
Financial statements of
Central 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
Central East Local Health Integration Network

Audit Opinion

We have audited the accompanying financial statements of Central 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"). 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 black ink and is positioned above the printed text of the firm's name and the date.

Chartered Professional Accountants
Licensed Public Accountants
June 14, 2019

Central East Local Health Integration Network

Statement of financial position

As at March 31, 2019

	Notes	2019	2018
		\$	\$
Assets			
Current assets			
Cash		48,091,153	42,669,834
Due from Ministry of Health and Long-Term Care ("MOHLTC")	12	5,310,853	2,343,736
Accounts receivable		1,459,741	2,812,047
Prepaid expenses		782,807	665,772
		55,644,554	48,491,389
Capital assets	6	1,317,436	2,075,599
		56,961,990	50,566,988
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		48,693,513	42,483,364
Due to Health Service Providers ("HSPs")	12	1,389,453	2,343,736
Due to Ministry of Health and Long-Term Care ("MOHLTC")	3	4,778,781	3,420,078
Due to Central West LHIN		—	12,534
Deferred operating contributions		782,807	231,677
		55,644,554	48,491,389
Deferred capital contributions	7	1,317,436	2,075,599
		56,961,990	50,566,988
Commitments	8		
Net assets		56,961,990	50,566,988

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

Central East Local Health Integration Network
Statement of operations and changes in net assets
Year ended March 31, 2019

	Notes	2019 Actual \$	2018 Actual \$
Revenue			
MOHLTC funding – transfer payments	12	2,116,862,805	2,100,877,092
MOHLTC funding – Operations and Initiatives		347,466,827	255,860,074
Interest income			523,172
Amortization of deferred capital contributions	7	764,114	725,061
Other revenue		2,916,512	1,886,781
		351,147,453	258,995,088
Total revenue		2,468,010,258	2,359,872,180
Expenses			
HSP transfer payments	12	2,116,862,805	2,100,877,092
Operations and Initiatives			
Contracted out			
In-home/clinic services		217,657,758	151,002,240
School services		9,317,941	10,617,259
Hospice services		582,181	315,000
Salaries and benefits		91,901,007	68,418,396
Medical supplies		15,667,629	14,753,212
Medical equipment rental		4,088,224	3,805,571
Supplies and sundry		4,511,025	3,884,436
Building and ground		4,787,148	3,782,365
Amortization		764,114	725,061
Repairs and maintenance		1,870,426	1,691,548
		351,147,453	258,995,088
Total expenses		2,468,010,258	2,359,872,180
Excess of revenue over expenses before the undernoted		—	—
Net assets, beginning of year		—	—
Net assets, end of year		—	—

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

Central East Local Health Integration Network

Statement of cash flows

Year ended March 31, 2019

	Notes	2019 \$	2018 \$
Operating activities			
Excess of revenue over expenses		—	—
Cash received on transition from CCAC		—	33,185,980
Less amounts not affecting cash			
Amortization of capital assets		(764,114)	725,061
Amortization of deferred capital contributions	7	764,114	(725,061)
		—	33,185,980
Changes in non-cash working capital items	10	5,421,319	9,128,856
		5,421,319	42,314,836
Investing activity			
Purchase of capital assets		(5,951)	(275,959)
Financing activity			
Increase in deferred contributions		5,951	275,959
Net change in cash		5,421,319	42,314,836
Cash, beginning of year		42,669,834	354,998
Cash, end of year		48,091,153	42,669,834

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

Central East Local Health Integration Network

Notes to the financial statements

March 31, 2019

1. Description of business

The Central 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 Central 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 Durham North East, Durham West, Haliburton County and the City of Kawartha Lakes, Northumberland County, Peterborough City and County, Scarborough North and Scarborough South. 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 including the 4200 series standards for government not-for-profit organizations, 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.

Central 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 approved by the MOHLTC to support LHIN managed Health Services Providers and the operations of the LHIN. The LHIN cannot authorize payments in excess of the budgetary allocation set by the MOHLTC in the MLAA. 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 to the Health Service Provider and does not flow through the LHIN bank account.

LHIN Financial Statements includes only transfer payment funds and LHIN operating funds 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 a capital asset, are capitalized.

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

Computer equipment and software	3 years
Furniture and equipment	10 years
Leasehold improvements	Over the term of the lease
Medical equipment	10 years

For capital assets acquired or brought into use, during the year, amortization is provided for one half of a year.

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.

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.

Central East Local Health Integration Network

Notes to the financial statements

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	3,420,078	84,268
Due to MOHLTC transferred from CCAC	—	4,476,745
Funding repaid to MOHLTC	—	(4,331,348)
Funding repayable to the MOHLTC related to current year activities	1,358,703	3,190,413
Due to MOHLTC, end of year	<u>4,778,781</u>	<u>3,420,078</u>

4. Enabling technologies for integration project management office

Effective April 1, 2013, the LHIN entered into an agreement with Central, Central West, Toronto Central, Mississauga Halton and North Simcoe Muskoka LHINs (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 one-time funding from Central West LHIN of \$345,489 (\$317,250 in 2018) of which \$109,619 is included in accounts receivable at March 31, 2019 (\$nil in 2018). The LHIN incurred eligible expenses of \$345,489 (\$304,896 in 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 the *Local Health System Integration Act, 2006* 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.

Central 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 \$
Computer equipment and software	3,953,421	3,750,554	202,867	512,805
Leasehold improvements	4,982,658	4,345,933	636,725	1,117,644
Furniture and equipment	4,666,622	4,458,582	208,040	86,116
Medical equipment	1,562,600	1,292,796	269,804	359,034
	15,165,301	13,847,865	1,317,436	2,075,599

7. Deferred capital contributions

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

	2019 \$	2018 \$
Balance, beginning of year	2,075,597	83,787
Capital contributions received during the year	5,953	275,959
Capital contributions transferred from CCAC	—	2,440,914
Amortization for the year	(764,114)	(725,061)
Balance, end of year	1,317,436	2,075,599

8. Commitments

The LHIN has commitments under various operating leases as follows:

(a) Property leases

	\$
2020	1,994,132
2021	1,127,621
2022	650,746
2023	576,660
	4,349,159

(b) Computer and office equipment leases

	\$
2020	386,371
2021	144,739
2022	5,145
	536,255

Central East Local Health Integration Network

Notes to the financial statements

March 31, 2019

8. Commitments (continued)

The LHIN also has funding commitments to HSPs associated with accountability agreements. The Transfer Payment Planning Targets to HSPs based on the current accountability agreements are as follows:

	\$
2020	2,090,102,069
2021	<u>2,078,265,918</u>

The actual amounts which will ultimately be paid are contingent upon actual LHIN funding received from the MOHLTC.

9. 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.

10. Change in non-cash working capital balances

	2019 \$	2018 \$
Due From Ministry of Health and Long Term Care	(2,967,117)	115,164
Accounts receivable	1,352,306	(233,879)
Prepaid expenses	(117,035)	298,590
Accounts payable and accrued liabilities	6,210,149	18,931,733
Due to Health Service Providers	(954,283)	(115,164)
Due to Central West LHIN	(12,534)	(39,050)
Due to Health Shared Services Ontario	—	(3,338)
Due to Ministry of Health and Long Term Care	1,358,703	(1,140,935)
Deferred Operating contributions	551,130	(8,684,265)
Total change in non-cash working capital items	<u>5,421,319</u>	<u>9,128,856</u>

11. Pension plan

The LHIN contributes to the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer plan, on behalf of approximately 1,020 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 \$6,761,261 (\$5,070,893 in 2018) for current service costs and is included as an expense in the 2019 Statement of operations and changes in net assets. The last actuarial valuation was completed for the plan as of December 31, 2018. At that time, the plan was fully funded.

Central East Local Health Integration Network

Notes to the financial statements

March 31, 2019

12. Transfer payment to HSPs

The LHIN has authorization to allocate funding of \$2,116,862,805 to various HSPs in its geographic area. The LHIN approved transfer payments to various sectors in 2019 as follows:

	2019 \$	2018 \$
Operations of hospitals	1,317,426,328	1,271,065,991
Grants to compensate for municipal taxation – public hospitals	280,350	280,275
Long-Term Care Homes	476,501,529	462,151,199
Community Care Access Centres	—	65,156,226
Community support services	61,671,091	58,961,189
Assisted living services in supportive housing	16,060,248	15,967,680
Community health centres	37,218,621	32,181,932
Community mental health additions program	72,239,218	68,111,801
Specialty psychiatric hospitals	133,417,720	125,275,626
Acquired brain injury	2,021,375	1,698,848
Grants to compensate for municipal taxation – psychiatric hospitals	26,325	26,325
	<u>2,116,862,805</u>	<u>2,100,877,092</u>

The LHIN receives funding from the MOHLTC and in turn allocates it to the HSPs. As at March 31, 2019, an amount of \$1,389,453 (\$2,343,736 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.

Effective June 21, 2017 the LHIN assumed the assets, liabilities, rights and obligations of the Central East CCAC. The comparative amounts reported in respect of the CCAC in the table above represent funding provided to the CCAC up to the date of transfer.

13. 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	46,025	36,225
Other Board members' per diem expenses	85,225	75,475
Other governance and travel	24,315	37,406
	<u>155,565</u>	<u>149,106</u>

Central East Local Health Integration Network

Notes to the financial statements

March 31, 2019

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.

15. Guarantees

The LHIN is subject to the provisions of the Financial Administration Act. As a result, in the normal course of business, the LHIN may not enter into agreements that include indemnities in 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.

16. 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.