

---

Financial statements of  
South East Local Health  
Integration Network

March 31, 2019

---

---

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, 2019, 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, 2019, 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 14, 2019

# South East Local Health Integration Network

## Statement of financial position

As at March 31, 2019

	Notes	2019 \$	2018 \$
<b>Assets</b>			
Current assets			
Cash		<b>20,383,312</b>	16,442,157
Due from Ministry of Health and Long-Term Care (MOHLTC)		<b>3,155,700</b>	1,605,381
Accounts receivable		<b>1,467,632</b>	1,879,271
Prepaid expenses		<b>439,346</b>	393,828
		<b>25,445,990</b>	20,320,637
Capital assets	6	<b>114,364</b>	164,409
		<b>25,560,354</b>	20,485,046
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		<b>16,950,052</b>	14,729,345
Due to Health Service Providers (HSP)	13	<b>1,536,400</b>	1,374,710
Due to MOHLTC	3	<b>6,484,668</b>	3,639,109
Due to Champlain LHIN	4	<b>62,230</b>	65,674
Deferred revenue		<b>338,845</b>	402,215
Current portion of obligations under capital leases	7	<b>37,621</b>	35,789
		<b>25,409,816</b>	20,246,842
Obligations under capital leases	7	<b>36,174</b>	73,795
Deferred capital contributions	8	<b>114,364</b>	164,409
		<b>25,560,354</b>	20,485,046
Contingencies and commitments	9 and 10		
<b>Net assets</b>		<b>25,560,354</b>	20,485,046

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, 2019

	Notes	2019 \$	2018 \$
<b>Revenue</b>			
MOHLTC funding – transfer payments	13	<b>1,090,206,013</b>	1,064,235,812
MOHLTC funding – Operations and initiatives		<b>137,882,037</b>	118,397,062
Interest income		—	207,117
Amortization of deferred capital contributions		<b>108,083</b>	180,555
Amortization of deferred restricted contributions		<b>59,845</b>	35,264
Other revenue		<b>2,187,416</b>	1,241,660
		<b>140,237,381</b>	120,061,658
		<b>1,230,443,394</b>	1,184,297,470
<b>Expenses</b>			
HSP transfer payments	13	<b>1,090,206,013</b>	1,064,235,812
Operations and initiatives			
Contracted out			
In-home and clinic services		<b>82,937,885</b>	70,798,260
School services		<b>3,848,189</b>	3,894,726
Hospice services		<b>767,939</b>	378,026
Salaries and benefits		<b>39,759,337</b>	33,464,048
Medical supplies		<b>6,693,739</b>	5,723,923
Medical equipment rental		<b>1,383,814</b>	1,250,195
Supplies and sundry		<b>3,246,651</b>	2,644,143
Buildings and grounds		<b>1,491,744</b>	1,290,488
Amortization		<b>108,083</b>	180,555
		<b>140,237,381</b>	119,624,364
		<b>1,230,443,394</b>	1,183,860,176
Excess of revenue over expenses before the undernoted		—	437,294
Net liabilities assumed on transition		—	(437,294)
<b>Excess of revenue over expenses</b>		—	—
Net assets, beginning of year		—	—
<b>Net assets, end of year</b>		—	—

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, 2019

	Notes	2019 \$	2018 \$
<b>Operating activities</b>			
Excess of revenue over expenses		—	—
Cash received on transition		—	14,489,718
Net liabilities assumed on transition		—	437,294
Less amounts not affecting cash			
Amortization of capital assets		<b>108,083</b>	180,555
Amortization of deferred capital contributions	8	<b>(108,083)</b>	(180,555)
		—	14,927,012
Changes in non-cash operating working capital items	11	<b>3,976,944</b>	463,779
		<b>3,976,944</b>	15,390,791
<b>Investing activity</b>			
Purchase of capital assets		<b>(58,038)</b>	(23,119)
<b>Financing activities</b>			
Increase in deferred capital contributions	8	<b>58,038</b>	23,119
Repayment of capital lease obligations	7	<b>(35,789)</b>	(34,048)
		<b>22,249</b>	(10,929)
Net increase in cash		<b>3,941,155</b>	15,356,743
Cash, beginning of year		<b>16,442,157</b>	1,085,414
<b>Cash, end of year</b>		<b>20,383,312</b>	16,442,157

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

# South East Local Health Integration Network

## Notes to the financial statements

March 31, 2019

---

### 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 and Long Term Care (MOHLTC), 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 MOHLTC 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 MOHLTC represent externally restricted contributions which must be spent within the fiscal year provided. Unspent contributions from the MOHLTC are set up as repayable to the MOHLTC 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, 2019

---

## 2. Significant accounting policies (continued)

### *Ministry of Health and Long-Term Care 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 MOHLTC. The financial statements reflect funding arrangements approved by the MOHLTC. The LHIN cannot authorize payments in excess of the budgetary allocation set by the MOHLTC. Due to the nature of the MLAA, the LHIN is economically dependent on the MOHLTC.

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 MOHLTC 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, 2019

---

#### 3. Funding repayable to the MOHLTC

In accordance with the MAAA, 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 MOHLTC.

The amount due to the MOHLTC at March 31, 2019 and 2018 is made up as follows:

	<b>2019</b>	2018
	<b>\$</b>	\$
Due to MOHLTC, beginning of year	<b>3,639,109</b>	137,594
Funding repaid to MOHLTC	—	(243,159)
Funding repayable to the MOHLTC related to current year activities	<b>2,845,559</b>	3,860,984
Funding repayable to MOHLTC related to CCAC prior year activities	—	(116,310)
Due to MOHLTC, end of year	<b>6,484,668</b>	3,639,109

#### 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 MOHLTC 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 \$510,000 (\$510,000 in 2018) and incurred eligible expenditures of \$463,270 (\$444,326 in 2018). The unspent portion of \$46,730 (\$65,674 in 2018) has been set as up as repayable to the Champlain LHIN. In addition to the unspent funding, the LHIN also owes the Champlain LHIN \$15,500 (nil in 2018) for translation services, bringing the total amount due the Champlain LHIN to \$62,230 as at March 31, 2019 (\$65,674 as at March 31, 2018).

#### 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 and Long-Term Care.

## South East Local Health Integration Network

### Notes to the financial statements

March 31, 2019

#### 6. Capital assets

	Cost \$	Accumulated amortization \$	2019 Net book value \$	2018 Net book value \$
Furniture and equipment	2,409,519	2,403,146	6,373	11,711
Computer equipment	1,124,642	1,072,111	52,531	42,910
Leasehold improvements	1,702,067	1,646,607	55,460	109,788
	<b>5,236,228</b>	<b>5,121,864</b>	<b>114,364</b>	164,409

#### 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:

	2019 \$	2018 \$
2019	—	35,789
2020	37,621	37,621
2021	36,174	36,174
	<b>73,795</b>	109,584
Less: current portion	<b>37,621</b>	35,789
Long-term portion of capital lease obligation	<b>36,174</b>	73,795

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:

	2019 \$	2018 \$
2019	—	40,456
2020	40,456	40,456
2021	37,085	37,084
Total minimum payment	<b>77,541</b>	117,996
Less: amount representing interest	<b>3,746</b>	8,412
	<b>73,795</b>	109,584

## South East Local Health Integration Network

### Notes to the financial statements

March 31, 2019

---

#### 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:

	2019	2018
	\$	\$
Balance, beginning of year	164,409	152,410
Capital contributions received during the year	58,038	23,119
Capital contributions transferred from SE CCAC	—	169,435
Amortization for the year	(108,083)	(180,555)
Balance, end of year	<u>114,364</u>	<u>164,409</u>

#### 9. Commitments

The LHIN has commitments under various operating leases expiring as follows:

	\$
2020	922,098
2021	720,581
2022	480,782
2023	74,509
Thereafter	41,187
	<u>2,239,157</u>

#### 10. Contingencies

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

The LHIN has been named as defendants in various claims. Based on the opinion of legal counsel as to the realistic estimates of the merits of these actions and the LHINs potential liability, management believes any liability resulting from these actions would be adequately covered by existing liability insurance.

## South East Local Health Integration Network

### Notes to the financial statements

March 31, 2019

#### 11. Additional information to the statement of cash flows

	2019	2018
	\$	\$
<i>Changes in non-cash operating working capital items</i>		
Due from MOHLTC	<b>(1,550,319)</b>	(1,605,381)
Accounts receivable	<b>411,639</b>	(691,240)
Prepaid expenses	<b>(45,518)</b>	14,050
Accounts payable and accrued liabilities	<b>2,220,707</b>	(784,930)
Due to HSP	<b>161,690</b>	1,374,710
Due to MOHLTC	<b>2,845,559</b>	1,996,339
Due to Champlain LHIN	<b>(3,444)</b>	65,674
Deferred revenue	<b>(63,370)</b>	94,557
	<b>3,976,944</b>	463,779

#### 12. Pension Plan

The LHIN contributes to the Healthcare of Ontario Pension Plan (HOOPP), which is a multi-employer plan, on behalf of approximately 450 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 2019 was \$2,896,414 (\$2,527,953 in 2018) for current service costs and is included as an expense in the 2019 statement of operations. The last actuarial valuation was completed for the plan as of December 31, 2018. At that time, the plan was fully funded.

#### 13. Transfer payment to HSP

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

	2019	2018
	\$	\$
Operations of hospitals	<b>724,935,917</b>	699,707,780
Grants to compensate for municipal taxation – public hospitals	<b>190,725</b>	190,725
Long-Term care homes	<b>201,230,078</b>	194,576,238
Community care access centers	<b>—</b>	15,978,856
Community support services	<b>42,166,850</b>	40,367,491
Assisted living services in supportive housing	<b>2,315,726</b>	2,236,697
Community health centers	<b>35,297,308</b>	32,058,457
Community mental health	<b>84,069,409</b>	79,119,568
	<b>1,090,206,013</b>	1,064,235,812

The LHIN receives funding from the MOHLTC and in turn allocates it to the HSP. As at March 31, 2019, an amount of \$1,536,400 (\$1,374,710 in 2018) was receivable from the MOHLTC, 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, 2019

---

#### 14. Board expenses

The following table provides the details of Board expenses reported in the statement of operations and changes in net assets:

	2019	2018
	\$	\$
Board Chair per diem expenses	25,725	27,025
Other Board members' per diem expenses	50,550	70,450
Other governance and travel	100,557	162,986
	<b>176,832</b>	<b>260,461</b>

#### 15. 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 practises 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.

#### 16. 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*.

#### 17. The People's Health Care Act

On April 18, 2019, *The People's Health Care Act* (the "Act") received Royal Assent. This legislation is a key component of the government's plan to build a modern, sustainable and integrated health care system. The Act grants the Minister of Health and Long-Term Care (the "Minister") the power to transfer assets, liabilities, rights, obligations and employees of certain government organizations, including the LHIN, into Ontario Health (a new Crown Agency created by the Act), a health service provider, or an integrated care delivery system. The Act also grants the Minister the power to dissolve these 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 is tasked with overseeing the transition process of transferring multiple provincial agencies into Ontario Health. Following the transfer the LHIN would be dissolved.

The transition process is expected to occur over a number of years. A potential transfer and dissolution date is currently unknown. In the meantime, the LHIN continues to operate as required under the *Local Health System Integration Act, 2006* and in accordance with its accountability agreement with the Minister.