

The Corporation of the Town of Essex

Notes to the Consolidated Financial Statements

December 31, 2017

4. Bank indebtedness

The Municipality has an authorized line of credit up to \$6,000,000 bearing interest at prime less 0.85%. At December 31, 2017, \$6,000,000 (2016 - \$2,664,604) in unused credit was available.

5. Net long-term debt

The balance of long-term debt reported on the consolidated statement of financial position is made up of the following:

	2017	2016
<i>User Fee Supported</i>		
i) Infrastructure Improvement Debenture, OIPC - repayable in semi-annual instalments of \$321,758 including interest at 2.76%, due December 15, 2027	\$ 5,590,048	\$ -
ii) Essex Sewage Treatment Plant Update and Expansion Debenture, Ontario Infrastructure Projects Corporation (OIPC) - repayable in semi-annual instalments of \$138,915 including interest at 2.66%, due September 1, 2026	2,210,702	2,425,434
iii) Harrow Sewage Lagoon Debenture, OIPC - repayable in semi-annual instalments of \$131,564 including interest at 2.67%, due February 3, 2025	1,777,728	1,989,148
iv) Vehicle Debenture, OIPC - repayable in semi-annual instalments of \$64,157 including interest at 2.37%, due December 15, 2022	601,664	-
v) Building Energy Upgrade Debenture - along with Property Tax Supported (iii), repayable in two annual instalments of \$21,433 including interest at 3.6%, due July 9, 2023	20,207	22,961
	10,200,349	4,437,543

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5. Net long-term debt (continued)

Property Tax Supported

i) Essex Twin Pad Arena Debenture - repayable in semi-annual instalments of \$386,712 including interest at 4.65%, due March 2030	7,269,641	7,690,299
ii) Capital Works Debenture - repayable in annual instalments including interest ranging from 2.07% to 3.62%, due in various amounts from 2019 to 2034	4,281,174	4,714,733
iii) Building Energy Upgrade Debenture - along with User Fee Supported (iv), repayable in two annual instalments of \$21,433 including interest at 3.6%, due July 9, 2023	<u>229,483</u>	<u>260,759</u>
	<u>11,780,298</u>	<u>12,665,791</u>

Benefiting Property Owners

i) Sanitary sewer extension debentures - repayable in annual instalments of \$48,130 including interest at 3.40%, due December 2024	295,396	332,231
ii) Drainage debentures - repayable in annual instalments including interest at 2.17%, due in various amounts in October 2021	109,775	135,777
iii) Drain loans - repayable in annual instalments including interest ranging from 2.69% to 4.07%, due in various amounts from 2018 to 2020	91,342	110,496
iv) Tile Drain loans - repayable in annual instalments including interest ranging from 6.0% to 8.0%, due in various amounts from 2017 to 2020	26,218	43,756
v) Shoreline loans - repayable in annual instalments including interest ranging from 3.79% to 6.8%, due in various amounts from 2018 to 2020	21,557	29,234
vi) Watermain Debentures - repayable in annual instalments including interest at 3.48%, due in various amounts in December 2019	<u>10,043</u>	<u>14,813</u>
	<u>554,331</u>	<u>666,307</u>
Share of Union Water System obligations	<u>821,266</u>	<u>878,878</u>

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5. Net long-term debt (continued)

Subtotal	23,356,244	18,648,519
<p>The Municipality is contingently liable for the tile and shoreline loans included above. The responsibility for payment of principal and interest has been assumed by individual landowners</p>		
	47,774	72,989
Internally financed debt	<u>593,521</u>	<u>765,362</u>
	<u>\$ 22,714,949</u>	<u>\$ 17,810,168</u>

Principal payments for the next 5 fiscal years and thereafter are as follows:

2018	\$ 2,130,945
2019	2,178,229
2020	2,002,395
2021	2,634,782
2022	2,015,846
Thereafter	<u>11,752,752</u>
	<u>\$ 22,714,949</u>

Interest payments included in revenue fund expenditures during the year were \$636,569 (2016- \$682,268), excluding the interest on tile and shoreline loans which is recovered from the individual landowners.

The long-term liabilities issued in the name of the Municipality have received approval by the Municipal Board on or before December 31, 2017. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

6. Operations of school boards and the County of Essex

During the year, the following taxation revenue was raised and remitted to the school boards and the County of Essex:

	<u>2017</u>	<u>2016</u>
School boards	\$ 4,715,005	\$ 4,983,271
County of Essex	<u>8,291,804</u>	<u>8,123,096</u>
	<u>\$ 13,006,809</u>	<u>\$ 13,106,367</u>

The Corporation of the Town of Essex Notes to the Consolidated Financial Statements

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7. Accumulated surplus

(a) Accumulated surplus consists of individual fund surplus/(deficit) as follows:

	2017	2016
Invested in tangible capital assets	\$187,917,194	\$ 189,828,121
To be used to offset (financed by) taxation	940,701	583,853
To be financed by user charges and municipal debt	(4,270,442)	(8,568,822)
Equity in E.L.K. Energy Inc.	10,970,894	10,367,732
Amounts to be recovered		
Employee benefits payable	(4,379,500)	(4,240,800)
Accrued interest on net long-term liabilities	(218,958)	(228,539)
Municipal debt	(22,714,949)	(17,810,168)
Reserves and reserve funds (Note 7(b))	45,721,945	39,567,749
Total accumulated surplus	\$213,966,885	\$ 209,499,126

(b) Reserves and reserve funds consist of individual funds as follows:

	2017	2016
Reserves set aside for specific purpose by Council:		
Working funds	\$ 1,000,000	\$ 1,000,000
Reserve funds set aside for specific purpose by Council:		
Capital purposes	24,667,073	21,294,419
Landfill	8,906,492	7,890,787
Contingencies	7,694,643	6,257,723
Other	3,203,141	2,882,001
Sick leave benefits	250,596	242,819
	44,721,945	38,567,749
Total reserves and reserve funds	\$45,721,945	\$ 39,567,749

The Corporation of the Town of Essex Notes to the Consolidated Financial Statements

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8. Unearned/deferred revenue - development charges

Development charges are reported as deferred revenue since provincial legislation restricts the use of the funds to specific purposes and under certain circumstances the funds may be refunded.

The net change during the year in the deferred revenue balances is as follows:

	Opening	Contributions	Deferred	Ending
		Received	Revenue	
			Allocated	
Development charges	\$ 1,183,784	\$ (178,589)	\$ 24,068	\$ 1,029,263
Federal gas tax	(318,864)	(990,206)	1,137,828	(171,242)
	<u>\$ 864,920</u>	<u>\$ (1,168,795)</u>	<u>\$ 1,161,896</u>	<u>\$ 858,021</u>

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9. Employee future benefits

(a) Pension agreement

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of certain employees. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. However, as OMERS does not segregate its pension assets and liabilities information by individual employer, there is not sufficient information to enable the Municipality to account for the plan as a defined benefit plan. At December 31, 2017, the OMERS plan is in a deficit position. The amount contributed by the Municipality to OMERS for 2017 was \$532,346 (2016 - \$502,669).

(b) Employee future benefit liabilities

Employee future benefit liabilities are future liabilities of the Municipality to its employees and retirees for benefits earned but not taken as at December 31, 2017 and consists of the following:

	2017	2016
Post employment benefits	\$ 4,379,500	\$ 4,240,800
Vacation	8,514	8,514
	\$ 4,388,014	\$ 4,249,314

Sick pay is paid annually for union employees.

(i) Post employment benefits

The post employment benefit liability is based on an actuarial valuation performed by the Municipality's actuaries. The actuarial valuation was performed as at December 31, 2017. The significant actuarial assumptions adopted in estimating the Municipality's liability are as follows:

Discount rate		3.22%
Health Care Trend Rate	7% for 2018 grading down to 4% in 2038	
Other Medical Care Trend Rate		4% per annum
Dental		4% per annum

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9. Employee future benefits (continued)

Information about the Municipality's future liability with respect to these costs are as follows:

	<u>2017</u>	<u>2016</u>
Accrued benefit liability, beginning of year	\$ 4,240,800	\$ 4,084,900
Annual expense	315,100	314,900
Benefits paid	<u>(176,400)</u>	<u>(159,000)</u>
	<u>\$ 4,379,500</u>	<u>\$ 4,240,800</u>

(ii) Accrued sick leave

Under the sick leave benefit plan, approved for all union employees, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Municipality's employment. The amount of the payment is equal to the number of sick days to which the employee is entitled at one-half their rate of pay at the time of termination. Sick leave unused is normally paid out to union employees before the end of each fiscal year, resulting in no accrual at the year end. Non-union employees are not entitled to sick leave benefits.

(iii) Vacation

Vacation entitlements can accumulate and employees would be entitled to a cash payment equal to the value of their unused entitlements if they were to terminate employment.

10. Contingent liabilities

The Municipality has been named defendant in certain legal actions. The ultimate liability if any, which may arise, is indeterminable as the Municipality has established valid defence positions. In the opinion of administration and legal counsel, any payments, which may result from these actions, are subject to material coverage under the Municipality's insurance policies. Consequently, the consolidated financial statements contain no provision for any liability, which may occur as a result of these claims.

A law suit has been settled subsequent to December 31, 2017 with a claim being awarded against the Town of Essex in the amount of \$297,563. This amount has not been accrued in these consolidated financial statements.

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11. Contractual obligations

In accordance with a service agreement entered into by the Municipality on February 13, 1958 with the Ontario Clean Water Agency (OCWA), the existing sewage and water systems are operated by OCWA. Under this agreement, the Municipality is obligated to meet all operating costs and repay the long-term liabilities related to this project.

Included in the consolidated statement of financial activities are the 2017 charges from OCWA of \$987,581 (2016 - \$896,469). The consolidated statement of financial position does not reflect any assets or liabilities pertaining to the sewage or water systems except to the extent of service charges due to (or from) OCWA and the total long-term liabilities outstanding. The accumulated net surplus of OCWA is not reflected in the accompanying consolidated financial statements.

The Municipality has entered into various other service agreements. The largest of these relates to The Minister of Community Safety and Correctional Services (Police Services). The obligation under this contract approximates \$4.0 million in expenditures on an annual basis. The total expense included in the consolidated statement of financial activities for 2017 is \$3,232,100 (2016 - \$3,255,195). The duration of this contract is three years, it expires December 31, 2018, and the contract can be terminated by either party with written notice of one year.

12. Public sector salary disclosure

The Public Sector Salary Disclosure Act requires all municipalities to disclose which, if any, employees or officers received remuneration totaling more than \$100,000 during the year. During 2017, the following met this requirement:

Position	Name	Salary Paid	Taxable Benefits
Manager, Capital Works and Infrastructure	Richard Beausoleil	115,668	1,433
Manager, Operations and Drainage	Daniel Boudreau	115,668	1,433
Manager, Recreation and Culture	Cynthia Cakebread	114,570	1,433
Manager, Parks and Facilities	John Olsen	115,668	1,433
Manager, Environmental Services	Andrew Graf	117,067	1,459
Fire Chief	Richard Arnel	122,907	1,578
Director, Community Services	Doug Sweet	137,083	1,724
Director, Infrastructure and Development	Chris Nepszy	140,000	1,724
Chief Administrative Officer	Donna Hunter	152,559	1,866
Director, Finance and Business Services	Jeffrey Morrison	104,758	1,303
Chief Administrative Officer	Tracey Pillon-Abbs	134,540	751

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13. Budget

The Financial Plan (Budget) By-Law adopted by Council on July 17, 2017 was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards). The budget is unaudited and was prepared on a modified accrual basis while Public Sector Accounting Standards now require a full accrual basis. The budget figures anticipated using surpluses accumulated in previous years to reduce current year expenditures in excess of current year revenues to \$nil. In addition, the budget expensed all tangible capital expenditures rather than including amortization expense. As a result, the budget figures presented in the statements of operations and change in net financial assets (debt) represent the Financial Plan adopted by Council on July 17, 2017 with adjustments as follows:

	<u>2017</u>
Financial Plan (Budget) By-Law consolidated surplus for the year	\$ 808,240
Add:	
Debt principal repayments	1,681,823
Capital expenditures	<u>8,277,331</u>
	<u>9,959,154</u>
Less:	
New debt issued	2,337,361
Amortization	<u>6,650,000</u>
	<u>8,987,361</u>
	<u>\$ 1,780,033</u>

14. Tangible capital assets

The Consolidated Schedule of Tangible Capital Assets (Schedule 1) provides information on the tangible capital assets of the Municipality by major asset class as well as for accumulated amortization of the assets controlled. The reader should be aware of the following information relating to tangible capital assets:

- (a) **Contributed Capital Assets**
The Municipality records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or of the transfer of risk and responsibility. Typical examples are roadways, water and sewer lines installed by a developer as part of a subdivision agreement. There were no such transfers in the current or prior year.

- (b) **Capitalization of Interest**
The Municipality has a policy of capitalizing borrowing costs incurred when financing the acquisition of a tangible capital asset.

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15. Segmented information

The Municipality is a diversified municipal government institution that provides a wide range of services to its citizens such as police, fire, water, wastewater and parks and recreation. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

General Government

General government consists of three categories: governance, corporate management and program support. It includes offices of the Council, Chief Administrative Officer, Information Technology, Financial and Clerk Services.

Protection to Persons and Property

Protection is comprised of Fire, Police, Conservation Authority and Protective Inspection and Control. The mandate of the Police Services department is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. Conservation Authority includes the Municipality's share of the Essex Region Conservation Authority. The Fire Service department is responsible to provide fire suppression service; fire prevention programs; training and education related to prevention, detection or extinguishment of fires. Protective Inspection and Control ensures an acceptable quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-laws for the protection of occupants.

Transportation

The Public Works department is responsible for the delivery of municipal public works services related to the planning, development and maintenance of roadway systems, snow clearing and removal and street lighting. Transportation also includes services related to the harbour.

Environmental

Environmental includes Water, Wastewater, Storm Sewer, as well as Garbage Collection and Disposal. The department provides drinking water to citizens of Essex, collecting and treating wastewater, and providing collection and disposal of waste. Recycling is provided at the County level.

Health

Health services are comprised of public health services which work to improve the overall health of the population and overcome health inequalities by providing services to individuals and communities.

Recreational and Cultural

This department provides public services that respond to citizens' leisure and cultural requirements. Facilities include a wide variety of parks plus three arenas, a pool and various community facilities.