Financial Statements of

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Year ended March 31, 2018

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Financial Statements

Year ended March 31, 2018

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Lanark, Leeds and Grenville Addictions and Mental Health

We have audited the accompanying financial statements of Lanark, Leeds and Grenville Addictions and Mental Health, which comprise the statement of financial position as at March 31, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions described in note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note 1 to the financial statements, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lanark, Leeds and Grenville Addictions and Mental Health as at March 31, 2018, its results of operations, changes in net assets and its cash flows for the year then ended in accordance with accordance with the basis of accounting described in note 1 to the financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Lanark, Leeds and Grenville Addictions and Mental Health to meet the requirements of the Ministry of Health and Long-term Care/South East Local Health Integration Network. As a result, the financial statements may not be suitable for another purpose.

Comparative Information

The financial statements of Lanark, Leeds and Grenville Addictions and Mental Health as at and for the year ended March 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 21, 2017.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 20, 2018

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and short-term investments (note 2)	$ 1,217,248	$ 1,172,829
Accounts receivable	229,669	195,928
Other receivables	151,852	132,030
Prepaid expenses and deposits	58,640	26,432
	1,657,409	1,527,219
Restricted cash (note 2)	365,727	323,429
Capital assets (note 3)	3,822,408	4,155,642
	$ 5,845,544	$ 6,006,290
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 924,181	$ 540,234
Government remittance payable	149,898	168,727
Accounts payable to provincial ministries	82,910	423,519
Deferred revenue	904	21,756
Current portion of long-term debt (note 4)	197,670	122,321
	1,355,563	1,276,557
Long-term debt (note 4)	777,317	975,234
Deferred capital contributions (note 5)	3,296,486	3,506,811
Net assets:		
Capital reserves (note 7)	365,727	323,429
Investment in capital assets (note 6)	24,274	24,275
Unrestricted (deficiency)	26,177	(100,016)
	416,178	247,688
Commitments (note 9)		
	$ 5,845,544	$ 6,006,290

See accompanying notes to financial statements.

On behalf of the Board

Linda Bisnett
Director

Brian Turner
Director

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
LHIN funding (note 10)	$ 9,128,008	$ 8,648,018
LHIN one-time fees	620,102	184,090
MOHLTC funding	833,185	783,964
MOHLTC one-time funding	90,752	37,385
Other government funding	774,856	879,301
	11,446,903	10,532,758
Recoveries and other income:		
Administrative cost recoveries	331,656	174,220
Rental	135,048	250,971
Interest	11,551	9,918
Other	114,093	110,604
	592,348	545,713
	12,039,251	11,078,471
Expenses:		
Salaries and wages	6,376,321	7,126,182
Employee benefits	1,678,511	1,786,231
Purchased psychiatry services	148,120	212,856
Other supplies and services	2,321,659	1,205,233
Occupancy costs and repairs	1,204,272	1,190,687
	11,728,883	11,521,189
Excess (deficiency) of revenue over expenses before the undernoted	310,368	(442,718)
Amortization of capital assets	(360,607)	(302,201)
Amortization of grant revenue	238,038	188,496
Subsidy repayable	(61,607)	(29,070)
Excess (deficiency) of revenue over expenses	$ 126,192	$ (585,493)

See accompanying notes to financial statements.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

	Externally restricted capital reserves (note 7)	Invested in in capital assets (note 6)	Unrestricted	2018 Total	2017 Total
Balance, beginning of year	$ 323,429	$ 24,275	$ (100,016)	$ 247,688	$ 833,181
Excess (deficiency) of revenue over expenses	–	(122,569)	248,761	126,192	(585,493)
Contribution	16,648	–	–	16,648	–
One-time contribution - MOHLTC	25,650	–	–	25,650	–
Net change in investment in capital assets	–	122,568	(122,568)	–	–
Balance, end of year	$ 365,727	$ 24,274	$ 26,177	$ 416,178	$ 247,688

See accompanying notes to financial statements.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ 126,192	$ (585,493)
Items not involving cash:		
Amortization of deferred capital contributions	(238,038)	(188,496)
Amortization of capital assets	360,607	302,201
Change in non-cash operating working capital:		
Accounts receivable	(33,741)	(60,176)
Other receivables	(19,821)	61,188
Prepaid expenses and deposits	(32,208)	11,725
Accounts payable and accrued liabilities	365,118	(153,037)
Accounts payable to provincial ministries	(340,609)	331,808
Deferred revenue	(20,852)	21,756
	166,648	(258,524)
Financing activities:		
Repayment of long-term debt	(122,568)	(119,298)
Increase in deferred capital contributions	27,713	86,650
	(94,855)	(32,648)
Investing activities:		
Purchase of capital assets	(27,374)	–
Transfers to reserves and capital funding	42,298	33,845
Other revenue and expense adjustments	–	(44,167)
	14,924	(10,322)
Increase (decrease) in cash	86,717	(301,494)
Cash, beginning of year	1,496,258	1,797,752
Cash, end of year	$ 1,582,975	$ 1,496,258
Cash represented by:		
Operating funds	$ 1,217,248	$ 1,172,829
Restricted cash	365,727	323,429
	$ 1,582,975	$ 1,496,258

See accompanying notes to financial statements.

On March 31, 2016, Lanark, Leeds and Grenville Addictions and Mental Health (the "Organization") was incorporated as a non-profit corporation without share capital under the laws of Ontario as a result of the amalgamation of Leeds Grenville Mental Health, Leeds Grenville Phased Housing Programme, Brockville Supportive Non Profit Housing Coalition, TriCounty Addiction Services and The Brock Cottage. The Organization is exempt from income taxes under the Income Tax Act (Canada). Using a variety of health and social supports, and in partnership with others, the Organization works with people who have serious and persistent mental illness and/or addictions in order that they can be active, participating members of the communities of Lanark, Leeds and Grenville.

1. Significant accounting policies:

(a) These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the basis of accounting required by the Ministry of Health and Long-term Care (MOHLTC)/South East Local Health Integration Network (LHIN). The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles as described below:

(i) Land and buildings:

Costs of a new project are capitalized up to the "interest adjustment date", which is the date of the completion of the project. All projects are 100% financed by long-term debt up to the interest adjustment date, after which all costs are considered current expenditures. Amortization of buildings is provided in an amount equivalent to the principal repayment of debt in the year.

(ii) Capital reserve:

Appropriations to the reserve fund are reported on the statement of operations. Interest income earned on the reserve fund is reported as direct revenue of the reserve. Capital expenditures are reported as direct expenditures of the reserve fund.

(iii) Interest expense:

Interest expense is recorded based on interest expense paid on long-term debt. No accrual is made.

1. Significant accounting policies (continued):

(b) Revenue recognition:

The Organization follows the deferral method of accounting for contributions which include government grants.

Under various Province of Ontario Acts and Regulations thereto, the Organization is funded primarily in accordance with budget arrangements established by the Ministry of Health and Long-Term Care (the "Ministry"). Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect agreed arrangements approved by the Ministry with respect to the year ended March 31, 2018.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

Rent is recognized as revenue when earned. Services revenue is recognized when the services are provided.

(c) Capital assets:

Purchased capital assets financed by capital grants from the Ministry of Health and Long-Term Care are recorded at cost. Repairs and maintenance are charged to expenses. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Organization's ability to provide services, its carrying amount is written down to its residual value.

1. Significant accounting policies (continued):

(c) Capital assets (continued):

Amortization is provided on building and furniture and equipment purchased with mortgage financing at a rate equal to the annual principal reduction of the related mortgage, rather than over their estimated useful lives. Other assets are amortized on a straight line basis as indicated below.

Asset	Useful life
Buildings - 25 Front Avenue West and 581 King Street West, residential housing, based on the principal reduction of the related mortgage pursuant to Ministry Guidelines.	40 years
Furniture, equipment and other	5 and 10 years

(d) Capital reserves:

The capital reserve is funded by an annual charge against earnings as opposed to an appropriation of surplus.

(e) Employee future benefit liabilities:

The Organization is an employer member of the Health Care of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Organization accounts for this plan on a defined contribution plan basis as contributions to the benefit plan are determined by the plan administrator and are expensed when due.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Organization has not elected to subsequently carry any such financial instruments at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Organization determines if there is a significant adverse change in the expected amount of timing of future cash flows from the financial asset if there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Organization expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

1. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Significant estimates and assumptions include the carrying amount of capital assets. Actual results could differ from those estimates.

2. Cash and short-term investments:

	2018	2017
Cash	$ 1,217,248	$ 1,172,829
Restricted cash	365,727	323,429
	$ 1,582,975	$ 1,496,258
Comprised of:		
Cash	$ 1,582,975	$ 827,096
Short-term investments	–	669,162
	$ 1,582,975	$ 1,496,258

The short-term investments are comprised of redeemable term investments with interest rates at 0.55%. All short-term investments matured during 2018.

Restricted cash represents the reserve for future capital replacement.

3. Capital assets:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Land	$ 351,366	$ –	$ 351,366	$ 351,366
Buildings:				
25 Front Avenue West	3,989,891	1,515,241	2,474,650	2,634,246
Residential housing	2,821,102	1,850,715	970,387	1,092,955
Furniture, equipment and other	530,505	504,500	26,005	77,075
	$ 7,692,864	$ 3,870,456	$ 3,822,408	$ 4,155,642

Cost and accumulated amortization at March 31, 2017 amounted to $7,665,791 and $3,509,849, respectively.

4. Long-term debt:

	2018	2017
Mortgages payable	$ 974,987	$ 1,097,555
Less: current portion of mortgages payable	197,670	122,321
Balance, end of year	$ 777,317	$ 975,234

Mortgages payable are secured by first mortgages on land and buildings. Interest rates range from 1.04% to 5.755%. Maturity dates range from March 2019 to June 2027.

Principal due on the long-term debt in each of the next five years and thereafter are as follows:

2019	$ 197,670
2020	165,595
2021	206,192
2022	90,350
2023 and thereafter	315,180
	$ 974,987

Interest on long-term debt in the amount of $22,161 (2017 - $27,797) is included in occupancy costs on the statement of operations.

5. Deferred capital contributions:

Deferred contributions related to capital assets represent the unamortized and unspent capital grants from the Ministry of Health and Long-Term Care for the purchase of capital assets. The amortization of capital contributions is recorded in the statement of operations.

	2018	2017
Balance, beginning of year	$ 3,506,811	$ 3,608,657
Add: deferred capital contribution for new van	30,400	–
Less: amortization of deferred capital contributions	(238,038)	(188,496)
Less: unspent capital contributions returned	(3,026)	(386,350)
	3,296,147	3,033,811
Insurance proceeds King Street West property	339	473,000
Balance, end of year	$ 3,296,486	$ 3,506,811

The balance of deferred contributions related to capital assets consist of the following:

	2018	2017
Unamortized capital contributions	$ 2,823,147	$ 3,033,811
Insurance proceeds King Street West property	473,339	473,000
	$ 3,296,486	$ 3,506,811

6. Invested in capital assets:

(a) The investment in capital assets is calculated as follows:

	2018	2017
Capital assets	$ 3,822,408	$ 4,155,642
Amounts financed by:		
Deferred contributions	(2,823,147)	(3,033,811)
Mortgages	(974,987)	(1,097,555)
	$ 24,274	$ 24,276

6. Invested in capital assets (continued):

(b) The change in investment in capital assets is calculated as follows:

	2018	2017
Excess of revenue over expenses:		
Amortization of deferred capital contributions related to capital assets	$ 238,038	$ 188,496
Amortization of capital assets	(360,607)	(302,201)
	(122,569)	(113,705)
Net change in investment in capital assets:		
Repayment of long-term debt	122,569	119,298
Purchase of capital assets	27,374	–
Amounts funding by capital contributions	(27,374)	–
	122,569	119,298
	$ –	$ 5,593

7. Capital reserves:

Internally and externally restricted capital reserves are replacement reserves set aside to fund future capital replacements and significant repairs and maintenance to housing properties. Amounts are allocated to these reserves each year as per approved operating budgets.

	2018	2017
Balance, beginning of year	$ 323,429	$ 333,751
Capital funding	25,650	17,200
Transfer from operations	16,648	16,645
Interest income	–	2,179
Adjustments/expenditures	–	(46,346)
Balance, end of year	$ 365,727	$ 323,429

8. Pension plan contributions:

Substantially all of the employees of the Organization are members of the Healthcare of Ontario Pension Plans (the “Plan”), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital association. The Plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

8. Pension plan contributions:

Contributions to the Plan made during the year by the Organization on behalf of its employees amounts to $478,792 (2017 - $523,313) and are included in the statement of operations.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for employer contributions to the Plan to remain a constant percentage of employees' contributions.

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. The Plan’s 2017 Annual Report as at December 31, 2017 indicates the plan is fully funded at 122%.

9. Commitments:

The Organization is committed to the payment of annual rent under the terms of various lease agreements as follows:

2019	$ 160,979
2020	177,325
2021	153,960
2022	137,654
2023 and thereafter	592,522
	$ 1,222,440

In addition, the Organization is committed to the payment of additional rent in the form of a proportionate share of common area costs, property taxes and repairs and maintenance.

10. Provincial funding revenue:

The provincial operating subsidies are recognized based on approved fiscal allocations by the relevant Ministry. Current year unspent fiscal allocations are recognized as accounts payable to the relevant Ministry and are adjusted on the statement of operations in the current period. These operating subsidies are also subject to annual fiscal review and approval by the Ministry. Any year-end adjustments resulting from these reviews will be reflected as a subsidy recovery on the statement of operations in the year of determination.

11. Credit facility:

The Organization has a revolving demand loan with an authorized limit of $240,000. The revolving demand loan bears interest at the lending bank's prime rate and is secured by a general security agreement covering all of the assets of the Organization except for real property. The line of credit was undrawn as at March 31, 2018.

12. Financial risks and concentration of credit risk:

(a) Liquidity risk:

Liquidity risk is the risk that the Organization will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization manages its liquidity risk by monitoring its operating requirements. The Organization prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(b) Credit risk:

Credit risk refers to the risk that a counter party may default on its contractual obligations resulting in a financial loss. The Organization is exposed to credit risk with respect to receivables and cash. The Organization assesses, on a continuous basis, receivables and provides for any amounts that are not considered collectible in the allowance for doubtful accounts.

The balance in the allowance for doubtful accounts at March 31, 2018 is $Nil (2017 - $10,000).

Cash is held with reputable financial institutions.

(c) Interest rate risk:

The Organization's long-term debt has fixed interest rates. Fixed-interest rate instruments subject the Organization to a fair value risk.

There has been no change to the risk exposures from 2017.

13. Shared services agreement:

As part of a LHIN initiated Transitional Service Level Agreement for Regional Corporate Services, during the 2017-18 fiscal period the South East Addictions and Mental Health Network (‘SEAMH Network’) assumed regional back-office administrative support functions for the neighbouring Addictions and Mental Health Agencies of Hastings Prince Edward (AMHS-HPE), Kingston Frontenac Lennox and Addington (AMHS-KFLA) and the Organization. The SEAMH Network provides supporting roles in the functional areas of Finance, IT, and HR.

AMHS-KFLA reports the operations of the SEAMH Network as part of its operating results and recovers proportionate costs from AMHS-HPE and LLG-AMH. During the year, the Organization paid costs in the amount of $738,373 (2017 - $Nil) for these services.

14. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Schedule 1 - Financial Summary

Year ended March 31, 2018, with comparative information for 2017

	Local Health Integration Network						MOHLTC		Fund Type 3		
	Mental Health	Sessional Fees	Addiction Programs	Problem Gambling	MH One-Time	SAP One-Time	Housing Programs	CIRF	Other Programs	2018 Total	2017 Total
Revenue:											
LHIN funding	$ 6,644,354	$ 159,842	$ 2,168,608	$ 155,204	$ -	$ -	$ -	$ -	$ -	$ 9,128,008	$ 8,648,018
LHIN one-time fees	(7)	-	-	-	578,109	42,000	-	-	-	620,102	184,090
MOHLTC funding	-	-	-	-	-	-	833,185	-	-	833,185	783,964
MOHLTC one-time funding	-	-	-	-	-	-	25,650	65,102	-	90,752	37,385
Other government funding	-	-	-	-	-	-	-	-	774,856	774,856	879,301
	6,644,347	159,842	2,168,608	155,204	578,109	42,000	858,835	65,102	774,856	11,446,903	10,532,758
Recoveries	284,146	-	-	-	-	-	(104)	-	47,614	331,656	174,220
Rental	-	-	-	-	-	-	135,048	-	-	135,048	250,971
Interest	11,532	-	19	-	-	-	-	-	-	11,551	9,918
Other	23,709	28,000	24,170	-	-	-	1,863	-	36,351	114,093	110,604
	319,387	28,000	24,189	-	-	-	136,807	-	83,965	592,348	545,713
	6,963,734	187,842	2,192,797	155,204	578,109	42,000	995,642	65,102	858,821	12,039,251	11,078,471
Expenses:											
Salaries and wages	4,288,427	-	1,499,376	104,951	-	-	62,118	-	421,449	6,376,321	7,111,307
Employee benefits	1,210,565	-	342,291	29,297	-	-	-	-	96,358	1,678,511	1,801,106
Purchased psychiatry services	-	148,120	-	-	-	-	-	-	-	148,120	212,856
Other supplies and services	1,098,667	28,000	267,500	11,643	558,934	42,000	42,740	34,391	237,784	2,321,659	1,205,233
Occupancy costs	366,041	-	59,460	9,313	-	-	710,795	-	58,663	1,204,272	1,190,687
	6,963,700	176,120	2,168,627	155,204	558,934	42,000	815,653	34,391	814,254	11,728,883	11,521,189
Excess (deficiency) of revenue over expenses before the undernoted	34	11,722	24,170	-	19,175	-	179,989	30,711	44,567	310,368	(442,718)
Amortization of capital assets	(238,039)	-	-	-	-	-	(122,568)	-	-	(360,607)	(302,201)
Amortization of grant revenue	238,038	-	-	-	-	-	-	-	-	238,038	188,496
Subsidy repayable	-	(11,722)	-	-	(19,175)	-	-	(30,710)	-	(61,607)	(29,070)
Excess (deficiency) of revenue over expenses	$ 33	$ -	$ 24,170	$ -	$ -	$ -	$ 57,421	$ 1	$ 44,567	$ 126,192	$ (585,493)