

Financial Statements of

**MIDDLESEX-LONDON HEALTH UNIT**

DRAFT  
Year ended December 31, 2011





# MIDDLESEX-LONDON HEALTH UNIT

Consolidated Financial Statements

DRAFT

Year ended December 31, 2011

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## Consolidated Financial Statements

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# MIDDLESEX-LONDON HEALTH UNIT

Consolidated Financial Statements

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Year ended December 31, 2011

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## Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of the Middlesex-London Health Unit are the responsibility of the Health Unit's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in Note 1 to the consolidated 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 consolidated financial statements. These systems are monitored and evaluated by management.

The Board of Health meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated 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 consolidated financial statements.

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Dr. Graham Pollett, MD,  
Medical Officer of Health &  
Chief Executive Officer

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John Millson, BA, CGA  
Director, Finance & Operations

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Viola Poletes Montgomery, 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, 2011, 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 generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

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

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

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

## *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Middlesex-London Health Unit as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Xxxxxxx, 2012

London, Canada





# MIDDLESEX-LONDON HEALTH UNIT

Consolidated Statement of Financial Position

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December 31, 2011, with comparative figures for 2010

	2011	2010
<b>Financial Assets</b>		
Cash	\$ 5,286,720	\$ 4,691,586
Accounts receivable	637,862	412,781
Grants receivable	123,273	393,357
	<u>\$ 6,047,855</u>	<u>\$ 5,497,724</u>
<b>Financial Liabilities</b>		
Province of Ontario	\$ 1,383,835	\$ 1,293,704
Government of Canada	1,435	29,496
The City of London	312,054	347,255
The County of Middlesex	58,693	65,397
Accounts payable and accrued liabilities	1,871,538	1,744,978
Accrued wages and benefits	1,030,893	984,055
Vested sick leave liability (note 3)	204,028	407,903
Post-employment benefits liability (note 3)	1,831,500	1,656,300
	<u>6,693,976</u>	<u>6,529,088</u>
Net Debt	(646,121)	(1,031,364)
<b>Non-Financial Assets</b>		
Tangible capital assets (note 7)	3,908,630	3,788,918
Prepaid expenses	74,798	36,527
	<u>3,983,428</u>	<u>3,825,445</u>
Commitments (note 2)		
Contingencies (note 9)		
Accumulated Surplus (note 8)	<u>\$ 3,337,307</u>	<u>\$ 2,794,081</u>

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

# MIDDLESEX-LONDON HEALTH UNIT

Consolidated Statement of Operations

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Year ended December 31, 2011, with comparative figures for 2010

	Budget (unaudited)	2011	2010
<b>Revenue:</b>			
Grants:			
Ministry of Health and Long-Term Care	\$ 10,837,112	\$ 11,028,239	\$ 10,116,926
Ministry of Health Promotion	8,179,617	8,166,857	7,938,859
Ministry of Children & Youth Services	5,239,428	5,159,168	5,217,325
Federal Government	152,430	160,256	134,715
The City of London	6,195,059	5,886,923	5,851,722
The County of Middlesex	1,180,011	1,121,319	1,114,614
	31,783,657	31,522,762	30,374,161
Other:			
Property search fees	3,750	3,794	2,865
Family planning	285,000	325,201	348,539
Dental service fees	248,000	231,565	240,692
Investment income	5,000	24,450	8,120
Prenatal class income	35,000	36,025	31,585
Other income	484,358	898,497	713,139
	1,061,108	1,519,532	1,344,940
<b>Total Revenue</b>	<b>32,844,765</b>	<b>33,042,294</b>	<b>31,719,101</b>
<b>Expenditures:</b>			
Salaries:			
Medical Officers of Health	563,761	564,894	541,984
Public Health Nurses	8,647,567	8,333,239	8,244,698
Public Health Inspectors	2,277,454	2,214,357	2,117,743
Administrative staff	3,197,801	3,176,814	2,978,005
Dental staff	928,094	832,079	766,783
Other salaries	3,331,055	3,479,834	3,655,027
	18,945,732	18,601,217	18,304,240
Other Operating:			
Benefits	4,523,593	3,939,082	4,220,660
Travel	527,320	393,621	419,494
Materials & supplies	1,284,045	1,436,421	1,299,847
Professional services	3,763,348	3,540,524	3,200,370
Rent & maintenance	1,546,154	1,619,872	1,543,214
Amortization expense	379,200	846,834	745,053
Other expenses (Note 5)	1,875,373	2,121,497	1,809,078
	13,899,033	13,897,851	13,237,716
<b>Total Expenditures</b>	<b>32,844,765</b>	<b>32,499,068</b>	<b>31,541,956</b>
Annual surplus	-	543,226	177,145
Accumulated surplus, beginning of year		2,794,081	2,616,936
Accumulated surplus, end of year		\$ 3,337,307	\$ 2,794,081

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

## MIDDLESEX-LONDON HEALTH UNIT

Consolidated Statement of Change in Net Debt

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Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Annual surplus	\$ 543,226	\$ 177,145
Acquisition of tangible capital assets	(966,546)	(711,905)
Amortization of tangible capital assets	846,834	745,053
	423,514	210,293
Acquisition of prepaid expenses	(66,028)	( 36,527)
Use of prepaid expenses	27,757	173,352
Change in net debt	385,243	347,118
Net debt, beginning of year	(1,031,364)	(1,378,482)
Net financial assets, end of year	\$ (646,121)	\$ (1,031,364)

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

## MIDDLESEX-LONDON HEALTH UNIT

Consolidated Statement of Cash Flows

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December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 543,226	\$ 177,145
Items not involving cash:		
Amortization	846,834	745,053
Change in employee benefits and other liabilities	(28,675)	(28,013)
Change in non-cash assets and liabilities:		
Accounts receivable	(225,081)	(176,769)
Grants receivable	270,084	1,658,579
Prepaid expenses	(38,271)	136,825
Due to Province of Ontario	90,131	(207,714)
Due to Government of Canada	(28,061)	29,496
Due to The City of London	(35,201)	(641,027)
Due to The County of Middlesex	(6,704)	(75,228)
Accounts payable and accrued liabilities	126,560	123,779
Accrued wages and benefits	46,838	(136,417)
Net change in cash from operating activities	1,561,680	1,605,709
Capital activities:		
Cash used to acquire tangible capital assets	(966,546)	(711,905)
Net change in cash from capital activities	(966,546)	(711,905)
Net change in cash	595,134	893,804
Cash and cash equivalents, beginning of year	4,691,586	3,797,782
Cash and cash equivalents, end of year	\$ 5,286,720	\$ 4,691,586

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

# MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements

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Year ended December 31, 2011

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The Middlesex-London Health Unit is a joint local board of the municipalities of The City of London and 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 consolidated financial statements of the Middlesex-London Health Unit are prepared by management in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Middlesex-London Health Unit are as follows:

### (a) Basis of consolidation:

The consolidated 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 City of London, and 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 and inter-organizational transactions and balances between entities and organizations 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 the Province of Ontario, The City of London and the County of Middlesex. Funding amounts not received at year end are recorded as receivable. Funding amounts in excess of actual expenditures incurred, during the year, are repayable and are reflected as liabilities.

# MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

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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 contribution pension plan benefits, 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 extended 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
Motor Vehicles	5
Furniture	7

# MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

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## 1. Significant accounting policies (continued):

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

### (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, and disclosures 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

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

### 2. 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:

2012	\$ 854,754
2013	790,973
2014	760,670
2015	692,285
2016	625,000

### 3. Employee future benefits liability:

The Middlesex-London Health Unit provides certain employee benefits which will require funding in future periods. They are:

(i) Vested 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, 2011.

	2011	2010
Accrued employee future benefit obligations	\$ 1,831,500	\$ 1,656,300
Employee future benefits liability as of December 31	\$ 1,831,500	\$ 1,656,300

Retirement and other employee future benefit expenses included in total expenditures consist of the following:

	2011	2010
Current year benefit cost	\$ 92,600	\$ 86,200
Interest on accrued benefit obligation	87,900	79,300
Amortization	12,300	0
Total benefit cost	\$ 192,800	\$ 165,500

Benefits paid during the year were \$ 147,200 (2010 - \$152,500).



## MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

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### 3. Employee future benefits liability (continued):

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

(a) Interest (discount rate):

The obligation as at December 31, 2011, of the present value of future liabilities and the expense for the year ended December 31, 2011, were determined using a discount rate of 5% (2010 - 5%).

(b) Medical costs:

Medical costs were assumed to increase at the rate of 8% per year (2010 - 9%) reducing by 1% a year until an ultimate rate of 4% per year in 2015.

(c) Dental costs:

Dental costs were assumed to increase at the rate of 4% per year (2010 - 4%).

(ii) 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 approximately \$204,028 (2010 - \$407,903) at the end of the year.

A reserve of \$344,164 has been established to meet future commitments for this liability.

### 4. 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 approximately 282 members of its staff. 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.

For 2011, the plan required employers to contribute 7.4% of employee earnings below the year's maximum pensionable earnings and 10.7% thereafter. The Health Unit contributed \$1,348,361 (2010 - \$1,169,296) to the OMERS pension plan on behalf of its employees during the year ended December 31, 2011.

## MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

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### 5. Other expenses:

The following are sub-categories for other expenses. They are consolidated for presentation purposes.

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	2011 Budget (unaudited)	2011 Actual	2010 Actual
Communications	\$ 202,291	\$ 193,564	\$ 193,713
Health promotion/advertising	410,018	636,163	521,186
Miscellaneous expenses	699,101	780,404	649,673
Postage and courier	85,250	87,105	81,971
Printing	207,702	191,216	219,370
Staff development	271,011	233,045	143,165
	<u>\$ 1,875,373</u>	<u>\$ 2,121,497</u>	<u>\$ 1,809,078</u>

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### 6. Prepaid leave trust funds:

The Prepaid Leave Plan is a self-funded program for participating employees. A portion of the employees' salary is held in trust to be paid in the year of leave. The employees are credited with interest income from the trust funds annually, prior to the year end. The balance of the Prepaid Leave Plan at December 31, 2011 is \$92,642, (2010 - \$108,168). These amounts have not been included in the Consolidated Statement of Financial position nor have their operations been included in the Consolidated Statement of Operations.

## MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

### 7. Tangible Capital Assets:

Cost	Balance at December 31, 2010	Additions	Disposals	Balance at December 31, 2011
Leasehold Improvements – 15 yrs	\$ 2,196,042	\$ 373,600	\$ -	\$ 2,569,642
Leasehold Improvements – 5 yrs	151,427	21,452	-	172,879
Computer Systems	1,565,949	459,101	(334,244)	1,690,806
Motor Vehicles	35,014	-	-	35,014
Furniture & Equipment	2,185,846	112,393	(73,414)	2,224,825
<b>Total</b>	<b>\$ 6,134,278</b>	<b>\$ 966,546</b>	<b>\$ (407,658)</b>	<b>\$ 6,693,166</b>

Accumulated amortization	Balance at December 31, 2010	Amortization expense	Disposals	Balance at December 31, 2011
Leasehold Improvements – 15 yrs	\$ 394,703	\$ 158,856	\$ -	\$ 553,559
Leasehold Improvements – 5 yrs	41,847	32,431	-	74,278
Computer Systems	882,424	324,067	(334,244)	872,247
Motor Vehicles	31,513	3,501	-	35,014
Furniture & Equipment	994,873	327,979	(73,414)	1,249,438
<b>Total</b>	<b>\$ 2,345,360</b>	<b>\$ 846,834</b>	<b>\$ (407,658)</b>	<b>\$ 2,784,536</b>

	Net book value December 31, 2010	Net book value December 31, 2011
Leasehold Improvements – 15 yrs	\$ 1,801,339	\$ 2,016,083
Leasehold Improvements – 5 yrs	109,580	98,601
Computer Systems	683,525	818,559
Motor Vehicles	3,501	-
Furniture & Equipment	1,190,973	975,387
<b>Total</b>	<b>\$ 3,788,918</b>	<b>\$ 3,908,630</b>

## MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

### 7. Tangible Capital Assets (continued):

Cost	Balance at December 31, 2009	Additions	Disposals	Balance at December 31, 2010
Leasehold Improvements – 15 yrs	\$ 2,125,222	\$ 70,820	\$ -	\$ 2,196,042
Leasehold Improvements – 15 yrs	101,802	49,625	-	151,427
Computer Systems	2,025,450	218,470	(677,971)	1,565,949
Motor Vehicles	35,014	-	-	35,014
Furniture & Equipment	2,512,138	372,990	(699,282)	2,185,846
<b>Total</b>	<b>\$ 6,799,626</b>	<b>\$ 711,905</b>	<b>\$ (1,377,253)</b>	<b>\$ 6,134,278</b>

Accumulated amortization	Balance at December 31, 2009	Amortization expense	Disposals	Balance at December 31, 2010
Leasehold Improvements – 15 yrs	\$ 250,661	\$ 144,042	\$ -	\$ 394,703
Leasehold Improvements – 15 yrs	16,524	25,323	-	41,847
Computer Systems	1,272,088	288,307	(677,971)	882,424
Motor Vehicles	24,510	7,003	-	31,513
Furniture & Equipment	1,413,777	280,378	(699,282)	994,873
<b>Total</b>	<b>\$ 2,977,560</b>	<b>\$ 745,053</b>	<b>\$ (1,377,253)</b>	<b>\$ 2,345,360</b>

	Net book value December 31, 2009	Net book value December 31, 2010
Leasehold Improvements – 15 yrs	\$ 1,874,561	\$ 1,801,339
Leasehold Improvements – 5 yrs	85,278	109,580
Computer Systems	753,362	683,525
Motor Vehicles	10,504	3,501
Furniture & Equipment	1,098,361	1,190,973
<b>Total</b>	<b>\$ 3,822,066</b>	<b>\$ 3,788,918</b>

During the year the Health Unit deemed to have disposed of fully amortized assets with a cost basis of \$407,658.

# MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

## 8. Accumulated Surplus:

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

	2011	2010
Surpluses:		
Invested in tangible capital assets	\$ 3,908,630	\$ 3,788,918
Unfunded:		
Sick leave benefits	(204,028)	(407,903)
Post-employment benefits	(1,831,500)	(1,656,300)
Total Surplus	1,873,102	1,724,714
Reserves set aside by the Board:		
Accumulated sick leave	344,164	548,361
Funding stabilization	899,251	317,410
Environmental – septic tank	6,044	6,044
Dental Treatment reserve	214,746	197,552
Total reserves	1,464,205	1,069,367
Accumulated surplus	\$ 3,337,307	\$ 2,794,081

## 9. Contingent liabilities:

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.

# MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2011

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## 10. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2011 operating budgets approved by the Board of Health on January 20, 2011. 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 consolidated financial statements

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Revenues:	
Operating budget	\$ 32,844,765
Expenses:	
Operating budget	32,465,565
Capital budget	379,200
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Total Expenses	\$ 32,844,765
Annual surplus, as budgeted	-
Amortization	846,834
Capital Expenditures	(966,546)
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Annual surplus / (deficit)	\$ (119,712)
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