

Financial Statements of

**LANARK, LEEDS AND
GRENVILLE ADDICTIONS
AND MENTAL HEALTH**

Year ended March 31, 2020

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Supervisor of Lanark, Leeds and Grenville Addictions and Mental Health

Opinion

We have audited the financial statements of Lanark, Leeds and Grenville Addictions and Mental Health (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets (deficiency) for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with the basis of accounting as described in Note 1 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the applicable financial reporting framework and the purpose of the financial statements.

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.



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 the basis of accounting as 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 23, 2020

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Financial Position

March 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash (note 2) | \$ 1,927,896 | \$ 1,136,969 |
| Accounts receivable | 165,187 | 327,970 |
| Other receivables | 87,489 | 131,952 |
| Prepaid expenses and deposits | 36,950 | 71,099 |
| | <u>2,217,522</u> | <u>1,667,990</u> |
| Restricted cash (note 2) | 360,894 | 344,238 |
| Capital assets (note 3) | 3,247,143 | 3,487,639 |
| | <u>\$ 5,825,559</u> | <u>\$ 5,499,867</u> |
| Liabilities, Deferred Contributions and Net Assets (Deficiency) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 188,923 | \$ 159,373 |
| Accrued wages and vacation | 815,605 | 673,736 |
| Government remittance payable | 114,574 | 125,513 |
| Accounts payable to provincial ministries | 643,450 | 567,478 |
| Deferred revenue | 247,279 | 52,779 |
| Current portion of long-term debt (note 4) | 225,412 | 191,148 |
| | <u>2,235,243</u> | <u>1,770,027</u> |
| Long-term debt (note 4) | 456,134 | 611,467 |
| Employee future benefit liabilities (note 5) | 1,561,000 | 1,431,200 |
| Deferred capital contributions (note 6) | 2,983,371 | 3,134,089 |
| Net assets (deficiency): | | |
| Capital reserves (note 8) | 360,894 | 344,238 |
| Investment in capital assets (note 7) | 55,565 | 24,274 |
| Unrestricted deficiency | <u>(1,826,648)</u> | <u>(1,815,428)</u> |
| | (1,410,189) | (1,446,916) |
| Commitments (note 10) | | |
| Subsequent event (note 15) | | |
| | <u>\$ 5,825,559</u> | <u>\$ 5,499,867</u> |

See accompanying notes to financial statements.

On behalf of the Board



Director

Director

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Operations

Year ended March 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|-------------------|-----------------------|
| Revenue: | | |
| LHIN funding (note 11) | \$ 9,719,524 | \$ 9,293,459 |
| LHIN one-time funding (note 11) | 166,675 | 784,133 |
| Ministry of Health funding (note 11) | 930,947 | 917,485 |
| Ministry of Health one-time funding (note 11) | 7,136 | 69,400 |
| Other government funding | 478,955 | 767,165 |
| | <u>11,303,237</u> | <u>11,831,642</u> |
| Recoveries and other income: | | |
| Administrative cost recoveries | 266,092 | 297,271 |
| Rental | 221,784 | 254,114 |
| Interest | 25,301 | 22,603 |
| Other | 63,501 | 74,801 |
| | <u>576,678</u> | <u>648,789</u> |
| | <u>11,879,915</u> | <u>12,480,431</u> |
| Expenses: | | |
| Salaries and wages | 6,626,526 | 6,998,717 |
| Employee benefits | 1,941,964 | 1,692,755 |
| Employee future benefits (note 5) | 129,800 | 1,431,200 |
| Purchased psychiatry services | 207,856 | 239,312 |
| Other supplies and services | 1,294,920 | 1,948,564 |
| Occupancy costs and repairs | 1,426,358 | 1,396,935 |
| | <u>11,627,424</u> | <u>13,707,483</u> |
| Excess (deficiency) of revenue over expenses before the undernoted | 252,491 | (1,227,052) |
| Amortization of capital assets | (286,911) | (279,275) |
| Loss on disposal of capital assets | - | (5,898) |
| Amortization of grant revenue | 165,180 | 162,397 |
| Subsidy repayable | (110,689) | (491,777) |
| Excess (deficiency) of revenue over expenses | <u>\$ 20,071</u> | <u>\$ (1,841,605)</u> |

See accompanying notes to financial statements.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2020, with comparative information for 2019

| | Externally restricted capital reserves (note 8) | Invested in in capital assets (note 7) | Unrestricted | 2020 Total | 2019 Total |
|---|---|---|-----------------------|-----------------------|-----------------------|
| Balance, beginning of year | \$ 344,238 | \$ 24,274 | \$ (1,815,428) | \$ (1,446,916) | \$ 416,178 |
| Excess (deficiency) of revenue over expenses | – | (121,731) | 141,802 | 20,071 | (1,841,605) |
| Contribution | 16,656 | – | – | 16,656 | 16,656 |
| Net change in investment in capital assets | – | 153,022 | (153,022) | – | – |
| Capital reserve qualifying expenditures | – | – | – | – | (38,145) |
| Balance, end of year | \$ 360,894 | \$ 55,565 | \$ (1,826,648) | \$ (1,410,189) | \$ (1,446,916) |

See accompanying notes to financial statements.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|--|--------------|----------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ 20,071 | \$ (1,841,605) |
| Items not involving cash: | | |
| Amortization of deferred capital contributions | (165,180) | (162,397) |
| Loss on disposal of capital assets | – | 5,898 |
| Amortization of capital assets | 286,911 | 279,275 |
| Increase in accrued employee future benefits liability | 129,800 | 1,431,200 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | 162,783 | (98,301) |
| Other receivables | 44,463 | 19,900 |
| Prepaid expenses and deposits | 34,149 | (12,459) |
| Accounts payable and accrued liabilities | 29,550 | (131,074) |
| Accrued wages and vacation | 141,869 | 40,002 |
| Government remittances payable | (10,939) | (24,385) |
| Accounts payable to provincial ministries | 75,972 | 484,568 |
| Deferred revenue | 194,500 | 51,875 |
| | 943,949 | 42,497 |
| Financing activities: | | |
| Repayment of long-term debt | (121,069) | (172,372) |
| Increase in deferred capital contributions | 14,462 | – |
| | (106,607) | (172,372) |
| Investing activities: | | |
| Purchase of capital assets | (46,415) | – |
| Transfers to (from) reserves and capital funding | 16,656 | (21,489) |
| Proceeds on disposal of capital assets | – | 49,596 |
| | (29,759) | 28,107 |
| Increase (decrease) in cash | 807,583 | (101,768) |
| Cash, beginning of year | 1,481,207 | 1,582,975 |
| Cash, end of year | \$ 2,288,790 | \$ 1,481,207 |
| Cash represented by: | | |
| Operating funds | \$ 1,927,896 | \$ 1,136,969 |
| Restricted cash | 360,894 | 344,238 |
| | \$ 2,288,790 | \$ 1,481,207 |

See accompanying notes to financial statements.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements

Year ended March 31, 2020

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) Basis of accounting:

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 Ontario Ministry of Health (the "Ministry")/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 as a component of expenses. 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.

(b) Revenue recognition:

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

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Under various Province of Ontario Acts and Regulations thereto, the Organization is funded primarily in accordance with budget arrangements established by 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, 2020.

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 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.

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, residential housing, based on the principal reduction of the related mortgage pursuant to Ministry Guidelines | 25 and 40 years |
| Furniture, equipment and other | 5 and 10 years |

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(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 accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees.

The Organization is an employer member of the Healthcare of Ontario Pension Plan, which is a multi-employer, defined benefit pension plan. The Organization has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. Contributions to the multiemployer defined benefit plan 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 instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

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.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

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. Actual results could differ from those estimates.

2. Cash:

| | 2020 | 2019 |
|-----------------|---------------------|---------------------|
| Cash | \$ 1,927,896 | \$ 1,136,969 |
| Restricted cash | 360,894 | 344,238 |
| | \$ 2,288,790 | \$ 1,481,207 |

Restricted cash represents the reserve for future capital replacement.

3. Capital assets:

| | Cost | Accumulated amortization | 2020 Net book value | 2019 Net book value |
|--------------------------------|---------------------|-----------------------------|---------------------------|---------------------------|
| Land | \$ 351,366 | \$ – | \$ 351,366 | \$ 351,366 |
| Buildings: | | | | |
| 25 Front Avenue West | 3,989,891 | 1,834,433 | 2,155,458 | 2,315,054 |
| Residential housing | 2,637,715 | 1,960,667 | 677,048 | 798,015 |
| Furniture, equipment and other | 859,135 | 795,864 | 63,271 | 23,204 |
| | \$ 7,838,107 | \$ 4,590,964 | \$ 3,247,143 | \$ 3,487,639 |

Cost and accumulated amortization at March 31, 2019 amounted to \$7,692,863 and \$4,205,224, respectively.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

4. Long-term debt:

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Mortgages payable | \$ 681,546 | \$ 802,615 |
| Less: current portion of mortgages payable | 225,412 | 191,148 |
| Balance, end of year | \$ 456,134 | \$ 611,467 |

Mortgages payable are secured by first mortgages on land and buildings. Interest rates range from 1.04% to 5.755%. Maturity dates range from October 2020 to May 2024.

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

| | |
|------|-------------------|
| 2021 | \$ 225,412 |
| 2022 | 109,945 |
| 2023 | 303,121 |
| 2024 | 39,324 |
| 2025 | 3,744 |
| | \$ 681,546 |

Interest on long-term debt in the amount of \$17,611 (2019 - \$20,462) is included in occupancy costs and repairs on the Statement of Operations.

5. Employee future benefit obligations:

During 2019, the Organization implemented extended health care and dental benefits to certain employees. An independent actuarial study of the post-retirement and post-employment benefits was undertaken. The most recent valuation of the employee future benefits was completed as at April 1, 2019. The next valuation of the plan is effective March 31, 2022.

At March 31, 2020 the Organization's accrued benefit liabilities relating to post-retirement and post-employment benefit plans are \$1,561,000 (2019 - \$1,431,200).

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

5. Employee future benefit obligations (continued):

Information with respect to the Organization's post-retirement and post-employment benefit liabilities is as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| Accrued benefits obligation, beginning of year | \$ 1,431,200 | \$ – |
| Current service cost | 116,200 | 1,431,200 |
| Interest on accrued benefits | 45,900 | – |
| Actuarial experience | – | – |
| Benefits payments | (32,300) | – |
| Accrued benefits obligation, end of year | 1,561,000 | 1,431,200 |
| Unamortized actuarial experience gain | – | – |
| Accrued employee future benefits liability, end of year | \$ 1,561,000 | \$ 1,431,200 |

The significant actuarial assumptions adopted in estimating the Organization's accrued benefit obligation are as follows:

| | |
|---|--|
| Discount rate | 3.00% per annum |
| Discount rate to determine accrued benefit obligation for disclosure at end of period | 3.00% per annum |
| Dental benefits escalation | 3.00% per annum until 2023, increasing 0.29% per annum until 2029, then decreasing by 0.13% per annum to an ultimate rate of 3.57% per annum |
| Health benefits escalation | 5.25% per annum until 2023, decreasing by 0.08% per annum to an ultimate rate of 3.57% per annum |

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

6. Deferred capital contributions:

Deferred contributions related to capital assets represent the unamortized and unspent capital grants from the Ministry for the purchase of capital assets. The amortization of capital contributions is recorded in the Statement of Operations.

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 3,134,089 | \$ 3,296,486 |
| Add: deferred capital contribution for new van | 14,462 | - |
| Less: amortization of deferred capital contributions | (165,180) | (162,397) |
| Balance, end of year | \$ 2,983,371 | \$ 3,134,089 |

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

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Unamortized capital contributions | \$ 2,510,032 | \$ 2,660,750 |
| Unspent insurance proceeds - King Street West property | 473,339 | 473,339 |
| | \$ 2,983,371 | \$ 3,134,089 |

7. Invested in capital assets:

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

| | 2020 | 2019 |
|------------------------|------------------|------------------|
| Capital assets | \$ 3,247,143 | \$ 3,487,639 |
| Amounts financed by: | | |
| Deferred contributions | (2,510,032) | (2,660,750) |
| Mortgages | (681,546) | (802,615) |
| | \$ 55,565 | \$ 24,274 |

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

7. Invested in capital assets (continued):

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

| | 2020 | 2019 |
|--|------------|------------|
| Excess of revenue over expenses: | | |
| Amortization of deferred capital contributions related to capital assets | \$ 165,180 | \$ 162,397 |
| Amortization of capital assets | (286,911) | (279,275) |
| Loss on disposal of capital assets | – | (5,898) |
| Proceeds on disposal of capital assets | – | (49,596) |
| | (121,731) | (172,372) |
| Net change in investment in capital assets: | | |
| Repayment of long-term debt | 121,069 | 172,372 |
| Purchase of capital assets | 46,415 | – |
| Amounts funding by capital contributions | (14,462) | – |
| | 153,022 | 172,372 |
| | \$ 31,291 | \$ – |

8. 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.

| | 2020 | 2019 |
|----------------------------|------------|------------|
| Balance, beginning of year | \$ 344,238 | \$ 365,727 |
| Transfer from operations | 16,656 | 16,656 |
| Expenditures | – | (38,145) |
| Balance, end of year | \$ 360,894 | \$ 344,238 |

9. 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.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

9. Pension plan contributions (continued):

Contributions to the Plan made during the year by the Organization on behalf of its employees amounts to \$510,494 (2019 - \$540,167) 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 2019 Annual Report as at December 31, 2019 indicates the plan is fully funded at 119%.

10. Commitments:

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

| | | |
|------------|----|---------|
| 2021 | \$ | 153,960 |
| 2022 | | 137,654 |
| 2023 | | 137,682 |
| 2024 | | 109,161 |
| 2025 | | 109,161 |
| Thereafter | | 236,517 |
| | \$ | 884,135 |

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.

11. 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.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

12. 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, 2020 (2019 - undrawn).

The Organization has an operating line of credit with an authorized limit of \$400,000. The line of credit 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. The line of credit was undrawn as at March 31, 2020 (2019 - undrawn).

13. 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. As at March 31, 2020, the Organization's current liabilities exceeded its current assets by \$17,721 (2019 - \$102,037). 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, 2020 is \$Nil (2019 - \$Nil).

Cash is held with reputable financial institutions.

(c) Interest rate risk:

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Organization is exposed, through its variable rate credit facilities, to interest rate risk. The Organization is also exposed to a fair value risk due to its fixed-rate long-term debt arrangements.

There has been no change to the risk exposures from 2019, other than the appointment of a supervisor in fiscal 2020 to help improve the financial health of the Organization.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

14. 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 provided supporting roles in the functional areas of Finance, IT, and HR.

Effective January 1, 2019 a new shared service organization was created within AMHS-HPE that has assumed the former regional back-office administrative support for the three above noted agencies. Each agency remained their separate and distinct legal entity.

Effective April 1, 2020, the shared services organization was dissolved and administrative functions were reallocated back to each individual agency. Prior to the dissolution, Brockville General Hospital was engaged to take over the responsibility for the back-office services, supported by AMHS-HPE with respect to training and transition.

15. Subsequent event:

Prior to the Organization's year-end, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the Organization has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- Increased costs related to the purchase of materials and supplies
- Closure of administrative and non-essential services within which it operates based on Public Health recommendations
- Mandatory working from home requirements for those able to do so
- Continuous re-evaluation of the team's work assignments
- Mandatory on-site client and staff screening and tracking protocols

As a result of these measures, the Organization continues to experience increases in operating costs in the subsequent period. The Ministry has allowed the Organization to redirect revenue from certain funded programs towards COVID-related costs incurred during the year ended March 31, 2020, and has also committed to providing additional funding for COVID-related operating and capital costs in the subsequent period.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Notes to Financial Statements (continued)

Year ended March 31, 2020

15. Subsequent event (continued):

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.

LANARK, LEEDS AND GRENVILLE ADDICTIONS AND MENTAL HEALTH

Schedule 1 - Financial Summary

Year ended March 31, 2020, with comparative information for 2019

| | LHIN FUNDED | | | | | | Ministry Funded | | | | | | | 2020 Total |
|--|------------------------------|---------------------------|-------------------|---------------------------|------------------------|---------------------|---------------------------|-------------------|---------|--------|------------|----------|-----------|---------------|
| | Mental Health Base Funded | Mental Health One-Time | Sessional Fees | Addictions Base Funded | Addictions One-Time | Problem Gambling | MOH Supportive Housing | MOH Rent Supps | PAR | DAP | United Way | UCLG | Other FT3 | |
| Revenue: | | | | | | | | | | | | | | |
| Funding: LHIN | \$ 6,917,816 | \$ - | \$ 163,882 | \$ 2,478,950 | \$ - | \$ 158,876 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 9,719,524 |
| LHIN one time | - | 166,675 | - | - | - | - | - | - | - | - | - | - | - | 166,675 |
| Funding: MOHLTC | - | - | - | - | - | - | 470,454 | 460,493 | - | - | - | - | - | 930,947 |
| MOHLTC one time | - | - | - | - | - | - | - | 7,136 | - | - | - | - | - | 7,136 |
| Other government funding | - | - | - | - | - | - | - | - | 172,535 | 23,105 | 60,000 | 138,653 | 84,662 | 478,955 |
| | 6,917,816 | 166,675 | 163,882 | 2,478,950 | - | 158,876 | 470,454 | 467,629 | 172,535 | 23,105 | 60,000 | 138,653 | 84,662 | 11,303,237 |
| External recoveries | 128,906 | - | - | 146 | - | - | - | - | - | - | - | - | - | 129,052 |
| FARC rent recovery | 137,040 | - | - | - | - | - | - | - | - | - | - | - | - | 137,040 |
| Rental income | - | - | - | - | - | - | 99,732 | 122,052 | - | - | - | - | - | 221,784 |
| Interest income | 25,301 | - | - | - | - | - | - | - | - | - | - | - | - | 25,301 |
| Miscellaneous income | 41,371 | - | - | 250 | - | - | - | - | 13,360 | - | 5,495 | - | - | 60,476 |
| Donations | 3,025 | - | - | - | - | - | - | - | - | - | - | - | - | 3,025 |
| Total other revenue | 335,643 | - | - | 396 | - | - | 99,732 | 122,052 | 13,360 | - | 5,495 | - | - | 576,678 |
| Total revenue | 7,253,459 | 166,675 | 163,882 | 2,479,346 | - | 158,876 | 570,186 | 589,681 | 185,895 | 23,105 | 65,495 | 138,653 | 84,662 | 11,879,915 |
| Expenses: | | | | | | | | | | | | | | |
| Salaries | 4,746,285 | - | - | 1,392,353 | - | 86,385 | - | - | 123,090 | 13,839 | - | 76,830 | 32,789 | 6,471,571 |
| Benefits | 1,512,877 | - | - | 344,330 | - | 23,097 | - | - | 25,518 | 1,511 | - | 22,965 | 11,666 | 1,941,964 |
| Future benefits retirement | 99,962 | - | - | 27,707 | - | 2,131 | - | - | - | - | - | - | - | 129,800 |
| Purchased services | 46,800 | - | - | 121,875 | - | - | - | - | 496 | - | - | (14,216) | - | 154,955 |
| Sessional fees | - | - | 163,856 | - | - | - | - | - | - | - | - | 44,000 | - | 207,856 |
| Supplies and services | 390,118 | 163,839 | 26 | 452,161 | - | 10,149 | 66,081 | 21,537 | 22,065 | 4,005 | 65,089 | 793 | 16,272 | 1,212,135 |
| Equipment expenses | 74,974 | - | - | 5,713 | - | - | 998 | - | - | 1,100 | - | - | - | 82,785 |
| Occupancy costs | 371,037 | - | - | 130,904 | - | 7,695 | 318,450 | 567,481 | 14,726 | 2,650 | 406 | 8,281 | 4,728 | 1,426,358 |
| | 7,242,053 | 163,839 | 163,882 | 2,475,043 | - | 129,457 | 385,529 | 589,018 | 185,895 | 23,105 | 65,495 | 138,653 | 65,455 | 11,627,424 |
| Excess of revenue over expenses before the undernoted | 11,406 | 2,836 | - | 4,303 | - | 29,419 | 184,657 | 663 | - | - | - | - | 19,207 | 252,491 |
| Amortization expense | 165,181 | - | - | - | - | - | 121,730 | - | - | - | - | - | - | 286,911 |
| Amortized grant revenue | 165,180 | - | - | - | - | - | - | - | - | - | - | - | - | 165,180 |
| Subsidy repayable | 16,445 | 2,836 | - | - | - | 28,683 | 62,725 | - | - | - | - | - | - | 110,689 |
| Excess of revenue over expenses | \$ (5,040) | \$ - | \$ - | \$ 4,303 | \$ - | \$ 736 | \$ 202 | \$ 663 | \$ - | \$ - | \$ - | \$ - | \$ 19,207 | \$ 20,071 |