

DRAFT Financial Statements of

MIDDLESEX-LONDON HEALTH UNIT

Year ended December 31, 2016



MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements

Year ended December 31, 2016

Financial Statements

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MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements

Year ended December 31, 2016

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 Corporation of 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.

Laura Di Cesare, CHRE
Acting Chief Executive Officer

John Millson, BA, CPA, CGA
Associate Director, Finance

Jesse Helmer, 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, 2016, the statement of operations and accumulated surplus, 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, 2016, 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 2017

London, Canada

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Financial Assets		
Cash	\$ 4,064,906	\$ 3,466,669
Accounts receivable	382,687	328,393
Grants receivable	296,040	345,299
	<u>4,743,633</u>	<u>4,140,361</u>
Financial Liabilities		
Province of Ontario	424,192	374,343
Government of Canada	62,999	65,107
The Corporation of the City of London	165,108	44,039
The Corporation of the County of Middlesex	31,447	8,386
Accounts payable and accrued liabilities	1,437,193	1,690,772
Accrued wages and benefits	879,974	445,010
Vested sick leave liability (note 2(a))	52,209	106,859
Post-employment benefits liability (note 2(b))	2,183,200	1,997,000
	<u>5,236,322</u>	<u>4,731,516</u>
Net Debt	(492,689)	(591,155)
Non-Financial Assets		
Tangible capital assets (note 4)	1,421,408	1,794,019
Prepaid expenses	218,051	253,981
	<u>1,639,459</u>	<u>2,048,000</u>
Commitments (note 5)		
Contingencies (note 6)		
Accumulated Surplus (note 7)	\$ 1,146,770	\$ 1,456,845

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

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2016, with comparative information for 2015

	2016 Budget	2016	2015
Revenue:			
Grants:			
Ministry of Health and Long-Term Care	\$ 20,830,062	\$ 21,159,227	\$ 21,706,723
Ministry of Children and Youth Services	5,296,275	5,333,109	5,482,649
Government of Canada	312,860	290,318	329,355
The Corporation of the City of London	6,095,059	5,929,950	6,051,020
The Corporation of the County of Middlesex	1,160,961	1,129,515	1,152,575
	33,695,217	33,842,119	34,722,322
Other:			
Property search fees	3,750	2,099	3,942
Family planning	285,000	221,849	244,934
Dental service fees	277,312	190,943	179,543
Investment income	20,000	7,869	9,814
Prenatal class income	8,140	13,890	4,595
Other income (note 8)	768,531	1,167,232	1,040,235
	1,362,733	1,603,882	1,483,063
Total Revenue	35,057,950	35,446,001	36,205,385
Expenditures:			
Salaries:			
Medical Officers of Health	520,750	529,401	484,297
Public Health Nurses	9,652,127	9,395,102	9,459,278
Public Health Inspectors	2,416,884	2,475,321	2,484,829
Administrative staff	3,569,348	3,578,692	3,579,006
Dental staff	957,251	891,434	935,894
Other salaries	3,369,657	4,041,711	3,563,337
	20,486,017	20,911,661	20,506,641
Other Operating:			
Benefits	5,826,901	5,833,725	5,935,086
Travel	457,507	334,097	380,106
Materials and supplies	1,251,605	1,256,066	1,384,167
Professional services	3,510,692	3,639,207	4,473,636
Rent and maintenance	1,583,671	1,643,440	1,624,139
Amortization expense	488,027	645,575	700,706
Other expenses (note 9)	1,203,530	1,492,305	1,371,298
	14,321,933	14,844,415	15,869,138
Total Expenditures	34,807,950	35,756,076	36,375,779
Annual surplus (deficit)	250,000	(310,075)	(170,394)
Accumulated surplus, beginning of year	1,456,845	1,456,845	1,627,239
Accumulated surplus, end of year	\$ 1,706,845	\$ 1,146,770	\$ 1,456,845

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

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Statement of Change in Net Debt

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Annual deficit	\$ (310,075)	\$ (170,394)
Acquisition of tangible capital assets, net	(272,964)	(533,700)
Amortization of tangible capital assets	645,575	700,706
	62,536	(3,388)
Acquisition of prepaid expenses	(218,051)	(253,981)
Use of prepaid expenses	253,981	182,991
	35,930	(70,990)
Change in net debt	98,466	(74,378)
Net debt, beginning of year	(591,155)	(516,777)
Net debt, end of year	\$ (492,689)	\$ (591,155)

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

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Statement of Cash Flows

December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual deficit	\$ (310,075)	\$ (170,394)
Items not involving cash:		
Amortization	645,575	700,706
Change in employee benefits and other liabilities	131,550	107,458
Changes in non-cash assets and liabilities:		
Accounts receivable	(54,294)	42,237
Grants receivable	49,259	(746)
Prepaid expenses	35,930	(70,990)
Due to Province of Ontario	49,849	(73,046)
Due to Government of Canada	(2,108)	(33,574)
Due to The Corporation of the City of London	121,069	44,039
Due to The Corporation of the County of Middlesex	23,061	8,386
Accounts payable and accrued liabilities	(253,579)	484,764
Accrued wages and benefits	434,964	(460,114)
Net change in cash from operating activities	871,201	578,726
Capital activities:		
Cash used to acquire tangible capital assets	(272,964)	(533,700)
Net change in cash from capital activities	(272,964)	(533,700)
Net change in cash	598,237	45,026
Cash and cash equivalents, beginning of year	3,466,669	3,421,643
Cash and cash equivalents, end of year	\$ 4,064,906	\$ 3,466,669

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

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Notes to Financial Statements

Year ended December 31, 2016

The Middlesex-London 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 to the related funding organization in the statement of financial position.

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements (continued)

Year ended December 31, 2016

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, 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 & Equipment	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, 2016

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, 2016

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 \$52,209 (2015 - \$106,859) at the end of the year.

A reserve of \$82,032 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.

	2016	2015
Accrued employee future benefit obligations	\$ 2,644,600	\$ 2,503,000
Unamortized net actuarial loss	(461,400)	(506,000)
Employee future benefits liability as of December 31	\$ 2,183,200	\$ 1,997,000

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

	2016	2015
Current year benefit cost	\$ 174,800	\$ 157,600
Interest on accrued benefit obligation	85,100	88,300
Amortization of net actuarial loss	44,600	35,200
Total benefit cost	\$ 304,500	\$ 281,100

Benefits paid during the year were \$118,300 (2015 - \$124,100).

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements (continued)

Year ended December 31, 2016

2. Employee future benefits (continued):

(b) 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, 2016, of the present value of future liabilities and the expense for the year ended December 31, 2016, are determined using a discount rate of 3.25% (2015 – 3.25%).

(ii) Medical costs:

Prescription drug costs are assumed to increase at the rate of 8% per year (2015 - 8%) 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 (2015 - 4%).

3. Pension agreement:

The Middlesex-London Health Unit contributes to the OMERS which is a multi-employer plan, on behalf of 314 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 2016, the plan required employers to contribute 9.0% of employee earnings up to the year's maximum pensionable earnings and 14.6% thereafter. The Middlesex-London Health Unit contributed \$1,974,638 (2015 - \$1,992,186) to the OMERS pension plan on behalf of its employees during the year ended December 31, 2016.

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements (continued)

Year ended December 31, 2016

4. Tangible Capital Assets:

Cost	Balance at December 31, 2015	Additions	Disposals / Transfers	Balance at December 31, 2016
Leasehold Improvements – 15 years	\$ 2,672,872	\$ -	\$ (11,998)	\$ 2,660,874
Leasehold Improvements – 5 years	181,668	3,609	(151,427)	33,850
Computer Systems	1,634,727	244,575	(569,823)	1,309,479
Motor Vehicle	5,385	-	-	5,385
Furniture & Equipment	1,991,359	36,778	(518,856)	1,509,281
Total	\$ 6,486,011	\$ 284,962	\$ (1,252,104)	\$ 5,518,869

Accumulated amortization	Balance at December 31, 2015	Amortization expense	Disposals / Transfers	Balance at December 31, 2016
Leasehold Improvements – 15 years	\$ 2,170,637	\$ 163,412	\$ -	\$ 2,334,049
Leasehold Improvements – 5 years	171,936	5,633	(151,427)	26,142
Computer Systems	1,012,461	278,782	(569,823)	721,420
Motor Vehicle	673	1,346	-	2,019
Furniture & Equipment	1,336,285	196,402	(518,856)	1,013,831
Total	\$ 4,691,992	\$ 645,575	\$ (1,240,106)	\$ 4,097,461

	Net book value December 31, 2015	Net book value December 31, 2016
Leasehold Improvements – 15 years	\$ 502,235	\$ 326,825
Leasehold Improvements – 5 years	9,732	7,708
Computer Systems	622,266	588,059
Motor Vehicle	4,712	3,366
Furniture & Equipment	655,074	495,450
Total	\$ 1,794,019	\$ 1,421,408

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements (continued)

Year ended December 31, 2016

4. Tangible Capital Assets (continued):

Cost	Balance at December 31, 2014	Additions	Disposals / Transfers	Balance at December 31, 2015
Leasehold Improvements – 15 years	\$ 2,643,847	\$ 29,025	\$ -	\$ 2,672,872
Leasehold Improvements – 5 years	175,070	6,598	-	181,668
Computer Systems	1,520,047	384,427	(269,747)	1,634,727
Motor Vehicle	-	5,385	-	5,385
Furniture & Equipment	2,130,514	108,265	(247,420)	1,991,359
Total	\$ 6,469,478	\$ 533,700	\$ (517,167)	\$ 6,486,011

Accumulated amortization	Balance at December 31, 2014	Amortization expense	Disposals / Transfers	Balance at December 31, 2015
Leasehold Improvements – 15 years	\$ 2,008,063	\$ 162,574	\$ -	\$ 2,170,637
Leasehold Improvements – 5 years	153,815	18,121	-	171,936
Computer Systems	992,808	289,400	(269,747)	1,012,461
Motor Vehicle	-	673	-	673
Furniture & Equipment	1,353,767	229,938	(247,420)	1,336,285
Total	\$ 4,508,453	\$ 700,706	\$ (517,167)	\$ 4,691,992

	Net book value December 31, 2014	Net book value December 31, 2015
Leasehold Improvements – 15 years	\$ 635,784	\$ 502,235
Leasehold Improvements – 5 years	21,255	9,732
Computer Systems	527,239	622,266
Motor Vehicle	-	4,712
Furniture & Equipment	776,747	655,074
Total	\$ 1,961,025	\$ 1,794,019

During the year, the Middlesex-London Health Unit deemed to have disposed of fully amortized assets with a cost basis of \$1,240,106 (2015 - \$517,167).

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements (continued)

Year ended December 31, 2016

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:

2017	\$ 917,927
2018	911,800
2019	846,097
2020	780,394
2021	780,394

6. Contingencies:

From time to time, the Middlesex-London 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 Middlesex-London 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:

	2016	2015
Surpluses:		
Invested in tangible capital assets	\$ 1,421,408	\$ 1,794,019
Unfunded:		
Sick leave benefits	(52,209)	(106,859)
Post-employment benefits	(2,183,200)	(1,997,000)
Total Surplus	(814,001)	(309,840)
Reserves set aside by the Board:		
Accumulated sick leave	82,032	137,946
Funding stabilization	818,258	818,258
Employment Costs	176,077	176,077
Technology & Infrastructure	750,000	500,000
Environmental – septic tank	6,044	6,044
Dental Treatment reserve	128,360	128,360
Total reserves	1,960,771	1,766,685
Accumulated surplus	\$ 1,146,770	\$ 1,456,845

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements (continued)

Year ended December 31, 2016

8. Other income:

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

	2016 Budget	2016 Actual	2015 Actual
Collaborative project revenues	\$ 183,747	\$ 372,520	\$ 288,697
Food handler training	12,750	27,343	32,065
Public Fit-testing	15,000	16,528	8,124
Miscellaneous revenues	175,979	246,305	251,615
OHIP Revenue	59,130	237,420	89,755
Vaccine sales	321,925	266,345	356,787
Workshop fees	-	771	13,192
	\$ 768,531	\$ 1,167,232	\$ 1,040,235

9. Other expenses:

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

	2016 Budget	2016 Actual	2015 Actual
Communications	\$ 215,194	\$ 221,283	\$ 187,676
Health promotion/advertising	254,841	308,295	373,047
Miscellaneous expenses	250,626	457,211	387,005
Postage and courier	67,750	61,447	56,799
Printing	178,216	164,168	161,042
Staff development	236,903	279,901	205,729
	\$ 1,203,530	\$ 1,492,305	\$ 1,371,298

MIDDLESEX-LONDON HEALTH UNIT

DRAFT Financial Statements (continued)

Year ended December 31, 2016

10. Budget data:

The budget data presented in these financial statements is based upon the 2016 operating budgets approved by the Board of Health. 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

Revenues:	
Operating budget	\$ 35,057,950
Expenses:	
Operating budget	34,319,923
Capital budget	488,027
Total expenses	34,807,950
Annual surplus, as budgeted	\$ 250,000
