

The Corporation of the Town of Essex

Financial Statements

For the year ended December 31, 2013

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For the year ended December 31, 2013

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BDO Canada LLP

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Essex

We have audited the accompanying financial statements of The Corporation of the Town of Essex, which comprise the Consolidated Statement of Financial Position as at December 31, 2013, and the Consolidated Statement of Operations and Accumulated Surplus, Consolidated Statement of Changes in Net Financial Assets (Debt) and Consolidated Statement of Cash Flows for the year then ended, and 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.

Auditor's 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 of 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 the auditor's 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, the auditor considers 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 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 consolidated financial statements present fairly in all material respects, the financial position of The Corporation of the Town of Essex as at December 31, 2013, and their financial performance and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Essex, Ontario
June 16, 2014

Consolidated Statement of Financial Position

December 31	2013	Restated (Note 5) 2012
Financial Assets		
Cash and cash equivalents	\$21,608,504	\$14,747,198
Taxes receivable	2,025,946	2,186,632
Accounts receivable	3,862,028	2,831,121
Loan receivable (Note 4)	436,491	596,864
Investment in ELK Energy Incorporated (Note 5)	10,072,339	9,610,418
Investment in Union Water Supply System (Note 6)	948,090	962,131
Other assets	0	86,328
	38,953,398	31,020,692
Liabilities		
Accounts payable and accrued liabilities	3,096,457	3,896,954
Other current liabilities	219,144	218,389
Accrued interest payable on long-term debt	180,952	193,321
Employee future benefits (Note 12)	3,654,014	3,400,314
Deferred revenue – development charges (Note 13)	(898,401)	(792,285)
Net long-term debt (Note 8)	22,026,910	18,840,341
	28,279,076	25,757,034
Net financial assets	10,674,322	5,263,658
Non-financial assets		
Tangible capital assets (Schedule 1)	182,629,575	184,958,401
Prepaid expenses and inventories of supplies	304,559	228,056
	182,934,134	185,186,457
Accumulated surplus (Note 11)	\$193,608,456	\$190,450,115
Contingent liabilities (Note 15)		
Contractual obligations (Note 17)		

Treasurer

Mayor

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

Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	Budget (Note 14) 2013	Actual 2013	Restated (Note 5) Actual 2012
Revenue			
Taxation	\$12,827,196	\$12,776,238	\$12,155,587
Grants	5,717,687	6,998,955	6,057,879
Sewer and water charges	6,676,098	6,331,738	6,412,631
User charges	3,466,188	3,300,677	2,869,064
Other	894,722	1,484,377	883,532
Landfill compensation	1,392,982	1,602,713	1,372,396
Interest and penalties	505,320	727,075	744,922
Development contributions	191,800	361,710	361,710
Commutated payments	0	48,127	47,001
Share of income from ELK Energy Incorporated (Note 5)	0	552,903	651,784
Loss on disposal of tangible capital assets	0	(107,659)	(30,289)
	31,671,993	34,076,854	31,526,217
Expenses			
General government	3,056,500	3,272,943	2,670,483
Protection to persons and property	6,691,365	6,296,936	6,224,271
Transportation services	8,654,640	7,948,172	5,058,997
Environmental services	5,815,968	5,284,694	5,385,246
Health services	250,795	252,149	230,343
Recreation and cultural services	6,429,576	6,190,397	6,287,151
Planning and development	851,166	1,673,222	650,283
	31,750,010	30,918,513	26,506,774
Annual surplus	(78,017)	3,158,341	5,019,443
Accumulated surplus, beginning of year	190,450,115	190,450,115	185,430,672
Accumulated surplus, end of year	\$190,372,098	\$193,608,456	\$190,450,115

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

Consolidated Statement of Changes in Net Financial Assets (Debt)

For the year ended December 31	Budget (Note 14) 2013	Actual 2013	Restated (Note 5) Actual 2012
Annual surplus	\$ (78,017)	\$3,158,341	\$ 5,019,443
Acquisition of tangible capital assets	(12,312,863)	(8,562,442)	(6,113,851)
Change in tangible capital assets Work in Progress	(2,000,000)	2,722,657	(4,468,715)
Amortization of tangible capital assets	8,060,000	8,060,952	4,827,113
Loss on sale of tangible capital assets	0	107,659	30,289
	<u>(6,330,880)</u>	<u>5,487,167</u>	<u>(705,721)</u>
Net change in inventories of supplies	0	(76,503)	(68,101)
Net change prepaid expenses	0	0	(4,919)
Adjustment to investment in ELK Energy Incorporated	0	0	(1,397,002)
	<u>0</u>	<u>(76,503)</u>	<u>(1,470,022)</u>
Net change in net financial assets (debt)	<u>(6,330,880)</u>	<u>5,410,664</u>	<u>(2,175,743)</u>
Net financial assets (debt), beginning of year	<u>5,263,658</u>	<u>5,263,658</u>	<u>7,439,401</u>
Net financial assets (debt), end of year	<u>\$(1,067,222)</u>	<u>\$10,674,322</u>	<u>\$5,263,658</u>

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

The Corporation of the Town of Essex
Consolidated Statement of Cash Flows

For the year ended December 31	2013	2012
Cash provided by (used in)		
Operating activities		
Annual surplus for the year	\$ 3,158,341	\$ 5,019,443
Items not involving cash		
Amortization	8,060,952	4,827,113
Loss on disposal of tangible capital assets	107,659	30,289
Decrease in taxes receivable	160,686	484,829
(Increase) decrease in accounts receivable	(1,030,907)	44,196
Decrease in other assets	86,328	30,030
(Decrease) increase in accounts payable and accrued liabilities	(800,497)	1,429,230
Increase (decrease) in other current liabilities	755	(12,741)
Decrease in accrued interest payable on long-term debt	(12,369)	(10,021)
Changes in employee future benefits	253,700	266,700
Decrease in deferred revenue - development charges	(106,116)	(172,311)
Increase in prepaid expenses and inventories of supplies	(76,503)	(73,020)
	9,802,029	11,863,737
Capital activities		
Acquisition of tangible capital assets	(8,562,442)	(6,113,851)
Change in tangible capital assets work-in-progress	2,722,657	(4,468,715)
	(5,839,785)	(10,582,566)
Investing activities		
Increase in investment in ELK Energy Incorporated	(461,921)	(560,802)
Decrease in equity in Union Water Supply System	14,041	1,762
	(447,880)	(559,040)
Financing activities		
Long-term debt issued	4,744,521	0
Long-term debt repaid	(1,533,598)	(1,428,069)
Loan advances (issued) repaid	160,373	(252,628)
Changes regarding debt transferred to property owners	(24,354)	(68,568)
	3,346,942	(1,749,265)
Net change in cash and cash equivalents	6,861,306	(1,027,134)
Cash and cash equivalents, beginning of year	14,747,198	15,774,332
Cash and cash equivalents, end of year	\$21,608,504	\$14,747,198

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

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

December 31, 2013

1. Summary of significant accounting policies

Management responsibility The consolidated financial statements of The Corporation of the Town of Essex (the "Municipality") are the responsibility of management. They have been prepared in accordance with Canadian public sector accounting standards for local governments using guidelines established by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants. The Corporation of the Town of Essex is a municipality in the Province of Ontario and operates under the provisions of the Community Charter. The Municipality provides municipal services such as fire, roads, water, wastewater, planning, parks, recreation and other general government services.

Use of estimates The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of consolidation (i) Consolidated Financial Statements
The consolidated statements reflect the assets, liabilities, revenues and expenditures of the revenue fund, capital fund, reserves and reserve funds of all municipal organizations, committees, and Boards which are owned or controlled by the Municipality. All inter-entity transactions and balances have been eliminated on consolidation.

(ii) Other entities
The investments in ELK Energy Incorporated are accounted for using the modified equity basis of accounting, which represents the Town's proportionate share of ELK's net assets at acquisition plus its share of undistributed earnings. The basis is consistent with the generally accepted accounting treatment of government business enterprises.

Notes to the Consolidated Financial Statements

December 31, 2013

1. Summary of significant accounting policies (continued)

The Municipality's proportionate share in the Union Water Supply is accounted for on a proportionate equity basis, consistent with the generally accepted accounting treatment of government units.

(iii) Accounting for County and School Board Transactions

The municipality collects taxation revenue on behalf of the school boards and the County of Essex. The taxation and other revenues with respect to the operations of the County and school boards are not reflected in the Consolidated Statement of Operations. In addition, the revenues, expenses, assets and liabilities with respect to the operations of the County and school boards are not reflected in these financial statements except to the extent that any amounts due to or from are reported on the Consolidated Statement of Financial Position in "accounts receivable" or "accounts payable".

(iv) Trust funds

Funds held in trust by the Municipality, and their related operations are not included in these financial statements. The financial activity and position of the trust funds are reported separately.

Basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. 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 goods or services and the creation of a legal obligation to pay.

Basis of accounting

The consolidated statement of financial position reflects all of the financial assets and liabilities of the municipality. Financial assets are those assets which could provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the Municipality, and is the difference between its assets and liabilities. This provides information about the Municipality's overall future revenue requirements and its ability to finance activities and meet its obligations.

Notes to the Consolidated Financial Statements

December 31, 2013

1. Summary of significant accounting policies (continued)

Cash and cash equivalents Management considers all highly liquid investment with maturity of three months or less at acquisition to be cash equivalents.

Purchase premium Purchase premium arising on the acquisition of a government business enterprise will be deferred and amortized over a period of twenty years.

Taxation and related revenue Taxes are recognized as revenue in the year they are levied. Property tax billings are prepared by the municipality based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by Town Council, incorporating amounts to be raised for local services, the requisition made by the County of Essex in respect of County services and amounts the Municipality is required to collect on behalf of the Province of Ontario in respect of education taxes. A normal part of the assessment process is the issue of supplementary assessment rolls, which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the municipality determines the taxes applicable and renders supplementary tax billings. Taxation revenue is recorded at the time tax billings are issued. Assessments and the related property taxes are subject to appeal and write off for physical changes to the property. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known. The Municipality is entitled to collect interest and penalties on overdue taxes. This revenue is recorded in the period the interest and penalties are levied.

Conditional grant revenue is recognized to the extent the conditions imposed on it have been fulfilled. Unconditional grant revenue is recognized when monies are receivable. Grants for the acquisition of tangible capital assets are recognized in the period in which eligible expenditures are made.

Notes to the Consolidated Financial Statements

December 31, 2013

1. Summary of significant accounting policies (continued)

Sanitary sewer and water operations are funded by various revenues including frontage, connection and usage charges. Charges for sewer and water usage are recorded as user fees. Connection fee revenues are recognized when the connection has been established.

User charges, landfill compensation, and other revenues are recorded on the accrual basis of accounting noted above.

Deferred revenue

Funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes are accounted for as deferred revenue on the consolidated statement of financial position. The revenue is recognized in the consolidated statement of operations in the year in which it is used for the specified purpose.

Government Transfers

Government transfers, which include legislative grants, are recognized as revenue in the consolidated financial statements where the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. When transfer stipulations give rise to a liability, government transfers are recognized as deferred revenue and recognized as revenue when the stipulations are settled.

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount

Notes to the Consolidated Financial Statements

December 31, 2013

1. Summary of significant accounting policies (continued)

recorded as revenue. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing once the asset is available for productive use as follows:

Land improvements	10 to 30 years
Buildings	25 to 80 years
Roads and sidewalks	15 to 80 years
Machinery and equipment	1 to 50 years
Water infrastructure	50 to 80 years
Sewer infrastructure	60 to 100 years
Vehicles	3 to 25 years
Stormwater infrastructure	55 to 90 years
Murals	10 years

Employee future benefits

The Municipality has adopted the method of accounting for employee future benefits as required by the Canadian Institute of Chartered Professional Accountants. The cost of future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and assumptions with respect to mortality and termination rates, retirement age and expected inflation rates with respect to employee benefit costs.

The estimated cost of these benefit obligations is recognized as employee future benefit obligations.

Future accounting changes

Effective for fiscal periods beginning on or after April 1, 2014, all governments will be required to adopt Public Sector Accounting Board Handbook (``PSAB``) Section 3260, Liability for Contaminated Sites. This standard provides guidance to governments on the accounting and reporting of liabilities associated with the remediation of contaminated sites.

Management is currently in the process of evaluating the potential impact of adopting this standard.

December 31, 2013

2. Change in accounting policy

Effective January 1, 2013, the Municipality adopted, on a prospective basis, the new accounting standards PS3410 Government Transfers and PS3510 Tax Revenue from the Chartered Professional Accountants Canada Handbook.

Government transfers are recognized where authorized and eligibility criteria have been met unless the transfer contains stipulations that create a liability. If the transfer contains stipulations that create a liability, the related revenue is recognized over the period that the liability is extinguished.

3. Change in accounting estimate

Effective January 1, 2013, the Municipality changed, on a prospective basis, the useful life of roads. It was determined during the year that the original estimated useful lives of the following asset classes assigned upon adoption of PS 3150 Tangible capital assets in 2010 was not an accurate reflection of actual use:

Bridges and Culverts	50 years changed to 80 years
Hydrants	60 years changed to 40 years
Paved Roads	50 years changed to 25 years

4. Loan receivable

The current loan receivable represents monies loaned to Harrow Health Centre Incorporated as at December 31, 2013. The loan bears interest at 2.6% per annum, amortized over four years. Principal and interest will be due quarterly and the loan can be repaid at any time without notice or bonus. The repayment schedule is set with quarterly installments of \$33,005 including principal and interest maturing on June 10, 2017.

5. Investment in ELK Energy Incorporated

The Municipality held a 100% (2012 - 100%) investment in ELK Energy Incorporated. This investment is recorded using the modified equity method, wherein the investment balance represents the Municipality's proportionate interest in the net assets of ELK Energy Incorporated at acquisition, plus its proportionate share of undistributed earnings.

Notes to the Consolidated Financial Statements**December 31, 2013****5. Investment in ELK Energy Incorporated (continued)**

The investment in ELK Energy Incorporated at December 31, 2013 is as follows:

	2013	2012
Corporation of the Town of Essex 100% proportionate interest in the net assets of ELK Energy Incorporated (2012 – 100%)	\$6,829,183	\$6,276,280
Purchase premium – net of amortization	1,343,156	1,434,138
7.25% promissory note due to the Municipality from ELK Energy Incorporated	1,900,000	1,900,000
	\$10,072,339	\$ 9,610,418

Supplementary information of ELK Energy Incorporated at December 31 is as follows:

	2013	2012
Financial Position		
Current assets	\$13,084,758	\$11,899,531
Capital and regulatory authority	8,111,942	7,291,248
Payments in lieu of income taxes receivable	1,354,000	1,540,000
Investments	63,425	46,968
Total assets	\$22,614,125	\$20,777,747
Current liabilities	\$10,989,566	\$10,797,134
Long-term liabilities	4,795,376	3,704,333
Total liabilities	15,784,942	14,501,467
Net Assets	\$6,829,183	\$6,276,280
Financial Activities		
Total Revenue	\$25,966,028	\$23,861,955
Total expenditures	25,140,878	23,086,158
Payments in lieu of Income taxes	272,247	124,013
Net earnings	\$552,903	\$651,784
Corporation of the Town of Essex share of net earnings in ELK Energy Incorporated	\$552,903	\$651,784

Notes to the Consolidated Financial Statements**December 31, 2013****5. Investment in ELK Energy Incorporated (continued)**

During the year ended December 31, 2013, ELK Energy Incorporated underwent an audit by the Ontario Energy Board. It was determined that certain regulatory liabilities relating to future payments in lieu of income taxes and retail cost and settlement variances accounts were understated at December 31, 2011. ELK Energy Incorporated corrected this error retroactively and accordingly, the 2012 comparative figures have been restated. The net impact on earnings was a reduction of \$1,397,002. For the year ended December 31, 2012, the Municipality's investment in ELK Energy Incorporated, accumulated surplus at the end of year, share of income, annual surplus and net financial assets were reduced by \$1,397,002.

ELK Energy Incorporated bills and collects the Municipality's water and sewer surcharge revenue. In 2013 these amounted to \$6,291,538 (2012 - \$6,377,756) and are included in sewer and water charges revenue.

At December 31, 2013, included in accounts receivable is a balance owing from ELK Energy Incorporated totaling \$585,889 (2012- \$538,655).

These transactions are in the normal course of operations and are measured at the exchange amount which is the cost of the consideration established and agreed to by the related parties.

6. Equity in Union Water Supply System

The equity in Union Water Supply System is made up as follows:

	2013	2012
Cash and cash equivalents	\$947,728	\$929,744
Accounts receivable	34,366	43,472
Accounts payable and accrued liabilities	(34,004)	(11,086)
Due to related party	(39,822)	(56,553)
Net financial assets before long-term debt	908,268	905,577
Long-term debt	(1,100,347)	(1,152,979)
Net financial assets	(192,079)	(247,402)
Tangible capital assets and non-financial assets	2,502,888	2,416,660
Accumulated surplus	\$2,310,809	\$2,169,258
Equity in reserves and reserve funds	\$948,090	\$962,131

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

December 31, 2013

6. Equity in Union Water Supply System (continued)

Tangible capital assets – net book value shown previously consists of:

Water – buildings and equipment	\$1,391,743	\$1,320,960
Water – linear	1,111,145	1,095,700
	<u>\$2,502,888</u>	<u>\$2,416,660</u>

Included in the Consolidated Statement of Operations is the Union Water System's share of:

	2013	2012
Amortization expense	\$63,552	\$56,803
Interest on long-term debt	113,082	115,052

The equity interest of each municipality is determined according to its proportionate water consumption from the System. The Municipality's equity in the System is 6.04% (2012 - 5.85%). The order also provides for the establishment of a Board of Management to govern the system.

7. 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, 2013, \$6,000,000 (2012 - \$6,000,000) in unused credit was available.

The Municipality also has a commercial loan outstanding in the amount of \$74,068 bearing interest at 4.75%. This loan is held for the purpose of financing of the Union Water System capital works program and the Union Water System has assumed all responsibility for payments and has included this servicing in their wholesale water rate and annual budget forecasts. Therefore, as this loan has been assumed by the Union Water System, it is not presented on the Consolidated Statement of Financial Position of the Corporation of the Town of Essex.

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

December 31, 2013

8. Net long-term debt

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

User Fee Supported	2013	2012
i) Essex Sewage Treatment Plant and Expansion Debenture, Ontario Infrastructure Projects Corporation (OIPC). Repayable in semi-annual installments of \$138,915 including interest at 2.66%, due September 1, 2026.	\$3,036,611	\$3,229,805
ii) Harrow Sewage Lagoon Debenture, Ontario Infrastructure Projects Corporation (OIPC). Repayable in semi-annual installments of \$131,564 including interest at 2.67%, due February 3, 2025.	2,590,780	2,780,918
iii) Essex Sewage Update and Expansion Debenture, Ontario Infrastructure Projects Corporation (OIPC). Repayable in semi-annual installments of \$243,990 including interest at 2.53%, due September 1, 2016.	1,401,249	1,845,333
iv) Harrow Colchester South Water Plant, Ontario Clean Water Agency (OCWA). Repayable in annual installments including interest at 7.06%, due in various amounts by November 1, 2014.	57,283	115,702
	\$7,085,923	\$7,971,758

Notes to the Consolidated Financial Statements**December 31, 2013****8. Net long-term debt (continued)**

Property Tax Supported	2013	2012
i) Essex Twin Pad Arena Advance. Repayable in semi-annual installments of \$386,712 including interest at 4.65%, due March 2030	8,842,238	9,192,244
ii) Capital Works Debenture. Repayable in annual instalments including interest ranging from 2.46% to 3.96%, due in various amount from 2018 to 2033	4,744,521	0
iii) Building Energy Upgrade Debenture. Repayable in two annual instalments of \$21,433 including interest at 3.43%, due July 9, 2023	364,202	0
iv) Fire Platform Tuck Debenture – repayable in annual instalments of \$98,184 including interest at 2.76%, due October 15, 2014	95,547	188,527
v) Joint Pool Venture Debenture. Repayable in annual instalments of \$21,756 including interest at 5.25%, repaid during the year.	0	20,671
vi) Other various debentures payable with various terms, repaid during the year	0	9,973
	14,046,508	9,411,415
<i>Benefiting Property Owners</i>		
i) Watermain Debentures. Repayable in annual installments including interest ranging from 4.6% to 7.06%, due in various amounts from 2013 to December 2019	37,935	87,679
ii) Tile Drain loans. Repayable in annual installments including interest ranging from 6.0% to 8.0%, due in various amounts from 2016 to 2020	95,282	110,551
iii) Drain loans. Repayable in annual installments including interest ranging from 3.01% to 5.25%, due in various amounts from 2012 to 2020	175,154	216,510
iv) Shoreline loans. Repayable in annual installments including interest ranging from 6.0% to 8.0%, due in various amounts from 2014 to 2018	53,183	62,269
	361,554	477,009
Share of Union Water System obligations	1,100,347	1,152,979
Subtotal	22,594,332	19,013,161

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

December 31, 2013

8. Net long-term debt (continued)

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 Internally financed debt

	148,466	172,820
	418,956	0
	\$22,026,910	\$ 18,840,341

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

2014	\$1,804,537
2015	1,698,117
2016	1,701,249
2017	1,251,761
2018	1,301,884
Thereafter	<u>14,269,362</u>
	<u>\$22,026,910</u>

Interest payments included in revenue fund expenditures during the year were \$663,998 (2012- \$710,530), 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, 2013. 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.

9. 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:

	2013	2012
School boards	\$5,110,409	\$5,227,042
County of Essex	7,157,007	6,904,794
	\$12,267,416	\$12,131,836

Notes to the Consolidated Financial Statements**December 31, 2013****10. Public sector salary disclosure**

The Public Sector Salary Disclosure Act requires all municipalities to disclose which, if any, employees or officers received a salary totaling more than \$100,000 during the year. During 2013, the following met this requirement:

Position	Name	Salary Paid	Taxable Benefits
Corporate Services	Donna Hunter	\$125,207	\$1,825
Infrastructure and Development	Chris Nepszy	\$117,909	\$1,682
Chief Administrative Officer	Russell Phillips	\$107,979	\$1,574

11. Accumulated surplus

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

	2013	2012
Invested in tangible capital assets	\$182,629,575	\$184,958,401
To be used to offset user charges and taxation	1,793,436	1,787,794
To be financed by user charges and municipal debt	(3,716,848)	(7,482,056)
Equity in ELK Energy Incorporated	8,172,339	7,710,418
Amounts to be recovered		
Employee benefits payable	(3,645,500)	(3,391,800)
Accrued interest on net long-term liabilities	(180,952)	(193,321)
Municipal debt	(22,026,910)	(18,840,341)
Reserves and reserve funds (Note 11(b))	30,583,316	25,901,020
Total accumulated surplus	\$193,608,456	\$190,450,115

Notes to the Consolidated Financial Statements**December 31, 2013****11. Accumulated surplus (continued)**

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

	2013	2012
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	15,700,340	13,429,418
Landfill	6,888,674	5,901,588
Contingencies	3,660,158	2,908,158
Other	2,530,762	1,901,386
Gas tax revenue	589,782	547,052
Sick leave benefits	213,600	213,418
	29,583,316	24,901,020
Total reserves and reserve funds	\$30,583,316	\$25,901,020

12. Employment 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 its staff. 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. The amount contributed to Ontario Municipal Employees Retirement Fund for 2013 was \$446,780 (2012 - \$399,509).

(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, 2013 and consists of the following:

	2013	2012
Post-employment benefits	\$3,645,500	\$3,391,800
Vacation	8,514	8,514
	\$3,654,014	\$3,400,314

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

December 31, 2013

12. Employment benefits (continued)

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 October 31, 2011 and extrapolated to December 31, 2013. The significant actuarial assumptions adopted in estimating the Municipality's liability are as follows:

Discount Rate	3.20%
Health Care Trend Rate	7% for 2013 grading to 4.5% in 2032
Other Medical Care Trend Rate	7% for 2013 grading to 4.5% in 2032
Dental	4% per annum

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

	2013	2012
Accrued benefit liability, beginning of year	\$3,391,800	\$3,125,100
Annual expense	394,900	389,700
Benefits paid	(141,200)	(123,000)
	<u>\$3,645,500</u>	<u>\$3,391,800</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.

Notes to the Consolidated Financial Statements**December 31, 2013****13. 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.

As of December 31, 2013, the Municipality had allocated more development charge revenue than it had collected. This deficit will be recovered through the collection of future development charges.

14. Budget

The Financial Plan (Budget) By-Law adopted by Council on May 21, 2013 was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards). The budget 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 May 21, 2013 with adjustments as follows:

	<u>2013</u>
Financial Plan (Budget) By-Law consolidated surplus/(deficit) for the year	<u>\$(7,805,880)</u>
Add:	
Debt principal repayments	1,475,000
Capital Expenditures	<u>14,312,863</u>
	<u>\$15,787,863</u>
Less	
Amortization	<u>8,060,000</u>
	<u><u>\$(78,017)</u></u>

15. 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 defense 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.

Notes to the Consolidated Financial Statements

December 31, 2013

16. Comparative amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

17. 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 Ontario Clean Water Agency. 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 2013 charges from Ontario Clean Water Agency of \$796,719 (2012 - \$786,652). 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) Ontario Clean Water Agency and the total long-term liabilities outstanding. The accumulated net surplus of Ontario Clean Water Agency is not reflected in the accompanying consolidated financial statements. The total long-term liabilities as at December 31, 2013 are \$57,283 (2012 - \$115,702).

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 2013 is \$4,080,025 (2012 - \$4,125,436). The duration of this contract is five years, it expires March 2014, and the contract can be terminated by either party with written notice of one year.

18. 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.

Notes to the Consolidated Financial Statements

December 31, 2013

18. Tangible capital assets (continued)

(b) Capitalization of Interest

The Municipality has a policy of capitalizing borrowing costs incurred when financing the acquisition of a tangible capital asset.

19. 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

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.

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

December 31, 2013

19. Segmented information (continued)

Health

Health services are comprised of public health services which works 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.

Planning and Development

This department provides a number of services including town planning, maintenance and enforcement of building and construction codes and review of all property development plans through its application process.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. For additional information see the Schedule of Segment Disclosure (Schedule 2).

The Corporation of the Town of Essex
Consolidated Schedule of Tangible Capital Assets - Schedule 1

December 31, 2013

	2013								
	Land	Buildings	Vehicles	Machinery & equipment	Murals & land improvements	Roads	Underground and other networks	Assets under construction	Total
Cost, beginning of year	\$ 22,709,930	\$ 43,821,459	\$ 4,794,413	\$ 10,161,613	\$ 1,103,404	\$ 57,894,609	\$ 100,206,242	\$ 5,774,319	\$ 246,465,989
Additions	51,184	784,104	74,703	1,080,526	0	745,462	1,397,759	1,852,195	5,985,933
Disposals / Writedowns	0	(\$28,378)	0	(\$76,593)	0	(\$12,105)	(\$244,041)	(\$56,223)	(\$417,340)
Other transfers	0	2,684,476	0	4,692	15,010	0	1,724,525	(\$4,574,852)	(\$146,149)
Cost, end of year	<u>22,761,114</u>	<u>47,261,661</u>	<u>4,869,116</u>	<u>11,170,238</u>	<u>1,118,414</u>	<u>58,627,966</u>	<u>103,084,485</u>	<u>2,995,439</u>	<u>251,888,433</u>
Accumulated amortization, beginning of year	0	10,128,189	2,454,611	4,085,303	563,554	16,146,530	28,129,401	0	61,507,588
Amortization	0	1,268,935	149,726	665,945	189,752	4,168,834	1,617,760	0	8,060,952
Disposals / Writedowns	0	(\$15,013)	0	(\$72,160)	0	(\$12,105)	(\$210,404)	0	(\$309,682)
Accumulated amortization, end of year	<u>0</u>	<u>11,382,111</u>	<u>2,604,337</u>	<u>4,679,088</u>	<u>753,306</u>	<u>20,303,259</u>	<u>29,536,757</u>	<u>0</u>	<u>69,258,858</u>
Net carrying amount, end of year	<u>\$ 22,761,114</u>	<u>\$ 35,879,550</u>	<u>\$ 2,264,779</u>	<u>\$ 6,491,150</u>	<u>\$ 365,108</u>	<u>\$ 38,324,707</u>	<u>\$ 73,547,728</u>	<u>\$ 2,995,439</u>	<u>\$ 182,629,575</u>

The Corporation of the Town of Essex
Consolidated Schedule of Tangible Capital Assets - Schedule 1

December 31, 2012

	2012								
	Land	Buildings	Vehicles	Machinery & equipment	Murals & land improvements	Roads	Underground and other networks	Assets under construction	Total
Cost, beginning of year	\$ 22,391,096	\$ 42,453,433	\$ 4,357,394	\$ 9,502,654	\$ 1,103,404	\$ 55,930,550	\$ 98,943,220	\$ 1,315,005	\$ 235,996,756
Additions	318,834	1,365,308	468,374	715,486	0	1,980,109	932,339	4,991,570	10,772,020
Disposals / Writedowns	0	0	(\$31,355)	(\$56,527)	0	(\$16,050)	0	(\$9,400)	(\$113,332)
Other transfers	0	2,718	0	0	0	0	330,683	(\$522,856)	(\$189,455)
Cost, end of year	<u>22,709,930</u>	<u>43,821,459</u>	<u>4,794,413</u>	<u>10,161,613</u>	<u>1,103,404</u>	<u>57,894,609</u>	<u>100,206,242</u>	<u>5,774,319</u>	<u>246,465,989</u>
Accumulated amortization, beginning of year	0	8,899,142	2,272,831	3,565,378	428,865	14,959,331	26,637,972	0	56,763,519
Amortization	0	1,229,047	211,829	564,642	134,689	1,195,477	1,491,429	0	4,827,113
Disposals / Writedowns	0	0	(\$30,049)	(\$44,717)	0	(\$8,278)	0	0	(\$83,044)
Accumulated amortization, end of year	<u>0</u>	<u>10,128,189</u>	<u>2,454,611</u>	<u>4,085,303</u>	<u>563,554</u>	<u>16,146,530</u>	<u>28,129,401</u>	<u>0</u>	<u>61,507,588</u>
Net carrying amount, end of year	<u>\$ 22,709,930</u>	<u>\$ 33,693,270</u>	<u>\$ 2,339,802</u>	<u>\$ 6,076,310</u>	<u>\$ 539,850</u>	<u>\$ 41,748,079</u>	<u>\$ 72,076,841</u>	<u>\$ 5,774,319</u>	<u>\$ 184,958,401</u>

**The Corporation of the Town of Essex
Schedule of Segment Disclosure - Schedule 2**

December 31, 2013

	General government	Protection to persons and property	Transportation	Environmental	Health Services	Recreation and Cultural Services	Planning and Development	2013 Total
Revenue								
Taxation	\$12,776,238	\$0	\$0	\$0	\$0	\$0	\$0	\$12,776,238
User charges	105,534	621,030	0	13,666	78,255	2,457,242	24,950	3,300,677
Grants	5,396,196	134,617	869,990	0	119,068	250,777	228,307	6,998,955
Interest	727,075	0	0	0	0	0	0	727,075
Landfill compensation	0	0	0	1,602,713	0	0	0	1,602,713
Share of income government business enterprise	552,903	0	0	0	0	0	0	552,903
Commuted payments	0	0	0	48,127	0	0	0	48,127
Development contributions	361,710	0	0	0	0	0	0	361,710
Sewer and water charges	0	0	0	6,331,738	0	0	0	6,331,738
Other	171,364	239,131	15,281	37,067	200	206,490	814,844	1,484,377
Loss on disposal tangible capital assets	0	(\$2,995)	(\$16,111)	(\$17,526)	0	(\$14,803)	(\$56,224)	(\$107,659)
	20,091,020	991,783	869,160	8,015,785	197,523	2,899,706	1,011,877	34,076,854
Expenses								
Salaries and benefits	2,025,645	1,234,181	1,306,277	404,954	124,861	2,461,001	380,904	7,937,823
Materials and supplies	716,046	504,314	1,226,660	859,893	123,413	1,790,785	156,103	5,377,214
Interest	0	5,203	0	211,959	0	437,111	17,286	671,559
Contract services	33,316	4,080,114	261,805	2,617,496	156	246,406	6,045	7,245,338
Amortization	92,501	317,818	5,103,055	1,270,633	3,719	1,194,908	78,319	8,060,953
Other	405,435	155,306	50,375	(\$80,241)	0	60,186	1,034,565	1,625,626
	3,272,943	6,296,936	7,948,172	5,284,694	252,149	6,190,397	1,673,222	30,918,513
Annual surplus for the year	\$16,818,077	(\$5,305,153)	(\$7,079,012)	\$2,731,091	(\$54,626)	(\$3,290,691)	(\$661,345)	\$3,158,341

**The Corporation of the Town of Essex
Schedule of Segment Disclosure - Schedule 2**

December 31, 2012

	General government	Protection to persons and property	Transportation	Environmental	Health Services	Recreation and Cultural Services	Planning and Development	2012 Total	
Revenue									
Taxation	\$12,155,587	\$0	\$0	\$0	\$0	\$0	\$0	\$12,155,587	
User charges	\$110,996	\$331,800	\$0	\$18,372	\$61,630	\$2,312,466	\$33,800	2,869,064	
Grants	\$5,635,054	\$165,936	\$2,419	\$63,382	\$122,383	\$27,000	\$41,705	6,057,879	
Interest	\$744,922	\$0	\$0	\$0	\$0	\$0	\$0	744,922	
Landfill compensation	\$0	\$0	\$0	\$1,372,396	\$0	\$0	\$0	1,372,396	
Share of income government business enterprise	\$651,784	\$0	\$0	\$0	\$0	\$0	\$0	651,784	
Commuted payments	\$0	\$0	\$0	\$47,001	\$0	\$0	\$0	47,001	
Development contributions	\$361,710	\$0	\$0	\$0	\$0	\$0	\$0	361,710	
Sewer and water charges	\$0	\$0	\$0	\$6,412,631	\$0	\$0	\$0	6,412,631	
Other	\$260,869	\$297,710	\$1,671	\$6,690	\$0	\$278,728	\$37,864	883,532	
Loss on disposal tangible capital assets	(\$2,126)	(\$9,018)	(\$7,772)	(\$1,973)	\$0	(\$9,400)	\$0	(\$30,289)	
	<u>19,918,796</u>	<u>786,428</u>	<u>-</u>	<u>3,682</u>	<u>7,918,499</u>	<u>184,013</u>	<u>2,608,794</u>	<u>113,369</u>	<u>31,526,217</u>
Expenses									
Salaries and benefits	1,833,451	1,226,063	1,213,867	390,713	113,052	2,380,602	360,557	7,518,305	
Materials and supplies	623,570	512,959	1,150,988	952,217	113,791	1,816,285	127,690	5,297,500	
Interest	0	7,701	0	239,510	0	452,120	19,864	719,195	
Contract services	1,239	4,125,436	344,698	2,628,187	113	249,462	(\$2,371)	7,346,764	
Amortization	84,527	208,925	2,032,232	1,263,059	3,387	1,160,949	74,017	4,827,096	
Other	127,696	143,187	317,212	(\$88,440)	0	227,733	70,526	797,914	
	<u>2,670,483</u>	<u>6,224,271</u>	<u>5,058,997</u>	<u>5,385,246</u>	<u>230,343</u>	<u>6,287,151</u>	<u>650,283</u>	<u>26,506,774</u>	
Annual surplus for the year	\$17,248,313	(\$5,437,843)	(\$5,062,679)	\$2,533,253	(\$46,330)	(\$3,678,357)	(\$536,914)	\$5,019,443	

The Corporation of the Town of Essex

Trust Fund

Financial Statements

For the year ended December 31, 2013



Telephone number: (519)776-6488
Fax number: (519)776-6090
[Link to BDO Canada LLP Website](#)

BDO Canada LLP
180 Talbot Street South
Essex Ontario N8M 1B6 Canada

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Essex

We have audited the balance sheet of the trust funds of The Corporation of the Town of Essex as at December 31, 2013 and the statement of continuity of the trust funds for the year ended and a summary of significant accounting policies (together "the financial statements").

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 necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 of 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 the auditor's 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, the auditor considers 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, if any, 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, these financial statements present fairly, in all material respects, the financial position of the trust funds of The Corporation of the Town of Essex as at December 31, 2013 and the continuity thereof, in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Essex, Ontario
June 16, 2014

The Corporation of the Town of Essex

Trust Funds

Balance Sheet

December 31, 2013

	Cemetery and Headstone Care and Maintenance	
	2013	2012
Financial assets and liabilities		
Cash	\$293,256	\$313,817
Due (from) to general account	2,576	(28,055)
	\$295,832	\$285,762
Accumulated surplus	\$295,832	\$285,762

Statement of Continuity

For the year ended December 31, 2013

	Cemetery and Headstone Care and Maintenance	
	2013	2012
Revenues		
Interest and other	\$17,364	\$12,903
Expenditures		
Transfer to capital project	0	25,991
Transfer to general fund	7,294	7,484
	7,294	33,475
Net change in trust funds during the year	10,070	(20,572)
Balance , beginning of the year	285,762	306,334
Balance , end of the year	\$295,832	\$285,762

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

December 31, 2013

1. Summary of significant accounting policies

The Trust Fund financial statements are the representation of management and have been prepared in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants. Precise determination of some assets and liabilities may be dependent upon future events and involves the use of estimates and approximations. These estimates have been based upon the information available using careful judgment and review.

(a) Basis of accounting

- i) Sources of financing and expenditures are reported on the accrual basis of accounting
- ii) 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 goods or services and the creation of a legal obligation to pay.