

**The Corporation of the Town of  
Essex  
Financial Statements  
For the year ended December 31, 2015**

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**Financial Statements**  
For the year ended December 31, 2015

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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, 2015, 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.

**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, 2015, 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 20, 2016

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

December 31	2015	2014
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 29,838,917	\$ 26,493,322
Taxes receivable	2,067,902	1,993,002
Accounts receivable	3,646,540	3,966,658
Loan receivable (Note 2)	-	314,740
Unearned revenue - development charges (Note 9)	1,084,702	907,318
Investment in E.L.K. Energy Inc. (Note 3)	9,650,242	8,925,637
Investment in Union Water Supply System (Note 4)	887,412	954,486
	<b>47,175,715</b>	<b>43,555,163</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	2,589,810	2,350,804
Other current liabilities	106,371	150,823
Accrued interest payable on long-term debt	245,490	262,166
Employee future benefits (Note 10)	4,093,414	3,906,614
Net long-term debt (Note 6)	19,557,756	21,299,235
	<b>26,592,841</b>	<b>27,969,642</b>
<b>Net financial assets</b>	<b>20,582,874</b>	<b>15,585,521</b>
<b>Non-financial assets</b>		
Tangible capital assets (Schedule 1)	181,714,095	182,285,630
Prepaid expenses and inventories of supplies	163,106	234,121
	<b>181,877,201</b>	<b>182,519,751</b>
<b>Accumulated surplus (Note 8)</b>	<b>\$202,460,075</b>	<b>\$ 198,105,272</b>

Contingent liabilities (Note 11)  
Contractual obligations (Note 12)

\_\_\_\_\_ Treasurer

\_\_\_\_\_ Mayor

## The Corporation of the Town of Essex Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	Budget (Note 14) 2015	Actual 2015	Actual 2014
<b>Revenue</b>			
Taxation	\$ 14,139,403	\$ 14,307,815	\$ 13,720,500
User charges	3,263,402	2,895,267	2,867,362
Grants	7,464,663	7,554,023	6,510,412
Interest and penalties	370,000	664,391	734,818
Landfill compensation	1,507,201	1,611,872	1,467,540
Share of income from E.L.K. Energy Inc. (Note 3)	-	815,587	844,280
Commuted payments	-	42,809	43,180
Development contributions	343,834	409,073	359,633
Sewer and water charges	7,103,107	6,534,058	6,435,911
Other	675,921	1,432,743	1,938,542
Loss on disposal of tangible capital assets	-	(332,873)	(576,071)
	<u>34,867,531</u>	<u>35,934,765</u>	<u>34,346,107</u>
<b>Expenses</b>			
General government	3,210,744	3,140,641	2,933,348
Protection to persons and property	6,643,010	6,359,761	6,683,901
Transportation services	6,949,195	7,635,664	6,520,015
Environmental services	6,144,027	6,358,888	5,973,772
Health services	244,277	254,505	244,932
Recreation and cultural services	6,161,069	6,514,609	6,601,039
Planning and development	1,261,374	1,315,894	892,284
	<u>30,613,696</u>	<u>31,579,962</u>	<u>29,849,291</u>
<b>Annual surplus</b>	4,253,835	4,354,803	4,496,816
<b>Accumulated surplus, beginning of year</b>	<u>198,105,272</u>	<u>198,105,272</u>	<u>193,608,456</u>
<b>Accumulated surplus, end of year</b>	<u>\$ 202,359,107</u>	<u>\$ 202,460,075</u>	<u>\$ 198,105,272</u>

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

## The Corporation of the Town of Essex Consolidated Statement of Changes in Net Financial Assets (Debt)

For the year ended December 31	Budget (Note 14) 2015	Actual 2015	Actual 2014
Annual surplus	\$ 4,253,835	\$ 4,354,803	\$ 4,496,816
Acquisition of tangible capital assets	(12,366,200)	(9,481,835)	(5,689,574)
Change in tangible capital assets WIP	3,500,000	3,504,642	(1,165,862)
Amortization of tangible capital assets	6,193,000	6,191,967	6,623,310
Loss on sale of tangible capital assets	-	332,873	388,761
Proceeds on sale of tangible capital assets	-	23,888	-
Write-downs of tangible capital assets	-	-	187,310
	<u>1,580,635</u>	<u>4,926,338</u>	<u>4,840,761</u>
Net change inventories of supplies	-	57,807	79,769
Net change prepaid expenses	-	13,208	(9,331)
	<u>-</u>	<u>71,015</u>	<u>70,438</u>
<b>Net change in net financial assets</b>	<b>1,580,635</b>	<b>4,997,353</b>	<b>4,911,199</b>
<b>Net financial assets, beginning of year</b>	<b>15,585,521</b>	<b>15,585,521</b>	<b>10,674,322</b>
<b>Net financial assets, end of year</b>	<b>\$ 17,166,156</b>	<b>\$ 20,582,874</b>	<b>\$ 15,585,521</b>

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	2015	2014
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Annual surplus for the year	\$ 4,354,803	\$ 4,496,816
Items not involving cash		
Amortization	6,191,967	6,623,310
Loss on disposal of tangible capital assets	332,873	388,761
Write-downs of tangible capital assets	-	187,310
Decrease (increase) in taxes receivable	(74,900)	32,944
Decrease (increase) in accounts receivable	320,118	(104,630)
Increase in unearned revenue - development charges	(177,384)	(8,917)
Increase (decrease) in accounts payable and accrued liabilities	239,006	(745,653)
Decrease in other current liabilities	(44,452)	(68,321)
Increase (decrease) in accrued interest payable on long-term debt	(16,676)	81,214
Changes in employee future benefits	186,800	252,600
Decrease in prepaid expenses and inventories of supplies	71,015	70,438
	<b>11,383,170</b>	<b>11,205,872</b>
<b>Capital activities</b>		
Acquisition of tangible capital assets	(9,481,835)	(5,689,574)
Change in tangible capital assets work-in-process	3,504,642	(1,165,862)
Proceeds on disposition of tangible capital assets	23,888	-
	<b>(5,953,305)</b>	<b>(6,855,436)</b>
<b>Investing activities</b>		
Decrease (increase) in investment in E.L.K. Energy Inc.	(724,605)	1,146,702
Decrease (increase) in equity in Union Water Supply System	67,074	(6,396)
	<b>(657,531)</b>	<b>1,140,306</b>
<b>Financing activities</b>		
Long-term debt issued	-	802,297
Long-term debt repaid	(1,717,273)	(1,504,244)
Loan advances	314,740	121,751
Changes regarding debt transferred to property owners	(24,206)	(25,728)
	<b>(1,426,739)</b>	<b>(605,924)</b>
<b>Net change in cash and cash equivalents</b>	<b>3,345,595</b>	<b>4,884,818</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>26,493,322</b>	<b>21,608,504</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$29,838,917</b>	<b>\$ 26,493,322</b>

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



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

December 31, 2015

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## 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 E.L.K. Energy Inc. are accounted for using the modified equity basis of accounting, which represents the Municipality's proportionate share of E.L.K.'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.

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

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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 1. Summary of significant accounting policies (continued)

#### (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 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 investments 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.

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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 1. Summary of significant accounting policies (continued)

#### 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.

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.

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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 1. Summary of significant accounting policies (continued)

**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 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.

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

December 31, 2015

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## 2. Loan receivable

The current loan receivable was repaid in full during the year by Harrow Health Centre Inc. and in accordance with the loan agreement there were no charges related to early repayment.

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## 3. Investment in E.L.K. Energy Inc.

The Municipality held a 100% (2014 - 100%) investment in E.L.K. Energy Inc. This investment is recorded using the modified equity method, wherein the investment balance represents the Municipality's proportionate interest in the net assets of E.L.K. Energy Inc. at acquisition, plus its proportionate share of undistributed earnings.

The investment in E.L.K. Energy Inc. at December 31, 2015 is as follows:

	2015	2014
Corporation of the Town of Essex 100% proportionate interest in the net assets of E.L.K. Energy Inc. (2014- 100%)	\$ 8,489,050	\$ 7,673,463
Purchase premium - net of amortization	1,161,192	1,252,174
	<u>\$ 9,650,242</u>	<u>\$ 8,925,637</u>

# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

### 3. Investment in E.L.K. Energy Inc. (continued)

Supplementary information of E.L.K. Energy Inc. at December 31 is as follows:

	<b>2015</b>	<b>2014</b>
<b>Financial Position</b>		
Current assets	\$ 9,746,976	\$ 9,990,870
Capital and regulatory authority	13,505,142	7,960,687
Deferred tax assets	894,000	1,210,000
Investments	71,735	69,920
<b>Total assets</b>	<b>\$ 24,217,853</b>	<b>\$ 19,231,477</b>
Current liabilities	\$ 11,174,343	\$ 9,833,897
Long-term liabilities	581,577	1,724,117
<b>Total liabilities</b>	<b>11,755,920</b>	<b>11,558,014</b>
Regulatory balances	3,972,883	-
<b>Net assets</b>	<b>\$ 8,489,050</b>	<b>\$ 7,673,463</b>
<b>Financial Activities</b>		
Total revenue	\$ 35,580,674	\$ 27,115,856
Total expenditures	37,310,702	26,151,862
Payments in lieu of income taxes	180,879	119,714
Net earnings (loss)	(1,910,907)	844,280
Net movement in regulatory balances, net of tax	2,632,830	-
Other comprehensive income (loss)	(100,947)	-
Total comprehensive income for the year	620,976	844,280
Presentation differences from transition to IFRS	194,611	-
Corporation of the Town of Essex share of net earnings in E.L.K. Energy Inc.	<b>\$ 815,587</b>	<b>\$ 844,280</b>

E.L.K. Energy Inc. bills and collects the Municipality's water and sewer surcharge revenue. In 2015 these amounted to \$6,507,458 (2014 - \$6,425,511) and are included in sewer and water charges revenue.

At December 31, 2015, included in accounts receivable is a balance owing from E.L.K. Energy Inc. totaling \$499,155 (2014 - \$665,631).

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, 2015**

## 4. Equity in Union Water Supply System

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

	2015	2014
Cash and cash equivalents	\$ 965,005	\$ 1,005,321
Accounts receivable	55,163	32,792
Accounts payable and accrued liabilities	(132,755)	(83,626)
Due to related party	-	(20,373)
	887,413	934,114
Net financial assets before long-term debt		
Long-term debt	(921,017)	(1,003,070)
	(33,604)	(68,956)
Net financial assets		
Tangible capital assets and non-financial assets	2,506,463	2,470,591
Accumulated surplus	\$ 2,472,859	\$ 2,401,635
Equity in reserves and reserve funds	\$ 887,412	\$ 954,486

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

Water - buildings and equipment	\$ 1,427,831	\$ 1,381,015
Water - linear	1,078,632	1,089,576
	\$ 2,506,463	\$ 2,470,591

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

	2015	2014
Amortization expense	\$ 64,907	\$ 65,256
Interest on long-term debt	100,507	106,986

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% (2014 - 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, 2015**

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### 5. 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, 2015, \$6,000,000 (2014 - \$6,000,000) in unused credit was available.

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### 6. Net long-term debt

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

	2015	2014
<i>User Fee Supported</i>		
i) Essex Sewage Treatment Plant Update and Expansion Debenture, Ontario Infrastructure Projects Corporation (OIPC) - repayable in semi-annual instalments of \$138,915 including interest at 2.66%, due September 1, 2026	\$ 2,634,566	\$ 2,838,245
ii) Harrow Sewage Lagoon Debenture, OIPC - repayable in semi-annual instalments of \$131,564 including interest at 2.67%, due February 3, 2025	2,195,034	2,395,531
iii) Essex Sewage Update and Expansion Debenture, OIPC - repayable in semi-annual instalments of \$243,990 including interest at 2.53%, due September 1, 2016	478,874	945,859
iv) Building Energy Upgrade Debenture - along with Property Tax Supported iii), repayable in two annual instalments of \$21,433 including interest at 3.43%, due July 9, 2023	25,629	28,213
	5,334,103	6,207,848



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

December 31, 2015

6. Net long-term debt (continued)

*Property Tax Supported*

i) Essex Twin Pad Arena Debenture - repayable in semi-annual instalments of \$386,712 including interest at 4.65%, due March 2030	8,092,059	8,475,768
ii) Capital Works Debenture - repayable in annual instalments including interest ranging from 2.13% to 3.96%, due in various amounts from 2018 to 2033	5,136,763	5,026,525
iii) Building Energy Upgrade Debenture - along with User Fee Supported iv), repayable in two annual instalments of \$21,433 including interest at 3.43%, due July 9, 2023	291,055	316,665
	<u>13,519,877</u>	<u>13,818,958</u>

*Benefiting Property Owners*

i) Watermain Debentures - repayable in annual instalments including interest ranging from 4.6% to 7.06%, due in various amounts from 2015 to December 2019	19,423	23,877
ii) Tile Drain loans - repayable in annual instalments including interest ranging from 6.0% to 8.0%, due in various amounts from 2016 to 2020	61,941	79,097
iii) Drain loans - repayable in annual instalments including interest ranging from 2.69% to 5.25%, due in various amounts from 2015 to 2020	167,383	232,892
iv) Shoreline loans - repayable in annual instalments including interest ranging from 6.0% to 8.0%, due in various amounts from 2015 to 2018	36,591	43,640
v) Sanitary sewer extension debentures - repayable in annual instalments including interest at 3.40%, due in various amounts from 2015 to 2024	367,854	402,306
	<u>653,192</u>	<u>781,812</u>
Share of Union Water System obligations	<u>921,017</u>	<u>1,003,070</u>

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

December 31, 2015

## 6. Net long-term debt (continued)

Subtotal	20,428,189	21,811,688
<p>The Municipality is contingently liable for the tile and shoreline loans included above. The responsibility for payment of principal and interest has been assumed by individual landowners</p>		
	98,531	122,737
Internally financed debt	<u>771,902</u>	<u>389,716</u>
	<u>\$19,557,756</u>	<u>\$ 21,299,235</u>

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

2016	\$ 1,889,905
2017	1,443,663
2018	1,497,042
2019	1,527,324
2020	1,334,031
Thereafter	<u>11,865,791</u>
	<u>\$ 19,557,756</u>

Interest payments included in revenue fund expenditures during the year were \$727,648 (2014- \$689,957), 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, 2015. 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.

## 7. Operations of school boards and the County of Essex

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

	<u>2015</u>	<u>2014</u>
School boards	\$ 4,836,749	\$ 5,059,721
County of Essex	<u>7,741,608</u>	<u>7,431,780</u>
	<u>\$12,578,357</u>	<u>\$ 12,491,501</u>

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

**December 31, 2015**

## 8. Accumulated surplus

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

	2015	2014
Invested in tangible capital assets	\$181,714,095	\$ 182,285,630
To be used to offset (financed by) taxation	(729,001)	(1,076,386)
To be financed by user charges and municipal debt	(2,764,216)	(2,340,853)
Equity in E.L.K. Energy Inc.	9,650,242	8,925,637
Amounts to be recovered		
Employee benefits payable	(4,084,900)	(3,898,100)
Accrued interest on net long-term liabilities	(245,490)	(262,166)
Municipal debt	(19,557,756)	(21,299,235)
Reserves and reserve funds (Note 8(b))	38,477,101	35,770,745
<b>Total accumulated surplus</b>	<b>\$202,460,075</b>	<b>\$ 198,105,272</b>

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

	2015	2014
<b>Reserves set aside for specific purpose by Council:</b>		
Working funds	\$ 1,000,000	\$ 1,000,000
<b>Reserve funds set aside for specific purpose by Council:</b>		
Capital purposes	20,133,153	17,652,346
Landfill	9,159,189	8,019,069
Contingencies	5,152,034	6,193,697
Other	2,453,210	2,547,186
Gas tax revenue	351,246	142,118
Sick leave benefits	228,269	216,329
	37,477,101	34,770,745
<b>Total reserves and reserve funds</b>	<b>\$38,477,101</b>	<b>\$ 35,770,745</b>

## 9. 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, 2015, 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.

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

**December 31, 2015**

## 10. 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 2015 was \$476,784 (2014 - \$450,276).

### (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, 2015 and consists of the following:

	2015	2014
Post employment benefits	\$ 4,084,900	\$ 3,898,100
Vacation	8,514	8,514
	\$ 4,093,414	\$ 3,906,614

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, 2015. 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 down to 4.5% in 2034
Other Medical Care Trend Rate	4.5% per annum
Dental	4.5% per annum

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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 10. Employment benefits (continued)

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

	<u>2015</u>	<u>2014</u>
Accrued benefit liability, beginning of year	\$ 3,898,100	\$ 3,645,500
Annual expense	334,500	422,900
Benefits paid	<u>(147,700)</u>	<u>(170,300)</u>
	<u>\$ 4,084,900</u>	<u>\$ 3,898,100</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.

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### 11. Contingent liabilities

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

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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 12. Contractual obligations

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

Included in the consolidated statement of financial activities are the 2015 charges from OCWA of \$900,912 (2014 - \$866,206). The consolidated statement of financial position does not reflect any assets or liabilities pertaining to the sewage or water systems except to the extent of service charges due to (or from) OCWA and the total long-term liabilities outstanding. The accumulated net surplus of OCWA is not reflected in the accompanying consolidated financial statements.

The Municipality has entered into various other service agreements. The largest of these relates to The Minister of Community Safety and Correctional Services (Police Services). The obligation under this contract approximates \$4.0 million in expenditures on an annual basis. The total expense included in the consolidated statement of financial activities for 2015 is \$3,822,025 (2014 - \$4,391,315). The duration of this contract is three years, it expires December 31, 2018, and the contract can be terminated by either party with written notice of one year.

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### 13. 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 2015, the following met this requirement:

Position	Name	Salary Paid	Taxable Benefits
Manager, Capital Works and Infrastructure	Richard Beausoleil	106,027	1,337
Manager, Operations and Drainage	Daniel Boudreau	106,033	1,337
Manager, Recreation and Culture	Cynthia Cakebread	102,073	1,337
Manager, Parks and Facilities	John Olsen	102,964	1,337
Manager, Environmental Services	Andrew Graf	106,628	1,345
Fire Chief	Richard Arnel	-	1,540
Director, Community Services	Doug Sweet	120,082	1,563
Director, Infrastructure and Development	Chris Nepszy	129,394	1,693
Director, Corporate Services	Donna Hunter	132,302	1,734
C.A.O.	Russell Phillips	146,441	1,918

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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 14. Budget

The Financial Plan (Budget) By-Law adopted by Council on May 4, 2015 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 4, 2015 with adjustments as follows:

	<u>2015</u>
Financial Plan (Budget) By-Law consolidated surplus/(deficit) for the year	\$ <u>204,327</u>
Add:	
Debt principal repayments	1,797,529
Capital expenditures	<u>8,866,200</u>
	<u>10,663,729</u>
Less:	
New debt issued	421,221
Amortization	<u>6,193,000</u>
	<u>6,614,221</u>
	<u>\$ 4,253,835</u>

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### 15. Tangible capital assets

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

(a) Contributed Capital Assets

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

(b) Capitalization of Interest

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

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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 16. Segmented information

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

#### **General Government**

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

#### **Protection to Persons and Property**

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

#### **Transportation**

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

#### **Environmental**

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

#### **Health**

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

#### **Recreational and Cultural**

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



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# The Corporation of the Town of Essex

## Notes to the Consolidated Financial Statements

December 31, 2015

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### 16. Segmented information (continued)

#### 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. 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).

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### 17. 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, 2015**

	<b>2015</b>								
	Land	Buildings	Vehicles	Machinery & equipment	Murals & land improve- ments	Roads	Underground and other networks	Assets under construction	Total
Cost, beginning 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
Additions	91,725	328,955	226,613	1,040,417	291,259	3,034,025	899,674	286,402	6,199,070
Disposals		(273,188)	(57,517)	(1,006,574)	-	(613,767)	(63,372)	(80,147)	(2,094,565)
Other transfers/writedowns	(128,650)			78,452	137,612	2,169,134	1,312,619	(3,791,044)	(221,877)
Cost, end of year	<u>20,557,807</u>	<u>45,987,814</u>	<u>5,427,585</u>	<u>12,065,215</u>	<u>4,886,168</u>	<u>56,048,369</u>	<u>116,046,676</u>	<u>361,349</u>	<u>261,380,983</u>
Accumulated amortization, beginning of year	-	12,295,618	2,852,270	4,756,447	920,088	17,403,197	36,985,105	-	75,212,725
Amortization	-	1,060,803	259,085	630,738	123,912	2,507,732	1,609,697	-	6,191,967
Disposals	-	(223,095)	(47,499)	(805,698)	-	(603,114)	(58,398)	-	(1,737,804)
Other transfers/writedowns	-	(1)	1	-	(6,535)	6,535	-	-	-
Accumulated amortization, end of year	-	<u>13,133,325</u>	<u>3,063,857</u>	<u>4,581,487</u>	<u>1,037,465</u>	<u>19,314,350</u>	<u>38,536,404</u>	-	<u>79,666,888</u>
Net carrying amount, end of year	<u>\$ 20,557,807</u>	<u>\$ 32,854,489</u>	<u>\$ 2,363,728</u>	<u>\$ 7,483,728</u>	<u>\$ 3,848,703</u>	<u>\$ 36,734,019</u>	<u>\$ 77,510,272</u>	<u>\$ 361,349</u>	<u>\$ 181,714,095</u>

**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/writedowns	-	-	(80,875)	(460,639)	-	(457,676)	(31,161)	(27,853)	(1,058,204)
Other transfers	(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/writedowns	-	-	(80,875)	(451,902)	-	(117,624)	(19,042)	-	(669,443)
Write-downs	-	(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  
Schedule of Segment Disclosure - Schedule 2**

**For the year ended December 31, 2015**

	General government	Protection to persons and property	Transportation	Environmental	Health services	Recreation and cultural services	Planning and development	2015 Total
<b>Revenue</b>								
Taxation	\$ 1,500,594	\$ 3,104,720	\$ 3,247,821	\$ 2,871,512	\$ 114,167	\$ 2,879,477	\$ 589,524	\$ 14,307,815
User charges	110,286	431,054	-	19,458	57,672	2,261,363	15,434	2,895,267
Grants	5,030,061	168,704	2,111,148	-	122,853	56,614	64,643	7,554,023
Interest	664,391	-	-	-	-	-	-	664,391
Landfill compensation	-	-	-	1,611,872	-	-	-	1,611,872
Share of income government business enterprise	815,587	-	-	-	-	-	-	815,587
Commuted payments	-	-	-	42,809	-	-	-	42,809
Development contributions	409,073	-	-	-	-	-	-	409,073
Sewer and water charges	-	-	-	6,534,058	-	-	-	6,534,058
Other	122,699	114,509	32,122	97,389	-	500,740	565,284	1,432,743
Loss on disposal of tangible capital assets	(3,642)	(63,539)	(41,313)	(11,901)	-	(212,478)	-	(332,873)
	<u>8,649,049</u>	<u>3,755,448</u>	<u>5,349,778</u>	<u>11,165,197</u>	<u>294,692</u>	<u>5,485,716</u>	<u>1,234,885</u>	<u>35,934,765</u>
<b>Expenses</b>								
Salaries and benefits	2,105,679	1,297,673	1,408,333	411,177	127,326	2,785,310	325,325	8,460,823
Materials and supplies	754,064	545,322	2,943,101	1,158,796	112,188	1,972,000	875,205	8,360,676
Interest	2,257	108,826	696	171,955	-	435,567	8,346	727,647
Contract service	13,680	3,852,248	510,470	2,909,465	1,828	144,633	24,885	7,457,209
Amortization	84,067	401,968	2,770,826	1,706,404	3,164	1,145,247	80,291	6,191,967
Other	180,894	153,724	2,238	1,091	9,999	31,852	1,842	381,640
	<u>3,140,641</u>	<u>6,359,761</u>	<u>7,635,664</u>	<u>6,358,888</u>	<u>254,505</u>	<u>6,514,609</u>	<u>1,315,894</u>	<u>31,579,962</u>
<b>Annual surplus for the year</b>	<u>\$ 5,508,408</u>	<u>\$ (2,604,313)</u>	<u>\$ (2,285,886)</u>	<u>\$ 4,806,309</u>	<u>\$ 40,187</u>	<u>\$ (1,028,893)</u>	<u>\$ (81,009)</u>	<u>\$ 4,354,803</u>

**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
<b>Revenue</b>								
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)
	<b>8,405,300</b>	<b>3,958,711</b>	<b>3,904,383</b>	<b>10,634,425</b>	<b>304,362</b>	<b>5,364,768</b>	<b>1,774,158</b>	<b>34,346,107</b>
<b>Expenses</b>								
Salaries and benefits	1,989,121	1,187,363	1,374,723	388,064	120,185	2,703,351	343,471	8,106,278
Material 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
	<b>2,933,348</b>	<b>6,683,901</b>	<b>6,520,015</b>	<b>5,973,772</b>	<b>244,932</b>	<b>6,601,039</b>	<b>892,284</b>	<b>29,849,291</b>
<b>Annual surplus for the year</b>	<b>\$ 5,471,952</b>	<b>\$ (2,725,190)</b>	<b>\$ (2,615,632)</b>	<b>\$ 4,660,653</b>	<b>\$ 59,430</b>	<b>\$ (1,236,271)</b>	<b>\$ 881,874</b>	<b>\$ 4,496,816</b>

**The Corporation of the Town of Essex  
Trust Funds  
Financial Statements  
For the year ended December 31, 2015**



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, 2015 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, 2015 and the continuity thereof, in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Essex, Ontario  
June 20, 2016



The Corporation of the Town of Essex  
Trust Funds  
Balance Sheet

December 31	2015	2014
<b>Financial assets and liabilities</b>		
Cash	\$ 313,988	\$ 302,545
Due from general account	3,342	5,183
	<u>\$ 317,330</u>	<u>\$ 307,728</u>
Accumulated surplus	<u>\$ 317,330</u>	<u>\$ 307,728</u>

**Statement of  
Continuity**

For the year ended December 31	2015	2014
<b>Revenues</b>		
Interest and other	\$ 15,862	\$ 18,608
<b>Expenditures</b>		
Transfer to general fund	6,260	6,712
<b>Net change in trust funds during the year</b>	9,602	11,896
Balance, beginning of the year	<u>307,728</u>	<u>295,832</u>
Balance, end of the year	<u>\$ 317,330</u>	<u>\$ 307,728</u>

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**The Corporation of the Town of Essex  
Trust Funds  
Note to Financial Statements**

**December 31, 2015**

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**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.