



Municipality of Leamington

2016 Financial Report

Index

Independent Auditor's Report	1
Consolidated Statement of Financial Position	2
Consolidated Statement of Financial Operations	3
Consolidated Statement of Change in Net Financial Surplus	4
Consolidated Statement of Cash Flow	5
Notes to the Consolidated Financial Statements	6
Trust Funds Under Administration	
Trust Funds Financial Statements	7
Schedules to the Statement of Financial Operations	
Consolidated Schedule of Tangible Capital Assets	Schedule 1
Schedule of Reserves and Reserve Funds Balances	Schedule 2
Schedule of Segment Disclosures	Schedule 3

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Municipality of Leamington

We have audited the accompanying financial statements of The Corporation of the Municipality of Leamington, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of financial operations, the consolidated statement of change in net financial surplus, the consolidated statement of cash flow 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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, we consider 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 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 consolidated statement of financial position of The Corporation of the Municipality of Leamington as at December 31, 2016, the consolidated statement of financial operations, consolidated statement of change in net financial surplus, and the consolidated statement of cash flow are in accordance with Canadian public sector accounting standards.

**HICKS MacPHERSON, IATONNA
& DRIEDGER LLP**

*Hicks, MacPherson, Iatonna
& Driedger LLP*

Leamington, Ontario
June 26, 2017

Chartered Professional Accountants
Licensed Public Accountants

Draft

The Corporation of the Municipality of Leamington
Consolidated Statement of Financial Position

as at December 31	2016	Revised 2015
	\$	\$ (Note 20)
Assets		
Financial Assets		
Cash and short-term investments (Note 2)	55,915,345	48,291,875
Taxes receivable	2,480,754	2,545,866
Accounts receivable	5,377,670	5,655,549
Drainage accounts receivable	697,602	548,647
Investment in Essex Power Corporation (Note 3)	11,324,669	10,802,359
Equity in Union Water System (Note 5)	9,241,331	8,243,826
Other current assets	65,836	72,336
	<u>85,103,207</u>	<u>76,160,458</u>
Physical Assets		
Inventories for resale	348,244	225,347
	<u>85,451,451</u>	<u>76,385,805</u>
Liabilities		
Accounts payable and accrued liabilities	5,599,833	4,461,516
Deferred revenue (Note 6)	9,047,307	8,576,569
Security deposits and unearned revenue	4,152,471	2,922,447
Long-term debt (Note 10)	34,651,339	37,567,955
Landfill closure cost liabilities (Note 15)	3,374,663	3,539,987
Post employment benefits (Note 12)	16,357,999	15,110,099
	<u>73,183,612</u>	<u>72,178,573</u>
Net Financial Surplus	<u>12,267,839</u>	<u>4,207,232</u>
Non-Financial Assets		
Inventories (tangible capital assets works in progress) (Schedule 1)	6,168,169	4,861,274
Inventory	367,368	350,445
Prepaid expenses	77,049	90,141
Tangible capital assets (Schedule 1)	250,026,611	247,528,313
Net Non-Financial Assets	<u>256,639,197</u>	<u>252,830,173</u>
Accumulated Surplus (Note 19)	<u>268,907,036</u>	<u>257,037,405</u>

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

The Corporation of the Municipality of Leamington
Consolidated Statement of Financial Operations

For the Year Ended December 31	2016	2016	Revised
	Budget	Actual	2015
	\$	\$	Actual
			\$
			(Note 20)
Revenues			
	(Note 14)		
Taxation	44,368,277	45,364,800	43,758,518
User fees	20,716,023	22,408,070	21,548,142
Grants	8,819,054	6,855,654	6,182,295
Other income (Note 18)	2,374,780	4,364,203	1,825,872
Deferred revenue	865,259	1,632,212	1,141,188
Essex Power Corporation	-	522,310	530,290
	<u>77,143,393</u>	<u>81,147,249</u>	<u>74,986,305</u>
Deduct : County of Essex purposes	(10,059,396)	(10,684,650)	(10,059,396)
School purposes	(7,875,060)	(7,676,669)	(7,857,060)
	<u>59,208,937</u>	<u>62,785,930</u>	<u>57,069,849</u>
Expenses			
General government	8,147,383	6,356,479	6,056,863
Protective services	8,579,416	9,105,645	9,549,372
Transportation services	5,572,796	6,151,418	5,737,748
Environmental services	16,929,216	20,572,982	20,563,953
Health services	95,025	83,793	89,383
Recreation and cultural services	6,111,398	6,157,367	6,104,821
Planning and development	1,459,505	1,138,616	1,034,944
Municipal drainage act	3,141,051	1,349,999	1,129,360
	<u>50,035,790</u>	<u>50,916,299</u>	<u>50,266,444</u>
Annual Surplus	<u>9,173,147</u>	<u>11,869,631</u>	<u>6,803,405</u>
Accumulated Surplus, Beginning of Year	<u>257,037,405</u>	<u>257,037,405</u>	<u>250,234,000</u>
Accumulated Surplus, End of Year	<u>266,210,552</u>	<u>268,907,036</u>	<u>257,037,405</u>

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

The Corporation of the Municipality of Leamington
Consolidated Statement of Change in Net Financial Surplus

For the Year Ended December 31	2016 Budget \$	2016 Actual \$	Revised 2015 Actual \$ (Note 20)
Annual Surplus	9,173,147	11,869,631	6,803,405
Acquisition of tangible capital assets	(22,457,714)	(12,598,095)	(12,728,036)
Amortization of tangible capital assets	7,852,019	8,177,588	8,005,166
Loss on sale of tangible capital assets	-	522,778	285,724
Proceeds on disposal of tangible capital assets	16,000	92,536	48,050
Write down of tangible capital assets	-	-	3,652
Disposal of inventories	-	(16,923)	(14,737)
Acquisition (disposal) of prepaid expenses	-	13,092	(7,365)
Increase in Net Financial Surplus	(5,416,548)	8,060,607	2,395,859
Net Financial Surplus, Beginning of Year	4,207,232	4,207,232	1,811,373
Net Financial Surplus, End of Year	(1,209,316)	12,267,839	4,207,232

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

The Corporation of the Municipality of Leamington
Consolidated Statement of Cash Flow

as at December 31	2016	Revised 2015
	\$	\$
		(Note 20)
Annual Surplus	11,869,631	6,803,405
Operations Transactions		
Landfill closure cost liability	(165,324)	(162,084)
Post employee benefits	1,247,900	1,307,300
Taxes receivable	65,112	266,701
Accounts receivable	277,879	(3,462,901)
Drainage accounts receivable	(148,955)	100,860
Investment in Essex Power Corporation	(522,310)	(530,290)
Equity in Union Water System	(997,505)	433,832
Other current assets	6,500	6,500
Inventories	(122,897)	5,190
Prepaid expenses	13,092	(7,365)
Inventory non resaleable	(16,923)	(14,737)
Accounts payable and accrued liabilities	1,138,317	3,409,925
Deferred revenue	470,738	46,874
Security deposits and unearned revenue	1,230,024	502,463
Cash provided by operating transactions	2,475,648	1,902,268
Capital Transactions		
Proceeds on sale of tangible capital assets	92,536	48,050
Amortization of tangible capital assets	8,177,588	8,005,166
Loss on sale of tangible capital assets	522,778	285,724
Write down of tangible capital assets	-	3,652
Acquisition of tangible capital assets	(12,598,095)	(12,728,036)
Cash provided by capital transactions	(3,805,193)	(4,385,444)
Financing Transactions		
Proceeds from debt issue	36,492	72,101
Debt repayment (principal only) (Note 9)	(2,953,108)	(3,219,028)
Cash applied to financing transactions	(2,916,616)	(3,146,927)
Increase in Cash and Cash Equivalents	7,623,470	1,173,302
Cash and Cash Equivalents, Beginning of the Year	48,291,875	47,118,573
Cash and Cash Equivalents, End of the Year	55,915,345	48,291,875

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

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

1. Summary of Significant Accounting Policies

The consolidated financial statements of the Corporation of the Municipality of Leamington are the representation of management prepared in accordance with generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB). The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ as future additional information becomes available.

a) Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, operating revenues, expenses, changes in reserves, reserve fund balances, investment in tangible capital assets and changes in financial position of the Municipality and include the activities of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Municipality and that are owned or controlled by the Municipality. Consolidated entities include:

Leamington Police Services Board
Uptown Business Improvement Area
Joint Animal Control Facility

Inter-departmental and inter-organizational transactions and balances have been eliminated with the exception of loans or advances between reserve funds and other funds of the Municipality and the resulting interest income and expenditure.

The Municipality's interest in the Essex Power Corporation is accounted for on a modified equity basis and its interest in the Union Water Supply System Board of Management is accounted for on a proportionate consolidation method, consistent with generally accepted accounting principles for government business enterprises and government units.

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the School Boards, and the County of Essex are not reflected in the municipal fund balances of these financial statements. Taxation raised by the Municipality on their behalf is reflected as a deduction from total taxation on the Consolidated Statement of Financial Operations.

Trust funds and their related operations administered by the Municipality are not consolidated, but are reported separately on the unaudited Trust Funds Financial Statements.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

b) Basis of Accounting

Sources of financing and expenses are reported on the accrual basis of accounting, which are charged against operations in the periods in which they are paid. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized, as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

Liabilities on the Consolidated Statement of Financial Position represent the outstanding principal portion of long-term liabilities, liabilities not yet due and other future expenses not yet raised by rates on the users.

The Consolidated Statement of Financial Position reflects all of the financial assets and liabilities of the Municipality. Financial assets are those that could provide resources to discharge liabilities or finance future operations. Net financial surplus represents the financial position of the Municipality, and is the difference between its assets and liabilities. It provides information about the municipality's overall future revenue requirements and its ability to finance activities and meet its obligations.

Effective January 1, 2009, the Municipality changed its accounting and financial reporting to conform to the revised guidelines in the Public Sector Accounting Board Handbook on financial reporting presentation and tangible capital accounting. These statements are prepared in accordance with PSAB.

c) Tangible Capital Assets

i) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess revenues over expenses, provides the change in net financial assets for the year.

ii) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributed to acquisition, construction, development or betterment of asset. The costs, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful life as follows:

Land	Infinite
Land Improvements	15 years to Infinite
Buildings	20 to 50 years
Machinery & Equipment	3 to 25 years
Vehicles	7 to 10 years
Linear Assets	10 to 90 years

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

c) Tangible Capital Assets (continued)

ii) Tangible Capital Assets (continued)

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

iii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value using the half year rule as though they have been received July 1.

iv) Leases of tangible capital assets

Leases are classified as capital or operating leases. Leases which transfer substantially all the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

v) Works of art and historical treasures

In accordance with the financial recording requirements PSAB 3150.42(e) indicates "the nature of the works of art and historical treasures held by government" are to be disclosed. They do not form part of the tangible asset inventory.

vi) Inventories

Inventories consist of work-in-progress of tangible capital assets.

d) Taxes receivable and related revenues

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 the Municipality, incorporating amounts to be raised for local services and amounts the Municipality is required to collect on behalf of the Province of Ontario in respect to education taxes and the County of Essex in respect of upper tier taxes. A normal part of the assessment process is the issuance 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 issues supplementary tax notices. Taxation revenues are recorded at the time tax billings are issued; however, assessment and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded based upon management's estimate of the outcome taking into consideration historical trends. The Municipality is entitled to collect interest and penalties on overdue taxes and related revenues are recorded in the period the interest and penalties are levied. Taxes receivable are reported net of any expense and allowance for doubtful accounts.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

e) Future accounting changes

Effective for fiscal periods beginning on or after April 1, 2017, all governments will be required to adopt PSAB Section 2200 Related Party Disclosure, Section 3210 Assets, Section 3320 Contingent Assets, Section 3380 Contractual Rights and Section 3420 Inter-entity Transactions.

Effective for fiscal periods beginning on or after April 1, 2019, all governments will be required to adopt PSAB Section 3450 Financial Instruments, Section 2601 Foreign Currency Translation, Section 3041 Portfolio Investments and Section 1201 Financial Statement Presentation. These standards provide guidance on how to account for and present financial instruments and foreign currency translation.

Management is currently in the process of evaluating the potential impact of adopting these standards.

f) Use of estimates

The preparation of financial statements in accordance with local government accounting standards established by PSAB requires management to make estimates and assumptions that affect the reported amount 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 period. Significant items subject to such estimates and assumptions include the valuation of accounts receivable, carrying value of tangible capital assets, deferred revenue, accrued liabilities, the actuarial estimate of post-employment benefits and the present value of the landfill closure costs. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

2. Cash and Short-Term Investments

This represents a consolidation from the operating fund and the reserve funds (including those funds set aside in respect of deferred revenue detailed in Note 6). The composition is:

	2016 \$	2015 \$
Operating Fund		
Cash	43,080,367	8,448,197
One Fund investments	-	26,045,508
	<u>43,080,367</u>	<u>34,493,705</u>
Reserve Funds		
Cash	1,376,985	43,754
One Fund investments	-	1,403,547
Investment in own debentures	112,720	159,570
	<u>1,489,705</u>	<u>1,606,871</u>
Deferred Revenue		
Cash	11,345,273	46,453
One Fund investments	-	12,144,846
	<u>11,345,273</u>	<u>12,191,299</u>
	<u>55,915,345</u>	<u>48,291,875</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

3. Investment in Essex Power Corporation

	2016	2015
	\$	\$
Shareholder loan receivable	2,150,296	2,150,296
Common shares-Class A voting	2,678,179	2,678,179
Common shares-Class B non-voting	2,215,644	2,215,644
Equity in accumulated earnings	4,280,550	3,758,240
	<u>11,324,669</u>	<u>10,802,359</u>

The Ontario Electricity Competition Act required the restructuring of municipal electric utilities by November 1, 2000. As part of the restructuring plan of the Leamington Hydro Electric Commission, the Municipality enacted bylaw 156-00, which transferred on June 1, 2000 specific assets, liabilities, obligations, and operations to the Essex Power Corporation, a duly incorporated entity under the Ontario Business Corporations Act. The Municipality holds 25% of the Class A shares issued and 27.45% of the Class B shares issued, for a weighted equity of 26.05%. The shareholder loan carries an interest rate of 4.00% per annum (agreement term January 1, 2013 to December 31, 2017).

The following table provides condensed supplementary information for Essex Power Corporation as at December 31 (in '000s).

	2016	2015
	\$	\$
Financial Position		
Current assets	21,470	21,842
Property, plant and equipment	58,159	55,662
Other assets	9,811	9,668
Regulatory balances	39,824	42,323
Total assets and regulatory balances	<u>129,264</u>	<u>129,495</u>
Current liabilities	29,573	26,360
Non-current liabilities	25,010	23,414
Regulatory balances	38,582	45,627
Total liabilities and regulatory balances	<u>93,165</u>	<u>95,401</u>
Net Assets and regulatory balances	<u>36,099</u>	<u>34,094</u>
Result from Operations		
Gross margin on service revenue	8,594	11,118
Other revenue	10,387	11,248
Operating expenses	(13,890)	(14,854)
Depreciation and amortization	(4,150)	(4,102)
Income from Operations	941	3,410
Other income (loss) and taxes	2,244	(266)
Net Income for the Year	<u>3,185</u>	<u>3,144</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

4. Trust Funds

Cemetery trust funds administered by the Municipality amounting to \$208,611 (2015 - \$208,361) have not been included in the Municipality's Consolidated Statement of Financial Position nor have their operations been included in the Municipality's Consolidated Statement of Financial Activities. The balance sheet and statement of continuity for the Cemetery trust funds included on page 7-1 and 7-2 are provided for informational purposes only.

5. Equity in Union Water Supply System

	2016 \$	2015 \$
Equity in reserve funds	8,141,501	7,143,996
Equity in reserves	<u>1,099,830</u>	<u>1,099,830</u>
	<u>9,241,331</u>	<u>8,243,826</u>

Effective January 8, 2001, the assets, liabilities, rights and obligations of the Union Water Supply System were transferred from the Ontario Clean Water Agency to the joint ownership of the system's participating municipalities pursuant to an order issued by the Minister of the Environment under the Municipal Water and Sewage Transfer Act, 1997.

The order provides for the establishment of a Board of Management to govern the system. Leamington can appoint 50% of the board members and has 50% of the total voting rights. The equity interest of each municipality shall be determined according to their proportional water consumption from the system. Leamington's equity in the system is 56.11% (2015 - 56.11%).

The following table provides condensed supplementary information for Union Water Supply System as at December 31 (in '000s).

	2016 \$	2015 \$
Statement of Financial Position		
Current financial assets	<u>17,050</u>	<u>16,890</u>
Current liabilities	580	2,198
Long-term debt	<u>14,551</u>	<u>15,249</u>
Total liabilities	<u>15,131</u>	<u>17,447</u>
Net asset (debt)	1,919	(557)
Inventories	-	40
Tangible capital assets	<u>40,922</u>	<u>41,458</u>
Non financial assets	<u>40,922</u>	<u>41,498</u>
Accumulated surplus	<u>42,841</u>	<u>40,941</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

5. Equity in Union Water Supply System (continued)

	2016 \$	2015 \$
Statement of Financial Activities		
Wholesale billings	8,855	8,106
Other income	444	52
	<u>9,299</u>	<u>8,158</u>
Operating expenses	2,003	1,713
OCWA operating contract	2,649	2,527
Long-term interest expense	1,578	1,664
Amortization	1,169	1,075
	<u>7,399</u>	<u>6,979</u>
Annual surplus	<u>1,900</u>	<u>1,179</u>

6. Deferred Revenue

Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of financial position. Revenue recognition will occur in the year in which it is used for the specified purpose.

	2016 Opening \$	Receipts \$	Investment Income \$	Revenue (Recognized) Deferred \$	2016 Ending \$
Obligatory Reserve Funds					
Development charges	3,381,830	1,626,971	109,289	(1,018,403)	4,099,687
Recreational land	382,405	42,660	5,740	(162,431)	268,374
Sidewalk fund	20,017	-	338	-	20,355
M.T.O. commitments	133,593	-	2,255	-	135,848
Ont transit gas tax	946,872	-	14,437	19,683	980,992
Federal gas tax	3,711,852	-	83,233	(253,034)	3,542,051
	<u>8,576,569</u>	<u>1,669,631</u>	<u>215,292</u>	<u>(1,414,185)</u>	<u>9,047,307</u>

7. Pension Agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its full-time staff and part-time fire services staff. The plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on their length of service and rates of pay.

The amount contributed to OMERS for 2016 was \$876,209 (2015 - \$876,027).

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

8. Liability for Vested Sick Leave Benefits

Under the sick leave benefit plan, unused annual sick leave can be accumulated for future use. No employees are entitled to a cash payment at the end of their employment with the Municipality.

9. Charges for Long-term Debt

Total charges for long-term debt as reported on the Consolidated Statement of Cash Flow are as follows:

	2016	2015
	\$	\$
Debt principal payments		
Municipality obligations	2,561,651	2,456,772
Union Water System obligations	391,457	762,256
	<u>2,953,108</u>	<u>3,219,028</u>

10. Long-term Debt

The balance of long-term debt reported on the Consolidated Statement of Financial Position is:

	2016	2015
	\$	\$
Outstanding principal at the end of the year for:		
General fund debentures	10,973,511	11,977,424
Drainage act debentures	112,720	159,569
Tile/shoreline debentures	84,130	93,147
Sanitary sewer debentures	3,699,560	4,187,645
Union Water System obligations	8,164,544	8,556,000
Waste water treatment	11,616,874	12,594,170
Long-term Debt at End of Year	<u>34,651,339</u>	<u>37,567,955</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

10. Long-term Debt (continued)

Interest rates range from 2% to 8% (2015 - 2% to 8%). Total interest charges reported on the Consolidated Statement of Financial Operation is \$1,966,719 (2015 - \$2,105,191) with \$885,652 (2015 - \$933,679) being the Municipality's share of Union Water System's interest. The debentures have various repayment schedules and will be repaid between 2017 and 2032. The annual payment required to service these liabilities are within the annual debt payment limits prescribed by the Ministry of Municipal Affairs.

Of the long-term debt reported above, the future principal payments are as follows:

	Total \$
2017	3,070,698
2018	3,229,827
2019	3,372,879
2020	3,554,633
2021	2,917,912
2022 and onwards	18,505,390
	<u>34,651,339</u>

11. Contingent Liabilities

a) Loan guarantees

The Municipality is contingently liable for loans advanced by the Province of Ontario under the Tile Drainage Act and the Shoreline Property Assistance Act to benefiting landowners. Those individuals have assumed responsibility for the annual repayments. The total amount outstanding as at December 31, 2016 is \$84,130 (2015 - \$93,147).

b) Litigation

The Municipality has been named as a defendant in certain legal actions in which damages have been sought. With respect to claims at December 31, 2016, management believes the Municipality has valued defences and appropriate insurance in place. In the event any claims are successful, management believes such claims are not expected to have a material effect on the Municipality's financial position.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

12. Post Employment Benefits

Post employment benefits are future obligations of the Municipality to its employees and retirees for benefits earned but not yet taken. Retiring full time non-unionized employees hired prior to August 1, 2011 and retiring full time unionized Teamsters employees hired prior to May 1, 2011 continue to receive paid health and dental benefits and life insurance coverage. All coverage continues for the lifetime of the retiree and spouse. In accordance with public sector accounting standards, the projected unit credit actuarial cost method has been used to determine the future cost of these benefits at the end of the year. The most recent actuarial valuation was dated June 1, 2015 and is effective December 31, 2014. Assumptions used are as follows:

- a) a discount factor of 3.65% was used;
- b) an increase of 8.3% for health in 2016 (2015 - 8.5%), linearly decreased to an ultimate rate of 4.5% in 2035, and an annual increase of 4% for dental benefits was used;
- c) an employee will retire when they meet the criteria for an unreduced pension from OMERS, but not later than age 65; and
- d) all employees will remain employed by the Municipality until retirement.

The liability, based on the above assumptions, at year-end is \$16,357,999 (2015 - \$15,110,099). An additional expense of \$1,247,900 (2015 - \$1,307,300) is reported in the Consolidated Statement of Financial Operations and is reflected throughout the various operating departments.

Effective August 1, 2011 new Municipal staff hires are eligible for post-retirement benefits to age 65 and after age 65 post-retirement benefits will cease.

13. Commitment

In accordance with a service agreement entered into by the Municipality with the Ontario Clean Water Agency, the primary sewage system is operated by the Agency. The Municipality is obligated to meet all operating costs and repay the long term liabilities related to these projects.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

14. Budget Figures

The 2016 Financial Plan (adopted budget) adopted by Council on February 4, 2016 was prepared on a modified accrual basis, while Public Sector Accounting Standards require the budget to be restated (restated budget) and reported on a full accrual basis in relation to actual results in the financial statements.

The following summary reflects adjustments made to the adopted budget (modified accrual basis) to derive the restated budget (full accrual basis) as presented in the financial statements:

	2016
Financial Plan (Budget) Bylaw surplus for the year	\$ -
Add:	
Accumulated surplus, beginning of the year	257,037,405
Budgeted transfers to capital	6,180,836
Principal payments on debt	2,554,864
Capital revenue for tangible capital assets	10,484,997
Landfill post-closure costs	243,426
Less:	
Budgeted transfers to reserve and reserve funds	1,088,528
Amortization on tangible capital assets	(7,852,020)
Capital expenses that are operating	(2,279,584)
Post employment benefit costs	<u>(1,247,900)</u>
Budget Surplus per Consolidated Statement of Financial Operations	\$ 266,210,552

15. Landfill Closure Costs Liability

Landfill # 2 was closed in 1993 and requires care consisting of hauling and treating leachate for an estimated period of 40 years. The liability was calculated assuming a 7% discount rate and a 2% rate of inflation using current annual contributions. Payments are made on a bi-monthly basis. The liability calculated using the above assumptions amounted to \$3,374,663 (2015 - \$3,539,987). This liability will be funded from operations.

The landfill is located outside of the Municipality of Leamington. The liability shown is the Municipality's share of costs.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

16. Expenses by Object

	2016	2015
	\$	\$
Salaries, wages and benefits	14,739,150	14,267,322
Net long term debt interest charge	1,966,719	2,105,191
Materials and supplies	10,051,226	10,276,280
Contracted services	15,388,967	15,073,684
Rents and financial expenses	168,898	151,002
External transfers	423,751	387,799
Amortization	8,177,588	8,005,166
Total Current Expenses	<u>50,916,299</u>	<u>50,266,444</u>

17. Investment Income

Investment income includes bank and One Fund interest income, and realized gain from the sale of the One Fund investments as follows:

	2016	2015
	\$	\$
Bank and investment interest income	1,725,837	697,235
Increase in equity of owned companies	256,309	103,181
Interest earned on debentures	17,738	21,862
Realized gain on sale of investments	127,823	-
Unrealized loss on investments	-	(822,179)
	<u>2,127,707</u>	<u>99</u>

18. Other Income

	2016	2015
	\$	\$
Investment income (Note 17)	2,127,707	99
Licences, permits and rents	1,138,480	879,436
Easement sale	506,850	-
Penalties and interest on taxation	457,790	494,223
Tangible capital assets loss on disposal	(522,778)	(289,375)
Dividends	414,456	402,473
Donations	126,177	205,194
Fines	27,009	54,122
Other	88,512	79,700
	<u>4,364,203</u>	<u>1,825,872</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

19. Accumulated Surplus

	2016 \$	Revised 2015 \$
Reserves and Reserve Funds		
Reserves (Schedule 2)	45,315,059	41,454,063
Reserve funds (Schedule 2)	9,579,923	8,558,163
Equity in Essex Power	11,324,669	10,802,359
	<u>66,219,651</u>	<u>60,814,585</u>
Operating Fund (Note 20)	1,772,483	711,799
Capital Fund	(895,817)	(660,525)
Tangible Capital Assets	256,194,780	252,389,587
	<u>257,071,446</u>	<u>252,440,861</u>
Unfunded Liability		
Debt	(34,651,399)	(37,567,955)
Landfill closure cost liability	(3,374,663)	(3,539,987)
Post employment benefit	(16,357,999)	(15,110,099)
	<u>(54,384,061)</u>	<u>(56,218,041)</u>
Accumulated Surplus (Note 20)	<u>268,907,036</u>	<u>257,037,405</u>

20. Prior Period Adjustments

The Municipality of Leamington has changed its policy for full-time employees in January 2016. As a result, employees will earn and use their vacation in the same year.

As a result, the following corrections have been made in the current year's financial statements:

	Previously Stated 2015 \$	Adjustment 2015 \$	Restated 2015 \$
Accrued liabilities	3,995,682	465,834	4,461,516
Wage expense	49,800,610	465,834	50,266,444
Net financial surplus	4,673,066	(465,834)	4,207,232
Accumulated surplus, end	257,503,239	(465,834)	257,037,405
Operating Fund equity, end	1,177,633	(465,834)	711,799

21. Segmented Information

The Municipality of Leamington is a lower tier municipality that provides a wide range of services to its citizens. These services are provided by departments of the Municipality and their activities are reported in Schedule 3 to these statements.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2016

21. Segmented Information (continued)

For each reportable segment, the Municipality has reported expenses that represent both amounts that are directly attributable and amounts that are allocated based on Schedule 40 of the Financial Information Return submitted to the Ministry of Municipal Affairs and Housing. Revenues have not been presented by segment based on their nature and instead are shown by object.

The Municipality's reportable segments and their associated activities are as follows:

a) General government:

General government includes levy revenue, council, corporate services, finance and business services, community services, engineering, and emergency assistance.

b) Protective services

Protective services includes fire, police, conservation authorities, building, by-law, and animal control.

c) Transportation services

Transportation services includes public works, transit, parking, streetlights, traffic signals, and resurfacing roads.

d) Environmental services

Environmental services includes water, urban sanitary and storm sewers, waste water treatment, and garbage collection and disposal.

e) Health services

Health services includes cemetery operations.

f) Recreation and cultural services

Recreation and cultural services includes the Leamington Marina, Erie Quest Park, other municipal parks, Kinsmen Recreation Complex and library.

g) Planning and development

Planning and development includes the operations of the planning department, which facilitates the orderly growth of the Municipality, economic development, tourism and the Leamington BIA (business improvement area).

h) Municipal drainage act

Municipal drainage act includes the drainage operations.

The Corporation of the Municipality of Leamington
Trust Funds Under Administration
Balance Sheet (Unaudited)

as at December 31, 2016

	Albuna Cemetery \$	Bayview Cemetery \$	Lakeview Cemetery \$	2016 Total \$	2015 Total \$
Assets					
Cash	50	4,998	122,763	127,811	650
Investments, at cost	-	-	-	-	126,911
Due from General Fund	-	-	800	800	80,800
Due from Reserve Fund	80,000	-	-	80,000	-
	<u>80,050</u>	<u>4,998</u>	<u>123,563</u>	<u>208,611</u>	<u>208,361</u>
Liabilities					
Due to General Fund	-	-	-	-	631
Trust balance	80,050	4,998	123,563	208,611	207,730
	<u>80,050</u>	<u>4,998</u>	<u>123,563</u>	<u>208,611</u>	<u>208,361</u>

The accompanying notes are an integral part of this financial statement.

The Corporation of the Municipality of Leamington
Trust Funds Under Administration
Statement of Continuity (Unaudited)

For the Year Ended December 31, 2016

	Albuna Cemetery \$	Bayview Cemetery \$	Lakeview Cemetery \$	2016 Total \$	2015 Total \$
Balance at Beginning of Year	<u>80,000</u>	<u>4,998</u>	<u>123,363</u>	<u>208,361</u>	<u>127,011</u>
Revenues					
Perpetual care fees	-	-	-	-	800
Marker maintenance fees	50	-	200	250	550
Donation revenue	-	-	-	-	80,000
Bank balance interest	-	84	2,075	2,159	-
Investment income	1,390	-	-	1,390	631
	<u>1,440</u>	<u>84</u>	<u>2,275</u>	<u>3,799</u>	<u>81,981</u>
Expenditures					
Transferred to General Fund	-	84	2,075	2,159	631
Transferred to Reserve Fund	1,390	-	-	1,390	-
	<u>1,390</u>	<u>84</u>	<u>2,075</u>	<u>3,549</u>	<u>631</u>
Balance at End of Year	<u><u>80,050</u></u>	<u><u>4,998</u></u>	<u><u>123,563</u></u>	<u><u>208,611</u></u>	<u><u>208,361</u></u>

The accompanying notes are an integral part of this financial statement.

Consolidated Schedule of Tangible Capital Assets - Schedule 1

Categorized by Asset Type (in \$)

As at December 31, 2016

	General					Infrastructure					Totals		
	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Linear Assets	2016	2015
Cost													
Balance, beginning of year	4,205,926	9,605,812	59,009,378	21,240,320	3,889,084	12,064,816	2,412,151	34,299,507	13,137,849	2,628,056	213,790,220	376,283,120	366,423,478
Add: New acquisitions during the year	1,251,633	42,817	111,406	336,062	-	18,366	216,005	350,681	1,462,658	469,938	5,866,273	10,125,839	9,673,251
Add: Additions during the year	41,035	37,448	56,953	9,995	-	32,958	-	56,012	28,998	-	902,938	1,166,337	1,342,902
Less: Disposals during the year	(1,626)	-	-	(241,012)	(28,485)	-	-	-	(139,654)	(244,997)	(2,540,739)	(3,196,513)	(1,152,859)
Write-downs	-	-	-	-	-	-	-	-	-	-	-	-	(3,652)
Balance, end of year	5,496,968	9,686,077	59,177,737	21,345,365	3,860,599	12,116,140	2,628,157	34,706,199	14,489,852	2,852,997	218,018,691	384,378,783	376,283,120
Accumulated amortization													
Balance, beginning of year	-	1,674,677	14,177,052	5,192,501	2,154,438	-	451,084	15,335,377	5,033,832	1,643,889	83,092,932	128,755,782	121,568,727
Add: Amortization	-	198,675	1,309,714	1,033,268	189,537	-	66,206	637,477	439,006	190,207	4,113,498	8,177,588	8,005,166
Less: Accumulated amortization on disposals	-	-	-	(218,673)	(28,485)	-	-	-	(107,279)	(244,997)	(1,981,764)	(2,581,198)	(819,086)
Balance, end of year	-	1,873,352	15,486,766	6,007,096	2,315,490	-	517,290	15,972,854	5,365,559	1,589,099	85,224,665	134,352,172	128,754,807
Net Book Value of Tangible Capital Assets	5,496,968	7,812,725	43,690,970	15,338,269	1,545,109	12,116,140	2,110,867	18,733,345	9,124,293	1,263,899	132,794,026	250,026,611	247,528,313

The net book value of tangible capital assets not being amortized because they are under construction is as follows:

2015 Inventories: \$4,861,274
2016 Inventories: \$6,168,169

The Corporation of the Municipality of Leamington holds various historical treasures and works of art, located in municipal buildings within the municipality. These items are not recognized as tangible capital assets in the financial statements because a reasonable estimate of the future benefits associated with such property cannot be made.

Consolidated Schedule of Tangible Capital Assets - Schedule 1
Categorized by Functional Class (in \$)

As at December 31, 2016

								Totals	
	General Government	Protective Services	Transportation Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	2016	2015
Cost									
Balance, beginning of year	12,491,017	6,630,884	72,532,577	241,297,928	249,271	43,054,241	27,199	376,283,120	366,423,478
Add: New acquisitions during the year	79,360	90,782	4,500,559	3,796,901	-	1,658,237	-	10,125,839	9,673,251
Add: Additions during the year	788	1,668	788,111	232,795	-	142,975	-	1,166,337	1,342,902
Less: Disposals during the year	(132,706)	(65,099)	(2,532,910)	(426,365)	-	(39,433)	-	(3,196,513)	(1,152,859)
Write-downs	-	-	-	-	-	-	-	-	(3,652)
Balance, end of year	12,438,459	6,658,235	75,288,337	244,901,259	249,271	44,816,020	27,199	384,378,783	376,283,120
Accumulated amortization									
Balance, beginning of year	1,652,064	3,750,146	26,366,098	82,784,479	127,311	14,069,857	5,829	128,755,782	121,568,727
Add: Amortization	337,090	268,508	1,921,663	4,547,209	8,047	1,091,185	3,886	8,177,588	8,005,166
Less: Accumulated amortization on disposals	(132,405)	(64,239)	(2,015,684)	(348,731)	-	(20,140)	-	(2,581,198)	(819,086)
Balance, end of year	1,856,749	3,954,416	26,272,077	86,982,957	135,358	15,140,903	9,715	134,352,172	128,754,807
Net Book Value of Tangible Capital Assets	10,581,711	2,703,820	49,016,260	157,918,304	113,913	29,675,117	17,485	250,026,611	247,528,313

The Corporation of the Municipality of Leamington
Schedule of Reserves and Reserve Funds Balances - Schedule 2

For the Year Ended December 31	2016	2016	2015
	Budget	Actual	Actual
	\$	\$	\$
Revenue			
Interest income	-	220,340	39,034
	-	220,340	39,034
Transfers From (To) Other Funds			
Net transfers from operating fund	1,252,549	8,069,436	5,622,461
Net transfers to capital	(5,775,881)	(3,407,020)	(3,721,235)
	(4,523,332)	4,662,416	1,901,226
Change in Fund Balance	(4,523,332)	4,882,756	1,940,260
Opening Fund Balance	50,012,226	50,012,226	48,071,966
Ending Fund Balance	45,488,894	54,894,982	50,012,226
Analyzed as follows:			
Reserves Set Aside by Council			
Working capital	4,522,123	5,769,049	4,462,939
Contingencies	5,742,429	5,187,694	7,173,735
Equipment replacement	4,098,653	4,360,253	4,054,961
Parking operations	(43,515)	(36,129)	(39,442)
Waste water treatment	7,456,070	10,726,646	9,360,790
Water system renewals	2,898,345	3,523,414	3,407,824
Capital financing	12,206,296	15,717,794	12,959,550
Tree planting	73,706	66,338	73,706
	36,954,107	45,315,059	41,454,063
Reserve Funds Set Aside by Council, Legislation, Regulation or Agreement			
Capital financing	248,194	234,695	236,570
Impost and lot levy fees	181,616	183,623	181,616
Library and cultural purposes	960,981	1,020,104	995,981
Union Water System	7,143,996	8,141,501	7,143,996
	8,534,787	9,579,923	8,558,163
	45,488,894	54,894,982	50,012,226

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

The Corporation of the Municipality of Leamington
Schedule of Segment Disclosures - Schedule 3

For the Year Ended December 31, 2016

	General Government	Protective Services	Transportation Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	Drainage	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues									
Taxation	27,003,481	-	-	-	-	-	-	-	27,003,481
User charges	155,570	155,605	17,306	19,665,528	10,080	2,199,825	110,168	93,988	22,408,070
Government transfers	2,290,000	277,440	1,795,329	2,031,549	-	52,819	96,000	312,517	6,855,654
Licences/permits	96,666	1,036,994	4,820	-	-	-	-	-	1,138,480
Penalties/interest/fines	457,790	-	27,009	-	-	-	-	-	484,799
Investment income	2,127,707	-	-	-	-	-	-	-	2,127,707
Loss on sale of tangible capital assets	(522,778)	-	-	-	-	-	-	-	(522,778)
Donated assets	-	-	-	-	-	-	-	-	-
Deferred revenue earned	1,632,212	-	-	-	-	-	-	-	1,632,212
Essex Power net income	522,310	-	-	-	-	-	-	-	522,310
Easement sale	506,850	-	-	-	-	-	-	-	506,850
Dividends	414,456	-	-	-	-	126,177	-	-	414,456
Donations	-	-	-	-	-	-	-	-	126,177
Other	88,512	-	-	-	-	-	-	-	88,512
	<u>34,772,776</u>	<u>1,470,039</u>	<u>1,844,464</u>	<u>21,697,077</u>	<u>10,080</u>	<u>2,378,821</u>	<u>206,168</u>	<u>406,505</u>	<u>62,785,930</u>
Expenditures									
Salaries, wages and employee benefits	3,698,457	2,602,074	2,259,676	2,303,551	32,641	2,977,383	622,684	242,684	14,739,150
Materials, goods, services, utilities	1,627,132	390,026	1,343,540	3,492,889	14,060	1,646,763	264,163	1,272,653	10,051,226
Contracted services	541,325	5,600,286	397,886	8,630,447	28,774	127,378	62,871	-	15,388,967
Interest on long-term debt	175,185	31,172	-	1,524,998	-	219,188	-	16,176	1,966,719
Rents and financial expenses	-	-	-	-	-	-	168,898	-	168,898
External transfers	56,400	212,351	43,000	-	-	92,000	20,000	-	423,751
Inter-functional adjustments	(79,109)	1,228	185,652	73,888	271	3,470	-	(185,400)	-
Amortization	337,089	268,508	1,921,664	4,547,209	8,047	1,091,185	-	3,886	8,177,588
	<u>6,356,479</u>	<u>9,105,645</u>	<u>6,151,418</u>	<u>20,572,982</u>	<u>83,793</u>	<u>6,157,367</u>	<u>1,138,616</u>	<u>1,349,999</u>	<u>50,916,299</u>
Annual Surplus (Deficit)	<u>28,416,297</u>	<u>(7,635,606)</u>	<u>(4,306,954)</u>	<u>1,124,095</u>	<u>(73,713)</u>	<u>(3,778,546)</u>	<u>(932,448)</u>	<u>(943,494)</u>	<u>11,869,631</u>