
Financial statements of South East Local Health Integration Network

March 31, 2020

Independent Auditor's Report	1-2
Statement of financial position	3
Statement of operations and changes in net assets	4
Statement of cash flows	5
Notes to the financial statements	6-12

Independent Auditor's Report

To the Members of the Board of Directors of the
South East Local Health Integration Network

Opinion

We have audited the accompanying financial statements of the South East Local Health Integration Network (the "LHIN"), which comprise the statement of financial position as at March 31, 2020, and the statements of operations and changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LHIN's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the LHIN's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the LHIN to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 24, 2020

South East Local Health Integration Network

Statement of financial position

As at March 31, 2020

	Notes	2020 \$	2019 \$
Assets			
Current assets			
Cash		23,002,360	20,383,312
Due from Ministry of Health ("MOH")		1,939,804	3,155,700
Accounts receivable		1,313,503	1,467,632
Prepaid expenses		422,217	439,346
		26,677,884	25,445,990
Capital assets	6	40,221	114,364
		26,718,105	25,560,354
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		15,236,021	16,950,052
Due to Health Service Providers ("HSPs")	13	1,939,804	1,536,400
Due to MOH	3	9,112,500	6,484,668
Due to other LHINs	4	57,274	62,230
Deferred revenue		296,111	338,845
Current portion of obligations under capital leases	7	36,174	37,621
		26,677,884	25,409,816
Obligations under capital leases	7	—	36,174
Deferred capital contributions	8	40,221	114,364
		26,718,105	25,560,354
Contingencies and commitments	9 and 10		
Net assets		26,718,105	25,560,354

The accompanying notes are an integral part of the financial statements.

Approved by the Board



William Hatanaka, Board Chair



Garry Foster, Audit Committee Chair

South East Local Health Integration Network
Statement of operations and changes in net assets
Year ended March 31, 2020

	Notes	2020 \$	2019 \$
Revenue			
MOH funding – transfer payments	13	1,113,941,853	1,090,206,013
MOH funding – operations and initiatives		133,201,646	137,882,037
Cancer Care Ontario	5	342,186	349,178
Amortization of deferred capital contributions	8	96,024	108,083
Amortization of deferred restricted contributions		—	59,845
Other revenue		1,732,783	1,838,238
		135,372,639	140,237,381
Total revenue		1,249,314,492	1,230,443,394
Expenses			
HSP transfer payments	13	1,113,941,853	1,090,206,013
Operations and initiatives			
Contracted out			
In-home/clinic services		80,923,588	82,937,885
School services		1,793,682	3,848,189
Hospice services		691,091	767,939
Salaries and benefits		39,552,945	39,759,337
Medical supplies		6,776,088	6,693,739
Medical equipment rental		1,139,976	1,383,814
Supplies and sundry		2,853,138	3,246,651
Buildings and grounds		1,546,107	1,491,744
Amortization		96,024	108,083
		135,372,639	140,237,381
Total expenses		1,249,314,492	1,230,443,394
Excess of revenue over expenses		—	—
Net assets, beginning of year		—	—
Net assets, end of year		—	—

The accompanying notes are an integral part of the financial statements.

South East Local Health Integration Network

Statement of cash flows

Year ended March 31, 2020

	Notes	2020 \$	2019 \$
Operating activities			
Excess of revenue over expenses		—	—
Less amounts not affecting cash			
Amortization of capital assets		96,024	108,083
Amortization of deferred capital contributions	8	(96,024)	(108,083)
		—	—
Changes in non-cash working capital items	11	2,656,669	3,976,944
Investing activity			
Purchase of capital assets		(21,881)	(58,038)
Financing activities			
Increase in deferred capital contributions	8	21,881	58,038
Repayment of capital lease obligations	7	(37,621)	(35,789)
		(15,740)	22,249
Net increase in cash		2,619,048	3,941,155
Cash, beginning of year		20,383,312	16,442,157
Cash, end of year		23,002,360	20,383,312

The accompanying notes are an integral part of the financial statements.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2020

1. Description of business

The South East Local Health Integration Network was incorporated by letters patent on June 2, 2005, as a corporation without share capital. Following Royal Assent to Bill 36 on March 28, 2006, it was continued under the *Local Health System Integration Act, 2006* (the "Act") as the South East Local Health Integration Network (the "LHIN") and its letters patent were extinguished. As an agent of the Crown, the LHIN is not subject to income taxation.

The LHIN is, and exercises its powers only as an agent of the Crown. Limits on the LHIN's ability to undertake certain activities are set out in the Act.

The mandate of the LHIN is as follows:

- (a) Plan, fund and integrate the local health system within its geographic area. The LHIN spans carefully defined geographical areas and allows for local communities and health care providers within the geographical area to work together to identify local priorities, plan health services and deliver them in a more coordinated fashion. The LHIN covers most of the areas of Hastings, Prince Edward, Lennox and Addington, Frontenac, Leeds and Grenville Counties, the cities of Kingston, Belleville and Brockville, the towns of Smith Falls and Prescott, and part of Lanark and Northumberland Counties. The LHIN enters into service accountability agreements with Health Service Providers (HSP).

The LHIN has also entered into an accountability agreement with the Ministry of Health (MOH), which provides the framework for LHIN accountabilities and activities.

All funding payments to LHIN managed HSP are flowed through the LHIN's financial statements. Funding payments authorized by the LHIN to HSP are recorded in the LHIN's Financial Statements as revenue from the MOH and as transfer payment expenses to HSP.

- (b) Provision of community services: These services include health and related social services and supplies and equipment for the care of persons in home, community and other settings and to provide goods and services to assist caregivers in the provision of care for such persons, to manage the placement of persons into long-term care homes, supportive housing programs, chronic care and rehabilitation beds in hospitals, and to provide information to the public about, and make referrals to, health and social services.

2. Significant accounting policies

The financial statements of the LHIN are the representations of management and are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations including the 4200 series standards, as issued by the Public Sector Accounting Board. Significant accounting policies adopted by the LHIN are as follows:

Revenue recognition

The LHIN follows the deferral method of accounting for contributions. Contributions from the MOH represent externally restricted contributions which must be spent within the fiscal year provided. Unspent contributions from the MOH are set up as repayable to the MOH at the end of the year. Unrestricted contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collected is reasonably assured.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2020

2. Significant accounting policies (continued)

Ministry of Health Funding

The LHIN is funded by the Province of Ontario in accordance with the Ministry-LHIN Accountability Agreement (MLAA), which describes budgetary arrangements established by the MOH. The financial statements reflect funding arrangements approved by the MOH. The LHIN cannot authorize payments in excess of the budgetary allocation set by the MOH. Due to the nature of the MLAA, the LHIN is economically dependent on the MOH.

Transfer payment amounts to HSP are based on the terms of the Health Service Provider Accountability Agreements with the LHIN, including any amendments made throughout the year. During the year, the LHIN authorizes the transfer of cash to the HSP. The cash associated with the transfer payment flows directly from the MOH and does not flow through the LHIN bank account.

LHIN financial statements do not include transfer payment funds not included in the MLAA.

Capital assets

Purchased capital assets are recorded at cost. Repairs and maintenance costs are charged to expense. Betterments, which extend the estimated life of an asset, are capitalized.

Capital assets are amortized on a straight-line basis based on their estimated useful life as follows:

Furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	Over the lease term

For assets acquired or brought into use, during the year, amortization is provided for a full year.

Deferred capital contributions

Contributions received for the purchase of capital assets are deferred and amortized to income at the same rate as the corresponding capital asset.

Financial instruments

Financial assets and liabilities are measured at amortized cost, with the exception of cash that is measured at fair value. Financial instruments measured at amortized cost are initially recognized at cost, and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Write-downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations and changes in net assets.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include depreciation rates for capital assets and certain accruals. Actual results could differ from those estimates.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2020

3. Funding repayable to the MOH

In accordance with the MLLAA, the LHIN is required to be in a balanced position at year end. Thus, any funding received in excess of expenses incurred, is required to be returned to the MOH.

The amount due to the MOH at March 31, 2020 and 2019 is made up as follows:

	2020 \$	2019 \$
Due to MOH, beginning of year	6,484,668	3,639,109
Funding repayable to the MOH related to current year activities	2,627,832	2,845,559
Due to MOH, end of year	<u>9,112,500</u>	<u>6,484,668</u>

4. Enabling Technologies for Integration Project Management Office

Effective fiscal 2014 the LHIN entered into an agreement with Champlain, North East and North West LHIN's (the "Cluster") in order to enable the effective and efficient delivery of e-health programs and initiatives within the geographic area of the Cluster. Under the agreement, decisions related to the financial and operating activities of the Enabling Technologies for Integration Project Management Office are shared. No LHIN is in a position to exercise unilateral control.

The LHIN's financial statement reflects its share of the MOH funding for Enabling Technologies for Integration Project Management Offices for its Cluster and related expenses. During the year, the LHIN received funding from Champlain LHIN of \$255,000 (\$510,000 in 2019) and incurred eligible expenditures of \$244,456 (\$463,270 in 2019). The unspent portion of \$10,544 (\$46,730 in 2019) has been set up as repayable to the Champlain LHIN. In addition to the unspent funding for 2020 and 2019, the LHIN also owes the Champlain LHIN \$nil (\$15,500 in 2019) for translation services, bringing the total amount due the Champlain LHIN to \$57,274 as at March 31, 2020 (\$62,230 as at March 31, 2019).

5. Related party transactions

Health Shared Services Ontario (HSSO)

HSSO is a provincial agency established January 1, 2017, by O. Reg. 456/16 made under LHSIA with objectives to provide shared services to LHINs in areas that include human resources management, logistics, finance and administration and procurement. As a provincial agency, HSSO is subject to legislation, policies and directives of the Government of Ontario and the Memorandum of Understanding between HSSO and the Minister of Health.

During the year, the LHIN received Business Technology Infrastructure (BTI) funding from HSSO/Ontario Health of \$196,800 (\$246,000 in 2019).

On December 2, 2019 the assets, liabilities, rights and obligations of HSSO were transferred to Ontario Health who continued to provide the shared services to the LHIN

Ontario Health

Ontario Health is a Crown Agency established under the Connecting Care Act, 2019 and is a related party to the LHIN through the common control of the Province of Ontario (see Note 16).

On December 2, 2019, the LHIN signed a Memorandum of Understanding ("MOU") with Ontario Health and certain non-home and community care employees of the LHIN were transferred to Ontario Health. Under the MOU, for the period of December 2, 2019 to March 31, 2020, the LHIN continued to provide compensation and benefits to transferred employees.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2020

5. Related party transactions (continued)

Ontario Health (continued)

During this period, the LHIN incurred \$598,421 in salaries and benefits expense for the transferred employees, of which \$13,206 remained in accounts payable and accrued charges as at March 31, 2020. All amounts were recorded at cost in the Statement of operations and changes in net assets and the Statement of financial position.

On December 2, 2019 the assets, liabilities, rights and obligations of Cancer Care Ontario were transferred to Ontario Health.

6. Capital assets

	Cost \$	Accumulated amortization \$	2020 Net book value \$	2019 Net book value \$
Furniture and equipment	2,346,393	2,344,118	2,275	6,373
Computer equipment	872,335	837,942	34,393	52,531
Leasehold improvements	1,676,439	1,672,886	3,553	55,460
	4,895,167	4,854,946	40,221	114,364

7. Obligations under capital lease

The LHIN has a lease under the provision of capital lease of leasehold improvements. The cost of this lease is included in capital assets and the related liabilities are included in liabilities to reflect the effective acquisition and financing of these items. The lease on the building expires in February 2021.

The present value of future minimum payments is as follows:

	2020 \$	2019 \$
2020	—	37,621
2021	36,174	36,174
	36,174	73,795
Less: current portion	36,174	37,621
Long-term portion of capital lease obligation	—	36,174

Pledged as security for the above borrowings are the leasehold improvements under capital lease.

The minimum payments over the remaining terms of the leases are as follows:

	2020 \$	2019 \$
2020	—	40,456
2021	37,085	37,085
Total minimum payment	37,085	77,541
Less: amount representing interest	911	3,746
	36,174	73,795

South East Local Health Integration Network

Notes to the financial statements

March 31, 2020

8. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. Deferred capital contributions are amortized to income at the same rate as the corresponding capital asset. The changes in the deferred capital contributions balance are as follows:

	2020 \$	2019 \$
Balance, beginning of year	114,364	164,409
Capital contributions received during the year	21,881	58,038
Amortization for the year	(96,024)	(108,083)
Balance, end of year	<u>40,221</u>	<u>114,364</u>

9. Commitments

The LHIN has commitments under various operating leases extending to 2024 as follows:

	\$
2021	911,777
2022	422,191
2023	178,678
2024	42,857
	<u>1,555,503</u>

10. Contingencies

Due to the nature of its operations, the LHIN is susceptible to claims from clients, employees, suppliers and past service provider agencies. Management has recorded its best estimate of the outcome of these claims in these financial statements.

The LHIN enters into accountability agreements with HSP which include planned funding targets. The actual funding provided by the LHIN is contingent on the MOH providing the funding.

The LHIN is a member of the Healthcare Insurance Reciprocal of Canada (HIROC), which is a pooling of the liability insurance risks of its members. Members of the pool pay annual premiums that are actuarially determined. HIROC members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members, and these losses could be material. No reassessments have been made to March 31, 2020.

Should these result in additional revenues or costs, the difference will be recorded in the year of settlement.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2020

11. Change in non-cash working capital items

	2020	2019
	\$	\$
Due from MOH	1,215,896	(1,550,319)
Accounts receivable	154,129	411,639
Prepaid expenses	17,130	(45,518)
Accounts payable and accrued liabilities	(2,665,295)	2,220,707
Due to HSPs	403,404	161,690
Due to MOH	3,579,095	2,845,559
Due to other LHINs	(4,956)	(3,444)
Deferred revenue	(42,734)	(63,370)
	2,656,669	3,976,944

12. Pension Plan

The LHIN contributes to the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer plan, on behalf of approximately 424 members of its staff. The plan is a defined benefit plan, which specifies the amount of retirement benefit to be received by the employees, based on the length of service and rates of pay. The amount contributed to HOOPP for fiscal 2020 was \$2,877,762 (\$2,896,414 in 2019) for current service costs and is included as an expense in the 2020 statement of operations. The last actuarial valuation was completed for the plan as of December 31, 2019. At that time, the plan was fully funded.

13. Transfer payments to HSPs

The LHIN has authorization to allocate funding of \$1,113,941,853 (\$1,090,206,013 in 2019) to various HSP in its geographic area. The LHIN approved transfer payments to various sectors as follows:

	2020	2019
	\$	\$
Operations of hospitals	739,239,279	724,935,917
Grants to compensate for municipal taxation – public hospitals	177,375	190,725
Long-Term care homes	206,872,139	201,230,078
Community support services	43,699,523	42,166,850
Assisted living services in supportive housing	2,299,255	2,315,726
Community health centers	37,092,826	35,297,308
Community mental health	84,561,456	84,069,409
	1,113,941,853	1,090,206,013

The LHIN receives funding from the MOH and in turn allocates it to the HSP. As at March 31, 2020, an amount of \$1,939,804 (\$1,536,400 in 2019) was receivable from the MOH, and was payable to HSPs. These amounts have been reflected as revenue and expenses in the statement of operations and changes in net assets and are included in the table above.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2020

14. Financial risks

The LHIN through its exposure to financial assets and liabilities has exposure to credit risk and liquidity risk as follows:

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and incur a financial loss. The maximum exposure to credit risk is the carrying value reported in the statement of financial position. Credit risk is mitigated through collection practices and the diverse nature of amounts with accounts receivable.

Liquidity risk is the risk that the LHIN will not be able to meet all cash flow obligations as they come due. The LHIN mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and cash flow analysis.

15. Guarantees

The LHIN is subject to the provisions of the *Financial Administration Act*. As a result, in the normal course of business, the LHIN may not enter into agreements that include indemnities in favour of third parties, except in accordance with the *Financial Administration Act* and the related Indemnification Directive.

An indemnity of the Chief Executive Officer was provided directly by the LHIN pursuant to the terms of the *Local Health System Integration Act, 2006* and in accordance with chapter 28 of the *Financial Administration Act*.

16. The Connecting Care Act

On May 30, 2019, the *Connecting Care Act* (the "CCA") was proclaimed with key sections of the Act, including the creation of a new Crown Agency called Ontario Health, effective June 6, 2019. This legislation is a key component of the government's plan to build an integrated health care system. The CCA grants the Minister of Health (the "Minister") the power to transfer assets, liabilities, rights, obligations and employees of certain government organizations, including the LHINs, into Ontario Health, a health service provider, or an integrated care delivery system. The CCA also grants the Minister the power to dissolve the transferred organizations.

On March 8, 2019, the members of the board of directors of Ontario Health were appointed to also constitute the board of the LHIN. The board of directors of Ontario Health will oversee the process of transferring multiple provincial agencies into Ontario Health.

Effective December 2, 2019, pursuant to an order from the Minister made under the CCA, the LHIN transferred 10 non-home and community care employee positions to Ontario Health.

The transition process is ongoing and expected to occur over a number of years. A potential full transfer and dissolution date is currently unknown. In the meantime, the LHIN continues to operate as required under the *Local Health System Integration Act, 2016* and in accordance with its accountability agreement with the Minister.