
Financial statements of
Waterloo Wellington Local Health
Integration Network

March 31, 2019

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Independent Auditor's Report

To the Members of the Board of Directors of the
Waterloo Wellington Local Health Integration Network

Audit Opinion

We have audited the accompanying financial statements of the Waterloo Wellington Local Health Integration Network (the "LHIN"), which comprise the statement of financial position as at March 31, 2019 and the statements of operations, 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"). We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

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 exercised professional judgment and maintained 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.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
June 14, 2019

Waterloo Wellington Local Health Integration Network

Statement of financial position

As at March 31, 2019

	Notes	2019 \$	2018 \$
Assets			
Current assets			
Cash		22,075,280	11,708,066
Due from Ministry of Health and Long-Term Care ("MOHLTC")	13	7,615,600	8,071,353
Accounts receivable		1,843,558	2,593,872
Prepaid expenses		520,013	759,711
		32,054,451	23,133,002
Rental, security and benefit deposits		48,799	41,650
Capital assets	6	447,101	555,009
		32,550,351	23,729,661
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		20,298,491	15,979,710
Due to Health Service Providers ("HSPs")	13	5,791,000	6,800,553
Due to Ministry of Health and Long-Term Care ("MOHLTC")	3	5,994,665	362,828
Deferred revenue		4,101	4,743
		32,088,257	23,147,834
Post employment benefits	7	1,540,720	1,311,825
Deferred capital contributions	8	447,101	555,009
Commitments	9		
		34,076,078	25,014,668
Net liabilities		(1,525,727)	(1,285,007)
		32,550,351	23,729,661

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

Approved by the Board of Directors:



William Hatanaka, Board Chair



Garry Foster, Audit Committee Chair

Waterloo Wellington Local Health Integration Network

Statement of operations

Year ended March 31, 2019

	Notes	2019 Actual \$	2018 Actual \$
Revenue			
MOHLTC funding - transfer payments	13	1,006,100,776	985,588,120
MOHLTC funding - operations and initiatives		168,307,090	147,962,830
Interest income		—	161,458
Amortization of deferred capital contributions		137,277	127,445
Other revenue		1,913,277	2,013,083
		170,357,644	150,264,816
Total revenue		1,176,458,420	1,135,852,936
Expenses			
HSP transfer payments	13	1,006,100,776	985,588,120
Operations and initiatives			
Contracted out			
In-home/clinic services		103,102,571	90,191,630
School services		5,575,588	4,871,672
Hospice services		2,988,570	2,624,347
Salaries and benefits		46,376,131	39,358,220
Medical supplies		5,037,822	4,071,510
Medical equipment rental		1,730,768	1,301,943
Supplies and sundry		1,287,547	1,242,462
Building and ground		1,909,047	1,866,234
Amortization		137,277	127,445
Repairs and maintenance		24,667	73,149
Other operating expenses		2,187,656	3,571,855
		170,357,644	149,300,467
Total expenses		1,176,458,420	1,134,888,587
Excess of revenue over expenses before the undernoted		—	964,349
Post employment benefits expenses		(228,895)	(172,864)
Expenditures from donations fund		(11,825)	(24,146)
Net liabilities assumed on transition		—	(2,052,346)
Excess of expenses over revenue		(240,720)	(1,285,007)

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

Waterloo Wellington Local Health Integration Network

Statement of changes in net assets

Year ended March 31, 2019

	2019			2018	
	Unrestricted \$	Donations Fund \$	Employee benefits \$	Total \$	Actual \$
Net assets, beginning of year	—	26,818	(1,311,825)	(1,285,007)	—
Excess of revenue over expenses before the undernoted	—	(11,825)	(228,895)	(240,720)	767,339
Net liabilities assumed on transition	—	—	—	—	(2,052,346)
Net assets (liabilities), end of year	—	14,993	(1,540,720)	(1,525,727)	(1,285,007)

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

Waterloo Wellington Local Health Integration Network

Statement of cash flows

Year ended March 31, 2019

	Notes	2019 \$	2018 \$
Operating activities			
Excess of expenses over revenue		(240,720)	(1,285,007)
Cash received on transition		—	9,483,705
Net liabilities assumed on transition		—	2,052,346
Add amounts not affecting cash			
Amortization of capital assets		137,277	127,445
Amortization of deferred capital contributions		(137,277)	(127,445)
		(240,720)	10,251,044
Changes in non-cash working capital items	11	10,607,934	743,215
		10,367,214	10,994,259
Investing activity			
Purchase of capital assets		(29,369)	(169,438)
Financing activity			
Increase in deferred capital contributions	8	29,369	169,438
Net increase in cash		10,367,214	10,994,259
Cash, beginning of year		11,708,066	713,807
Cash, end of year		22,075,280	11,708,066

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

Waterloo Wellington Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

1. Description of business

The Waterloo Wellington 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 Waterloo Wellington 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 Regions of Waterloo Wellington. The LHIN enters into service accountability agreements with health service providers.

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 Health Service Providers are flowed through the LHIN's financial statements. Funding payments authorized by the LHIN to Health Service Providers, are recorded in the LHIN's Financial Statements as revenue from the MOHLTC and as transfer payment expenses to Health Service Providers.

- b. Provision of community services. These services include health and related social services, medical supplies and equipment for the care of persons in home and community 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, 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 collection is reasonably assured.

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 Accountability Agreement, the LHIN is economically dependent on the MOHLTC.

Waterloo Wellington Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

2. Significant accounting policies (continued)

Ministry of Health and Long-Term Care Funding (continued)

Transfer payment amounts to Health Service Providers 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 Health Service Providers. 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 Ministry-LHIN Accountability Agreement.

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:

Computer and communications equipment	3 years
Computer software	3 years
Leasehold improvements	5 years
Furniture and equipment	10 years

For assets acquired or brought into use, during the year, amortization is provided for at one half of the annual rate.

Deferred capital contributions

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

Employee future benefits

The LHIN accrues its obligations for sick leave and post-employment benefit plans as the employees render the services necessary to earn the benefits. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, and other actuarial factors). Under this method, the benefit costs are recognized over the expected average service life of the employee group.

Actuarial gains and losses on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the future actuarial gains and losses will be amortized over the estimated average remaining service life of the employees. The most recent actuarial valuation of the sick leave plan and the benefit plan was as of March 31, 2018.

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.

Waterloo Wellington Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

2. Significant accounting policies (continued)

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 MOHLTC

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 MOHLTC.

The amount due to the MOHLTC at March 31 is made up as follows:

	2019	2018
	\$	\$
Due to MOHLTC, beginning of year	362,828	154,472
Funding repaid to MOHLTC	(362,828)	(154,472)
Funding repayable to the MOHLTC from WWCCAC transition	—	793
Funding repayable to the MOHLTC related to current year activities	5,994,665	362,035
Due to MOHLTC, end of year	<u>5,994,665</u>	<u>362,828</u>

4. Enabling Technologies for Integration Project Management Office

Effective January 31, 2014, the WWLHIN entered into an agreement with Erie St. Clair, Hamilton Niagara Haldimand Brant and South West (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 WWLHIN'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 the Erie St. Clair LHIN of \$1,000,000 (\$510,000 in 2018 from South West LHIN).

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 objects to provide shared services to LHINs in areas that include human resources management, logistics, finance and administration and procurement. HSSO as a provincial agency 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.

Waterloo Wellington Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

6. Capital assets

	Cost	Accumulated depreciation	2019 Net book value	2018 Net book value
	\$	\$	\$	\$
Computer equipment	742,566	728,575	13,991	23,318
Computer software	21,678	3,613	18,065	—
Leasehold improvements	1,104,203	702,019	402,184	521,010
Furniture and equipment	848,275	835,414	12,861	10,681
	2,716,722	2,269,621	447,101	555,009

7. Post employment benefits

The LHIN has a defined early retirement benefit plan that provides benefits to employee who are 55 years of age, have retired and are withdrawing funds from the pension plan. The early retirement benefits cease when the individual reaches 65 years of age.

The accrued benefit obligation for early retirement benefits as at March 31, 2019 is based on an actuarial valuation for accounting purposes using the projected benefit method pro-rated on service. The most recent actuarial valuation of the early retirement benefits obligation was completed March 31, 2018.

This valuation was based on assumptions about future events. The economic assumptions used in these valuations are management's best estimates of expected rates of:

	2019 %
Inflation	2.0
Discount on accrued benefit obligation	3.4
Compensation increase	3.0
Dental cost trends	4.0
Health care cost trends	6.0

Information about the post employment benefit plan is as follows:

	2019 \$	2018 \$
Accrued benefit liability, beginning of year	1,311,825	—
Accrued benefit liability, transferred from Waterloo Wellington CCAC	—	1,138,960
Current service cost	210,390	172,058
Interest on obligation	69,214	64,549
Amortization of actuarial losses	76,291	60,858
Benefits paid	(127,000)	(124,600)
Accrued benefit liability, end of year	1,540,720	1,311,825
Accrued benefit obligation	2,236,216	2,042,125
Unamortized actuarial losses	(695,496)	(730,300)
Accrued benefit liability, end of year	1,540,720	1,311,825

Waterloo Wellington Local Health Integration Network

Notes to the financial statements

Year ended 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	555,009	149,390
Capital contributions assumed on transition	—	363,626
Capital contributions received during the year	29,369	169,438
Amortization for the year	(137,277)	(127,445)
Balance, end of year	447,101	555,009

9. Commitments

The LHIN has commitments under various operating leases as follows:

	\$
2019	1,439,060
2020	1,153,955
2021	1,040,539
2022	484,568
2023	80,101

10. Contingencies

The LHIN enters into accountability agreements with Health Service Providers 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.

11. Additional information to the statement of cash flows

	2019	2018
	\$	\$
Due from MOHLTC	455,753	(5,622,081)
Accounts Receivable	750,314	(1,094,237)
Prepaid Expenses	239,698	887,608
Deposits	(7,149)	(41,650)
Accounts payable and accrued liabilities	4,318,781	2,288,562
Due to HSP	(1,009,553)	4,351,281
Due to MOHLTC	5,631,837	205,386
Deferred revenue	(642)	(404,518)
Post employment benefits	228,895	172,864
	10,607,934	743,215

Waterloo Wellington Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

12. Pension plan

The LHIN contributes to the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer plan, on behalf of approximately 459 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 \$2,941,496 (\$2,692,122 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 HSPs

The LHIN has authorization to allocate funding of \$1,006,776 to various HSPs in its geographic area. The LHIN approved transfer payments to various sectors in 2019 as follows:

	2019 \$	2018 \$
Operations of hospitals	637,611,859	617,197,091
Grants to compensate for municipal taxation – public hospitals	159,225	159,225
Long-Term Care Homes	211,333,362	202,450,016
Community Care Access Centres	—	17,453,771
Community support services	30,727,836	29,490,832
Assisted living services in supportive housing	6,471,004	6,471,004
Community health centres	26,128,549	24,210,476
Community mental health addictions program	93,668,941	88,155,705
	1,006,100,776	985,588,120

The LHIN receives funding from the MOHLTC and in turn allocates it to the HSPs. As at March 31, 2019, an amount of \$5,791,000 (\$6,800,553 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 are included in the table above.

Effective May 17, 2017 the LHIN assumed the assets, liabilities, rights and obligations of the Waterloo Wellington Community Care Access Centre (CCAC). The 2018 comparative amount reported in respect of the CCAC in the table above represents funding provided to the CCAC up to the date of transfer.

14. Financial risk

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.

Waterloo Wellington Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

15. Accumulated non-vesting sick pay

The accumulated non-vesting sick pay comprises the sick pay benefits that accumulated but do not vest. These adjustments are not funded by the Ontario Ministry of Health and Long-Term Care.

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 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 s.28 of the Financial Administration Act.

17. Board expenses

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

	2019	2018
	\$	\$
Board Chair per diem expenses	50,125	11,625
Other Board members' per diem expenses	2,088	58,150
Other governance and travel	3,095	17,065
	55,308	86,840

18. 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.

19. Comparative figures

Certain of prior year's figures have been reclassified to conform with current years presentation.