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Financial statements of  
South West Local Health  
Integration Network

March 31, 2020

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## Independent Auditor's Report

To the Board of Directors of  
South West Local Health Integration Network

### Audit Opinion

We have audited the accompanying financial statements of South West Local Health Integration Network (the "LHIN"), which comprise the statement of financial position as at March 31, 2020 and the statements of operations and changes in net financial 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, 2020, 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 24, 2020

## South West Local Health Integration Network

### Statement of financial position

As at March 31, 2020

	Notes	2020 \$	2019 \$
<b>Assets</b>			
Current assets			
Cash		<b>31,387,080</b>	47,186,469
Due from Ministry of Health ("MOH")	13	<b>9,911,586</b>	10,624,345
Accounts receivable		<b>1,052,154</b>	1,260,239
Prepaid expenses		<b>994,672</b>	1,268,174
		<b>43,345,492</b>	60,339,227
Capital assets	6	<b>818,250</b>	1,903,251
		<b>44,163,742</b>	62,242,478
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		<b>27,584,690</b>	29,926,686
Due to Health Service Providers ("HSPs")	13	<b>9,911,586</b>	8,606,952
Due to MOH	3	<b>6,506,553</b>	22,031,229
Due to other LHINs			353,134
Current portion of obligations under capital leases	7	<b>74,867</b>	306,553
		<b>44,077,696</b>	61,224,554
Obligations under capital leases	7	—	74,867
Deferred capital contributions	8	<b>818,249</b>	1,585,301
		<b>44,895,945</b>	62,884,722
Commitments and contingencies	9 & 10		
<b>Net assets</b>		<b>(732,203)</b>	(642,244)
		<b>44,163,742</b>	62,242,478

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 West Local Health Integration Network

### Statement of operations

Year ended March 31, 2020

	Notes	2020 Actual \$	2019 Actual \$
<b>Revenue</b>			
MOH funding – transfer payments	13	<b>2,268,768,270</b>	2,216,982,370
MOH funding – operations and initiatives		<b>231,048,594</b>	239,670,725
Cancer Care Ontario	5	<b>251,351</b>	579,243
Amortization of deferred capital contributions	8	<b>1,085,001</b>	1,447,172
Other revenue		<b>916,956</b>	648,182
		<b>233,301,902</b>	242,345,322
Total revenue		<b>2,502,070,172</b>	2,459,327,692
<b>Expenses</b>			
HSP transfer payments	13	<b>2,268,768,270</b>	2,216,982,370
Operations and initiatives			
Contracted out			
In-home/clinic services		<b>124,798,330</b>	131,445,865
School services		<b>7,180,164</b>	8,305,925
Hospice services		<b>4,375,000</b>	4,130,000
Salaries and benefits		<b>72,215,477</b>	72,280,937
Medical supplies		<b>10,928,374</b>	10,337,505
Medical equipment rental		<b>1,409,242</b>	1,267,332
Supplies and sundry		<b>9,124,967</b>	10,574,499
Building and ground		<b>2,275,306</b>	2,750,479
Amortization		<b>1,085,001</b>	1,375,457
		<b>233,391,861</b>	242,467,999
Total expenses		<b>2,502,160,131</b>	2,459,450,369
<b>Excess of expenses over revenue</b>		<b>(89,959)</b>	(122,677)

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

**South West Local Health Integration Network****Statement of changes in net financial assets**

Year ended March 31, 2020

	<b>Unrestricted</b>	<b>Employee</b>	<b>2020</b>	2019
		<b>benefits</b>	<b>Total</b>	Total
	\$	\$	\$	\$
<b>Net assets, beginning of year</b>	—	<b>(642,244)</b>	<b>(642,244)</b>	(519,567)
Excess of expenses over revenue	—	<b>(89,959)</b>	<b>(89,959)</b>	(122,677)
<b>Net assets, end of year</b>	—	<b>(732,203)</b>	<b>(732,203)</b>	(642,244)

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

## South West Local Health Integration Network

### Statement of cash flows

Year ended March 31, 2020

	Notes	2020 \$	2019 \$
<b>Operating activities</b>			
Excess of revenue over expenses		(89,959)	(122,677)
Less amounts not affecting cash			
Amortization of capital assets		1,085,001	1,375,457
Amortization of deferred capital contributions	8	(1,085,001)	(1,447,172)
		(89,959)	(194,392)
Changes in non-cash working capital items	11	(15,720,826)	14,090,322
		(15,810,785)	13,895,930
<b>Investing activity</b>			
Purchase of capital assets		—	(520,173)
<b>Financing activities</b>			
Capital lease obligations incurred		—	151,574
Repayment of capital lease obligations		(306,553)	(521,418)
Increase in deferred capital contributions	8	317,949	385,512
		11,396	15,668
Net change in cash		(15,799,389)	13,391,425
Cash, beginning of year		47,186,469	33,795,044
<b>Cash, end of year</b>		<b>31,387,080</b>	<b>47,186,469</b>

# South West Local Health Integration Network

## Notes to the financial statements

March 31, 2020

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### 1. Description of business

The South West 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 West 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 approximately 22,000 square kilometers from Tobermory in the north to Long Point in the south. The LHIN enters into service accountability agreements with Health Service Providers ("HSPs").

The LHIN has also entered into an accountability agreement with the Ministry of Health ("MOH"), which provides the framework for the LHIN accountabilities and activities.

All funding payments to LHIN managed HSPs are flowed through the LHIN's financial statements. Funding payments authorized by the LHIN to HSPs, are recorded in the LHIN's Financial Statements as revenue from the MOH and as transfer payment expenses to the HSPs.

- (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 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 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 MOH. The Financial Statements reflect funding approved by the MOH to support LHIN managed HSPs and the operations of the LHIN. The LHIN cannot authorize payments in excess of the budgetary allocation set by the MOH in the MLAA. Due to the nature of the Accountability Agreement, the LHIN is economically dependent on the MOH.

# South West Local Health Integration Network

## Notes to the financial statements

March 31, 2020

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### 2. Significant Accounting Policies (continued)

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

Transfer payment amounts to HSPs are based on the terms of the HSPs Accountability Agreements with the LHIN, including any amendments made throughout the year. During the year, the LHIN authorizes the transfer of cash to the HSPs. The cash associated with the transfer payment flows directly from the MOH to the HSPs and does not flow through the LHIN bank account.

LHIN Financial Statements includes only transfer payment funds and LHIN operating funds included in the MLAA.

#### *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.

#### *Deferred capital contributions*

Any amounts received that are used to fund expenses that are recorded as tangible capital assets, are recorded as deferred capital revenue and are recognized as revenue over the useful life of the asset reflective of the provision of its services. The amount recorded under "revenue" in the statement of operations, is in accordance with the amortization policy applied to the related tangible capital asset recorded.

#### *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 equipment	3 years
Computer software	3 years
Equipment capital lease	Life of lease
Leasehold improvements	Life of lease
Furniture and equipment	10 years
Phone system	5 years

For assets acquired or brought into use, during the year, amortization is provided for a full year.

#### *Use of estimates*

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include depreciation rates for capital assets and certain accruals. Actual results could differ from those estimates.

## South West Local Health Integration Network

### Notes to the financial statements

March 31, 2020

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#### 3. Funding repayable to the MOH

In accordance with the MLLAA, 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 is made up as follows:

	2020	2019
	\$	\$
Due from MOH, beginning of year	22,031,229	11,654,347
Funding repaid to MOH	(20,464,445)	(479,967)
Funding repayable to the MOH related to current year activities	4,939,769	10,856,849
Due to MOH, end of year	<u>6,506,553</u>	<u>22,031,229</u>

#### 4. Enabling Technologies for Integration Project Management Office

Effective January 31, 2014, the LHIN entered into an agreement with Erie St Clair, Waterloo Wellington and Hamilton Niagara Haldimand Brant 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 MOH funding for Enabling Technologies for Integration Project Management Offices for its Cluster and related expenses. During the year, the LHIN received funding from Erie St Clair LHIN of \$500,000 (\$1,000,000 in 2019) and incurred eligible expenses of \$500,000 (\$646,866 in 2019).

#### 5. Related party transactions

##### *Health Shared Services Ontario ("HSSO")*

HSSO was 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 was a provincial agency 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.

During the year, the LHIN received Business Technology Infrastructure (BTI) funding from HSSO/Ontario Health of \$328,992 (\$386,327 in 2019).

On December 2, 2019 the assets, liabilities, rights and obligations of HSSO were transferred to Ontario Health who continued to provide the shared services to the LHIN.

##### *Ontario Health*

Ontario Health is a Crown Agency established under the Connecting Care Act, 2019 and is a related party to the LHIN through the common control of the Province of Ontario (see Note 17).

On December 2, 2019, the LHIN signed a Memorandum of Understanding ("MOU") with Ontario Health and certain non-home and community care employees of the LHIN were transferred to Ontario Health. Under the MOU, for the period of December 2, 2019 to March 31, 2020, the LHIN continued to provide compensation and benefits to transferred employees.

## South West Local Health Integration Network

### Notes to the financial statements

March 31, 2020

#### 5. Related party transactions (continued)

*Ontario Health (continued)*

During this period, the LHIN incurred \$843,475 in salaries and benefits expense for the transferred employees, of which \$62,397 remained in accounts payable and accrued charges as at March 31, 2020. All amounts were recorded at cost in the Statement of operations and changes in net assets and the Statement of financial position.

On December 2, 2019 the assets, liabilities, rights and obligations of Cancer Care Ontario were transferred to Ontario Health.

#### 6. Capital assets

	Cost	Accumulated depreciation	2020 Net book value	2019 Net book value
	\$	\$	\$	\$
Computer equipment	4,941,538	4,784,393	157,145	602,296
Computer software	2,231,898	2,228,231	3,667	27,583
Equipment capital lease	2,631,713	2,537,222	94,491	453,393
Leasehold improvements	5,145,820	4,758,482	387,338	534,338
Furniture and equipment	5,067,139	4,906,862	160,277	248,652
Phone system	1,342,568	1,327,236	15,332	36,989
	<b>21,360,676</b>	<b>20,542,426</b>	<b>818,250</b>	<b>1,903,251</b>

#### 7. Obligations under Capital Leases

The LHIN has obligations under capital leases for computer equipment with expiries into 2021. Pledged as security for the leases are the equipment under capital lease. The minimum payments over the remaining terms of the leases are as follows:

	\$
2021	77,130
Less: amount representing interest	2,263
	<u>74,867</u>

#### 8. Deferred capital contributions

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

	2020	2019
	\$	\$
Balance, beginning of year	1,585,301	2,646,961
Capital contributions received during the year	317,949	385,512
Amortization of deferred contributions recognized as revenue for the year	(1,085,001)	(1,447,172)
Long-term deferred capital contributions balance, end of year	<b>818,249</b>	<b>1,585,301</b>

## South West Local Health Integration Network

### Notes to the financial statements

March 31, 2020

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#### 9. Commitments

The LHIN has commitments under various operating leases expiring in 2023 as follows:

	<u>\$</u>
2020	1,433,282
2021	1,254,522
2022	905,950
2023	268,650

#### 10. Contingencies

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

#### 11. Change in non-cash working capital items

	<b>2020</b>	2019
	<b>\$</b>	\$
Due from MOHLTC	<b>712,759</b>	(4,407,647)
Accounts receivable	<b>208,085</b>	48,672
Prepaid expenses	<b>273,502</b>	(404,726)
Accounts payable and accrued liabilities	<b>(2,341,996)</b>	5,733,753
Due to HSPs	<b>1,304,634</b>	2,390,254
Due to MOHLTC	<b>(15,524,676)</b>	10,376,882
Due to other LHINs	<b>(353,134)</b>	353,134
Total change in non-cash working capital items	<b>(15,720,826)</b>	14,090,322

#### 12. Pension plan

The LHIN contributes to the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer plan, on behalf of approximately 880 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 2020 was \$5,093,630 (\$5,084,665 in 2019) for current service costs and is included as an expense in the statement of operations. The last actuarial valuation was completed for the plan as of December 31, 2019. At that time, the plan was fully funded.

## South West Local Health Integration Network

### Notes to the financial statements

March 31, 2020

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#### 13. Transfer payments to HSPs

The LHIN has authorization to allocate funding of \$2,268,768,270 (\$2,216,982,370 in 2019) to various HSPs in its geographic area. The LHIN approved transfer payments to various sectors in 2020 as follows:

	2020	2019
	\$	\$
Operations of hospitals	<b>1,694,684,273</b>	1,665,840,578
Grants to compensate for municipal taxation – public hospitals	<b>381,225</b>	385,575
Long-Term care homes	<b>374,736,534</b>	364,817,291
Community care access centres	—	—
Community support services	<b>49,429,224</b>	43,584,053
Assisted living services in supportive housing	<b>29,891,911</b>	27,452,467
Community health centres	<b>26,434,900</b>	25,174,163
Acquired brain injury	<b>9,646,023</b>	9,330,016
Community mental health addictions program	<b>83,564,180</b>	80,398,227
	<b>2,268,768,270</b>	2,216,982,370

The LHIN receives funding from the MOH and in turn allocates it to the HSPs. As at March 31, 2020, an amount of \$9,911,586 (\$8,606,952 in 2019) 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 are included in the table above.

#### 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. Accumulated non-vesting sick pay

Accumulated non-vesting sick pay of \$732,203 (\$642,244 in 2019) is included in accounts payable and accrued liabilities. The amounts are not funded by the Ontario Ministry of Health until they are paid.

#### 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.

## **South West Local Health Integration Network**

### **Notes to the financial statements**

March 31, 2020

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#### **17. The Connecting Care Act**

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. This legislation is a key component of the government's plan to build an integrated health care system. The CCA grants the Minister of Health (the "Minister") the power to transfer assets, liabilities, rights, obligations and employees of certain government organizations, including the LHINs, into Ontario Health, a health service provider, or an integrated care delivery system. The CCA also grants the Minister the power to dissolve the transferred 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 will oversee the process of transferring multiple provincial agencies into Ontario Health.

Effective December 2, 2019, pursuant to an order from the Minister made under the CCA, the LHIN transferred 16 non-home and community care employee positions to Ontario Health.

The transition process is ongoing and expected to occur over a number of years. A potential full transfer and dissolution date is currently unknown. In the meantime, the LHIN continues to operate as required under the Local Health System Integration Act, 2016 and in accordance with its accountability agreement with the Minister.

#### **18. Corresponding figures**

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