

DRAFT – Consolidated Financial Statements of

MIDDLESEX-LONDON HEALTH UNIT

Year ended December 31, 2012



MIDDLESEX-LONDON HEALTH UNIT

Consolidated Financial Statements

DRAFT

Year ended December 31, 2012

Consolidated Financial Statements

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MIDDLESEX-LONDON HEALTH UNIT

Consolidated Financial Statements

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Year ended December 31, 2012

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 Canadian public sector accounting standards 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.

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

John Millson, BA, CGA
Director, Finance & Operations

Marcel Meyer, Chair
Board of Health

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Middlesex-London Health Unit, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Middlesex-London Health Unit as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

June 20, 2013

London, Canada

MIDDLESEX-LONDON HEALTH UNIT

Consolidated Statement of Financial Position

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December 31, 2012, with comparative figures for 2011

	2012	2011
Financial Assets		
Cash	\$ 4,902,703	\$ 5,286,720
Accounts receivable	444,232	637,862
Grants receivable	111,436	123,273
	\$ 5,458,371	\$ 6,047,855
Financial Liabilities		
Province of Ontario	\$ 1,211,452	\$ 1,383,835
Government of Canada	18,870	1,435
The Corporation of the City of London	166,465	312,054
The Corporation of the County of Middlesex	31,705	58,693
Accounts payable and accrued liabilities	1,968,134	1,871,538
Accrued wages and benefits	945,616	1,030,893
Vested sick leave liability (note 2(i))	174,986	204,028
Post-employment benefits liability (note 2(ii))	1,736,100	1,831,500
	6,253,328	6,693,976
Net Debt	(794,957)	(646,121)
Non-Financial Assets		
Tangible capital assets (note 4)	2,970,590	3,908,630
Prepaid expenses	137,355	74,798
	3,107,945	3,983,428
Commitments (note 5)		
Contingencies (note 6)		
Accumulated Surplus (note 7)	\$ 2,312,988	\$ 3,337,307

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, 2012, with comparative figures for 2011

	2012 Budget (unaudited)	2012	2011
Revenue:			
Grants:			
Ministry of Health and Long-Term Care	\$ 20,265,219	\$ 20,252,178	\$ 19,195,096
Ministry of Children & Youth Services	4,971,535	5,333,176	5,159,168
Government of Canada	152,430	86,275	160,256
The Corporation of the City of London	6,095,059	5,928,594	5,886,923
The Corporation of the County of Middlesex	1,160,961	1,129,256	1,121,319
	32,645,204	32,729,479	31,522,762
Other:			
Property search fees	3,750	3,051	3,794
Family planning	285,000	322,952	325,201
Dental service fees	208,407	213,148	231,565
Investment income	5,000	32,249	24,450
Prenatal class income	35,000	20,443	36,025
Other income (note 8)	393,290	1,233,739	898,497
	930,447	1,825,582	1,519,532
Total Revenue	33,575,651	34,555,061	33,042,294
Expenditures:			
Salaries:			
Medical Officers of Health	573,994	496,981	564,894
Public Health Nurses	8,657,771	8,663,701	8,333,239
Public Health Inspectors	2,318,778	2,308,423	2,214,357
Administrative staff	3,264,487	3,339,802	3,176,814
Dental staff	873,798	868,913	832,079
Other salaries	3,490,922	3,447,920	3,479,834
	19,179,750	19,125,740	18,601,217
Other Operating:			
Benefits	4,953,260	4,841,950	3,939,082
Travel	417,686	390,738	393,621
Materials & supplies	1,068,343	1,782,708	1,436,421
Professional services	3,697,675	3,606,380	3,540,524
Rent & maintenance	1,582,363	1,646,016	1,619,872
Amortization expense	520,596	1,510,204	846,834
Other expenses (note 9)	2,155,979	2,675,644	2,121,497
	14,395,901	16,453,640	13,897,851
Total Expenditures	33,575,651	35,579,380	32,499,068
Annual surplus (deficit)	-	(1,024,319)	543,226
Accumulated surplus, beginning of year	3,337,307	3,337,307	2,794,081
Accumulated surplus, end of year	\$ 3,337,307	\$ 2,312,988	\$ 3,337,307

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

MIDDLESEX-LONDON HEALTH UNIT

Consolidated Statement of Changes in Net Debt

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Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Annual surplus (deficit)	\$ (1,024,319)	\$ 543,226
Acquisition of tangible capital assets	(572,164)	(966,546)
Amortization of tangible capital assets	1,510,204	846,834
	(86,279)	423,514
Acquisition of prepaid expenses	(137,355)	(66,028)
Use of prepaid expenses	74,798	27,757
	(62,557)	(58,271)
Change in net debt	(148,836)	385,243
Net debt, beginning of year	(646,121)	(1,031,364)
Net debt, end of year	\$ (794,957)	\$ (646,121)

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, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	(1,024,319)	\$ 543,226
Items not involving cash:		
Amortization	1,510,204	846,834
Change in employee benefits and other liabilities	(124,442)	(28,675)
Change in non-cash assets and liabilities:		
Accounts receivable	193,630	(225,081)
Grants receivable	11,837	270,084
Prepaid expenses	(62,557)	(38,271)
Due to Province of Ontario	(172,383)	90,131
Due to Government of Canada	17,435	(28,061)
Due to The Corporation of the City of London	(145,589)	(35,201)
Due to The Corporation of the County of Middlesex	(26,988)	(6,704)
Accounts payable and accrued liabilities	96,596	126,560
Accrued wages and benefits	(85,277)	46,838
Net change in cash from operating activities	188,147	1,561,680
Capital activities:		
Cash used to acquire tangible capital assets	(572,164)	(966,546)
Net change in cash from capital activities	(572,164)	(966,546)
Net change in cash	(384,017)	595,134
Cash and cash equivalents, beginning of year	5,286,720	4,691,586
Cash and cash equivalents, end of year	4,902,703	\$ 5,286,720

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, 2012

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 consolidated 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 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 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 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 consolidated 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 Corporation of the City of London and The Corporation of the County of Middlesex. Funding amounts not received at year end are recorded as grants receivable due from the related funding organization in the consolidated 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 consolidated statement of financial position.

MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2012

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 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:

Asset	Useful Life - Years
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, 2012

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 consolidated 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

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2012

2. Employee future benefits:

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

(i) 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 \$174,986 (2011 - \$204,028) at the end of the year.

A reserve of \$307,314 has been established to meet future commitments for this liability.

(ii) 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 January 1, 2012.

	2012	2011
Accrued employee future benefit obligations	\$ 2,086,300	\$ 1,831,500
Unamortized net actuarial loss	(350,200)	-
Employee future benefits liability as of December 31 st	\$ 1,736,100	\$ 1,831,500

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

	2012	2011
Current year benefit cost	\$ 95,900	\$ 92,600
Interest on accrued benefit obligation	92,700	87,900
Amortization	12,500	12,300
Total benefit cost	\$ 201,100	\$ 192,800

Benefits paid during the year were \$ 147,500 (2011 - \$147,200).

MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2012

2. Employee future benefits (continued):

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

(a) Interest (discount) rate:

The obligation as at December 31, 2012, of the present value of future liabilities and the expense for the year ended December 31, 2012, are determined using a discount rate of 3.75% (2011 - 5%).

(b) Medical costs:

Medical costs are assumed to increase at the rate of 7.0% per year (2011 - 8%) declining to 4% per year over 20 years.

(c) Dental costs:

Dental costs are assumed to increase at the rate of 4% per year (2011 - 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 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.

During 2012, the plan required employers to contribute 8.3% of employee earnings up to the year's maximum pensionable earnings and 12.8% thereafter. The Health Unit contributed \$1,596,358 (2011 - \$1,348,361) to the OMERS pension plan on behalf of its employees during the year ended December 31, 2012.

MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2012

4. Tangible Capital Assets:

Cost	Balance at December 31, 2011	Additions	Disposals	Balance at December 31, 2012
Leasehold Improvements – 15 yrs	\$ 2,569,642	\$ 73,072	\$ -	\$ 2,642,714
Leasehold Improvements – 5 yrs	172,879	-	-	172,879
Computer Systems	1,690,806	144,122	(219,248)	1,615,680
Motor Vehicles	35,014	-	(35,014)	-
Furniture & Equipment	2,224,825	354,970	(101,824)	2,477,971
Total	\$ 6,693,166	\$ 572,164	\$ (356,086)	\$ 6,909,244

Accumulated amortization	Balance at December 31, 2011	Amortization expense	Disposals	Balance at December 31, 2012
Leasehold Improvements – 15 yrs	\$ 553,559	\$ 818,910	\$ -	\$ 1,372,469
Leasehold Improvements – 5 yrs	74,278	40,312	-	114,590
Computer Systems	872,247	343,092	(219,248)	996,091
Motor Vehicles	35,014	-	(35,014)	-
Furniture & Equipment	1,249,438	307,890	(101,824)	1,455,504
Total	\$ 2,784,536	\$ 1,510,204	\$ (356,086)	\$ 3,938,654

	Net book value December 31, 2011	Net book value December 31, 2012
Leasehold Improvements – 15 yrs	\$ 2,016,083	\$ 1,270,245
Leasehold Improvements – 5 yrs	98,601	58,289
Computer Systems	818,559	619,589
Motor Vehicles	-	-
Furniture & Equipment	975,387	1,022,467
Total	\$ 3,908,630	\$ 2,970,590

MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2012

4. Tangible Capital Assets (continued):

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 – 15 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
Total	\$ 6,134,278	\$ 966,546	\$ (407,658)	\$ 6,693,166

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 – 15 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
Total	\$ 2,345,360	\$ 846,834	\$ (407,658)	\$ 2,784,536

	Net book value December 31, 2010	Net book value December 31, 2011
Leasehold Improvements – 15 yrs	\$ 1,801,399	\$ 2,016,083
Leasehold Improvements – 5 yrs	109,580	98,601
Computer Systems	683,525	818,559
Motor Vehicles	3,501	0
Furniture & Equipment	1,190,973	975,387
Total	\$ 3,788,918	\$ 3,908,630

During the year, the Health Unit deemed to have disposed of fully amortized assets with a cost basis of \$356,086 (2011 - \$407,658).

MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2012

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:

2013	\$ 905,770
2014	880,934
2015	815,392
2016	756,208
2017	-

6. 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.

7. Accumulated Surplus:

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

	2012	2011
Surpluses:		
Invested in tangible capital assets	\$ 2,970,590	\$ 3,908,630
Unfunded:		
Sick leave benefits	(174,986)	(204,028)
Post-employment benefits	(1,736,100)	(1,831,500)
Total Surplus	1,059,504	1,873,102
Reserves set aside by the Board:		
Accumulated sick leave	307,314	344,164
Funding stabilization	765,957	899,251
Environmental – septic tank	6,044	6,044
Dental Treatment reserve	174,169	214,746
Total reserves	1,253,484	1,464,205
Accumulated surplus	\$ 2,312,988	\$ 3,337,307

MIDDLESEX-LONDON HEALTH UNIT

Notes to Consolidated Financial Statements (continued)

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Year ended December 31, 2012

8. Other income:

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

	2012 Budget (unaudited)	2012 Actual	2011 Actual
Collaborative project revenues	\$ 237,076	\$ 735,618	\$ 429,937
Food handler training	25,500	62,649	71,385
Miscellaneous revenues	53,947	154,256	242,883
Vaccine sales	61,925	261,969	96,960
Workshop fees	14,842	19,247	57,332
	\$ 393,290	\$ 1,233,739	\$ 898,497

9. Other expenses:

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

	2012 Budget (unaudited)	2012 Actual	2011 Actual
Communications	\$ 197,422	\$ 209,626	\$ 193,564
Health promotion/advertising	395,048	498,495	636,163
Miscellaneous expenses	554,557	637,951	780,404
Postage and courier	89,595	80,703	87,105
Printing	203,667	169,675	191,216
Staff development	205,690	179,194	233,045
UWO – GA facility support	510,000	900,000	0
	\$ 2,155,979	\$ 2,675,644	\$ 2,121,497

9. 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, 2012 is \$20,914, (2011 - \$92,642). 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, 2012

10. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2012 operating budgets approved by the Board of Health on March 22, 2012. 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

Revenues:	
Operating budget	\$ 33,575,651
Expenses:	
Operating budget	33,055,055
Capital budget	520,596
Total Expenses	\$ 33,575,651
Annual surplus, as budgeted	-
Amortization	1,510,204
Capital Expenditures	(572,164)
Annual surplus / (deficit)	\$ 938,040
