

Community Financial Policy (2009)

INTRODUCTION

HSPs funded by the LHIN or MOHLTC are expected to adhere to the terms of their M-SAA or their Ministry funding agreement and to meet certain financial requirements as set out below. These requirements apply to both LHIN-managed and Ministry-managed programs and replace the financial policies that are outlined in the following policy manuals or documents:

- 2001/2002 Planning, Funding & Accountability Policy & Procedures Manual for Long-Term Care Community Services, 8th Edition, December 2000.
- Operating Manual for Mental Health Services and Addiction Treatment Services (Substance Abuse and Problem Gambling Services) Funded by the Ministry of Health and Long-Term Care, December 2003.
- Community Health Centre Policies & Procedures Manual, December 2001.
- MOHLTC Funding Policy (included with the CCAC Business Plan/Budget Package).

a. EXPENSES – FUNDED AND NON-FUNDED

i. Funded Expenses

Expenditures that are deemed to be reasonable and necessary for the provision of the service are usually funded for calculating the operating subsidy. These expenditures must be authorized in accordance with the policies of the HSP, consistent with government policies, approved by the LHIN or MOHLTC (whichever is the applicable funder) and supported by acceptable documentary evidence.

Funded Expenses with prior written approval

- **Capital Items:** May be negotiated and included in the operating budget with LHIN or MOHLTC approval (i.e., new equipment or replacements).
- **Non-Arms Length Transactions:** All expenditures arising from transactions not conducted at arms length. A non-arms length transaction is one in which a director or authorized officer of the HSP can influence the value or cost of goods or services to exceed the item's fair market value.
- **Incorporation or Reorganization Costs**
- **Interest on Capital and Operating Loans**
- **Lease/Rental Costs when paid to Non-Arms Length Corporations:** Admissible, providing charges do not exceed those which would be paid if the transactions were at arms length.
- **Mortgage Payments (including both interest and principal):** Before approving mortgage financing, the LHIN will recommend to the Ministry and the MOHLTC will determine if this is the most effective accommodation option. If so, the Ministry's contribution to a mortgage should not exceed a reasonable cost for rent. The Ministry will protect the provincial interest in real property according to the approved financial practices of the Ministry.

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- **Property Taxes:** Note: Municipal grants in lieu of taxes must be used to offset LHIN or MOHLTC subsidies.

ii. Non-Funded Expenses

- **Expenses in Excess of the Approved Budget**
- **Sick Time:** Accruals that are part of regular operations and would be paid out are required reporting as per GAAP and CICA Not for profit guidelines. Reported on Balance Sheet 425 50 Accrued Current Liabilities. – Sick Leave Benefits Payable (vested).
- **Appropriations:** Setting aside funds from surplus for example capital purposes.
- **Amortization of Capital Assets:** Amortization is to be recorded in the appropriate amortization expense accounts, eg: F 750 00 Amortization on Major Equipment – Distributed expense code. These will be part of the year end reconciliation process.
- **Donations to Individuals or Organizations**
- **Bonuses, Gifts, Honoraria:** Expenses for gifts/tributes, and staff entertainment or parties. Bonuses and Honoraria are not admissible when paid to staff or board members. Honoraria and modest gifts are admissible for guest speakers and trainers for workshops and seminars. Modest gifts are admissible for long service staff and board members. In these cases to be admissible, the Health Service Provider must have a written policy approved by the governing body.
- **Fundraising Costs:** These costs are netted against fundraising revenues, however fundraising revenue and expenses must be reported separately in MIS using the appropriate coding..
- **Loans to Clients or Staff**
- **Fines:** Incurred because of a breach of law (e.g., parking tickets) or financial inattentiveness, negligence or incompetence (e.g., fees for NSF cheques).
- **Items for personal use/consumption:** Unless they are necessary for the program (e.g., meals for staff in a residential facility)
- **Employee Transportation Costs:** To and from home and the regular place of business.
- **Rent for Premises:** Not funded if capital subsidies have been paid or premises are owned by the Health Service Provider. In these cases the program should be charged a fair share of operating costs.
- **Retainer Fees Applicable to Subsequent Periods:** Accrual Accounting is required per GAAP and CICA Not for profit guidelines. These fees are recorded as a Prepaid Expenses in the Balance Sheet using account 126 00. These will be part of the year end reconciliation process.

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- **"In kind" or Contributed Services where an Actual Transfer of Funds Does Not Occur:** For example, donations of equipment are not recognized as eligible expenditures for subsidy. Volunteer time cannot be assigned a monetary value and claimed as revenue. These services will be recorded in the HSP's corporate MIS reporting according to GAAP, but are excluded for funding purposes).
- **Provisions For Bad Debts**
- **Contributions or Donations to Political Organizations**
- **Expenditures for Brokered Services other than Administration and Coordination.** Expenditures which are deemed to be reasonable and necessary for the operation of the service are usually admissible for calculating the operating subsidy. These expenditures must be authorized in accordance with the policies of the HSP, consistent with government policies, approved by the LHIN or MOHLTC and supported by acceptable documentary evidence.

iii. **Sector Specific Requirements**

Mental Health and Addictions

- **Medications/Emergency Dental Expenses:** In general, HSPs should not be responsible for underwriting the cost of client medications or emergency dental expenses, except in specific treatment programs. These costs should be paid by the individual, private insurance, the Ontario Drug Benefit plan (for those who are eligible) or the Trillium Drug Program.

Exceptions to this are:

- HSPs with clients eligible for the Personal Needs Allowance and drug and dental coverage.
- HSPs sponsored by hospitals that may be expected to provide medications from the global hospital budget.
- HSPs that provide certain medications or supplements (e.g., thiamin), based on best practices in addiction treatment.

HSPs are encouraged to seek out other sources of coverage for medications (e.g., Ontario Works, Trillium), and to help their clients apply for programs that will continue to assist them when they are no longer in a treatment program that provides medication.

b. REVENUE, EXCLUSIONS AND INCLUSIONS FROM THE SUBSIDY CALCULATION

i. Revenue to be Excluded from Subsidy Calculation (Retainable Revenue):

These sources of revenue must be clearly identified so that there is no possibility that they are included in the subsidy calculation. These funds may be used to support other services provided by the HSP and/or accumulated in one or more funds for designated purposes. If these sources of revenue are maintained from one fiscal year to another, it is essential that they be clearly identified on the

balance sheet of the audited financial statement. Otherwise income may be deemed for operating purposes.

- **Donations Received for General Purposes:** These are donations in excess of the sum determined in the budgeting process for providing funded services.
- **Specific Capital Donations, Endowments or Bequests:** These are generally received for capital acquisitions, improvements or equipment.
- **Fundraising:** This is any revenue raised through fundraising activities NOT involving the use of LHIN or MOHLTC funded resources (e.g., HSP staff or assets subsidized by the LHIN or MOHLTC funding).
- **Interest Income:** Income arising from the investment of general or capital donations not designated for ministry programs.
- **Revenue Related to Brokered Services:** (e.g., client fees and donations).

ii. **Revenue to be Included in the Subsidy Calculation (Non-Retainable Revenue):**

If Health Service Providers are generating income from assets or services already funded 100% by LHIN or MOHLTC, they are either required to use the funds to support LHIN or MOHLTC funded programs or to repay the funds.

- **Expenditure Recoveries:** "Recoveries occur when financial resources, which were intended to fund a specific activity, are temporarily used and then repaid".
- **Refunds or recoveries of previous expenditures:** Refunds or recoveries of previous expenditures are treated as a reduction of the related expense (the amount of the refund or recovery is deducted from the total invoice): This includes items such as GST rebates, recovery of overpayments, refunds of sales, gasoline, property or municipal taxes paid.
- **Interest Income:** Interest earned on advances/subsidy must be included in the income of LHIN and MOHLTC-funded programs. HSPs may use interest income earned on LHIN or MOHLTC funds to support LHIN or MOHLTC funded activities within the same fiscal year.
- **Other Income:** Income arising from charges levied for the use of LHIN or MOHLTC subsidized resources such as parking fees, staff or visitor accommodation or meals, space or equipment rentals, transportation charges etc.
- **Other Grants or Subsidies (non-LHIN/MOHLTC):** Payments received from other ministries, government bodies or community agencies for costs ordinarily subsidizable. These revenues are not recorded or accounted for separately.
- **Reporting on Funds from Different Sources:** HSPs that receive funding from more than one source must allocate expenses – including central administration costs – fairly and appropriately to each funding source, keep separate financial records for LHIN or MOHLTC funding, and report separately on their use of these funds.

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- **Client Fees to be used in the Subsidy Calculation:** Income arising from charges made for the provision of LHIN or Ministry funded services.
- **Fundraising and Donations:** The specific amount of local contributions will be determined through the budgeting process.
- **Consulting or Training Fees:** This includes fees charged for services provided to other Organizations (e.g. training, consulting or other related services).
- **Rental Fees:** Any income generated from renting space paid for by LHIN or MOHLTC funding. This income must be used to cover any expenses related to the rentals. Any excess can be used to support/enhance LHIN or MOHLTC funded activities in the same fiscal year. At the end of the fiscal year, any rental income that is not spent on program activities will be recovered.

iii. Sector Specific Requirements

Mental Health and Addictions

- **Fees for Services Not Funded by LHIN or MOHLTC**
HSPs may not charge fees for any mental health and addiction services funded by the LHIN or MOHLTC. These services must be made available to the community without cost.

However, mental health and addictions HSPs may charge:

- Clients for related activities that are not funded by LHIN or MOHLTC, such as transportation fees or entertainment fees.
- Fees to cover the cost of photocopying when clients request a copy of their files.
- Third parties for services provided, such as the Children's Aid Society, lawyers and insurance plans for completing required forms.
- Private insurance companies and clients from outside Ontario for treatment services.

As with fund raised dollars, these funds should be reported as other income and must be used to cover the cost of providing the non-LHIN/MOHLTC services. Any excess funds can be used to support other program activities.

- **Other Program/Service Fees**

HSPs that receive funding from other payers to run distinct programs (e.g., Back on Track) out of a LHIN or MOHLTC-funded program or to provide services using beds funded by LHIN or MOHLTC must report all income from these sources.

In the case of funding from programs, such as Back on Track, the HSP can allocate a portion of the funding received to overhead expenses, and use that funding to support office expenses and LHIN or MOHLTC-funded activities. The remainder must be reported as other income and can be used however the HSP chooses.

If an HSP is charging a third party (e.g., private insurer, client from outside Ontario) for beds/staff time that are already paid for by LHIN or MOHLTC, then the HSP must report the income earned.

c. REALLOCATION (Subject to revision pending finalization of the M-SAA template)

i. In-Year Budget Reallocation

After the budget has been approved, Health Service Providers may, within the fiscal year, reallocate funds in order to:

- Meet approved service targets,
- Respond to service demands by:
 - providing additional approved services above the service targets.
 - substituting one type of approved service for another.

Reallocated funds can only be used for allowable expenses (see *policy regarding "Expenses – Funded and Non-Funded"*).

Prior written approval from the LHIN or MOHLTC (whichever is the applicable funder) is required in advance to reallocate funds:

- To provide a service that was not in the approved budget.
- Between Transfer Payment Business Entities (see *definition in Glossary*) or Dedicated Funding Envelopes.
- From a dedicated funding envelope such as:
 - Sessional fee funding.
 - Non-insured client funding.
 - Physician salary funding.

ii. Permanent Budget Reallocation

To transfer funds permanently, HSPs should use the CAPS process. The HSP will submit a CAPS that reflects the transfer and note the LHIN pre-approved change in the Narrative that accompanies the budget (see Section 4 of CAPS Guidelines). When the budget is approved, then the permanent change is approved.

iii. Allowable Uses of In-Year Unspent Recoverable Funds

Requests to use in-year unspent/surplus funds must be made in writing to the LHIN or MOHLTC (whichever is the applicable funder). Use of the funds must be approved and the funds expended before the end of the fiscal year.

iv. SECTOR SPECIFIC REQUIREMENTS

Mental Health and Addictions

- **Sessional Fees:** The sessional fee allocation cannot be used for any other purposes and must be paid at the prescribed rate. The funds shall be used for the following types of indirect psychiatric services only: Case Conferences; Client Consultation; Staff Consultation; Program Consultation; Program Direction; Educational Services; and System Coordination..

- **Problem Gambling Budget Allocation Expectations:** All HSPs designated to provide problem gambling services receive funding for a minimum of one full-time equivalent (FTE) position. Of the first funded FTE, each HSP is expected to allocate a 0.5 FTE equivalent on prevention awareness activities. For HSPs that provide problem gambling services, there are three approaches to budget allocation, depending on the size of the program:
 - HSPs that receive funding for one FTE position, of which a minimum of 0.5 FTE is committed to prevention awareness activities, are expected to allocate the remaining FTE position to direct client activities.
 - HSPs that receive funding for more than one full-time equivalent, of which a 0.5 FTE is committed to prevention awareness activities, are expected to allocate the remaining FTE positions to direct client service.
 - HSPs with multiple FTEs may be approved to operate with a similar budget allocation as substance abuse services.

Community Health Centres

- **Non-Insured Clients:** People residing in Ontario who do not have health insurance are considered a priority population for the purposes of CHC services as they face a significant barrier to accessing appropriate primary care.

Funding for non-insured clients cannot be reallocated unless approved by the MOHLTC on recommendation from the LHIN.

- **Physician Salaries and Benefits:** Funding for physician salaries cannot be reallocated without prior approval from the LHIN and the MOHLTC.

d. ASSETS

A Registry of Assets must be maintained for physical assets such as buildings, building service equipment and land, vehicles, computers and software, furniture and other equipment that have been purchased by HSPs with funds provided by provincial and community funding. The expectation is that these assets will be used for the provision of services. The LHIN may ask for a copy of the inventory at any time.

It is also expected that when an HSP closes or ceases to provide services, the LHIN or MOHLTC (whichever is the applicable funder) will approve the disposition of assets for which it has provided funding.

- **Instructions for the Registry of Assets:**
 1. List all assets with an original cost in excess of \$5,000 with a useful life longer than one year ("original cost" is defined as the original cost of the asset including transportation and set-up, net of discounts or the total cost of a capital lease).
 2. List assets by category: Buildings and Land, Building Service Equipment, Leasehold Improvements, Vehicles, Computers & Software, Furniture, Other Equipment and Other (Specify). Details should include date of purchase, cost, description (serial number if possible) and amortization rate.

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3. There must be a notation of the source of funds used for the purchase of the asset (i.e., ministry, fundraising or donation).
4. There must be a policy on the disposal of assets. The registry should include a separate list of the items disposed of, including date, methods of disposition and proceeds from disposition. As per the M-SAA Section 4.9, the HSP shall not, without the LHIN's prior written consent, sell, lease or otherwise dispose of any assets purchased with Funding, the cost of which exceeded [\$25,000] at the time of purchase.
5. The asset registry must be kept current and must balance with the total year-end asset and amortization accounts on the balance sheet.
6. HSPs use straight-line amortization per CIHI guidelines. Current Year's Purchases (e.g., recorded in Balance Sheet Accounts 32854, 32862, 32871, or 32884) are recorded in the year-end submission to meet the needs of Statistics Canada. These accounts are cleared at the beginning of the new fiscal year to their related Total Asset accounts (e.g., 32850, 32857, 32870, 32880).

e. OTHER FINANCIAL REQUIREMENTS

i. Generic

- **Basis of Accounting:** Health Service Providers must maintain financial records in accordance with Generally Accepted Accounting Principles (GAAP).
- **Restriction on Borrowing:** Health Service Providers may not use LHIN or MOHLTC funding or fixed assets purchased with LHIN or MOHLTC funds as collateral when borrowing money without the prior written consent of LHIN or MOHLTC.
- **Other Payments:** Where fees are appropriate and possible, Health Service Providers should collect fees from third parties such as the Workplace Safety and Insurance Board (WSIB). All funds collected for other direct billing services are recoverable by the ministry.
- **Unspent Recoverable Funds:** All unspent recoverable funds are the property of the government and are returned to the government at the end of the fiscal year.

Unspent funds cannot be carried forward from one fiscal year to the next. The LHIN or MOHLTC (whichever is the applicable funder) will recover unspent funds as soon as possible after an HSP submits its settlement forms and audited financial statements.

The LHIN or MOHLTC (whichever is the applicable funder) recovers funds by reducing future payments/cash flow to the HSP. Interim recovery is based on the HSP's submitted settlement forms. Further adjustments may be made after the final budget review by the LHIN or MOHLTC (whichever is the applicable funder).

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- **Purchases Under \$5,000:** Minor capital expenses under \$5,000 can be incurred without LHIN or MOHLTC (whichever is the applicable funder) approval. However, all purchases must be essential to the delivery of services and made prior to the end of the fiscal year.
- **Purchases Over \$5,000:** After the budget is approved, HSPs are required to seek LHIN or MOHLTC approval (whichever is the applicable funder) in writing for any capital purchase over \$5,000 (e.g., equipment, leasehold improvements, renovations). The HSP is expected to request at least three quotes for the items, and to keep the quotes on file. If the agency did not secure three quotes, it must include in its request the justification for purchasing from the supplier (e.g., only supplier able to deliver, only supplier to provide support, quality of product).
- **Procurement of Goods and Services:** HSPs shall have a procurement policy in place that requires the acquisition of supplies, equipment or services valued at over \$25,000 through a competitive process that ensures the best value for funds expended. If the HSP acquires supplies, equipment or services with LHIN or MOHLTC funding (whichever is applicable) it shall do so through a process that is consistent with this policy. Assets purchased at a cost of which exceeds [\$25,000] at the time of purchase must be reported to the LHIN or MOHLTC (whichever is the applicable funder) annually.
- **Funding for Major Capital Expenses (more than \$100,000):** HSPs requiring major capital funding (more than \$100,000) for building renovations can apply to another source of funding within MOHLTC. To qualify for this funding, HSPs must first submit a proposal using the Capital Project Request Form to the LHIN for confirmation of support or endorsement and then to the MOHLTC copying the LHIN. Additional information on major capital funding is available in the MOHLTC Capital Planning Manual.

ii. SECTOR SPECIFIC REQUIREMENTS

Community Support Services

- **Funding for Community Services:** The LHIN or MOHLTC will fund up to 100% of approved expenditures minus revenue from other sources such as client fees and local fundraising for eligible services.
- **Client Fees:** Client fees must be charged for meals-on-wheels, wheels-to-meals/diners club, transportation, the meals and transportation services of the adult day service, home maintenance and repair.

In the case of brokered services a client fee may be paid directly to the person or company that performs the work. Client fees for brokered services are not included in the budget.

Community Health Centres

Non-Insured Clients: Some CHCs receive funding to provide diagnostic services (laboratory and x-ray) and/or specialist care (OHIP listed procedures) for their non-insured clients. Funding provided to purchase these services shall not be used for any other purpose.

CHCs that purchase these services shall:

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- Ensure payments made for such services are in accordance with OHIP fee schedules;
- Cover specialists' services only if provided in a provider's office, at the client's home or in a hospital; and
- Cover only those hospital-related costs that the MOHLTC would cover for an Ontario resident with OHIP coverage.

CHCs receiving non-insured client funding shall report on the expenditure of these funds. Any unspent funds are subject to recovery.