
Financial statements of South East Local Health Integration Network

March 31, 2021

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of South East Local Health Integration Network (the "LHIN"), which comprise the statement of financial position as at March 31, 2021, 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, 2021, 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 23, 2021

South East Local Health Integration Network

Statement of financial position

As at March 31, 2021

	Notes	2021 \$	2020 \$
Assets			
Current assets			
Cash		24,171,643	23,002,360
Due from Ministry of Health ("MOH")	12	74,370,972	1,939,804
Accounts receivable	4	1,938,849	1,313,503
Prepaid expenses		323,070	422,217
		100,804,534	26,677,884
Capital assets			
	5	8,577	40,221
		100,813,111	26,718,105
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	17,611,419	15,293,295
Due to Health Service Providers ("HSPs")	12	74,370,972	1,939,804
Due to MOH	3	8,556,582	9,112,500
Deferred revenue		265,561	296,111
Current portion of obligations under capital leases	6	—	36,174
		100,804,534	26,677,884
Deferred capital contributions	7	8,577	40,221
		100,813,111	26,718,105
Contingencies and commitments	8 and 9		
Net assets			
		—	—
		100,813,111	26,718,105

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, 2021

	Notes	2021 \$	2020 \$
Revenue			
MOH funding – transfer payments	12	1,298,185,935	1,113,941,853
MOH funding – operations and initiatives		134,723,886	133,201,646
Ontario Health Cancer Care Division	4	238,535	342,186
Amortization of deferred capital contributions	7	31,644	96,024
Other revenue	4	1,685,075	1,732,783
		136,679,140	135,372,639
Total revenue		1,434,865,075	1,249,314,492
Expenses			
HSP transfer payments	12	1,298,185,935	1,113,941,853
Operations and initiatives			
Contracted out			
In-home/clinic services		84,711,715	80,923,588
School services		359,123	1,793,682
Hospice services		610,849	691,091
Salaries and benefits	4 and 11	37,023,073	39,552,945
Medical supplies		8,826,619	6,776,088
Medical equipment rental		1,240,358	1,139,976
Supplies and sundry		2,333,057	2,853,138
Buildings and grounds		1,542,702	1,546,107
Amortization	7	31,644	96,024
		136,679,140	135,372,639
Total expenses		1,434,865,075	1,249,314,492
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, 2021

	Notes	2021 \$	2020 \$
Operating activities			
Excess of revenue over expenses		—	—
Less amounts not affecting cash			
Amortization of capital assets		31,644	96,024
Amortization of deferred capital contributions		(31,644)	(96,024)
		—	—
Changes in non-cash working capital items	10	1,205,457	2,656,669
Investing activity			
Purchase of capital assets		—	(21,881)
Financing activities			
Increase in deferred capital contributions		—	21,881
Repayment of capital lease obligations		(36,174)	(37,621)
		(36,174)	(15,740)
Net increase in cash		1,169,283	2,619,048
Cash, beginning of year		23,002,360	20,383,312
Cash, end of year		24,171,643	23,002,360

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

South East Local Health Integration Network

Notes to the financial statements

March 31, 2021

1. Description of the 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.

On March 17, 2021, in accordance with subsection 40(1) of the *Connecting Care Act, 2019* the Ontario Minister of Health issued a transfer order to the LHIN which transferred certain assets, liabilities, rights and obligations of the LHIN, primarily those related to the activities related to planning, funding and integration as described in (a) above to Ontario Health. In addition, certain staff positions of the LHIN were also transferred to Ontario Health.

Operating as Home and Community Care Support Services Central East, the LHIN will continue to be responsible for the provision of home and community services within its geographic area. The Board of Directors of Ontario Health ("OH") were appointed to constitute the Board of Directors of the LHIN on March 8, 2018. The OH board will continue in this capacity until such time as a new Board is appointed.

A memorandum of understanding between the LHIN and OH outlining the process to be followed with respect to the transfer of certain assets and liabilities between the LHIN and OH under the transfer order is currently being developed. It is anticipated that the amounts involved will primarily be liabilities associated with employees transferred to OH and reassigned back to the LHIN as part of the transfer. The amounts of assets and liabilities transferred are not expected to be material (see note 4).

South East Local Health Integration Network

Notes to the financial statements

March 31, 2021

2. 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.

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.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2021

2. Accounting policies (continued)

Financial instruments (continued)

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.

3. Funding repayable to the MOH

In accordance with the MLAA, 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, 2021 and 2020 is made up as follows:

	2021 \$	2020 \$
Due to MOH, beginning of year	9,112,500	6,484,668
Funding repayable to the MOH related to prior year activities	(3,639,110)	—
current year activities	3,083,192	2,627,832
Due to MOH, end of year	<u>8,556,582</u>	<u>9,112,500</u>

4. Related party transactions

Ontario Health

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. Ontario Health is a related party to the LHIN through the common control of the Province of Ontario. On December 2, 2019, the LHIN signed a Memorandum of Understanding ("MOU") with Ontario Health and 10 non-home and community care employees of the LHIN were transferred to Ontario Health. Under the MOU, the LHIN continued to provide compensation and benefits to transferred employees.

During the year, the LHIN incurred \$1,532,241 (\$598,421 in 2020 for the period from December 2, 2019 to March 31, 2020) in salaries and benefits expense for the 10 transferred employees, of which \$17,731 (\$13,206 in 2020) remained in accounts payable and accrued liabilities as at year-end. March 31, 2021. All amounts were recorded at cost in the statement of operations and changes in net assets and the statement of financial position.

Due to a change in the scope of the transfer, effective April 1, 2021 2 employees previously transferred to Ontario Health on December 2, 2019 were assigned back to the LHIN.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2021

4. Related party transactions (continued)

Ontario Health (continued)

During the year the LHIN recognized \$238,535 (\$342,186 in 2020) of funding from OH (Cancer Care Division) which is reported as Onatrio Health Cancer Care Division in the statement of operations and changes in net assets. In addition the LHIN recognized \$171,853 (\$196,800 in 2020) of Business Technology Infrastructure ("BTI") funding from OH which is included as other revenue on the statement of operations and changes in net assets, and incurred miscellaneous costs from OH of \$32,224 (\$15,848 in 2020) which are reported as supplies and sundry in the statement of operations and changes in net assets. At year-end at total of \$65,905 (nil in 2020) due to OH is included in accounts payable and accrued liabilities.

Other LHINs

During year the LHIN recognized \$1,228,845 (nil in 2020) of revenue from Champlain LHIN in respect of funding for enabling technologies and eReferral programs which is included as other income in the statement of operations and changes in net assets and the full amount remains due from Champlain LHIN and is included in accounts receivable at March 31, 2021. Additionally, during the year, the LHIN incurred \$1,875 (\$6,703 in 2020) of expense related to translation services from the Champlain LHIN of which \$3,750 (\$7,500 in 2020) is included in accounts payable and accrued liabilities at year-end.

5. Capital assets

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
	\$	\$	\$	\$
Furniture and equipment	2,346,393	2,345,256	1,137	2,275
Computer equipment	872,335	864,895	7,440	34,393
Leasehold improvements	1,676,439	1,676,439	—	3,553
	4,895,167	4,886,590	8,577	40,221

6. Obligations under capital lease

The LHIN had a lease under the provision of capital lease of leasehold improvements. The cost of this lease was included in capital assets and the related liabilities were included in liabilities to reflect the effective acquisition and financing of these items. The lease on the building expired during the year.

The present value of future minimum payments were as follows:

	2021	2020
	\$	\$
2021	—	36,174
Less: current portion	—	36,174
Long-term portion of capital lease obligation	—	—

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

South East Local Health Integration Network

Notes to the financial statements

March 31, 2021

7. 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:

	2021	2020
	\$	\$
Balance, beginning of year	40,221	114,364
Capital contributions received during the year	—	21,881
Amortization for the year	(31,644)	(96,024)
Balance, end of year	<u>8,577</u>	<u>40,221</u>

8. Commitments

The LHIN has commitments under various operating leases extending to 2025 as follows:

	\$
2022	670,891
2023	182,894
2024	45,285
2025	5,906
	<u>904,976</u>

9. 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 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, 2021.

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

10. Changes in non-working capital items

	2021	2020
	\$	\$
Due from MOH	(72,431,168)	1,215,896
Accounts receivable	(625,346)	154,129
Prepaid expenses	99,147	17,130
Accounts payable and accrued liabilities	2,318,124	(2,670,251)
Due to HSPs	72,431,168	403,404
Due to MOH	(555,918)	3,579,095
Deferred revenue	(30,550)	(42,734)
	<u>1,205,457</u>	<u>2,656,669</u>

South East Local Health Integration Network

Notes to the financial statements

March 31, 2021

11. 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 2021 was \$2,715,218 (\$2,877,762 in 2020) for current service costs and is included in salaries and benefits expense in the 2021 statement of operations. The last actuarial valuation was completed for the plan as of December 31, 2020. At that time, the plan was fully funded.

12. Transfer payments to HSPs

The LHIN has authorization to allocate funding of \$1,298,185,935 (\$1,113,941,853 in 2020) to various HSP in its geographic area. The LHIN approved transfer payments to various sectors as follows:

	2021 \$	2020 \$
Operations of hospitals	907,973,667	739,239,279
Grants to compensate for municipal taxation – public hospitals	177,375	177,375
Long-Term care homes	213,509,179	206,872,139
Community support services	46,273,327	43,699,523
Assisted living services in supportive housing	2,500,995	2,299,255
Community health centers	37,090,175	37,092,826
Community mental health	90,661,217	84,561,456
	<u>1,298,185,935</u>	<u>1,113,941,853</u>

The LHIN receives funding from the MOH and in turn allocates it to the HSP. As at March 31, 2021, an amount of \$74,370,972 (\$1,939,804 in 2020) 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.

13. 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.

South East Local Health Integration Network

Notes to the financial statements

March 31, 2021

14. 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 favor 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*.

15. Corresponding figures

Certain corresponding figures have been reclassified to conform to the current year's presentation.