

**AGENDA**  
**MIDDLESEX-LONDON BOARD OF HEALTH**  
**Finance and Facilities Committee**

50 King Street, London  
Middlesex-London Health Unit – Room 3A  
Thursday, June 11, 2015 9:00 a.m.

**1. DISCLOSURE OF CONFLICTS OF INTEREST**

**2. APPROVAL OF AGENDA**

**3. APPROVAL OF [MINUTES](#)**

**4. BUSINESS ARISING FROM MINUTES**

**5. NEW BUSINESS**

- 5.1. 2014 Draft Financial Statements (Report No. 15-15FFC)
- 5.2. Sick Leave Reserve Position (Report No. 16-15FFC)
- 5.3. 2014 Reserve/Reserve Fund Balances (Report No. 17-15FFC)

**6. CONFIDENTIAL**

**7. OTHER BUSINESS**

Next meeting Thursday, July 2, 2015 at 9:00 a.m.

**8. ADJOURNMENT**



**PUBLIC MINUTES**  
**Finance and Facilities Committee**  
**50 King Street, Room 3A**  
**MIDDLESEX-LONDON BOARD OF HEALTH**  
**2015 May 7 9:00 a.m.**

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**COMMITTEE**

**MEMBERS PRESENT:** Mr. Ian Peer  
Mr. Marcel Meyer  
Ms. Joanne Vanderheyden  
Mr. Jesse Helmer (via telephone)

**REGRETS:** Ms. Trish Fulton

**OTHERS PRESENT:** Dr. Christopher Mackie, Medical Officer of Health and CEO  
Mr. John Millson, Director, Finance and Operations  
Ms. Sherri Sanders, Executive Assistant to the Board of Health (Recorder)  
Ms. Mary Lou Albanese, Manager, Environmental Health and Chronic Disease Prevention Services  
Ms. Laura Di Cesare, Director, Human Resources and Corporate Strategy (for Report No. 012-15FFC only)  
Dr. Trevor Hunter, Board of Health Member

At 9:00 a.m., Mr. Peer welcomed everyone to the meeting.

**1. DISCLOSURES OF CONFLICT(S) OF INTEREST**

Mr. Peer inquired if there were any disclosures of conflict of interest to be declared. None were declared.

**2. APPROVAL OF AGENDA**

It was moved by Ms. Vanderheyden, seconded by Mr. Meyer that the [AGENDA](#) for the May 7, 2015 Finance and Facilities meeting be approved.

Carried

**3. APPROVAL OF MINUTES**

It was moved by Ms. Vanderheyden, seconded by Mr. Meyer that the [MINUTES](#) from the February 12, 2015 Finance and Facilities Committee Meeting be approved.

Carried

**4. BUSINESS ARISING FROM MINUTES –none**

**5. NEW BUSINESS**

**5.1. 2014 Vendor Payments & Visa Purchases (009-15FFC)**

Mr. John Millson, Director, Finance and Operations, reviewed the report with Committee members. Discussion ensued about the use of a point/rewards systems associated with some corporate credit cards. Mr. Millson replied that this has been explored, and the Health Unit does not qualify for such programs.

It was moved by Mr. Meyer, seconded by Ms. Vanderheyden *that the Finance & Facilities Committee receive Report No. 009-15FFC re 2014 Vendor / VISA Payments for information.*

Carried

**5.2. Sole Source Vendor – Evaluation of the School Travel Planning Program for the Active and Safe Routes to School Committee (010-15FFC)**

Ms. Mary Lou Albanese, Manager, Environmental Health, assisted Committee members with their understanding of this report. Ms. Albanese reported that the program started with in-kind contributions before funding was provided through the Healthy Communities Fund. Ms. Albanese reported that when the evaluation phase is completed, Dr. Jason Gilliland, Director, Human Environments Analysis Laboratory of Western University, will present to the Board of Health.

Discussion ensued about the need for funding in the research phase versus implementation phase. Ms. Albanese explained that the research is necessary to incorporate the program into school board policies.

Discussion ensued about the barriers faced with walking to school. Ms. Albanese explained that part of the evaluation phase will identify barriers, such as stranger danger, to recommend strategies to overcome the barriers.

It was moved by Mr. Meyer, seconded by Mr. Helmer *that the Finance and Facilities Committee receive Report No.010-15FFC re Evaluation of the School Travel Planning Program - Single Source Vendor for information.*

Carried

**5.3. 2015 BOH Compensation (011-15FFC)**

It was moved by Ms. Vanderheyden, seconded by Mr. Meyer *that the Finance & Facilities Committee make recommendation to the Board of Health to increase the Board of Health member compensation rate for a half day meeting to \$147.04 retroactively to January 1, 2015.*

Carried

**5.4. Great-West Life Benefits - Renewal (012-15FFC)**

Mr. Millson reported that the current benefits carrier, Great West Life, offers more reasonable fees than the previous carrier did. Ms. Laura Di Cesare, Director, Human Resources and Corporate Strategy, explained there has been an increase in claims due to the aging population of Health Unit staff. Ms. Di Cesare reported that not all drugs have a generic form currently available. Future negotiations could include generic drugs and exclusion of the more expensive drugs; however, this would have to be negotiated at the bargaining table.

In response to a question about the implications of the \$55,000 benefit fee increase, Dr. Mackie responded that this has been considered in the preparation of the next item re Q1 Variance Report ([013-15FFC](#)).

It was moved by Ms. Vanderheyden, seconded by Mr. Meyer *that the Finance & Facilities Committee review and make recommendation to the Board of Health to approve the renewal of the group insurance rates administered by Great-West Life as describe in Report No. 012-15FFC re Great-West Life Benefits – Renewal Rates.*

Carried

**5.5. Q1 Variance Report (013-15FFC)**

Mr. Millson and Dr. Mackie reviewed this report with Committee members.

Mr. Millson explained that the \$55,000 increase in benefit fees is incorporated into the estimated 2015 deficit (based on Q1) of \$157,093. Committee members discussed monthly updates on the variance. Mr. Millson agreed to monitor financial data to identify variances on a monthly basis and notify FFC of any that would have a material impact on financial projections.

It was moved by Ms. Vanderheyden, seconded by Mr. Meyer *that the Finance and Facilities Committee receive Report 013-15FFC re Q1 Financial Update for information.*

Carried

**6. CONFIDENTIAL**

At 9:55 a.m., it was moved by Ms. Vanderheyden, seconded by Mr. Meyer *that the Finance and Facilities Committee move in camera to discuss matters concerning a proposed or pending acquisition of land by the Middlesex-London Board of Health.*

Carried

At 10:40 a.m., it was moved by Ms. Vanderheyden, seconded by Mr. Meyer *that the Finance and Facilities Committee return to a public forum to report that progress was made in matters concerning a proposed or pending acquisition of land by the Middlesex-London Board of Health.*

Carried

**7. OTHER BUSINESS**

The next scheduled meeting of the FFC is Thursday, June 11, 2015 at 9:00 a.m.

**8. ADJOURNMENT**

At 10:50 a.m., it was moved by Ms. Vanderheyden, seconded by Mr. Meyer *that the meeting be adjourned.*

Carried

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IAN PEER  
Acting Committee Chair

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CHRISTOPHER MACKIE  
Secretary-Treasurer



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health

DATE: 2015 June 11

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## 2014 DRAFT FINANCIAL STATEMENTS

### **Recommendation**

*It is recommended that the Finance & Facilities Committee review and make recommendation to the Board of Health to approve the audited Financial Statements for the Middlesex-London Health Unit, December 31<sup>st</sup>, 2014 as appended to Report No. 15-15FFC.*

### **Key Points**

- Attached as Appendix A are the draft Financial Statements for the Middlesex-London Health Unit relating to the operating period January 1<sup>st</sup> to December 31<sup>st</sup>, 2014.
- The preparation of the financial statements is the responsibility of the Health Unit's management. The financial statements have been prepared in compliance with legislation and in accordance with Canadian public sector accounting standards.
- A summary of significant accounting policies are described in Note 1 to the financial statements.

### **Financial Overview**

This report provides an overview of the financial information found in both the Statement of Financial Position and the Statement of Operations. The Statement of Financial Position can be found on page three of the financial statements ([Appendix A](#)). The Health Unit has approximately \$4.1 million in cash and near cash financial assets to offset its \$2.7 million short-term financial liabilities, and \$2.0 million in long-term liabilities. These financial liabilities as at December 31, 2014 include the following:

Short-term liabilities: (often paid in the next operating year)

- 1) \$0.6 million in amounts owing to the Province of Ontario, and the Government of Canada
- 2) \$1.2 million in unpaid accounts payable and accrued liabilities
- 3) \$0.9 million in accrued wages and benefits

Long-term liabilities: (often extends past the next operating year)

- 4) \$0.2 million is sick leave liability (which is funded through a reserve fund)
- 5) \$1.8 million in post-employment benefits

With regards to the \$1.8 million post-employment benefits liability above, this is the estimated amount required to fund all future costs associated with providing post-retirement benefits. This liability is currently unfunded, however, each year an estimated amount required for the current year is included as part of the operating budget.

The non-financial assets which total \$2.2 million include the net book value of the Health Unit's tangible capital assets, such as lease hold improvements and computer systems, and prepaid expenses.

The last amount on the Consolidated Statement of Financial Position is the Accumulated Surplus for the Health Unit. It represents the net financial and physical resources available to provide future services. The details of what makes up the balance can be found in Note 7 on page 14 of the draft financial statements. The details of the reserve / reserve fund changes are discussed in Report No. 17-15FFC of this agenda. Of particular interest are the contributions to the Employment Costs Reserve Fund of \$176,077, and \$250,000 to the Technology & Infrastructure Reserve Fund for total contributions of \$426,077. In the 2014 Board approved operating budget, \$450,000 was planned, which leaves a difference of \$23,923.

Turning to page 4 of the consolidated financial statements you can find the Consolidated Statement of Operations which details the Health Unit's revenue and expenditures for 2014. As can be seen, the total revenue of \$35.2 million comprised of \$33.6 million (95.5%) in grant revenue from four sources, the Province of Ontario (\$26.1 million or 77.7% of total revenue), the Government of Canada (\$0.2 million or 0.6% of total revenue), The Corporation of the City of London (\$6.1 million or 18.2% of total revenue), and The Corporation of the County of Middlesex (\$1.2 million or 3.5% of total revenue). The remaining \$1.6 million (4.5% of total revenue) comes from program revenue, interest, and other off-set revenues.

The revenues provided for expenditures of \$35.3 million, which includes a \$0.9 million (2.5% of total expenditures) charge (non-cash) for amortization expense which is the decreasing value of the tangible capital assets for 2014. Note #4 beginning on page 12 provides a schedule of changes to the tangible capital assets. The majority of the expenditures continue to be salaries and benefits which total \$ 25.7 million (72.8%). The remaining \$8.7 million (24.6%) consists of travel (1.1%), materials and supplies (3.6%), professional services (10.5%), rent and maintenance (4.5%), and other expenses (4.9%).

### **Audit Findings Report**

Attached as [Appendix B](#) is KPMG's Audit Findings Report which will be presented at the June 11<sup>th</sup> meeting. A common practice in presenting the report is for the Auditors to meet in private with a Board of Directors excluding the Chief Executive Officer, Chief Financial Officer and all other staff.

Mr. John Millson, Director, Finance and Operations, Ms. Melissa Wale, Audit Manager, KPMG LLP, and Mr. Ian Jeffreys, Partner, KPMG LLP will be in attendance at the June 11<sup>th</sup> Board meeting to address any questions regarding this report.

This report was prepared by Mr. John Millson, Director of Finance & Operations.



Christopher Mackie, MD, MHSc, CCFP, FRCPC  
Medical Officer of Health

DRAFT

Financial Statements of

**MIDDLESEX-LONDON HEALTH UNIT**

Year ended December 31, 2014





# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements  
Year ended December 31, 2014

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## Financial Statements

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# **MIDDLESEX-LONDON HEALTH UNIT**

DRAFT - Financial Statements

Year ended December 31, 2014

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## **Management's Responsibility for the Financial Statements**

The accompanying financial statements of the Middlesex-London Health Unit ("Health Unit") are the responsibility of the Health Unit's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Health Unit's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Finance & Facilities Committee meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the City of London. The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Health Unit's financial statements.

Dr. Christopher Mackie, MD  
Medical Officer of Health &  
Chief Executive Officer

John Millson, BA, CPA, CGA  
Director, Finance & Operations

Ian Peer, Chair  
Board of Health

## INDEPENDENT AUDITORS' REPORT

To the Chair and Members, Middlesex-London Board of Health

We have audited the accompanying financial statements of Middlesex-London Health Unit, which comprise the statement of financial position as at December 31, 2014, the statements of operations, change in net debt, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Middlesex-London Health Unit as at December 31, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

"DRAFT"

Chartered Professional Accountants, Licensed Public Accountants

*June 2015*

London, Canada

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
<b>Financial Assets</b>		
Cash	\$ 3,421,643	\$ 5,373,430
Accounts receivable	370,630	301,798
Grants receivable	344,553	140,234
	<u>4,136,826</u>	<u>5,815,462</u>
<b>Financial Liabilities</b>		
Province of Ontario	447,389	916,210
Government of Canada	98,681	68,197
The Corporation of the City of London	-	883,602
The Corporation of the County of Middlesex	-	168,300
Accounts payable and accrued liabilities	1,206,008	1,531,844
Accrued wages and benefits	905,124	1,136,256
Vested sick leave liability (note 2(a))	156,401	179,975
Post-employment benefits liability (note 2(b))	1,840,000	1,799,200
	<u>4,653,603</u>	<u>6,683,584</u>
Net Debt	(516,777)	(868,122)
<b>Non-Financial Assets</b>		
Tangible capital assets (note 4)	1,961,025	2,460,318
Prepaid expenses	182,991	174,659
	<u>2,144,016</u>	<u>2,634,977</u>
Commitments (note 5)		
Contingencies (note 6)		
Accumulated Surplus (note 7)	\$ 1,627,239	\$ 1,766,855

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

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Statement of Operations

Year ended December 31, 2014, with comparative information for 2013

	2014 Budget	2014	2013
Revenue:			
Grants:			
Ministry of Health and Long-Term Care	\$ 20,488,045	\$ 20,924,053	\$ 20,580,751
Ministry of Children and Youth Services	5,179,323	5,156,343	5,128,113
Government of Canada	271,967	212,833	159,602
The Corporation of the City of London	6,095,059	6,095,059	5,377,922
The Corporation of the County of Middlesex	1,160,961	1,160,961	1,024,366
	33,195,355	33,549,249	32,270,754
Other:			
Property search fees	3,750	2,050	2,297
Family planning	285,000	260,502	284,676
Dental service fees	228,884	199,881	210,380
Investment income	21,200	20,531	21,863
Prenatal class income	8,140	5,210	5,270
Other income (note 8)	317,287	1,147,758	840,594
	864,261	1,635,932	1,365,080
<b>Total Revenue</b>	<b>34,059,616</b>	<b>35,185,181</b>	<b>33,635,834</b>
Expenditures:			
Salaries:			
Medical Officers of Health	481,617	423,345	464,075
Public Health Nurses	9,075,018	9,266,539	8,728,412
Public Health Inspectors	2,567,292	2,460,376	2,414,948
Administrative staff	3,527,524	3,642,632	3,585,882
Dental staff	972,412	977,259	895,108
Other salaries	2,804,612	3,558,592	3,472,081
	19,428,475	20,328,743	19,560,506
Other Operating:			
Benefits	5,287,242	5,413,598	5,186,419
Travel	471,542	401,543	410,229
Materials and supplies	1,041,609	1,288,360	1,311,062
Professional services	3,865,330	3,662,763	3,632,270
Rent and maintenance	1,543,753	1,600,988	1,581,634
Amortization expense	484,563	904,924	961,503
Other expenses (note 9)	1,487,102	1,723,878	1,538,344
	14,181,141	14,996,054	14,621,461
<b>Total Expenditures</b>	<b>33,609,616</b>	<b>35,324,797</b>	<b>34,181,967</b>
Annual surplus / (deficit)	450,000	(139,616)	(546,133)
Accumulated surplus, beginning of year	1,766,855	1,766,855	2,312,988
Accumulated surplus, end of year	\$ 2,216,855	\$ 1,627,239	\$ 1,766,855

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

## MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Statement of Changes in Net Debt

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Annual deficit	\$ (139,616)	\$ (546,133)
Acquisition of tangible capital assets	(405,631)	(451,231)
Amortization of tangible capital assets	904,924	961,503
	359,677	(35,861)
Acquisition of prepaid expenses	(182,991)	(174,659)
Use of prepaid expenses	174,659	137,355
	(8,332)	(37,304)
Change in net debt	351,345	(73,165)
Net debt, beginning of year	(868,122)	(794,957)
Net debt, end of year	\$ (516,777)	\$ (868,122)

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

## MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Statement of Cash Flows

December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual deficit	\$ (139,616)	\$ (546,133)
Items not involving cash:		
Amortization	904,924	961,503
Change in employee benefits and other liabilities	17,226	68,089
Change in non-cash assets and liabilities:		
Accounts receivable	(68,832)	142,434
Grants receivable	(204,319)	(28,798)
Prepaid expenses	(8,332)	(37,304)
Due to Province of Ontario	(468,821)	(295,242)
Due to Government of Canada	30,484	49,327
Due to The Corporation of the City of London	(883,602)	717,137
Due to The Corporation of the County of Middlesex	(168,300)	136,595
Accounts payable and accrued liabilities	(325,836)	(436,290)
Accrued wages and benefits	(231,132)	190,640
Net change in cash from operating activities	(1,546,156)	921,958
Capital activities:		
Cash used to acquire tangible capital assets	(405,631)	(451,231)
Net change in cash from capital activities	(405,631)	(451,231)
Net change in cash	(1,951,787)	470,727
Cash and cash equivalents, beginning of year	5,373,430	4,902,703
Cash and cash equivalents, end of year	\$ 3,421,643	\$ 5,373,430

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

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Notes to Financial Statements

Year ended December 31, 2014

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The Middlesex-London Health Unit (“Health Unit”) is a joint local board of the municipalities of The Corporation of the City of London and The Corporation of the County of Middlesex that was created on January 1, 1972. The Middlesex-London Health Unit provides programs which promote healthy and active living throughout the participating municipalities.

## 1. Significant accounting policies:

The financial statements of the Middlesex-London Health Unit are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Middlesex-London Health Unit are as follows:

### (a) Basis of presentation:

The financial statements reflect the assets, liabilities, revenue and expenditures of the reporting entity. The reporting entity is comprised of all programs funded by the Province of Ontario, The Corporation of the City of London, and The Corporation of the County of Middlesex. It also includes other programs that the Board of Health may offer from time to time with special grants and/or donations from other sources.

Inter-departmental transactions and balances have been eliminated.

### (b) Basis of accounting:

Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of donations, which are included in the statement of operations as received.

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of services and the creation of a legal obligation to pay.

The operations of the Middlesex-London Health Unit are funded by government transfers from the Province of Ontario, The Corporation of the City of London and The Corporation of the County of Middlesex. Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made. Government transfers not received at year end are recorded as grants receivable due from the related funding organization in the statement of financial position.

Funding amounts in excess of actual expenditures incurred during the year are either contributed to reserves or reserve funds, when permitted, or are repayable and are reflected as liabilities due from the related funding organization in the statement of financial position.



# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

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## 1. Significant accounting policies (continued):

### (c) Employee future benefits:

- (i) The Middlesex-London Health Unit provides certain employee benefits which will require funding in future periods. These benefits include sick leave, life insurance, extended health and dental benefits for early retirees.

The cost of sick leave, life insurance, extended health and dental benefits are actuarially determined using management's best estimate of salary escalation, accumulated sick days at retirement, insurance and health care cost trends, long term inflation rates and discount rates.

- (ii) The cost of multi-employer defined benefit pension plan, namely the Ontario Municipal Employees Retirement System (OMERS) pensions, are the employer's contributions due to the plan in the period. As this is a multi-employer plan, no liability is recorded on the Middlesex-London Health Unit's general ledger.

### (d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives that extend beyond the current year and are not intended for sale in the ordinary course of operations.

- (i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributed to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over the estimated useful lives as follows:

<b>Asset</b>	<b>Useful Life - Years</b>
Leasehold Improvements	5 - 15
Computer Systems	4
Furniture	7

Assets under construction are not amortized until the asset is available for productive use.

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

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## 1. Significant accounting policies (continued):

### (d) Non-financial assets (continued):

#### (ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair market value at the date of receipt and also are recorded as revenue.

#### (iii) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payment are charged to expense as incurred.

### (e) Use of estimates:

The preparation of the Middlesex-London Health Unit's financial statements requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits.

In addition, the Middlesex-London Health Unit's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of the useful lives of tangible capital assets.

Actual results could differ from these estimates.

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

## 2. Employee future benefits:

The Middlesex-London Health Unit provides certain employee benefits which will require funding in future periods, as follows:

(a) Vested sick leave liability:

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Middlesex-London Health Unit's employment. This plan applies to employees hired prior to January 1, 1982.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination, amounted to \$156,401 (2013 - \$179,975) at the end of the year.

A reserve of \$283,876 has been established to meet future commitments for this liability.

(b) Post-retirement benefits liability:

The Middlesex-London Health Unit pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age sixty-five. The Middlesex-London Health Unit recognizes these post-retirement costs in the period in which the employees render services. The most recent actuarial valuation was performed as at December 31, 2014.

	2014	2013
Accrued employee future benefit obligations	\$ 2,257,800	\$ 1,760,200
Unamortized net actuarial gain/(loss)	(417,800)	39,000
<b>Employee future benefits liability as of December 31</b>	<b>\$ 1,840,000</b>	<b>\$ 1,799,200</b>

Retirement and other employee future benefit expenses included in the benefits in the statement of operations consist of the following:

	2014	2013
Current year benefit cost	\$ 111,100	\$ 120,400
Interest on accrued benefit obligation	67,100	79,600
Amortization	300	30,400
<b>Total benefit cost</b>	<b>\$ 178,500</b>	<b>\$ 230,400</b>

Benefits paid during the year were \$ 137,700 (2013 - \$167,300).

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

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## 2. Employee future benefits (continued):

### (c) Post-retirement benefits liability (continued):

The main actuarial assumptions employed for the valuation are as follows:

#### (i) Discount rate:

The obligation as at December 31, 2014, of the present value of future liabilities and the expense for the year ended December 31, 2014, are determined using a discount rate of 3.75% (2013 – 3.75%).

#### (ii) Medical costs:

Prescription drug costs are assumed to increase at the rate of 8% per year (2013 - 7%) declining to 4% per year over 20 years. Other Medical and Vision costs are assumed to increase at a rate of 4% per year, and 0% per year respectively.

#### (iii) Dental costs:

Dental costs are assumed to increase at the rate of 4% per year (2013 - 4%).

## 3. Pension agreement:

The Middlesex-London Health Unit contributes to the Ontario Municipal Employees Retirement Fund (OMERS) which is a multi-employer plan, on behalf of 339 members. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

During 2014, the plan required employers to contribute 9.0% of employee earnings up to the year's maximum pensionable earnings and 14.6% thereafter. The Health Unit contributed \$1,908,308 (2013 - \$1,829,910) to the OMERS pension plan on behalf of its employees during the year ended December 31, 2014.

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

## 4. Tangible Capital Assets:

Cost	Balance at December 31, 2013	Additions	Disposals	Balance at December 31, 2014
Leasehold Improvements – 15 years	\$ 2,643,847	\$ -	\$ -	\$ 2,643,847
Leasehold Improvements – 5 years	172,879	2,191	-	175,070
Computer Systems	1,542,561	266,971	(289,485)	1,520,047
Furniture & Equipment	2,368,180	136,469	(374,135)	2,130,514
<b>Total</b>	<b>\$ 6,727,467</b>	<b>\$ 405,631</b>	<b>\$ (663,620)</b>	<b>\$ 6,469,478</b>

Accumulated amortization	Balance at December 31, 2013	Amortization expense	Disposals	Balance at December 31, 2014
Leasehold Improvements – 15 years	\$ 1,690,171	\$ 317,892	\$ -	\$ 2,008,063
Leasehold Improvements – 5 years	143,735	10,080	-	153,815
Computer Systems	969,371	312,922	(289,485)	992,808
Furniture & Equipment	1,463,872	264,030	(374,135)	1,353,767
<b>Total</b>	<b>\$ 4,267,149</b>	<b>\$ 904,924</b>	<b>\$ (663,620)</b>	<b>\$ 4,508,453</b>

	Net book value December 31, 2013	Net book value December 31, 2014
Leasehold Improvements – 15 years	\$ 953,676	\$ 635,784
Leasehold Improvements – 5 years	29,144	21,255
Computer Systems	573,190	527,239
Furniture & Equipment	904,308	776,747
<b>Total</b>	<b>\$ 2,460,318</b>	<b>\$ 1,961,025</b>

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

## 4. Tangible Capital Assets (continued):

Cost	Balance at December 31, 2012	Additions	Disposals	Balance at December 31, 2013
Leasehold Improvements – 15 years	\$ 2,642,714	\$ 1,133	\$ -	\$ 2,643,847
Leasehold Improvements – 5 years	172,879	-	-	172,879
Computer Systems	1,615,680	269,383	(342,502)	1,542,561
Furniture & Equipment	2,477,971	180,715	(290,506)	2,368,180
<b>Total</b>	<b>\$ 6,909,244</b>	<b>\$ 451,231</b>	<b>\$ (633,088)</b>	<b>\$ 6,727,467</b>

Accumulated amortization	Balance at December 31, 2012	Amortization expense	Disposals	Balance at December 31, 2013
Leasehold Improvements – 15 years	\$ 1,372,469	\$ 317,702	\$ -	\$ 1,690,171
Leasehold Improvements – 5 years	114,590	29,145	-	143,735
Computer Systems	996,091	315,782	(342,502)	969,371
Furniture & Equipment	1,455,504	298,874	(290,506)	1,463,872
<b>Total</b>	<b>\$ 3,938,654</b>	<b>\$ 961,503</b>	<b>\$ (633,008)</b>	<b>\$ 4,267,149</b>

	Net book value December 31, 2012	Net book value December 31, 2013
Leasehold Improvements – 15 years	\$ 1,270,245	\$ 953,676
Leasehold Improvements – 5 years	58,289	29,144
Computer Systems	619,589	573,190
Furniture & Equipment	1,022,467	904,308
<b>Total</b>	<b>\$ 2,970,590</b>	<b>\$ 2,460,318</b>

During the year, the Health Unit deemed to have disposed of fully amortized assets with a cost basis of \$663,620 (2013 - \$633,008).

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

## 5. Commitments:

The Middlesex-London Health Unit is committed under operating leases for office equipment and rental property.

Future minimum payments to expiry are as follows:

2015	\$ 911,852
2016	857,311
2017	70,800
2018	70,800
2019	35,400

## 6. Contingencies:

From time to time, the Health Unit is subject to claims and other lawsuits that arise in the ordinary course of business, some of which may seek damages in substantial amounts. These claims may be covered by the Health Unit's insurance. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely and it is estimable.

## 7. Accumulated Surplus:

Accumulated surplus consists of individual fund surplus and reserves as follows:

	2014	2013
Surpluses:		
Invested in tangible capital assets	\$ 1,961,025	\$ 2,460,318
Unfunded:		
Sick leave benefits	(156,401)	(179,975)
Post-employment benefits	(1,840,000)	(1,799,200)
Total Surplus	(35,376)	481,143
Reserves set aside by the Board:		
Accumulated sick leave	283,876	307,314
Funding stabilization	818,258	818,258
Employment Costs	176,077	-
Technology & Infrastructure	250,000	-
Environmental – septic tank	6,044	6,044
Dental Treatment reserve	128,360	154,096
Total reserves	1,662,615	1,285,712
Accumulated surplus	\$ 1,627,239	\$ 1,766,855

# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

## 8. Other income:

The following revenues are presented as other income in the statement of operations:

	2014 Budget	2014 Actual	2013 Actual
Collaborative project revenues	\$ 2,269	\$ 422,868	\$ 169,105
Food handler training	42,750	59,015	64,931
Public Fit-testing	15,000	16,849	-
Miscellaneous revenues	191,795	347,500	259,518
Vaccine sales	61,925	293,611	321,065
Workshop fees	3,548	7,915	25,975
	\$ 317,287	\$ 1,147,758	\$ 840,594

## 9. Other expenses:

The following expenditures are presented as other expenses in the statement of operations:

	2014 Budget	2014 Actual	2013 Actual
Communications	\$ 209,188	\$ 183,772	\$ 190,109
Health promotion/advertising	510,143	526,810	418,658
Miscellaneous expenses	412,150	691,559	596,004
Postage and courier	69,125	61,233	75,232
Printing	131,433	122,327	151,376
Staff development	155,063	138,177	106,965
	\$ 1,487,102	\$ 1,723,878	\$ 1,538,344



# MIDDLESEX-LONDON HEALTH UNIT

DRAFT - Financial Statements (continued)

Year ended December 31, 2014

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## 10. Budget data:

The budget data presented in these financial statements is based upon the 2014 operating budgets approved by the Board of Health on February 26, 2014. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these financial statements

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Revenues:	
Operating budget	\$ 34,059,616
Expenses:	
Operating budget	33,125,053
Capital budget	484,563
Total expenses	33,609,616
Annual surplus, as budgeted	450,000
Amortization	904,924
Capital expenditures	(405,631)
Annual surplus	\$ 499,293

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AUDIT

# Middlesex-London Health Unit

Audit Findings Report  
For the year ended December 31, 2014



Licensed Public Accountants

June 11, 2015

kpmg.ca





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The contacts at KPMG in connection with this report are:

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Audit Manager

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

# Executive summary

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## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Facilities Committee, in your review of the results of our audit of the financial statements of the Middlesex-London Health Unit as at and for the year ended December 31, 2014.

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## Audit risks and results

We identified a significant financial reporting risk relating to fraud risk over management override of controls. We are satisfied that our audit work has appropriately dealt with this risk.

No other significant financial reporting risks were identified during the audit; however, we have identified some other areas of audit focus to discuss with you.

*See pages 5 – 7.*

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## Audit adjustments and differences

We did not identify differences that remain uncorrected.

As well, we did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

# Executive summary (continued)

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## Finalizing the audit

As of May 26, 2015, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with the Finance & Facilities Committee;
- obtaining evidence of the Board's approval of the financial statements;
- receipt of the signed management representation letter

We will update you on significant matters, if any arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

---

## Control and other observations

We identified a control deficiency related to the review of journal entries.

*See page 10.*

## Critical accounting estimates

Overall we are satisfied with the reasonability of critical accounting estimates taken.

- Management identifies all accounting estimates and establishes processes for making accounting estimates.
- There are no indicators of management bias as a result of our audit over estimates.
- Disclosure of estimation uncertainty in the financial statements is included in Note 1(e), Use of estimates. This note provides information on areas in the financial statements that include estimates.
- Management evaluates these estimates on a regular basis to ensure they are appropriate.

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## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

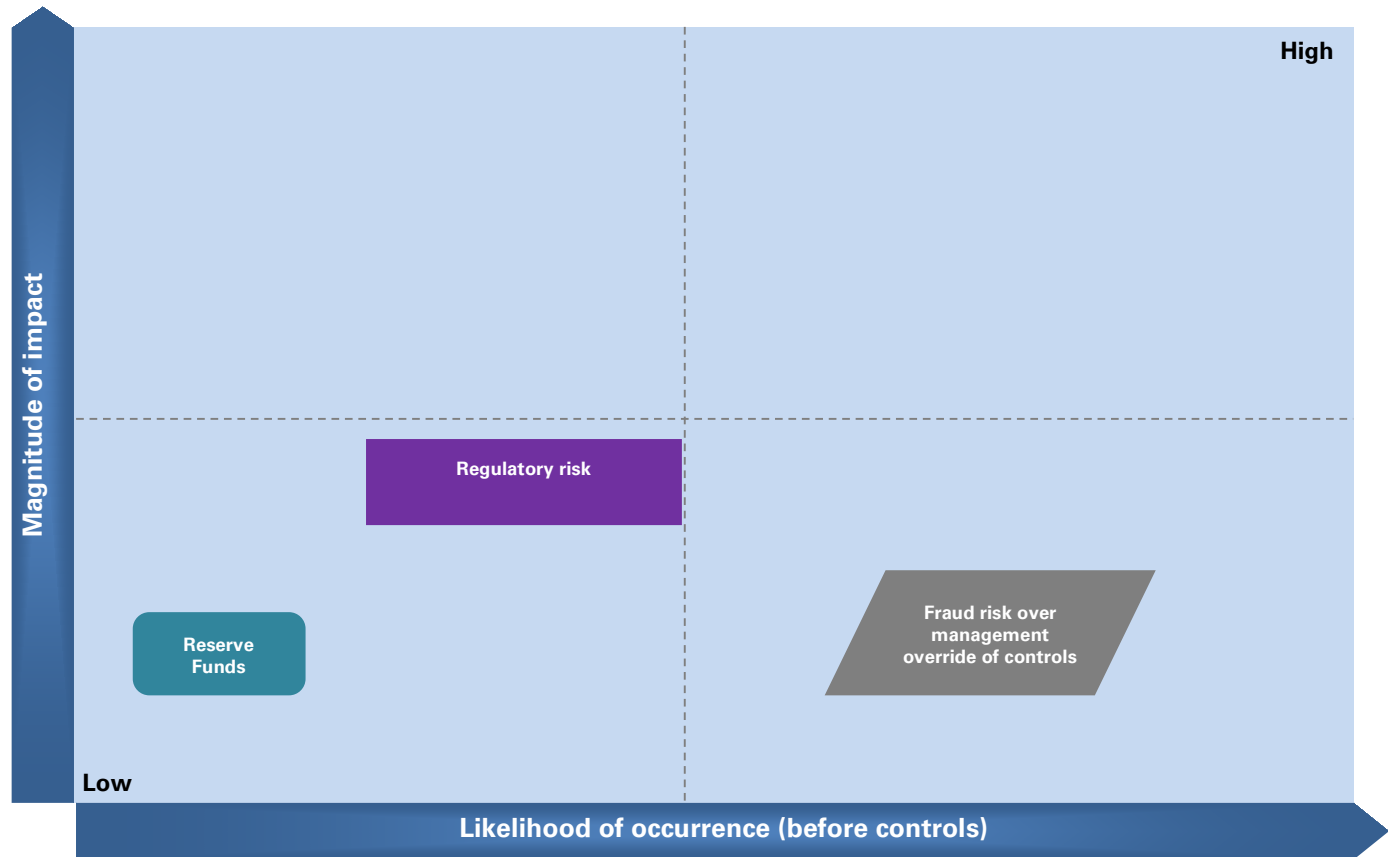
## Independence




We are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

\* This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance & Facilities Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Audit risks and results

This diagram is our top-down view of the key financial reporting risks and their potential misstatement impact, mapped against the likelihood of a misstatement occurring (before controls).



-  Significant risks, including estimates and judgement
-  Control and operational risks
-  Other areas of focus

# Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks.

## Significant financial reporting risks

### Why

### Our significant findings from the audit

Fraud risk over management override of controls

This is a presumed fraud risk.  
We have not identified any specific additional risks of management override relating to this audit.

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.  
No significant findings were identified as a result of the procedures performed during the audit.

# Audit risks and results

Other areas of focus for our audit, include the following:

Other areas of focus	Why	Our significant findings from the audit
Reserve Funds	In fiscal 2014, the Health Unit created two new reserve funds for which up to \$450,000 of unused funding can be transferred per year from the City of London and the County of Middlesex.	As at December 31, 2014, \$426,077 was held in these reserve accounts instead of showing as payable to the City of London and the County of Middlesex at year end. KPMG agreed the creation of these reserve accounts to the Board of Health Committee minutes and performed substantive procedures over revenue, expenses and payables to other levels of government. KPMG did not identify any issues during testing of this balance.



# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

**Form, arrangement, and content of the financial statements**

The form, arrangement, and content of the financial statements are appropriate for the Company's purposes.

# Audit adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected “adjustments” or Uncorrected “differences.” These include disclosure adjustments and differences.

## Materiality

In the performance of the audit, KPMG utilized a materiality of \$1,056,000 and an audit misstatement posting threshold of \$52,800. This was based on total expenses as a benchmark.

## Corrected audit adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements

## Uncorrected audit differences

We did not identify differences that remain uncorrected.

# Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

## Significant deficiencies

No significant control deficiencies have been identified.

## Other control deficiencies

Below is a summary of these other control deficiencies that we identified during the audit:

Process	Potential effect
Journal Entry Review	KPMG notes that there is not consistent review of non-standard journal entries or where there is review, it is not formally documented. This increases the risk of inappropriate journal entries being recorded. It is recommended that all non-standard journal entries be reviewed and signed as evidence that this review has taken place.

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Independence**

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**Appendix 3: Management representation letter**

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**Appendix 4: Audit Quality and Risk Management**

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**Appendix 5: Background and professional standards**

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**Appendix 6: Current developments**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Finance & Facilities Committee.

## Appendix 2: Independence

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

The following summarizes the professional services rendered by us to the Company:

### Description of professional services

Audit of the financial statements of Middlesex-London Health Unit for the year ended December 31, 2014

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards related to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services, and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services, and we have not made any management decisions or assumed responsibility for such decisions

# Appendix 3: Management representation letter

KPMG LLP  
1400-140 Fullarton Street  
London, Ontario N6A 5P2  
Canada

June 11, 2015

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the non-consolidated financial statements (hereinafter referred to as "financial statements") of Middlesex-London Health Unit ("the Entity") as at and for the period ended December 31, 2014.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 1, 2010, for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
  - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements



**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

**FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

**SUBSEQUENT EVENTS:**

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**RELATED PARTIES:**

- 5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission (“SEC”) Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

MIDDLESEX-LONDON HEALTH UNIT

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By: John Millson, Director, Finance & Operations

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By: Dr. Christopher Mackie, MD, Medical Officer of Health and Chief Executive Officer

## **Attachment I – Definitions**

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Canadian public sector accounting standards, *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian public sector accounting standards, a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

# Appendix 4: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
  - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 5: Background and professional standards

## **Internal control over financial reporting**

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## **Documents containing or referring to the audited financial statements**

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

# Appendix 6: Current developments

The following is a summary of the current developments that are presented for your information.

Topic	Summary and implications
<b>US Foreign Account Tax Compliance (FATCA) and Not-for-Profit Entities</b>	<p>Not-for-Profit entities must determine their status under FATCA to assess any possible reporting and/or withholding obligations.</p> <p><a href="#">US Foreign Account Tax Compliance (FATCA) and Not-for-Profit Entities</a></p>
<b>Cyber security</b>	<p>The threats from cyber adversaries are continuing to grow in scale and sophistication. NPOs worldwide now openly acknowledge that cyber attacks are one of the most prevalent and high impact risks they face.</p> <p><a href="#">Cyber security for Canada’s Not-for-Profit Organizations – Attack is certain – Your loss is not</a></p>
<b>Employer compliance audits</b>	<p>Recently, Canada Revenue Agency (“CRA”) has demonstrated a renewed focus on “Employer Compliance Audits”, which include a review of various employer-provided benefits, as well as the nature of the relationship that exists between an employer and its employees and other third party consultants.</p> <p><a href="#">Employer compliance audits – Are your benefits taxable?</a></p>
<b>Assets safeguarding</b>	<p>Fraud can derail the good work an NPO performs. Both the financial loss and the reputational damage that result from an incident of fraud can have lasting consequences and tarnish the goodwill created by the NPO’s past efforts.</p> <p><a href="#">Safeguarding Not-for-Profit Organizations from fraud</a></p>
<b>Income tax issues associated with operating a business</b>	<p>The funding landscape for organizations in the public sector has changed dramatically over the last number of years. Government or public funding agencies no longer have the ability to fully support public purpose organizations that were established legally as either Charities or NPO’s for tax purposes.</p> <p><a href="#">The income tax issues associated with operating a business within a Charity or Not-for-Profit organization</a></p>



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**Making the most of your charitable gifts for 2015**

How you structure your charitable donations can be as important as the amounts you give, both to the charity and to the donation's after-tax cost to you.

[Making the most of your charitable gifts for 2015](#)

**Why is Risk Management important for NPOs?**

Strong governance, supported by effective enterprise risk management, are foundational to a Not-for-Profit organization's ability to anticipate and effectively respond to complex challenges.

[The importance of Enterprise Risk Management to a Not-for-Profit organization](#)



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TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health

DATE: 2015 June 11

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## SICK LEAVE RESERVE FUND BALANCE

### **Recommendation**

*It is recommended that the Finance & Facilities Committee make recommendation to the Board of Health to approve a drawdown in 2015 in the amount of \$120,000 to partially fund the anticipated shortfall resulting from a retroactive payment to OMERS for past service benefits/adjustments.*

### **Key Points**

- The Sick Leave Reserve Fund was set up using savings related to the OMERS rate holiday to pay for unused sick leave benefits for eligible employees hired prior to January 1, 1982.
- The number of sick days and the employee's income are two variables that can change the amount of the liability prior to a payout.
- The value of the reserve fund is higher than the liability by \$127,475 as of the end of 2014.

### **Background**

The Sick Leave Reserve Fund was set up when Ontario Municipal Employee Retirement Savings (OMERS) experienced a rate holiday. This liability is related to employees hired prior to January 1, 1982, who can claim unused sick leave as a cash payment of up to a maximum of 6 months' salary when they leave the Middlesex-London Health Unit's employment. Currently there are less than 10 employees eligible for payment under this plan, with a current obligation of \$156,401. The reserve fund balance is \$283,876, which is \$127,475 more than required for the liability.

### **Reserve Fund Policy**

In November 2014, the Board of Health [revised](#) Policy 4-015, "Reserve /Reserve Fund Policy". The policy governs the establishment, maintenance, and use of Reserves and Reserve Funds. According to the policy, the maximum contributions to a reserve fund shall be the amount required to fulfil the specific requirement or obligation. The value of the requirement is calculated at the end of each operating year and is disclosed in the Health Unit's financial statements. For the sick leave liability, the value may change from year to year depending on the number of sick days each employee has accumulated, the change in wage rates, if there are any relevant retirements in the year.

### **Recommended Use of the Excess Reserve Fund Balance**

The Sick Leave Reserve Fund is over-funded by \$127,475 as at December 31, 2014. It is anticipated that the reserve fund will only be required for another 3-5 years and an additional \$7,475 should remain in the fund to allow for growth in the sick leave liability leaving \$120,000 remaining. It is recommended that the Finance & Facilities Committee make recommendation to the Board of Health to approve a drawdown in 2015, for this amount to partial fund the anticipated shortfall resulting from a payment to OMERS for past service benefits/adjustments. This would relieve current pressures on the 2015 operating budget and is in

keeping with the original source of funding of the reserve fund (OMERS benefits not paid during the contribution rate holiday).

### **Conclusion**

Given the Sick Leave Reserve Fund is currently over-funded by approximately \$120,000 and the revised policy states that reserve funds should have a maximum contribution of the amount required to meet the specific obligation, it is recommended to use the excess funds to partially pay for the retroactive payment to OMERS for past service benefits/adjustments.

John Millson, Director of Finance & Operations will be in attendance at the June 11<sup>th</sup> meeting to answer any questions the Committee members may have.

This report was prepared by Mr. John Millson, Director of Finance & Operations.

A handwritten signature in black ink, appearing to read 'C. Mackie', is positioned above the printed name and title.

Christopher Mackie, MD, MHSc, CCFP, FRCPC  
Medical Officer of Health



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health

DATE: 2015 June 11

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## 2014 RESERVE / RESERVE FUND BALANCES

### **Recommendation**

*That the Finance & Facilities Committee recommends that the Board of Health:*

- 1) Approve a \$23,438 drawdown from the Accumulated Sick Leave Reserve Fund to fund the 2014 sick leave payments to eligible staff; and further,*
- 2) Approve a \$25,736 drawdown from the Dental Treatment Reserve Fund to fund the 2014 Dental Treatment Clinic operating deficit; and further,*
- 3) Receive the 2014 -2015 Reserve / Reserve Fund Overview (Appendix A) for information, and*
- 4) Forward Report No. 17-15FFC, 2014 Reserve / Reserve Fund Balances to the City of London and the County of Middlesex for information.*

### **Key Points**

- The purpose of the report is to request approval of drawdowns from reserve funds for sick leave payments made in 2014, Dental Treatment Clinic operating deficit in 2014, and to provide a year over year account for the changes in the Reserves and Reserve Fund Balances as reported in the 2014 Financial Statements of the Middlesex-London Health Unit.
- The balance of the reserve and reserve funds increased by a net amount of \$376,903.

### **Background**

In accordance to Policy 4-015, "Reserve /Reserve Fund Policy" planned contributions and drawdowns to the reserves or reserve funds will be included in the annual operating budget approved by the Board of Health. Any unplanned drawdowns will be approved by resolution of the Board of Health. The policy also states that each year a report will be provided to the obligated municipalities outlining the transactions of the reserve and reserve funds. Attached as [Appendix A](#), is an overview of the reserve and reserve fund balances to December 31, 2014 and projections for 2015.

### **Planned Contributions**

Included in the Board approved 2014 operating budget was \$450,000 for contributions to two new reserve funds. In 2014 total contributions of \$426,077 were made to two reserve funds. \$176,077 (budget was \$200,000) was contributed to the Employment Costs Reserve Fund, and \$250,000 (budget was \$250,000) was made to the Technology & Infrastructure Reserve Fund. A further \$250,000 contribution to the Technology & Infrastructure Reserve Fund is planned for and is included in the 2015 Board approved operating budget.

**Unplanned / Projected Drawdowns**

The draft 2014 Financial Statements, as audited, also includes a total of \$49,174 in drawdowns from reserve funds for 2014. A \$23,438 drawdown is being recommended for a sick leave payout that was experienced due to an eligible staff retiring, and \$25,736 is being recommended to cover the 2014 operating deficit of the Dental Treatment Clinic. Both drawdowns are in keeping with the intended purpose of the respective reserve funds.

A total of \$237,430 in drawdowns are currently projected for the 2015 operating year and may require future Board of Health approvals. The projections consist of payments to eligible staff who are expected to retire in 2015, a drawdown of \$120,000 to partially fund the anticipated shortfall resulting from a payment to OMERS, and an anticipated deficit in the Dental Treatment Clinic.

**Conclusion**

It is recommended that the Board of Health approve \$49,174 in drawdowns to reserve funds to fund sick leave payments made in 2014 and to offset the operating deficit from the Dental Treatment Clinic.

Mr. John Millson, Director of Finance & Operations will be in attendance at the June 11<sup>th</sup> Committee meeting to address any questions regarding the report.



Christopher Mackie, MD, MHSc, CCFP, FRCPC  
Medical Officer of Health

## Middlesex-London Health Unit

## 2014 - 2015 Reserve / Reserve Fund Overview

Reserve / Reserve Fund	Balance 31-Dec-13	2014		Projected Balance 31-Dec-14	2015 Projected		Projected Balance 31-Dec-15
		Contributions <sup>2</sup>	Drawdowns		Contributions <sup>2</sup>	Drawdowns	
Reserves set aside by the Board:							
Funding stabilization reserve <sup>1</sup>	\$ 818,258	\$ -	\$ -	\$ 818,258	\$ -	\$ -	\$ 818,258
Reserve funds set aside by the Board:							
Accumulated sick leave	307,314	-	(23,438)	283,876	-	(173,430)	110,446
Employment Costs	-	176,077	-	176,077	-	-	176,077
Technology and Infrastructure	-	250,000	-	250,000	250,000	-	500,000
Environmental - septic tank	6,044	-	-	6,044	-	-	6,044
Dental Treatment	154,096	-	(25,736)	128,360	-	(64,000)	64,360
<b>Total reserve funds</b>	<b>\$ 467,454</b>	<b>\$ 426,077</b>	<b>\$ (49,174)</b>	<b>\$ 844,357</b>	<b>\$ 250,000</b>	<b>\$ (237,430)</b>	<b>\$ 856,927</b>
<b>Total reserves and reserve funds</b>	<b>\$ 1,285,712</b>	<b>\$ 426,077</b>	<b>\$ (49,174)</b>	<b>\$ 1,662,615</b>	<b>\$ 250,000</b>	<b>\$ (237,430)</b>	<b>\$ 1,675,185</b>
Notes:							
(1) 2014 limit as per policy = \$3,518,518							
(2) Board of Health approved contributions							