

Financial Statements of

**ADDICTION AND MENTAL
HEALTH SERVICES - KFLA**

Year ended March 31, 2020

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

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Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Supervisor of Addiction and Mental Health Services - KFLA

Opinion

We have audited the financial statements of Addiction and Mental Health Services - KFLA (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 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, its cash flows, and the remeasurement gains and losses 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. 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 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 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 24, 2020

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,105,161	\$ 1,990,353
Receivable from Ministry of Health	337	750,336
Other receivables	417,045	791,847
Prepaid expenses	91,307	111,349
	<u>4,613,850</u>	<u>3,643,885</u>
Reserves:		
Cash (note 7)	487,736	1,289,711
Capital assets (note 2)	22,750,850	24,779,837
	<u>\$ 27,852,436</u>	<u>\$ 29,713,433</u>
Liabilities, Deferred Capital Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,108,775	\$ 2,941,240
Accrued wages and vacation	1,115,220	2,686,595
Amounts payable to provincial ministries	2,347,674	281,369
Deferred revenue	130,899	120,374
Construction advance (note 3(a))	–	6,216,756
Current portion of long-term debt (note 3(b))	291,088	179,585
	<u>4,993,656</u>	<u>12,425,919</u>
Long-term debt (note 3(b))	1,869,136	165,677
Forgivable loan (note 4)	22,800	37,200
Deferred capital contributions (note 5)	12,541,586	13,164,536
Net assets:		
Internally restricted as agency housing properties capital reserve	1,376,445	–
Externally restricted for housing properties capital reserve (note 8)	1,104,204	1,065,445
Externally restricted housing subsidy surplus (note 8)	13,710	13,710
Investment in capital assets (note 6(a))	8,026,241	5,016,084
Unrestricted deficiency	(2,095,342)	(2,175,138)
	<u>8,425,258</u>	<u>3,920,101</u>
Commitments (note 10)		
Contingent liabilities (note 11)		
Subsequent event (note 15)		
	<u>\$ 27,852,436</u>	<u>\$ 29,713,433</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director

Director

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Statement of Operations

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

	2020	2019
Revenue:		
Ministry of Health & LHIN funding (note 12)	\$ 16,159,702	\$ 16,703,334
LHIN sessional fees	53,152	51,841
One-time funding	785,000	1,911,160
Other provincial government funding (note 12)	837,505	777,341
Subsidy repayable	(2,142,629)	(149,646)
	15,692,730	19,294,030
Recoveries and other income:		
Rental	914,045	984,772
Administrative cost recoveries	215,081	1,610,594
Interest	78,978	1,387
Other	599,932	1,329,017
	17,500,766	23,219,800
Expenses:		
Salaries and wages	9,685,902	11,941,926
Employee benefits	2,480,717	5,158,040
Purchased psychiatry services	649,599	652,787
Staff education and travel	193,012	238,130
Other supplies and services	2,157,511	2,395,851
Community one-time expenses	721,656	849,466
Occupancy costs and repairs	1,532,868	1,994,353
	17,421,265	23,230,553
Excess (deficiency) of revenue over expenses before the undernoted	79,501	(10,753)
Amortization of deferred capital contributions	459,062	422,987
Amortization of capital assets	(736,083)	(558,229)
Gain on disposal of capital assets	4,702,677	—
Excess (deficiency) of revenue over expenses	\$ 4,505,157	\$ (145,995)

See accompanying notes to financial statements.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Statement of Changes in Net Assets

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

	Internally restricted as agency housing properties capital reserve (note 8(b))	Externally restricted for housing properties capital reserve (note 8(a))	Externally restricted housing subsidy surplus (note 8(a))	Investment in capital assets (note 6)	Unrestricted	2020 Total	2019 Total
Balance (deficiency), beginning of year	\$ -	\$ 1,065,445	\$ 13,710	\$ 5,016,084	(2,175,138)	\$ 3,920,101	\$ 4,066,096
Excess (deficiency) of revenue over expenses	-	6,160	-	(277,021)	4,776,018	4,505,157	(145,995)
Net change in investment in capital assets (note 6(b))	-	-	-	3,287,178	(3,287,178)	-	-
Transfers from operations	1,376,445	32,599	-	-	(1,409,044)	-	-
Balance (deficiency), end of year	\$ 1,376,445	\$ 1,104,204	\$ 13,710	\$ 8,026,241	\$ (2,095,342)	\$ 8,425,258	\$ 3,920,101

See accompanying notes to financial statements.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

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	\$ 4,505,157	\$ (145,995)
Items not involving cash:		
Amortization of deferred capital contributions	(459,062)	(422,987)
Amortization of capital assets	736,083	558,229
Gain on disposal of capital assets*	(4,702,677)	-
Changes in non-cash operating working capital:		
Receivable from Ministry of Health	749,999	(710,917)
Other receivables	374,802	(152,943)
Prepaid expenses	20,042	(40,444)
Accounts payable and accrued liabilities	(1,832,464)	231,515
Accrued wages and vacation	(1,571,375)	1,465,492
Amounts payable to provincial ministries	2,066,305	119,335
Deferred revenue	10,524	25,781
	(102,666)	927,066
Capital activities:		
Purchase of capital assets	(508,469)	(3,863,079)
Proceeds on disposal of capital assets	5,101,304	-
	4,592,835	(3,863,079)
Financing activities:		
Repayment of construction advance	(6,216,756)	-
Repayment of long-term debt	(210,517)	(104,074)
Proceeds from long-term debt	2,025,479	-
Increase in deferred capital contributions	1,238,858	183,840
Decrease in forgivable loan	(14,400)	(15,600)
Proceeds from construction advance	-	2,872,520
	(3,177,336)	2,936,686
Increase in cash and cash equivalents	1,312,833	673
Cash and cash equivalents, beginning of year	3,280,064	3,279,391
Cash and cash equivalents, end of year	\$ 4,592,897	\$ 3,280,064
Represented by:		
Cash:		
Operating funds	\$ 4,105,161	\$ 1,990,353
Reserve funds	487,736	1,289,711
	\$ 4,592,897	\$ 3,280,064

*Included in gain on disposal of capital assets is \$1,402,746 related to the unamortized deferred capital contribution on the disposed properties.

See accompanying notes to financial statements.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements

Year ended March 31, 2020

On April 1, 2015, Addiction and Mental Health Services - KFLA (the "Organization") was incorporated as a non-profit corporation without share capital under the laws of Ontario as a result of an amalgamation of the former Frontenac Community Mental Health and Addiction Services and the former Lennox and Addington Addiction and Community Mental Health Services Inc. The Organization is a registered charity and 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 a serious and persistent mental illness and/or addictions in order that they can be active, participating members of the communities of Kingston, Frontenac, and Lennox and Addington.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations. A statement of remeasurement gains and losses has not been included as there are no matters to report therein.

(a) Capital assets:

Capital assets are recorded at cost. 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 using the straight-line method over the following estimated useful lives:

Asset	Useful life
Buildings	40 years
Building service equipment	3 to 10 years
Napanee office equipment	3 to 10 years
Vehicles	10 years
Computer equipment	3 to 5 years
Leasehold improvements	15 years

The costs incurred for major capital projects, including interest costs, are classified separately as construction-in-progress until the project is complete. When complete, the costs are transferred to the appropriate capital asset category and amortization commences.

(b) Revenue recognition:

The Organization follows the deferral method of accounting for contributions, which includes donations and government grants.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

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 of Health (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.

Other revenue is recognized when the goods are sold or the service is provided.

(c) 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 or 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.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

1. Significant accounting policies (continued):

(d) Cash equivalents:

Cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less.

(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) 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Capital assets:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Land	\$ 1,600,872	\$ –	\$ 1,600,872	\$ 1,600,872
Buildings - supportive housing	7,934,023	3,252,216	4,681,807	5,254,811
Buildings - housing other	17,709,147	1,770,350	15,938,797	5,766,364
Buildings - other	625,776	488,734	137,042	1,595,198
Building service equipment	205,651	205,651	–	–
Napanee office equipment	212,879	212,879	–	–
Vehicles	85,724	56,016	29,708	46,852
Computer equipment	744,568	651,686	92,882	15,705
Leasehold improvements	872,158	602,416	269,742	313,579
Construction-in-progress	–	–	–	10,186,456
	<u>\$ 29,990,798</u>	<u>\$ 7,239,948</u>	<u>\$ 22,750,850</u>	<u>\$ 24,779,837</u>

Cost and accumulated amortization as at March 31, 2019 amounted to \$32,245,370 and \$7,465,533, respectively.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

3. Long-term debt:

(a) Construction advance:

In 2019, the Organization had a construction advance to fund the completion of the Lyons Street Phase 2 project. Interest was payable at the bank's prime lending rate plus 1.25% per annum. The authorized amount of the construction facility was \$7,400,000 and was repayable in full no later than June 30, 2019 or 30 days after full availment. The advance was secured over all present and future personal property with appropriate insurance coverage, loss if any, payable to the Bank.

During the year, the construction advance was converted to a mortgage as described in note 3(b).

Interest on the construction advance is included in occupancy costs and repairs on the Statement of Operations.

(b) Long-term debt consists of the following amounts:

	2020	2019
Mortgage payable: 1.43% due April 1, 2022, repayable in blended monthly instalments of principal and interest of \$1,258, secured by a first charge on the Organization's real property at 343 Albert Street, Kingston (net book value of \$Nil)	\$ —	\$ 45,470
Mortgage payable: 1.87% due June 1, 2022, repayable in blended monthly instalments of principal and interest of \$755, secured by a first charge on the Organization's real property at 38 Alma Street, Kingston (net book value of \$83,360)	20,665	29,251
Mortgage payable: 2.59% due January 1, 2023, repayable in blended monthly instalments of principal and interest of \$732, secured by a first charge on the Organization's real property at 322 Elmwood Street, Kingston (net book value of \$81,259)	23,989	32,047
Mortgage payable: 2.59% due January 1, 2023, repayable in blended monthly instalments of principal and interest of \$804, secured by a first charge on the Organization's real property at 11 Forsythe Avenue, Kingston (net book value of \$89,939)	27,094	35,925
Mortgage payable: 2.39% due March 1, 2023, repayable in blended monthly instalments of principal and interest of \$721, secured by a first charge on the Organization's real property at 124 Liddell Street, Kingston (net book value of \$95,199)	62,997	70,058
Balance forward	134,745	212,751

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

3. Long-term debt (continued):

(b) (continued):

	2020	2019
Balance forward	\$ 134,745	\$ 212,751
Mortgage payable: 1.12% due February 1, 2020, repayable in blended monthly instalments of principal and interest of \$1,984, secured by a first charge on the Organization's real property at 65 West Street, Kingston (net book value of \$Nil)	–	132,511
Mortgage payable: Prime rate plus 1% due July 12, 2024, repayable in monthly instalments of principal of \$21,481 plus interest, secured by a first charge on the Organization's real property at 31 and 35 Lyons Street, Kingston (net book value of \$15,857,165)	2,025,479	–
	2,160,224	345,262
Less principal included in current liabilities	291,088	179,585
	\$ 1,869,136	\$ 165,677

Principal repayments over the next five years are as follows:

2021	\$ 291,088
2022	291,874
2023	325,105
2024	257,774
2025	994,383
	\$ 2,160,224

Interest on long-term debt in the amount of \$179,489 (2019 - \$7,906) is included in occupancy costs and repairs on the Statement of Operations.

(c) Bank overdraft:

Under the terms of the Organization's credit agreement, the Organization has an operating loan available to a maximum of \$750,000 to assist with working capital requirements, bearing interest at prime rate per annum. As at March 31, 2020, the operating loan was undrawn (2019 - undrawn).

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

4. Forgivable loan:

Residential Rehabilitation Assistance Program (RRAP):

On November 1, 2006, the Canada Mortgage and Housing Corporation (CMHC) undertook a forgivable loan under the RRAP program. This program was used to undertake accessibility modifications to the existing residential building.

The forgivable loan has been established in the form of a promissory note and is secured by a first mortgage charge on the property. Principal and interest payments will not be required for fifteen years, which corresponds with the term of the loan, provided that the building is not sold without the prior consent of the CMHC and that there is no other breach of the terms of the loans.

If a default should occur at any time during the terms of the loans, the total unearned principal of the loans shall become due and payable and interest will be charged from the date of default.

The forgivable loan is as follows:

	2020	2019
Housing:		
8.125% forgivable loan, secured by an operating agreement on 68-70 Dundas Street East, forgivable \$1,200 monthly plus interest for a fifteen-year term, maturing November 1, 2021	\$ 22,800	\$ 37,200

Principal forgiveness for the next two years is estimated as follows: 2021 - \$14,400; and 2022 - \$8,400.

5. Deferred capital contributions:

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2020	2019
Balance, beginning of year	\$ 13,164,536	\$ 13,403,683
Additional contributions received	1,238,858	183,840
Less amounts amortized to revenue	(459,062)	(422,987)
Less disposal of deferred capital contributions	(1,402,746)	—
Balance, end of year	\$ 12,541,586	\$ 13,164,536

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

6. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

	2020	2019
Capital assets	\$ 22,750,850	\$ 24,779,837
Amounts financed by:		
Deferred contributions	(12,541,586)	(13,164,536)
Long-term debt and forgivable loan	(2,183,023)	(6,599,217)
	\$ 8,026,241	\$ 5,016,084

(b) Change in net assets invested in capital assets is calculated as follows:

	2020	2019
Excess of expenses over revenue:		
Amortization of deferred contributions related to capital assets	\$ 459,062	\$ 422,987
Amortization of capital assets	(736,083)	(558,229)
	\$ (277,021)	\$ (135,242)
Net change in investment in capital assets:		
Purchase of capital assets	\$ 508,469	\$ 3,863,079
Proceeds on sale of capital assets	(5,101,304)	-
Gain on disposal of capital assets	4,702,677	-
Amounts funded by deferred contributions	(1,238,858)	(183,840)
Proceeds from construction advance	-	(2,872,520)
Repayment of construction advance	6,216,756	-
Proceeds from long-term debt	(2,025,479)	-
Repayment of long-term debt	210,517	104,074
Decrease in forgivable loan	14,400	15,600
	\$ 3,287,178	\$ 926,393

7. Reserves cash:

Cash carried under reserves, in the amount of \$487,736 (2019 - \$1,289,711) has been designated to support the internally and externally restricted capital reserves. The balance of cash does not include cash yet to be transferred in respect of certain year-end transfers to/from reserves.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

8. 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:

(a) Externally restricted reserves:

	Externally restricted for housing properties capital reserve	Externally restricted housing subsidy surplus	Total 2020	Total 2019
Balance, beginning of year	\$ 1,065,445	\$ 13,710	\$ 1,079,155	\$ 1,425,412
Interest earned	6,160	—	6,160	90
Transfers from (to) surplus	58,519	—	58,519	(158,792)
Transfer to internally restricted	—	—	—	(209,252)
Ministry funded transfers	—	—	—	21,697
Capital expenditures	(25,920)	—	(25,920)	—
Balance, end of year	\$ 1,104,204	\$ 13,710	\$ 1,117,914	\$ 1,079,155

(b) Internally restricted for agency housing properties capital reserve:

	2020	2019
Balance, beginning of year	\$ —	\$ 196,981
Interest earned	—	—
Transfer from surplus	1,402,746	53,914
Transfer from externally restricted	—	209,252
Transfer to unrestricted	(26,301)	(486,619)
Ministry funded transfers	—	26,472
Balance, end of year	\$ 1,376,445	\$ —

During the year, the Supervisor approved a transfer of \$1,402,746 related to the unamortized capital contributions of the disposed properties from surplus to the internally restricted for agency housing properties capital reserve.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

9. Pension plan and contributions to Registered Retirement Savings Plans:

Substantially all of the employees of the Organization are members of the HealthCare of Ontario Pension Plan (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.

Contributions to the Plan made during the year by the Organization, on behalf of its employees amounted to \$797,869 (2019 - \$1,017,408) and are included in employee benefits expenses on 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 indicates the plan is fully funded at 119%.

10. Commitments:

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

Location	Lease Expiry	Annual Rent
552 Princess Street	May 31, 2024	\$192,344 to expiry

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.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

11. Contingent liabilities:

- (a) The nature of the Organization's activities is such that there may be litigation pending or in prospect at any time. With respect to claims as at March 31, 2020, accruals have been recorded where claims have been assessed as likely to occur and the loss can be reasonably determined. Where the amount of possible loss or the likelihood of loss is not determinable, management believes that the Organization has valid defenses and appropriate insurance coverage in place and the aggregate amount of any potential liability is not expected to have a material effect on the Organization's financial position.
- (b) The Organization has entered into a contribution agreement with the Corporation of the City of Kingston (the "Service Manager") for the funding of an affordable housing capital project located at 35 Lyon Street, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Organization shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Organization. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one twentieths (1/20) of the original principal amount of \$2,740,542 for each year following occupancy provided the Organization has fulfilled all the requirements of the agreement. The loan proceeds received to date of \$2,466,488 have been recorded as deferred capital contributions on the Statement of Financial Position and the loan amount is not recorded in these financial statements. The loan agreement expires in 2040.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Organization to pay interest charges or loan proceeds back to the Service Manager.

12. 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 reviews 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 approval.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

13. Shared services agreement:

As part of a Local Health Integration Network ("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 Organization and the neighbouring Addictions and Mental Health Agencies of Hastings Prince Edward (AMHS-HPE) and Lanark, Leeds and Grenville (LLG-AMH). 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 assumed the former regional back-office administrative support for the three above noted agencies, including the Organization.

Effective April 1, 2020, the shared service organization has been dissolved and the administrative support functions have been individually assumed by the respective agencies. Each agency remains their separate and distinct entity.

14. Financial risks and concentration of 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 exceed its current assets by \$379,806 (2019 - \$8,782,034). The Organization prepares budgets to ensure it has sufficient funds to fulfill its obligations.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Organization is exposed to credit risk with respect to cash and cash equivalents and receivables. 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).

(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 to interest rate risk through its long-term debt, as certain loans are variable interest rate loans. These are mitigated through its other long-term debt, which are fixed-rate debt arrangements.

There have been no significant change to the risk exposures from 2019.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Notes to Financial Statements (continued)

Year ended March 31, 2020

15. Subsequent event:

In March 2020, 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
- Increased costs related to the set up and administration of the Kingston Isolation Centre
- Closure of administrative and nonessential services within which it operates since March 17, 2020 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 Corporation of the City of Kingston and the Ministry have provided funds in the amount of \$153,218 to offset these increased costs as of March 31, 2020. They have also committed to providing additional funding for COVID-related operating and capital costs in the subsequent period.

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.

ADDICTION AND MENTAL HEALTH SERVICES - KFLA

Schedule 1 - Financial Summary

Year ended March 31, 2020

	Local Health Integration Network			Ministry of Health Supportive Housing	Ministry of Community and Social Services	Other Client Services	Other Agency Housing	2020 Total	2019 Total
	Mental Health Services Program	Addiction Services	Addiction Problem Gambling		ODSP				
Revenue:									
LHIN and MOH funding	\$ 13,795,382	\$ 2,075,731	\$ 288,589	\$ -	\$ -	\$ -	\$ -	\$ 16,159,702	\$ 16,703,334
LHIN sessional fees	53,152	-	-	-	-	-	-	53,152	51,841
LHIN one-time funding	485,000	300,000	-	-	-	-	-	785,000	1,911,160
Other provincial funding	-	-	-	837,505	-	-	-	837,505	760,641
LHIN HSJCC funding	-	-	-	-	-	-	-	-	16,700
	14,333,534	2,375,731	288,589	837,505	-	-	-	17,835,359	19,443,676
Rental	750	-	-	368,901	-	-	544,394	914,045	984,772
Recoveries	94,452	-	-	-	-	-	120,629	215,081	1,610,594
Interest	78,978	-	-	-	-	-	-	78,978	1,387
Other municipal funding	-	-	-	-	-	-	-	-	127,167
Other	385,771	55,871	-	16,545	4,171	129,698	7,876	599,932	1,201,850
	559,951	55,871	-	385,446	4,171	129,698	672,899	1,808,036	3,925,770
Total revenue	14,893,485	2,431,602	288,589	1,222,951	4,171	129,698	672,899	19,643,395	23,369,446
Expenses:									
Salaries and wages	8,253,863	812,677	199,491	218,177	2,835	71,465	127,394	9,685,902	11,941,926
Employee benefits	2,082,512	230,676	51,301	51,364	957	51,439	12,468	2,480,717	5,158,040
Purchased psychiatry services	649,599	-	-	-	-	-	-	649,599	652,787
Staff education and travel	152,252	20,464	7,501	10,778	-	2,017	-	193,012	238,130
Other supplies and services	1,685,645	108,678	20,161	154,733	379	(1,049)	188,964	2,157,511	2,395,851
Community one-time expense	463,456	258,200	-	-	-	-	-	721,656	849,466
Occupancy costs and repairs	543,752	43,076	10,135	554,753	-	-	381,152	1,532,868	1,994,353
Total expenses	13,831,079	1,473,771	288,589	989,805	4,171	123,872	709,978	17,421,265	23,230,553
Excess (deficiency) of revenue over expenses before the undernote	1,062,406	957,831	-	233,146	-	5,826	(37,079)	2,222,130	138,893
Subsidy repayable	(1,079,010)	(916,031)	-	(137,578)	-	(10,010)	-	(2,142,629)	(149,646)
Amortization of deferred capital contributions	73,037	-	-	179,847	-	-	206,178	459,062	422,987
Amortization of capital assets	(98,233)	-	-	(217,485)	-	-	(420,365)	(736,083)	(558,229)
Gain on disposal of capital assets	-	-	-	-	-	-	4,702,677	4,702,677	-
Excess (deficiency) of revenue over expenses	\$ (41,800)	\$ 41,800	\$ -	\$ 57,930	\$ -	\$ (4,184)	\$ 4,451,411	\$ 4,505,157	\$ (145,995)