

The Corporation of the Town of Essex

Financial Statements

For the year ended December 31, 2014

The Corporation of the Town of Essex

Financial Statements

For the year ended December 31, 2014

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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, 2014, 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 judgement, 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, 2014 and their financial performance and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Essex, Ontario

June 15, 2015

The Corporation of the Town of Essex
Consolidated Statement of Financial Position

December 31	2014	2013
Financial Assets		
Cash and cash equivalents	\$26,493,322	\$21,608,504
Taxes receivable	1,993,002	2,025,946
Accounts receivable	3,966,658	3,862,028
Loan receivable (Note 3)	314,740	436,491
Unearned revenue – development charges (Note 10)	907,318	898,401
Investment in ELK Energy Incorporated (Note 4)	8,925,637	10,072,339
Investment in Union Water Supply System (Note 5)	954,486	948,090
	43,555,163	39,851,799
Liabilities		
Accounts payable and accrued liabilities	2,350,804	3,096,457
Other current liabilities	150,823	219,144
Accrued interest payable on long-term debt	262,166	180,952
Employee future benefits (Note 11)	3,906,614	3,654,014
Net long-term debt (Note 7)	21,299,235	22,026,910
	27,969,642	29,177,477
Net financial assets	15,585,521	10,674,322
Non-financial assets		
Tangible capital assets (Schedule 1)	182,285,630	182,629,575
Prepaid expenses and inventories of supplies	234,121	304,559
	182,519,751	182,934,134
Accumulated surplus (Note 9)	\$198,105,272	\$193,608,456
Contingent liabilities (Note 12)		
Contractual obligations (Note 13)		

_____ Treasurer

_____ Mayor

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

The Corporation of the Town of Essex

Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	Budget (Note 15) 2014	Actual 2014	Actual 2013
Revenue			
Taxation	\$14,016,785	\$13,720,500	\$12,776,238
User charges	3,372,098	2,867,362	3,300,677
Grants	6,179,875	6,510,412	7,083,748
Interest and penalties	502,750	734,818	727,075
Landfill compensation	1,622,875	1,467,540	1,602,713
Share of income from ELK Energy Incorporated (Note 4)	0	844,280	552,903
Commuted payments	43,269	43,180	48,127
Development contributions	236,439	359,633	361,710
Sewer and water charges	6,860,927	6,435,911	6,331,738
Other	1,692,686	1,938,542	1,399,584
Loss on disposal of tangible capital assets	0	(576,071)	(107,659)
	34,527,704	34,346,107	34,076,854
Expenses			
General government	2,897,213	2,933,348	3,272,943
Protection to persons and property	7,197,794	6,683,901	6,296,936
Transportation services	7,478,991	6,520,015	7,948,172
Environmental services	5,917,996	5,973,772	5,284,694
Health services	239,284	244,932	252,149
Recreation and cultural services	6,390,569	6,601,039	6,190,397
Planning and development	1,341,652	892,284	1,673,222
	31,463,499	29,849,291	30,918,513
Annual surplus	3,064,205	4,496,816	3,158,341
Accumulated surplus, beginning of year	193,608,456	193,608,456	190,450,115
Accumulated surplus, end of year	\$196,672,661	\$198,105,272	\$193,608,456

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 15) 2014	Actual 2014	(Note 4) Actual 2013
Annual surplus	\$ 3,064,205	\$4,496,816	\$3,158,341
Acquisition of tangible capital assets	(7,148,384)	(5,689,574)	(8,562,442)
Change in tangible capital assets Work in Progress	(2,000,000)	(1,165,862)	2,722,657
Amortization of tangible capital assets	6,623,000	6,623,310	8,060,952
Loss on sale of tangible capital assets	0	388,761	107,659
Write-downs of tangible capital assets	0	187,310	0
	538,821	4,840,761	5,487,167
Net change in inventories of supplies	0	79,769	(76,503)
Net change prepaid expenses	0	(9,331)	0
	0	70,438	(76,503)
Net change in net financial assets	538,821	4,911,199	5,410,664
Net financial assets, beginning of year	10,674,322	10,674,322	5,263,658
Net financial assets, end of year	\$11,213,143	\$15,585,521	\$10,674,322

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	2014	2013
Cash provided by (used in)		
Operating activities		
Annual surplus for the year	\$4,496,816	\$ 3,158,341
Items not involving cash		
Amortization	6,623,310	8,060,952
Loss on disposal of tangible capital assets	388,761	107,659
Write-downs of tangible capital assets	187,310	0
Decrease in taxes receivable	32,944	160,686
Increase in accounts receivable	(104,630)	(1,030,907)
Increase in unearned revenue - development charges	(8,917)	(106,116)
Decrease in other assets	0	86,328
Decrease in accounts payable and accrued liabilities	(745,653)	(800,497)
Increase (decrease) in other current liabilities	(68,321)	755
Increase (decrease) in accrued interest payable on long-term debt	81,214	(12,369)
Changes in employee future benefits	252,600	253,700
Increase (decrease) in prepaid expenses and inventories of supplies	70,438	(76,503)
	<u>11,205,872</u>	<u>9,802,029</u>
Capital activities		
Acquisition of tangible capital assets	(5,689,574)	(8,562,442)
Change in tangible capital assets work-in-progress	(1,165,862)	2,722,657
	<u>(6,855,436)</u>	<u>(5,839,785)</u>
Investing activities		
Increase in investment in ELK Energy Incorporated	1,146,702	(461,921)
Decrease in equity in Union Water Supply System	(6,396)	14,041
	<u>1,140,306</u>	<u>(447,880)</u>
Financing activities		
Long-term debt issued	802,297	4,744,521
Long-term debt repaid	(1,504,244)	(1,533,598)
Loan advances repaid	121,751	160,373
Changes regarding debt transferred to property owners	(25,728)	(24,354)
	<u>(605,924)</u>	<u>3,346,942</u>
Net change in cash and cash equivalents	4,884,818	6,861,306
Cash and cash equivalents, beginning of year	21,608,504	14,747,198
Cash and cash equivalents, end of year	\$26,493,322	\$21,608,504

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, 2014

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, 2014

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.

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

December 31, 2014

1. Summary of significant accounting policies (continued)

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.

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.

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

December 31, 2014

1. Summary of significant accounting policies (continued)

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.

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

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

December 31, 2014

1. Summary of significant accounting policies (continued)

at the time of the donation, with a corresponding amount 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 Chartered Professional Accountants of Canada. 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.

2. 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.

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

December 31, 2014

3. Loan receivable

The current loan receivable represents monies loaned to Harrow Health Centre Incorporated as at December 31, 2014. 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.

4. Investment in ELK Energy Incorporated

The Municipality held a 100% (2013 - 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.

The investment in ELK Energy Incorporated at December 31, 2014 is as follows:

	2014	2013
Corporation of the Town of Essex 100% proportionate interest in the net assets of ELK Energy Incorporated (2013 – 100%)	\$7,673,463	\$6,829,183
Purchase premium – net of amortization	1,252,174	1,343,156
7.25% promissory note due to the Municipality from ELK Energy Incorporated	0	1,900,000
	\$8,925,637	\$10,072,339

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

December 31, 2014

4. Investment in ELK Energy Incorporated (continued)

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

	<u>2014</u>	<u>2013</u>
Financial Position		
Current assets	\$9,990,870	\$13,084,758
Capital and regulatory authority	7,960,687	8,111,942
Payments in lieu of income taxes receivable	1,210,000	1,354,000
Investments	69,920	63,425
	<hr/>	<hr/>
Total assets	\$19,231,477	\$22,614,125
Current liabilities	\$9,833,897	\$10,989,566
Long-term liabilities	1,724,117	4,795,376
	<hr/>	<hr/>
Total liabilities	11,558,014	15,784,942
	<hr/>	<hr/>
Net Assets	\$7,673,463	\$6,829,183
	<hr/>	<hr/>
Financial Activities		
Total revenue	\$27,115,856	\$25,966,028
Total expenditures	26,151,862	25,140,878
Payments in lieu of Income taxes	119,714	272,247
	<hr/>	<hr/>
Net earnings	\$844,280	\$552,903
	<hr/>	<hr/>
Corporation of the Town of Essex share of net earnings in ELK Energy Incorporated	\$844,280	\$552,903
	<hr/>	<hr/>

ELK Energy Incorporated bills and collects the Municipality's water and sewer surcharge revenue. In 2014 these amounted to \$6,425,511 (2013 - \$6,291,538) and are included in sewer and water charges revenue.

At December 31, 2014, included in accounts receivable is a balance owing from ELK Energy Incorporated totaling \$665,631 (2013-\$585,889).

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.

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

December 31, 2014

5. Equity in Union Water Supply System

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

	2014	2013
Cash and cash equivalents	\$1,005,321	\$947,728
Accounts receivable	32,792	34,366
Accounts payable and accrued liabilities	(83,626)	(34,004)
Due to related party	(20,373)	(39,822)
Net financial assets before long-term debt	934,114	908,268
Long-term debt	(1,003,070)	(1,100,347)
Net financial assets	(68,956)	(192,079)
Tangible capital assets and non-financial assets	2,470,591	2,502,888
Accumulated surplus	\$2,401,635	\$2,310,809
Equity in reserves and reserve funds	\$954,486	\$948,090
Tangible capital assets – net book value shown previously consists of:		
Water – buildings and equipment	\$1,381,015	\$1,391,743
Water – linear	1,089,576	1,111,145
	\$2,470,591	\$2,502,888

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

	2014	2013
Amortization expense	\$65,256	\$63,552
Interest on long-term debt	106,986	113,082

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% (2013-6.04%). The order also provides for the establishment of a Board of Management to govern the system.

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

December 31, 2014

6. 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, 2014, \$6,000,000 (2013-\$6,000,000) in unused credit was available.

The Municipality also has a commercial loan outstanding in the amount of \$27,974 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.

7. 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	2014	2013
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.	\$2,838,245	\$3,036,611
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.	2,395,531	2,590,780
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.	945,859	1,401,249
iv) Building Energy Upgrade Debenture. Along with Property Tax Supported iii) is repayable in two annual installments of \$21,433 including interest at 3.43%, due July 9, 2023.	28,213	29,474
v) Harrow Colchester South Water Plant, Ontario Clean Water Association (OCWA). Repaid during the year.	0	57,283
	\$6,207,848	\$7,115,397

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

December 31, 2014

7. Net long-term debt (continued)

Property Tax Supported

	2014	2013
i) Essex Twin Pad Arena Debenture. Repayable in semi-annual installments of \$386,712 including interest at 4.65%, due March 2030.	\$8,475,768	\$8,842,238
ii) Capital Works Debenture. Repayable in annual installments including interest ranging from 2.46% to 3.96%, due in various amounts from 2018 to 2033.	5,026,525	4,744,521
iii) Building Energy Upgrade Debenture. Along with User Fee Supported iv) is repayable in two annual installments of \$21,433 including interest at 3.43%, due July 9, 2023.	316,665	334,728
iv) Fire Platform Tuck Debenture. Repaid during the year.	0	95,547
	\$13,818,958	\$14,017,034

Benefiting Property Owners

i) Watermain Debentures. Repayable in annual installments including interest ranging from 4.6% to 7.06%, due in various amounts from 2015 to December 2019.	\$23,877	\$37,935
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.	79,097	95,282
iii) Drain loans. Repayable in annual installments including interest ranging from 2.69% to 5.25%, due in various amounts from 2015 to 2020.	232,892	175,154
iv) Shoreline loans. Repayable in annual installments including interest ranging from 6.0% to 8.0%, due in various amounts from 2015 to 2018.	43,640	53,183
v) Sanitary sewer extension debentures. Repayable in annual installments including interest at 3.40%, due in various amounts from 2015 to 2024.	402,306	0
	\$781,812	\$361,554
Share of Union Water System obligations	\$1,003,070	\$1,100,347

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

December 31, 2014

7. Net long-term debt (continued)

	2014	2013
Subtotal	\$21,811,688	\$22,594,332
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.	122,737	148,466
Internally financed debt	389,716	418,956
	\$21,299,235	\$22,026,910

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

2015	\$1,783,202
2016	1,791,241
2017	1,343,220
2018	1,394,148
2019	1,423,318
Thereafter	<u>13,564,106</u>
	<u>\$21,299,235</u>

Interest payments included in revenue fund expenditures during the year were \$689,957 (2013- \$663,998), 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, 2014. 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.

8. 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:

	2014	2013
School boards	\$5,059,721	\$5,110,409
County of Essex	7,431,780	7,157,007
	\$12,491,501	\$12,267,416

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

December 31, 2014

9. Accumulated surplus

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

	2014	2013
Invested in tangible capital assets	\$182,285,630	\$182,629,575
To be used to offset (financed by) taxation	(1,076,386)	1,793,435
To be financed by user charges and municipal debt	(2,340,853)	(3,716,848)
Equity in ELK Energy Incorporated	8,925,637	8,172,339
Amounts to be recovered		
Employee benefits payable	(3,898,100)	(3,645,500)
Accrued interest on net long-term liabilities	(262,166)	(180,952)
Municipal debt	(21,299,235)	(22,026,910)
Reserves and reserve funds (Note g(b))	35,770,745	30,583,316
Total accumulated surplus	\$198,105,272	\$193,608,455

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

	2014	2013
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	\$17,652,346	\$15,700,340
Landfill	8,019,069	6,888,674
Contingencies	6,193,697	3,660,158
Other	2,547,186	2,530,762
Gas tax revenue	142,118	589,782
Sick leave benefits	216,329	213,600
	\$34,770,745	\$29,583,316
Total reserves and reserve funds	\$35,770,745	\$30,583,316

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

December 31, 2014

10. 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.

As of December 31, 2014, the Municipality had allocated more development charge revenue than it had collected and therefore are shown as unearned revenue. This deficit will be recovered through the collection of future development charges.

11. 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 OMERS for 2014 was \$450,276 (2013 - \$446,780).

(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, 2014 and consists of the following:

	<u>2014</u>	<u>2013</u>
Post-employment benefits	\$3,898,100	\$3,645,500
Vacation	8,514	8,514
	<u>\$3,906,614</u>	<u>\$3,654,014</u>

Notes to the Consolidated Financial Statements

December 31, 2014

11. 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, 2014. The significant actuarial assumptions adopted in estimating the Municipality's liability are as follows:

Discount Rate	2.50%
Health Care Trend Rate	8% for 2014 grading to 4.5% in 2034
Other Medical Care Trend Rate	4.5% per annum
Dental	4.5% per annum

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

	2014	2013
Accrued benefit liability, beginning of year	\$3,645,500	\$3,391,800
Annual expense	422,900	394,900
Benefits paid	(170,300)	(141,200)
	<u>\$3,898,100</u>	<u>\$3,645,500</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.

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

December 31, 2014

12. 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.

13. 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 2014 charges from OCWA of \$866,206 (2013 - \$796,719). 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 total long-term liabilities as at December 31, 2014 are \$0 (2013 - \$57,283).

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 2014 is \$4,391,315 (2013 - \$4,080,025). The duration of this contract is five years, it expires March 2019, and the contract can be terminated by either party with written notice of one year.

Notes to the Consolidated Financial Statements**December 31, 2014****14. 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 2014, the following met this requirement:

Position	Name	Salary Paid	Taxable Benefits
Manager of Operations and Drainage	Daniel Boudreau	\$100,013	\$1,648
Manager of Recreation and Culture	Cynthia Cakebread	\$124,292	\$1,482
Manager of Environmental Services	Andrew Graf	\$100,513	\$1,565
Corporate Services	Donna Hunter	\$128,170	\$2,066
Infrastructure and Development	Chris Nepszy	\$120,733	\$1,955
Chief Administrative Officer	Russell Phillips	\$136,328	\$2,193
Fire Chief	Edward Pillon	\$103,481	\$1,596
Director of Community Services	Doug Sweet	\$114,068	\$1,819

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

December 31, 2014

15. Budget

The Financial Plan (Budget) By-Law adopted by Council on April 22, 2014 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 April 22, 2014 with adjustments as follows:

	2014
Financial Plan (Budget) By-Law consolidated surplus/(deficit) for the year	\$(1,011,999)
Add:	
Debt principal repayments	1,722,599
Capital Expenditures	9,148,384
	\$10,870,983
Less:	
New debt issued	171,779
Amortization	6,623,000
	\$3,064,205

16. 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.

December 31, 2014

17. 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.

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

December 31, 2014

17. Segmented information (continued)

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.

Planning and Development

The Planning and Development 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. Municipal taxation revenue has been allocated based on the percentage of total budgeted expenditures. 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).

18. Comparative amounts

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

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

December 31, 2014

	2014								
	Land	Buildings	Vehicles	Machinery & equipment	Murals & land improvements	Roads	Underground and other networks	Assets under construction	Total
Cost, beginning of year	\$ 22,761,114	\$ 47,261,661	\$ 4,869,116	\$ 11,170,238	\$ 1,118,414	\$ 58,627,966	\$ 103,084,485	\$ 2,995,439	\$ 251,888,433
Additions	828,984	108,255	470,251	1,046,776	544,828	1,219,344	1,160,422	2,366,516	7,745,376
Disposals	-	-	(80,875)	(460,639)	-	(457,676)	(31,161)	(27,853)	(1,058,204)
Other transfers or writedowns	(2,995,366)	(1,437,869)	(3)	196,545	2,794,055	(7,930,657)	9,684,009	(1,387,964)	(1,077,250)
Cost, end of year	20,594,732	45,932,047	5,258,489	11,952,920	4,457,297	51,458,977	113,897,755	3,946,138	257,498,355
Accumulated amortization, beginning of year	-	11,382,111	2,604,337	4,679,088	753,306	20,303,259	29,536,757	-	69,258,858
Amortization	-	1,293,765	253,607	607,267	166,782	2,651,984	1,649,905	-	6,623,310
Disposals	-	-	(80,875)	(451,902)	-	(117,624)	(19,042)	-	(669,443)
Other transfers or writedowns		(380,258)	75,201	(78,006)	-	(5,434,422)	5,817,485		
Accumulated amortization, end of year	-	12,295,618	2,852,270	4,756,447	920,088	17,403,197	36,985,105	-	75,212,725
Net carrying amount, end of year	20,594,732	33,636,429	2,406,219	7,196,473	3,537,209	34,055,780	76,912,650	3,946,138	182,285,630

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 improve-ments	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	-	745,462	1,397,759	1,852,195	5,985,933
Disposals or writedowns	-	(28,378)	-	(76,593)	-	(12,105)	(244,041)	(56,223)	(417,340)
Other transfers	-	2,684,476	-	4,692	15,010	-	1,724,525	(4,574,852)	(146,149)
Cost, end of year	22,761,114	47,261,661	4,869,116	11,170,238	1,118,414	58,627,966	103,084,485	2,995,439	251,888,433
Accumulated amortization, beginning of year	-	10,128,189	2,454,611	4,085,303	563,554	16,146,530	28,129,401	-	61,507,588
Amortization	-	1,268,935	149,726	665,945	189,752	4,168,834	1,617,760	-	8,060,952
Disposals or writedowns	-	(15,013)	-	(72,160)	-	(12,105)	(210,404)	-	(309,682)
Accumulated amortization, end of year	-	11,382,111	2,604,337	4,679,088	753,306	20,303,259	29,536,757	-	69,258,858
Net carrying amount, end of year	22,761,114	35,879,550	2,264,779	6,491,150	365,108	38,324,707	73,547,728	2,995,439	182,629,575

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

For the year ended December 31, 2014

	General government	Protection to persons and property	Transportation	Environmental	Health services	Recreation and cultural services	Planning and development	2014 Total
Revenue								
Taxation	\$ 1,263,408	\$ 3,138,791	\$ 3,261,414	\$ 2,580,700	\$ 104,346	\$ 2,786,778	\$ 585,063	\$ 13,720,500
User charges	104,903	357,239	-	18,324	78,171	2,286,675	22,050	2,867,362
Grants	5,021,493	240,958	1,015,976	-	121,845	15,178	94,962	6,510,412
Interest	734,818	-	-	-	-	-	-	734,818
Landfill compensation	-	-	-	1,467,540	-	-	-	1,467,540
Share of income government business enterprise	844,280	-	-	-	-	-	-	844,280
Commuted payments	-	-	-	43,180	-	-	-	43,180
Development contributions	359,633	-	-	-	-	-	-	359,633
Sewer and water charges	-	-	-	6,435,911	-	-	-	6,435,911
Other	76,765	227,803	166,473	112,771	-	282,647	1,072,083	1,938,542
Loss on disposal of tangible capital assets	-	(6,080)	(539,480)	(24,001)	-	(6,510)	-	(576,071)
	8,405,300	3,958,711	3,904,383	10,634,425	304,362	5,364,768	1,774,158	34,346,107
Expenses								
Salaries and benefits	1,989,121	1,187,363	1,374,723	388,064	120,185	2,703,351	343,471	8,106,278
Materials and supplies	699,608	570,426	1,571,153	664,123	121,181	1,993,006	453,719	6,073,216
Interest	1,206	3,659	372	183,993	-	491,066	17,691	697,987
Contract service	13,317	4,395,219	672,001	2,737,082	403	204,800	846	8,023,668
Amortization	121,430	361,833	2,900,109	1,999,887	3,163	1,161,836	75,052	6,623,310
Other	108,666	165,401	1,657	623	-	46,980	1,505	324,832
	2,933,348	6,683,901	6,520,015	5,973,772	244,932	6,601,039	892,284	29,849,291
Annual surplus for the year	5,471,952	(2,725,190)	(2,615,632)	4,660,653	59,430	(1,236,271)	881,874	4,496,816

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

For the year ended 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	\$ 1,229,940	\$ 2,692,612	\$ 3,482,636	\$ 2,340,352	\$ 100,920	\$ 2,587,268	\$ 342,510	\$ 12,776,238
User charges	105,534	621,030	-	13,666	78,255	2,457,242	24,950	3,300,677
Grants	5,480,989	134,617	869,990	-	119,068	250,777	228,307	7,083,748
Interest	727,075	-	-	-	-	-	-	727,075
Landfill compensation	-	-	-	1,602,713	-	-	-	1,602,713
Share of income government business enterprise	552,903	-	-	-	-	-	-	552,903
Commuted payments	-	-	-	48,127	-	-	-	48,127
Development contributions	361,710	-	-	-	-	-	-	361,710
Sewer and water charges	-	-	-	6,331,738	-	-	-	6,331,738
Other	86,571	239,131	15,281	37,067	200	206,490	814,844	1,399,584
Loss on disposal of tangible capital assets	-	(2,995)	(16,111)	(17,526)	-	(14,803)	(56,224)	(107,659)
	8,544,722	3,684,395	4,351,796	10,356,137	298,443	5,486,974	1,354,387	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	903,146	513,336	1,274,925	779,179	123,413	1,812,240	1,189,468	6,595,707
Interest	-	5,203	-	211,959	-	437,111	17,286	671,559
Contract service	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	218,335	146,284	2,110	473	-	38,731	1,200	407,133
	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	5,271,779	(2,612,541)	(3,596,376)	5,071,443	46,294	(703,423)	(318,835)	3,158,341



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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 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.

Chartered Professional Accountants, Licensed Public Accountants

Essex, Ontario

June 15, 2015

The Corporation of the Town of Essex

Trust Funds

Balance Sheet

December 31, 2014

	Cemetery and Headstone Care and Maintenance	
	<u>2014</u>	<u>2013</u>
Financial assets and liabilities		
Cash	\$302,545	\$293,256
Due (from) to general account	5,183	2,576
	\$307,728	\$295,832
Accumulated surplus	\$307,728	\$295,832

Statement of Continuity

For the year ended December 31, 2014

	Cemetery and Headstone Care and Maintenance	
	<u>2014</u>	<u>2013</u>
Revenues		
Interest and other	\$18,608	\$17,364
Expenditures		
Transfer to general fund	6,712	7,294
Net change in trust funds during the year	11,896	10,070
Balance, beginning of the year	295,832	285,762
Balance, end of the year	\$307,728	\$295,832

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

December 31, 2014

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.