continuation of certain dental and medical benefits for retirees. The Government determines the required plan contributions annually. Contributions to the Plans are required from both the employees and Labrador-Grenfell Health. The annual contributions for pensions are recognized as expense as incurred and amounted to \$6,377,493 for the year ended March 31, 2018 [2017 – \$6,376,268].

Labrador-Grenfell Health is neither obligated for any unfunded liability nor entitled to any surplus that may arise in the PSPP. The Authority's share of the future contributions is dependent upon the funded position of the PSPP.

The costs of insured benefits reflected in these consolidated financial statements are the employer's portion of the insurance premiums owed for coverage of employees during the period.

Tangible capital assets

The Authority utilizes certain tangible capital assets, such as the Happy Valley-Goose Bay Long Term Care Centre, John M. Gray Centre, Labrador West Health Centre, Labrador Health Centre, and Charles S. Curtis Memorial Hospital, which 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.

Labrador-Grenfell Regional Health Authority

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Tangible capital assets are recorded at historical cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. The cost, less estimated salvage value of the tangible capital assets, excluding land, is amortized on a declining balance basis over their estimated useful lives, as follows:

Buildings	5%
Leasehold improvements	5%
Equipment and vehicles	20%
Land improvements	20%

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

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

Works of art, historical treasures, intangible assets and items inherited by the Authority, such as artwork displayed in the facilities, are not recognized in these consolidated financial statements.

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 benefit 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.

Prepaid expenses

Prepaid expenses include equipment service contracts, insurance and other miscellaneous items that are charged to expenses over the periods expected to benefit from them.

Labrador-Grenfell Regional Health Authority

Notes to consolidated financial statements

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Supplies inventory

Supplies inventory includes medical, surgical, general supplies, fuel oil and pharmaceuticals.

Medical, surgical and general supplies are valued at the lower of cost, determined on an average cost basis, and net realizable value.

Fuel oil and pharmaceuticals are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Expenses

Expenses are recorded on an accrual basis as they are incurred and measurable when goods are consumed or services received.

Contributed services

Volunteers contribute a significant amount of their time each year assisting the Authority 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.

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, bank overdraft and the demand credit facility are classified at fair value. Other financial instruments, including accounts receivable, accounts payable and accrued liabilities, and 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 and the useful life of tangible capital assets. Actual results could differ from these estimates.

Labrador-Grenfell Regional Health Authority

Notes to consolidated financial statements

March 31, 2018

3. Restricted cash

Restricted cash is as follows:

	2018 \$	2017 \$
Deferred contributions – special purpose funds	822,530	812,032
Endowment fund	785,742	787,331
Restricted cash held by Newfoundland and Labrador Housing Corporation for replacement reserve	153,846	143,107
	<u>1,762,118</u>	<u>1,742,470</u>

4. Accounts receivable

Accounts receivable are as follows:

	2018					
	Total \$	Current \$	Past due			
			1 – 30 days \$	31 – 60 days \$	61 – 90 days \$	Over 90 days \$
Patient receivable	3,165,593	307,588	407,974	595,045	134,340	1,720,646
Other receivable	755,050	755,050	—	—	—	—
Gross accounts receivables	3,920,643	1,062,638	407,974	595,045	134,340	1,720,646
Less impairment allowance	789,560	—	—	—	—	789,560
Net accounts receivable	<u>3,131,083</u>	<u>1,062,638</u>	<u>407,974</u>	<u>595,045</u>	<u>134,340</u>	<u>931,086</u>

	2017					
	Total \$	Current \$	Past due			
			1 – 30 days \$	31 – 60 days \$	61 – 90 days \$	Over 90 days \$
Patient receivable	3,110,267	674,614	440,538	417,457	100,766	1,476,892
Other receivable	635,425	635,425	—	—	—	—
Gross accounts receivables	3,745,692	1,310,039	440,538	417,457	100,766	1,476,892
Less impairment allowance	572,214	—	—	—	—	572,214
Net accounts receivable	<u>3,173,478</u>	<u>1,310,039</u>	<u>440,538</u>	<u>417,457</u>	<u>100,766</u>	<u>904,678</u>

Labrador-Grenfell Regional Health Authority

Notes to consolidated financial statements

March 31, 2018

5. Due from Government/other government entities

The amounts due from Government/other government entities are as follows:

	2018 \$	2017 \$
Government of Newfoundland and Labrador	5,713,220	11,819,045
Department of Child, Youth and Family Services	3,956,988	1,514,688
Due from Federal Government	488,018	599,130
	<u>10,158,226</u>	<u>13,932,863</u>

Outstanding balances at year-end are unsecured and 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 amounts above [2017 – nil].

6. Tangible capital assets

Tangible capital assets consist of the following:

	Land \$	Land improvements \$	Construction in progress \$	Buildings \$	Leasehold improvements \$	Equipment and vehicles \$	Total \$
2018							
Cost							
Opening balance	36,203	216,064	2,110,549	37,210,511	15,797,784	92,204,706	147,575,817
Additions	—	—	4,284,930	8,190	—	2,281,228	6,574,348
Disposals	—	—	—	(22,492)	—	—	(22,492)
Transfers	—	—	(1,684,468)	—	1,684,468	—	—
Closing balance	<u>36,203</u>	<u>216,064</u>	<u>4,711,011</u>	<u>37,196,209</u>	<u>17,482,252</u>	<u>94,485,934</u>	<u>154,127,673</u>
Accumulated amortization							
Opening balance	—	183,159	—	20,627,782	1,701,679	70,945,007	93,457,627
Disposals	—	—	—	(22,492)	—	—	(22,492)
Amortization	—	2,012	—	918,045	747,158	4,477,366	6,144,581
Closing balance	<u>—</u>	<u>185,171</u>	<u>—</u>	<u>21,523,335</u>	<u>2,448,837</u>	<u>75,422,373</u>	<u>99,579,716</u>
Net book value	<u>36,203</u>	<u>30,893</u>	<u>4,711,011</u>	<u>15,672,874</u>	<u>15,033,415</u>	<u>19,063,561</u>	<u>54,547,957</u>

Labrador-Grenfell Regional Health Authority

Notes to consolidated financial statements

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	Land	Land	Construction	Buildings	Leasehold	Equipment	Total
	\$	improvements	in progress	\$	improvements	and vehicles	\$
	\$	\$	\$	\$	\$	\$	\$
2017							
Cost							
Opening balance	36,203	216,064	796,557	37,328,808	14,865,898	90,295,082	143,538,612
Additions	—	—	2,533,230	52,881	—	1,906,581	4,492,692
Disposals	—	—	—	(455,487)	—	—	(455,487)
Transfers	—	—	(1,219,238)	284,309	931,886	3,043	—
Closing balance	36,203	216,064	2,110,549	37,210,511	15,797,784	92,204,706	147,575,817
Accumulated amortization							
Opening balance	—	180,644	—	20,131,388	984,209	65,871,395	87,167,636
Disposals	—	—	—	(455,487)	—	—	(455,487)
Amortization	—	2,515	—	951,881	717,470	5,073,612	6,745,478
Closing balance	—	183,159	—	20,627,782	1,701,679	70,945,007	93,457,627
Net book value	36,203	32,905	2,110,549	16,582,729	14,096,105	21,259,699	54,118,190

The Authority has works of art displayed in its facilities valued at \$195,714 that are not recognized in these consolidated financial statements as these assets are the legal property of the Government.

7. Bank overdraft and demand credit facility

The Authority was in a bank overdraft position of \$2,756,434 as at March 2018 [2017 – \$2,912,844].

In addition, the Authority has a demand credit facility [the "Facility"] with a Canadian chartered bank for a maximum amount of \$20,000,000, bearing interest at the bank's prime rate less 0.25%. The relevant prime rate was 3.45% as at March 31, 2018 [2017 – 2.7%]. As at March 31, 2018, the Authority has drawn \$19,365,000 in funds from the Facility [2017 – \$18,685,000]. The effective interest rate for the year ended March 31, 2018 was 3.20% [2017 – 2.45%].

8. Accounts payable and accrued liabilities

	2018	2017
	\$	\$
Accounts payable and accrued liabilities	6,360,895	6,918,225
Salaries and wages payable	7,487,982	7,675,538
	13,848,877	14,593,763

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9. Due to Government/other government entities

The amounts due to Government/other government entities are as follows:

	2018 \$	2017 \$
Government remittances	1,194,806	1,018,700
Other due to government	82,996	112,692
	<u>1,277,802</u>	<u>1,131,392</u>

10. Employee future benefits

The Authority provides its employees who have at least nine years of service, upon termination, retirement or death, with severance pay benefits equal to one week of pay per year of service up to a maximum of 20 weeks. The Authority provides these benefits through an unfunded defined benefit plan.

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.

The actuarial valuation is based on assumptions about future events. Significant actuarial assumptions used in measuring the accrued severance pay and accrued sick leave liabilities are as follows:

Discount rate – liability	3.30% as at March 31, 2018 3.70% as at March 31, 2017
Discount rate – benefit expense	3.00% in fiscal 2018 2.90% in fiscal 2017
Rate of compensation increase	3.00% plus 0.75% for promotions and merit as at March 31, 2018 3.00% plus 0.75% for promotions and merit as at March 31, 2017

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The Authority also provides its employees with sick leave benefits that accumulate, but do not vest, as follows:

	Accumulated rate	Maximum accumulation	Maximum utilization per 20-year period
NLNU hired up to December 1, 2006	15 hours per 162.5 hours	1,800 hours	N/A
NLNU hired after December 1, 2006	7.5 hours per 162.5 hours	1,800 hours	1,800 hours
CUPE/NAPE hired up to May 4, 2004	2 days per month	N/A	480 days
CUPE/NAPE hired after May 4, 2004	1 day per month	N/A	240 days
CUPE/NAPE hired up to May 4, 2004 – 12-hour shifts	15 hours per 162.5 hours	N/A	3,600 hours
CUPE/NAPE hired after May 4, 2004 – 12-hour shifts	7.5 hours per 162.5 hours	N/A	1,800 hours

In addition, while management employees do not accrue additional sick leave days, they may use accrued sick leave banked after first using two days of paid leave.

[a] Severance pay and sick leave liabilities

	Severance \$	Sick leave \$	2018 \$
Accrued benefit liability, beginning of year	14,809,687	8,136,176	22,945,863
Employee future benefit expenses	2,531,605	1,446,360	3,977,965
Less benefits paid	(1,026,570)	(1,189,770)	(2,216,340)
Accrued benefit liability, end of year	16,314,722	8,392,766	24,707,488

	Severance \$	Sick leave \$	2017 \$
Accrued benefit liability, beginning of year	14,067,674	7,875,107	21,942,781
Employee future benefit expenses	1,690,047	1,416,184	3,106,231
Less benefits paid	(948,034)	(1,155,115)	(2,103,149)
Accrued benefit liability, end of year	14,809,687	8,136,176	22,945,863

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[b] Severance pay and sick leave expenses

	Severance \$	Sick leave \$	2018 \$
Current service cost	1,126,664	921,620	2,048,284
Interest on accrued benefit obligation	559,364	357,604	916,968
Settlement loss end of year	784,399	—	784,399
Amortization of actuarial loss	61,178	167,136	228,314
Employee future benefit expenses	<u>2,531,605</u>	<u>1,446,360</u>	<u>3,977,965</u>
	Severance \$	Sick leave \$	2017 \$
Current service cost	1,093,850	894,775	1,988,625
Interest on accrued benefit obligation	535,019	354,273	889,292
Amortization of actuarial loss	61,178	167,136	228,314
Employee future benefit expenses	<u>1,690,047</u>	<u>1,416,184</u>	<u>3,106,231</u>

11. Deferred contributions

Deferred contributions are amounts received for specific purposes and have associated stipulations.

	2018				
	Balance, beginning of year \$	Receipts during the year \$	Recognized as revenue \$	Transfers to other revenue \$	Balance, end of year \$
Deferred operating contributions	2,682,859	3,635,483	4,212,037	—	2,106,305
NCB initiatives	728,208	188,900	820,093	—	97,015
Deferred capital grants	9,154,056	3,048,138	6,106,595	—	6,095,599
Special purpose funds	1,392,044	1,304,222	1,584,250	—	1,112,016
	<u>13,957,167</u>	<u>8,282,915</u>	<u>12,829,147</u>	<u>—</u>	<u>9,410,935</u>
	2017				
	Balance, beginning of year \$	Receipts during the year \$	Recognized as revenue \$	Transfers to other revenue \$	Balance, end of year \$
Deferred operating contributions	4,386,680	2,990,622	4,694,443	—	2,682,859
NCB initiatives	914,937	836,633	1,023,362	—	728,208
Deferred capital grants	13,495,246	403,436	4,000,264	744,362	9,154,056
Special purpose funds	1,215,103	1,444,640	1,278,438	—	1,381,305
	<u>20,011,966</u>	<u>5,675,331</u>	<u>10,996,507</u>	<u>744,362</u>	<u>13,946,428</u>

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12. Long-term debt

Long-term debt consists of the following:

	2018 \$	2017 \$
Newfoundland and Labrador Housing Corporation 2.86% first mortgage on land and building of 20-unit apartment complex, repayable \$6,537 monthly, interest included, and maturing January 2019.	66,800	138,426
Newfoundland and Labrador Housing Corporation 1.67% first mortgage on land and building of 12-unit apartment complex, repayable \$4,298 monthly, interest included, and maturing October 2025.	367,201	412,235
	<u>434,001</u>	<u>550,661</u>

Future principal repayments to maturity are as follows:

	\$
2019	109,297
2020	49,858
2021	47,346
2022	48,142
2023	<u>48,953</u>

13. Contractual obligations

The Authority has entered into a number of multiple year operating leases and contracts for the delivery of services. These contractual obligations will become liabilities in the future when the terms of the contracts are met. Disclosure relates to the unperformed portion of the contracts.

	2019 \$	2020 \$	2021 \$
Contractual obligations			
Future operating lease payments – properties	1,274,235	926,167	732,888
Future operating lease payments – vehicles	66,670	66,670	10,000
Future operating lease payments – equipment service	1,306,302	3,296	—
	<u>2,647,207</u>	<u>996,133</u>	<u>742,888</u>

14. 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.

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

The net change in non-cash assets and liabilities related to operations consists of the following:

	2018 \$	2017 \$
Accounts receivable	42,395	255,079
Inventories for resale and supplies inventory	(296,392)	(14,265)
Prepaid expenses	237,337	575,486
Accounts payable and accrued liabilities	(744,886)	(159,721)
Accrued vacation pay and other accrued benefits	298,085	(415,084)
Deferred contributions – operating contributions and NCB initiatives	(1,207,747)	(1,890,550)
Deferred contributions – capital grants and special purpose funds	(3,327,746)	(4,174,988)
Due from/to Government/other government entities	3,921,047	(4,840,703)
	<u>(1,077,907)</u>	<u>(10,664,746)</u>

16. 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 and benefits	129,377,869	129,971,607
Direct client costs	13,160,162	12,696,155
Other supplies	8,058,785	8,470,736
Medical and surgical supplies	7,994,819	8,275,889
Amortization of tangible capital assets <i>[note 6]</i>	6,144,581	6,745,478
Patient and staff travel	6,905,566	7,715,963
Equipment expenses	4,171,258	4,218,308
Grants	4,206,333	3,639,265
Referred out services	4,761,866	4,858,632
Insurance	914,592	845,913
Other	7,485,299	7,701,805
	<u>193,181,130</u>	<u>195,139,751</u>

17. Trusts under administration

Trusts administered by the Authority have not been included in these 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 long-term care residents was \$331,499 [2017 – \$287,420]. 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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18. 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 shown below is the updated budget after all amendments that have been processed. These final updated budget amounts are reflected in the budget column as presented in the consolidated statement of operations and accumulated deficit [the "Budget"].

In addition to the impact of such service and program changes, the Original Budget and the Budget prepared by the Authority do not include a budget for the operations of the 12-unit, 20-unit and Foundation, as such amounts are not considered by the Authority to significantly impact decisions or the allocation of resources. Further, the Original Budget and the 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 pay and sick leave, and adjustments to accrued vacation pay and other accrued benefits as such amounts are not required by the 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 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	182,279,408	182,279,408	—
Adjustments during the year for service and program changes, net	3,034,974	3,034,974	—
Revised Original Budget	185,314,382	185,314,382	—
Stabilization fund approved by the Government	2,347,496	2,347,496	—
Budget	187,661,878	187,661,878	—

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 Government. Transactions between the Authority and related parties are conducted as arm's length transactions.

The Authority handles payments for other government entities. As a result of these transactions, the Authority has a net asset of \$3,956,988 as at March 31, 2018 [2017 – \$1,514,688].

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Transfers from the Government consist of 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 the Department of Transportation and Works. Transactions are settled at prevailing market prices under normal trade terms.

The Authority had the following transfers from the Government and other government controlled entities:

	2018 \$	2017 \$
Transfers from the Government	158,282,814	157,365,241
Transfers from other government entities	20,500,104	19,469,149
	<u>178,782,918</u>	<u>176,834,390</u>

Transfers to other government entities include PSPP and Government Money Purchase Pension Plan contributions of \$6,377,493 for the year ended March 31, 2018 [2017 – \$6,376,268].

20. Financial instruments and risk management

Financial risk factors

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, interest rate 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 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. The Authority 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.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority is exposed to cash flow interest rate risk on its floating interest rate for the demand credit facility and interest rate fair value risk on its fixed term long-term debt.

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 is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and demand credit facility. 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 Government, assuming these can be obtained.