
Financial statements of
Hamilton Niagara Haldimand Brant
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
Hamilton Niagara Halidmand Brant Local Health Integration Network

Audit Opinion

We have audited the accompanying financial statements of Hamilton Niagara Halidmand Brant 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"). 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 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.

The image shows a handwritten signature in cursive script that reads "Deloitte LLP". The signature is written in dark ink and is positioned to the left of the printed text below it.

Chartered Professional Accountants
Licensed Public Accountants
June 14, 2019

Hamilton Niagara Haldimand Brant Local Health Integration Network

Statement of financial position

As at March 31, 2019

	Notes	2019 \$	2018 \$
Assets			
Current assets			
Cash		20,216,067	19,523,676
Due from Ministry of Health and Long-Term Care ("MOHLTC")	14	26,198,270	21,246,962
Accounts receivable		8,109,813	4,573,573
Prepaid expenses		1,189,035	849,511
		55,713,185	46,193,722
Capital assets	6	1,270,589	1,454,734
		56,983,774	47,648,456
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		24,667,609	21,217,748
Due to Health Service Providers ("HSPs")	14	26,198,270	21,246,962
Due to Ministry of Health and Long-Term Care ("MOHLTC")	3	4,478,805	3,334,265
Deferred operating contributions	7	368,501	394,747
		55,713,185	46,193,722
Deferred capital contributions	8	1,270,589	1,454,734
Accrued non-vested sick benefits	9	3,658,264	3,568,327
		60,642,038	51,216,783
Commitments	10		
Net assets		(3,658,264)	(3,568,327)
		56,983,774	47,648,456

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

Hamilton Niagara Haldimand Brant Local Health Integration Network

Statement of operations

Year ended March 31, 2019

	Notes	2019 \$	2018 \$
Revenue			
MOHLTC funding – transfer payments	14	2,890,070,372	2,815,162,388
MOHLTC funding – Operations and Initiatives		359,962,271	310,675,744
Amortization of deferred capital contributions	8	288,336	362,072
Other revenue		2,714,202	3,514,337
		362,964,809	314,552,153
		3,253,035,181	3,129,714,541
Expenses			
HSP transfer payments	14	2,890,070,372	2,815,162,388
Operations and initiatives			
Contracted out			
In-home/clinic services		226,016,539	191,189,779
School services		12,455,428	10,918,475
Hospice services		5,364,896	5,371,228
Salaries and benefits		89,558,763	79,241,175
Medical supplies and equipment		19,132,189	15,971,651
Supplies and sundry		10,148,658	11,211,977
Amortization		288,336	362,072
		362,964,809	314,266,357
		3,253,035,181	3,129,428,745
Excess of revenue over expenses before the undernoted		–	285,796
Accrued non vested sick benefits		(89,937)	(97,313)
Net liabilities assumed on transition		–	(3,756,810)
		(89,937)	(3,568,327)

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

Hamilton Niagara Haldimand Brant Local Health Integration Network**Statement of changes in net financial assets**

Year ended March 31, 2019

	Unrestricted	Employee	2019	2018
	\$	benefits	Total	Actual
	\$	\$	\$	\$
Net assets, beginning of year	—	(3,568,327)	(3,568,327)	—
Excess of (expenses over revenue) revenue over expenses before the undernoted	—	(89,937)	(89,937)	188,483
Net liabilities assumed on transition	—	—	—	<u>(3,756,810)</u>
Net assets, end of year	—	(3,658,264)	(3,658,264)	<u>(3,568,327)</u>

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

Hamilton Niagara Haldimand Brant Local Health Integration Network

Statement of cash flows

Year ended March 31, 2019

	Notes	2019 \$	2018 \$
Operating activities			
Excess of expenses over revenue		(89,937)	(3,568,327)
Cash received on transition		—	13,701,728
Net liabilities assumed on transition		—	3,756,810
Less: amounts not affecting cash			
Amortization of capital assets		288,336	362,072
Amortization of deferred capital contributions		(288,336)	(362,072)
		(89,937)	13,890,211
Changes in non-cash working capital items	12	782,328	4,673,144
		692,391	18,563,355
Investing activity			
Purchase of capital assets		(104,191)	(15,764)
Financing activity			
Increase in deferred contributions		104,191	15,764
Net increase in cash		692,391	18,563,355
Cash, beginning of year		19,523,676	960,321
Cash, end of year		20,216,067	19,523,676

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

Hamilton Niagara Haldimand Brant Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

1. Description of business

The Hamilton Niagara Haldimand Brant 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 Hamilton Niagara Haldimand Brant 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 the Counties of Hamilton, Niagara, Haldimand, Brant, most of the County of Norfolk and the City of Burlington. 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 providing 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 other programs and places where community services are provided 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.

Hamilton Niagara Haldimand Brant 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

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.

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:

Furniture and equipment	5 to 10 years
Computer and communications equipment	3 years
Leasehold improvements	Over the remaining lease term

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.

Accrued non-vested sick benefits

The LHIN provides a sick leave benefit plan to all permanent employees and accrues its obligations as the employees render the service necessary to earn the benefits. The actuarial determination of the accrued benefit obligation uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, retirement ages of employees and other actuarial factors). Under this method, the benefit costs are recognized over the expected average service life of the employee group. The accrued benefit obligation is equal to the present value of the cost of sick leave credits accumulated to date that are expected to be used in the future in excess of the current yearly allotment of 18 days (pro-rated accordingly for part-time employees).

The current service costs for a particular period is equal to the actuarial present value of the cost of sick leave credits earned in the year that are expected to be used in the future in excess of the yearly allotment.

Actuarial gains and losses on the accrued benefit obligation arise from the differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Any gains or losses are amortized over the estimated average remaining service life of the employees. The most recent actuarial evaluation of the sick leave plan was as of March 31, 2019.

Hamilton Niagara Haldimand Brant Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

2. Significant accounting policies (continued)

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.

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	3,334,265	709,094
Due to MOHLTC, transferred from HNNB CCAC		100,100
Funding repaid during year	(360,602)	(448,590)
Funding repayable to the MOHLTC related to current year activities	1,505,142	2,973,661
Due to MOHLTC, end of year	<u>4,478,805</u>	<u>3,334,265</u>

4. Enabling Technologies for Integration Project Management Office

Effective January 31, 2014, the LHIN entered into an agreement with South West, Erie St. Clair and Waterloo Wellington 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 this 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 and expensed funding of \$1,475,000 (\$510,000 in 2018).

Hamilton Niagara Haldimand Brant Local Health Integration Network

Notes to the financial statements

Year ended 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 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.

6. Capital assets

	Cost \$	Accumulated amortization \$	2019 Net book value \$	2018 Net book value \$
Computer equipment and software	476,389	458,819	17,570	60,170
Leasehold improvements	5,836,581	4,634,789	1,201,792	1,366,645
Furniture and equipment	6,471,421	6,420,194	51,227	27,919
	12,784,391	11,513,802	1,270,589	1,454,734

7. Deferred operating contributions

Deferred operating contributions represent the unamortized amount of grants and other contributions received to fund expenditures of future periods. BTI equipment leases represent the unamortized amount of grants received for the payment of computer leases under the Base Technology Infrastructure Project.

	2019 \$	2018 \$
MOHLTC/LHIN BTI equipment leases	328,284	342,201
Other	40,217	52,546
	368,501	394,747

8. Deferred Capital Contributions

The changes in the deferred capital contributions balance are as follows:

	2019 \$	2018 \$
Balance, beginning of year	1,454,734	73,636
Capital contributions received during the year	104,191	15,764
Capital contributions transferred from CCAC	—	1,727,406
Amortization for the year	(288,336)	(362,072)
Balance, end of year	1,270,589	1,454,734

Hamilton Niagara Haldimand Brant Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

9. Accrued non-vested sick benefits

All full-time and part-time employees are credited with 1.5 days per month (pro-rated accordingly for part-time employees) for use as paid absences in the year, due to illness or injury. Employees are allowed to accumulate unused sick day credits each year, up to a maximum of 130 days for unionized employees and 120 days for non-union employees. Accumulated credits may be used in future years if the employee's illness or injury exceeds the annual allocation of credits. Employees are not entitled to any cash payment upon retirement.

The significant assumptions used are as follows:

	2019 \$	2018 \$
Discount rate	3.18%	3.37%
Rate of compensation/inflation increases	2.00%	2.00%

Accrued benefit liability is determined as follows:

	2019 \$	2018 \$
Accrued benefit obligation	3,210,769	3,058,362
Unamortized actuarial gain	447,495	509,965
Accrued benefit liability	3,658,264	3,568,327

Continuity of the accrued benefit liability is as follows:

	2019 \$	2018 \$
Accrued benefit liability assumed on transition	—	3,471,014
Change in liability	3,568,327	
Benefit expense	527,302	605,780
Less: benefits paid	(437,365)	(508,467)
Accrued benefit liability, end of year	3,658,264	3,568,327

The accrued non-vested sick benefit expense is as follows:

	2019 \$	2018 \$
Benefit cost	446,469	477,594
Interest on accrued benefit obligation	110,743	127,533
Amortization of actuarial losses	(29,910)	653
Accrued non-vested sick benefits expense	527,302	605,780

The current year expense in excess of actual benefits paid of \$89,327 is recorded through the employee benefits fund.

Hamilton Niagara Haldimand Brant Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

10. Commitments

The LHIN is committed to the following operating lease payments as follows:

	\$
2020	2,219,172
2021	2,098,911
2022	1,856,137
2023	1,696,468
2024	1,115,260

11. 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. Management believes any liability resulting from these actions would be adequately covered by existing liability insurance.

12. Additional Information to the statement of cash flows

	2019 \$	2018 \$
Due from MOHLTC	(4,951,308)	4,934,890
Accounts Receivable	(3,536,240)	695,816
Prepaid expenses	(339,524)	427,987
Accounts payable and accrued liabilities	3,449,861	7,059,268
Due to Health Service Providers	4,951,308	(4,934,890)
Due to MOHLTC	1,144,540	2,525,071
Deferred operating contributions	(26,246)	(6,132,311)
Accrued non-vested sick benefits	89,937	97,313
Total change in non-cash working capital items	782,328	4,673,144

13. Pension Plan

The LHIN contributes to the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer plan, on behalf of approximately 1,025 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 \$6,421,472 (\$5,739,921 in 2018). The last actuarial valuation was completed for the plan as of December 31, 2018. At that time, the plan was fully funded.

Hamilton Niagara Haldimand Brant Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

14. Transfer Payment to HSPs

The LHIN has authorization to allocate funding of \$2,890,070,372 to various HSPs in its geographic area. The LHIN approved transfer payments to various sectors in 2019 as follows:

	2019 \$	2018 \$
Operations of hospitals	2,123,770,456	2,048,229,757
Grants to compensate for municipal taxation – public hospitals	462,750	462,750
Long-Term Care Homes	531,055,528	510,852,386
Community Care Access Centres	—	34,037,927
Community support services	58,846,208	57,250,443
Acquired brain injury	8,523,435	7,909,740
Assisted living services in supportive housing	38,678,565	37,293,330
Community health centres	32,342,414	30,594,767
Community mental health addictions program	96,391,016	88,531,288
	2,890,070,372	2,815,162,388

The LHIN receives funding from the MOHLTC and in turn allocates it to the HSPs. As at March 31, 2019, an amount of \$26,198,270 (\$21,246,962 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.

15. 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.

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.

Hamilton Niagara Haldimand Brant Local Health Integration Network

Notes to the financial statements

Year ended March 31, 2019

17. Board Costs

The following provides the details of Board expenses which are reported in the statement of operations:

	2019	2018
	\$	\$
Board Chair per diem expenses	9,975	28,453
Other Board members' per diem expenses	43,275	56,017
Other governance and travel	5,920	9,730
	59,170	94,200

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.