



Municipality of Leamington

2015 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, 2015, 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, 2015, 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*

Chartered Professional Accountants
Licensed Public Accountants

Leamington, Ontario
July 18, 2016

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

as at December 31	2015	2014
	\$	\$ (Note 20)
Assets		
Financial Assets		
Cash and short-term investments (Note 2)	48,291,875	47,118,573
Taxes receivable	2,545,866	2,812,567
Accounts receivable	10,117,192	6,654,291
Drainage accounts receivable	548,647	649,507
Investment in Essex Power Corporation (Note 3)	10,802,359	10,272,069
Equity in Union Water System (Note 5)	8,243,826	8,677,658
Other current assets	72,336	78,836
	80,622,101	76,263,501
Physical Assets		
Inventories for resale	225,347	230,537
	80,847,448	76,494,038
Liabilities		
Accounts payable and accrued liabilities	8,457,325	5,513,234
Deferred revenue (Note 6)	8,576,569	8,529,695
Security deposits and unearned revenue	2,922,447	2,419,984
Long-term debt (Note 10)	37,567,955	40,714,882
Landfill closure cost liabilities (Note 15)	3,539,987	3,702,071
Post employment benefits (Note 12)	15,110,099	13,802,799
	76,174,382	74,682,665
Net Financial Surplus	4,673,066	1,811,373
Non-Financial Assets		
Inventories (tangible capital assets works in progress) (Schedule 1)	4,861,274	3,149,392
Inventory	350,445	335,708
Prepaid expenses	90,141	82,776
Tangible capital assets (Schedule 1)	247,528,313	244,854,751
Net Non-Financial Assets	252,830,173	248,422,627
Accumulated Surplus (Note 19)	257,503,239	250,234,000

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	2015	2015	2014
	Budget	Actual	Actual
	\$	\$	\$
Revenues	(unaudited)		(Note 20)
	(Note 14)		
Taxation	43,726,024	43,758,518	43,823,142
User fees	17,193,874	21,548,142	21,953,389
Grants	6,811,418	6,182,295	4,229,968
Other income (Note 18)	2,238,751	1,825,872	2,052,921
Deferred revenue	443,523	1,141,188	1,009,347
Essex Power Corporation	-	530,290	358,360
	<u>70,413,590</u>	<u>74,986,305</u>	<u>73,427,127</u>
Deduct :			
County of Essex purposes	(10,059,396)	(10,059,396)	(10,091,603)
School purposes	(7,875,060)	(7,857,060)	(8,046,893)
	<u>52,479,134</u>	<u>57,069,849</u>	<u>55,288,631</u>
Expenses			
General government	6,602,408	5,591,029	5,249,201
Protective services	9,450,269	9,549,372	10,332,248
Transportation services	5,358,376	5,737,748	5,839,881
Environmental services	17,056,254	20,563,953	20,452,846
Health services	99,033	89,383	79,257
Recreation and cultural services	6,101,770	6,104,821	5,803,984
Planning and development	1,342,965	1,034,944	891,685
Municipal drainage act	1,431,522	1,129,360	1,145,101
	<u>47,442,597</u>	<u>49,800,610</u>	<u>49,794,203</u>
Annual Surplus	<u>5,036,537</u>	<u>7,269,239</u>	<u>5,494,428</u>
Accumulated Surplus, Beginning of Year	<u>250,234,000</u>	<u>250,234,000</u>	<u>244,739,572</u>
Accumulated Surplus, End of Year	<u><u>255,270,537</u></u>	<u><u>257,503,239</u></u>	<u><u>250,234,000</u></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	2015	2015	2014
	Budget	Actual	Actual
	\$	\$	\$
	(unaudited)		
Annual Surplus	5,036,537	7,269,239	5,494,428
Acquisition of tangible capital assets	(13,472,097)	(12,728,036)	(6,214,056)
Amortization of tangible capital assets	8,005,166	8,005,166	7,658,498
Loss on sale of tangible capital assets	-	285,724	10,635
Proceeds on disposal of tangible capital assets	13,000	48,050	51,747
Write down of tangible capital assets	-	3,652	-
Acquisition/(disposal) of inventories	-	(14,737)	7,151
Acquisition of prepaid expenses	-	(7,365)	(19,833)
Increase in Net Financial Surplus	(417,394)	2,861,693	6,988,570
Net Financial Surplus (Debt), Beginning of Year	1,811,373	1,811,373	(5,177,197)
Net Financial Surplus, End of Year	1,393,979	4,673,066	1,811,373

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	2015	2014
	\$	\$
Annual Surplus	7,269,239	5,494,428
Operations Transactions		
Landfill closure cost liability	(162,084)	(158,905)
Post employee benefits	1,307,300	2,115,675
Taxes receivable	266,701	113,657
Accounts receivable	(3,462,901)	(2,701,597)
Drainage accounts receivable	100,860	(59,775)
Investment in Essex Power Corporation	(530,290)	(358,360)
Equity in Union Water System	433,832	(240,090)
Other current assets	6,500	6,500
Inventories	5,190	83,623
Prepaid expenses	(7,365)	(19,833)
Inventory non resaleable	(14,737)	7,151
Accounts payable and accrued liabilities	2,944,091	1,287,623
Deferred revenue	46,874	579,205
Security deposits and unearned revenue	502,463	(325,941)
Cash provided by operating transactions	1,436,434	328,933
Capital Transactions		
Proceeds on sale of tangible capital assets	48,050	51,747
Amortization of tangible capital assets	8,005,166	7,658,498
Loss on sale of tangible capital assets	285,724	10,635
Write down of tangible capital assets	3,652	-
Acquisition of tangible capital assets	(12,728,036)	(6,214,056)
Cash provided by capital transactions	(4,385,444)	1,506,824
Financing Transactions		
Proceeds from debt issue	72,101	304,708
Debt repayment (principal only) (Note 9)	(3,219,028)	(3,295,230)
Cash applied to financing transactions	(3,146,927)	(2,990,522)
Increase in Cash and Cash Equivalents	1,173,302	4,339,663
Cash and Cash Equivalents, Beginning of the Year	47,118,573	42,778,910
Cash and Cash Equivalents, End of the Year	48,291,875	47,118,573

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, 2015

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.

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.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

b) Basis of Accounting (continued)

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/ (debt) 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 a 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

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.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

c) Tangible Capital Assets (continued)

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.

e) Future accounting changes

Effective for fiscal periods beginning on or after April 1, 2015, all governments will be required to adopt PSAB Section 3450, Financial Instruments, Section 2601, Foreign Currency Translation, 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.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

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.

g) Cash and cash equivalents

Cash and cash equivalents include cash balances and short term highly liquid investments that are readily converted into cash.

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:

	2015	2014
	\$	\$
Operating Fund		
Cash	8,448,197	14,424,933
One Fund investments	<u>26,045,508</u>	<u>19,645,611</u>
	34,493,705	34,070,544
Reserve Funds		
Cash	43,754	395,625
One Fund investments	1,403,547	894,933
Investment in own debentures	<u>159,570</u>	<u>213,339</u>
	1,606,871	1,503,897
Deferred Revenue		
Cash	46,453	1,207,849
One Fund investments	<u>12,144,846</u>	<u>10,336,283</u>
	<u>12,191,299</u>	<u>11,544,132</u>
	<u>48,291,875</u>	<u>47,118,573</u>

Investments are recorded at the lower of cost and market value. The Association of Municipalities of Ontario operates the One Fund investment pool. Investments include: money market, bond, universe corporate bond, and equity. These investments are highly liquid and short-term in nature.

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

3. Investment in Essex Power Corporation

	2015	2014
	\$	\$
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	3,758,240	3,227,950
	<u>10,802,359</u>	<u>10,272,069</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).

	2015	Restated 2014
	\$	\$
Financial Position		
Current assets	21,842	20,230
Property, plant and equipment	55,662	50,253
Other assets	9,668	10,170
Regulatory balances	42,323	39,925
Total assets and regulatory balances	<u>129,495</u>	<u>120,578</u>
Current liabilities	26,360	19,641
Non-current liabilities	23,414	24,136
Regulatory balances	45,627	44,198
Total liabilities and regulatory balances	<u>95,401</u>	<u>87,975</u>
Net Assets and regulatory balances	<u>34,094</u>	<u>32,603</u>
Result from Operations		
Gross margin on service revenue	11,118	10,440
Other revenue	11,248	11,133
Operating expenses	(18,956)	(17,710)
Income from Operations	3,410	3,863
Other income (loss) and taxes	(266)	208
Net Income for the Year	<u>3,144</u>	<u>4,071</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

4. Trust Funds

Cemetery trust funds administered by the Municipality amounting to \$208,361 (2014 - \$127,011) 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

	2015 \$	2014 \$
Equity in reserve funds	7,143,996	7,767,088
Equity in reserves	1,099,830	1,099,830
Due to related party	-	(189,260)
	<u>8,243,826</u>	<u>8,677,658</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% (2014 - 56.11%).

Due to related party loan was fully paid off in 2015.

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

	2015 \$	2014 \$
Statement of Financial Position		
Current financial assets	<u>16,890</u>	<u>17,187</u>
Current liabilities	2,198	1,385
Due to related party loan	-	337
Long-term debt	<u>15,249</u>	<u>16,607</u>
Total liabilities	<u>17,447</u>	<u>18,329</u>
Net debt	(557)	(1,142)
Inventories	40	168
Tangible capital assets	<u>41,458</u>	<u>40,736</u>
Non financial assets	<u>41,498</u>	<u>40,904</u>
Accumulated surplus	<u>40,941</u>	<u>39,762</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

5. Equity in Union Water Supply System (continued)

	2015 \$	2014 \$
Statement of Financial Activities		
Wholesale billings	8,106	8,180
Other income	52	160
	<u>8,158</u>	<u>8,340</u>
Operating expenses	1,713	1,566
OCWA operating contract	2,527	2,419
Long-term interest expense	1,664	1,771
Amortization	1,075	1,080
	<u>6,979</u>	<u>6,836</u>
Annual surplus	<u>1,179</u>	<u>1,504</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.

	2015 Opening \$	Receipts \$	Investment Income \$	Revenue (Recognized) Deferred \$	2015 Ending \$
Obligatory Reserve Funds					
Development charges	3,144,254	1,142,884	45,880	(951,188)	3,381,830
Recreational land	304,383	75,733	2,289	-	382,405
Sidewalk fund	19,888	-	129	-	20,017
M.T.O. commitments	132,639	-	954	-	133,593
Ont transit gas tax	891,350	-	5,350	50,172	946,872
Federal gas tax	4,037,181	-	30,106	(355,435)	3,711,852
	<u>8,529,695</u>	<u>1,218,617</u>	<u>84,708</u>	<u>(1,256,451)</u>	<u>8,576,569</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 2015 was \$876,027 (2014 - \$825,072).

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

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:

	2015	2014
	\$	\$
Debenture principal payments		
Municipality obligations	2,456,772	2,391,556
Union Water System obligations	<u>762,256</u>	<u>903,674</u>
	<u>3,219,028</u>	<u>3,295,230</u>

10. Long-term Debt

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

	2015	2014
	\$	\$
Outstanding principal at the end of the year for:		
General fund debentures	11,977,424	12,945,377
Drainage act debentures	159,569	213,339
Tile/shoreline debentures	93,147	49,472
Sanitary sewer debentures	4,187,645	4,655,097
Union Water System obligations	8,556,000	9,318,256
Waste water treatment	<u>12,594,170</u>	<u>13,533,341</u>
Long-term Debt at End of Year	<u>37,567,955</u>	<u>40,714,882</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

10. Long-term Debt (continued)

Interest rates range from 2% to 8% (2014 - 2% to 8%). Total interest charges reported on the Consolidated Statement of Financial Operation is \$2,105,191 (2014 - \$2,258,502) with \$933,679 (2014 - \$993,875) being the Municipality's share of Union Water System's interest. The debentures have various repayment schedules and will be repaid between 2016 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 \$
2016	2,946,321
2017	3,063,664
2018	3,222,538
2019	3,365,325
2020	3,546,805
2021 and onwards	<u>21,423,302</u>
	<u>37,567,955</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, 2015 is \$93,147 (2014 - \$49,472).

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, 2015, 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, 2015

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 8.5% for health in 2015 (2014 - 7.97%), linearly decreased to an ultimate rate of 4.5% in 2035 (2014 - in 2027) 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 \$15,110,099 (2014 - \$13,802,799). An additional expense of \$1,307,300 (2014 - \$2,115,676) 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, 2015

14. Budget Figures

The 2015 Financial Plan (adopted budget) adopted by Council on March 2, 2015 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:

	2015
Financial Plan (Budget) Bylaw surplus for the year	\$ -
Add:	
Accumulated surplus, beginning of the year	250,234,000
Budgeted transfers to capital	5,680,661
Principal payments on debt	2,452,851
Capital revenue for tangible capital assets	5,709,216
Landfill post-closure costs	243,431
Less:	
Budgeted transfers to reserve and reserve funds	1,012,653
Amortization on tangible capital assets	(8,005,166)
Capital expenses that are operating	(749,809)
Post employment benefit costs	<u>(1,307,300)</u>
Budget Surplus per Consolidated Statement of Financial Operations	\$ 255,270,537

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 \$3,539,987 (2014 - \$3,702,071). 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, 2015

16. Expenses by Object

	2015	2014
	\$	\$
Salaries, wages and benefits	13,801,488	14,379,633
Net long term debt interest charge	2,105,191	2,258,502
Materials and supplies	10,276,280	9,631,644
Contracted services	15,073,684	15,392,347
Rents and financial expenses	151,002	107,719
External transfers	387,799	365,860
Amortization	8,005,166	7,658,498
Total Current Expenses	<u>49,800,610</u>	<u>49,794,203</u>

17. Investment Income

Investment income includes bank and One Fund interest income, and unrealized loss from the change in market value of the One Fund investments as follows:

	2015	2014
	\$	\$
Bank and investment interest income	697,235	369,312
Increase in equity of owned companies	103,181	152,222
Interest earned on debentures	21,862	19,574
Unrealized loss on investments	<u>(822,179)</u>	<u>(2,285)</u>
	<u>99</u>	<u>538,823</u>

18. Other Income

	2015	2014
	\$	\$
Penalties and interest on taxation	494,223	563,557
Licences, permits and rents	879,436	453,677
Fines	54,122	21,745
Investment income (Note 17)	99	538,823
Tangible capital assets loss on disposal	(289,375)	(10,636)
Dividends	402,473	390,750
Donations	205,194	32,350
Other	79,700	62,655
	<u>1,825,872</u>	<u>2,052,921</u>

The Corporation of the Municipality of Leamington

Notes to the Consolidated Financial Statements

December 31, 2015

19. Accumulated Surplus

	2015	2014 (Note 20)
Reserves and Reserve Funds	\$	\$
Reserves (Schedule 2)	41,454,063	38,953,495
Reserve funds (Schedule 2)	8,558,163	9,118,471
Equity in Essex Power	<u>10,802,359</u>	<u>10,272,069</u>
	60,814,585	58,344,035
Operating Fund	1,177,633	2,921,799
Capital Fund	(660,525)	(816,225)
Tangible Capital Assets	<u>252,389,587</u>	<u>248,004,143</u>
	252,906,695	250,109,717
Unfunded Liability		
Debt	(37,567,955)	(40,714,882)
Landfill closure cost liability	(3,539,987)	(3,702,071)
Post employment benefit	<u>(15,110,099)</u>	<u>(13,802,799)</u>
	<u>(56,218,041)</u>	<u>(58,219,752)</u>
Accumulated Surplus	<u>257,503,239</u>	<u>250,234,000</u>

20. Prior Period Adjustments

The Municipality of Leamington has determined that in 2009 upon adoption of the full accrual basis of accounting under PSAB, certain land asset values reported were duplicated causing an overstatement of \$775,562.

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

	Previously Stated 2014	Adjustment 2014	Restated 2014
	\$	\$	\$
Tangible capital assets	245,630,313	(775,562)	244,854,751
Accumulated surplus	251,009,562	(775,562)	250,234,000

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, 2015

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, 2015

	Albuna Cemetery \$	Bayview Cemetery \$	Lakeview Cemetery \$	2015 Total \$	2014 Total \$
Assets					
Cash	-	350	300	650	127,011
Investments, at cost	-	4,648	122,263	126,911	-
Due from general fund	80,000	-	800	80,800	-
	<u>80,000</u>	<u>4,998</u>	<u>123,363</u>	<u>208,361</u>	<u>127,011</u>
Liabilities					
Due to general fund	-	23	608	631	-
Trust balance	80,000	4,975	122,755	207,730	127,011
	<u>80,000</u>	<u>4,998</u>	<u>123,363</u>	<u>208,361</u>	<u>127,011</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, 2015

	Albuna Cemetery \$	Bayview Cemetery \$	Lakeview Cemetery \$	2015 Total \$	2014 Total \$
Balance at Beginning of Year	-	4,648	122,363	127,011	126,161
Revenues					
Perpetual care fees	-	-	800	800	400
Marker maintenance fees	-	350	200	550	450
Donation revenue	80,000	-	-	80,000	-
Bank balance interest	-	-	-	-	1,092
Investment income	-	23	608	631	-
	<u>80,000</u>	<u>373</u>	<u>1,608</u>	<u>81,981</u>	<u>1,942</u>
Expenditures					
Transfer to general fund	-	23	608	631	1,092
	<u>-</u>	<u>23</u>	<u>608</u>	<u>631</u>	<u>1,092</u>
Balance at End of Year	<u>80,000</u>	<u>4,998</u>	<u>123,363</u>	<u>208,361</u>	<u>127,011</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, 2015

	General					Infrastructure						Totals	
	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Linear Assets	2015	2014 (Note 20)
Cost													
Balance, beginning of year	2,423,860	9,207,761	58,986,411	20,850,324	3,881,154	11,672,172	1,789,407	33,503,598	12,993,192	2,618,066	208,497,532	366,423,478	361,895,817
Add: New acquisitions during the year	1,782,066	391,720	14,304	468,478	27,126	341,377	622,559	146,903	128,016	173,554	5,577,148	9,673,251	5,154,913
Add: Additions during the year	-	6,331	8,663	197,572	2,004	51,267	185	652,658	26,929	2,446	394,847	1,342,902	284,780
Less: Disposals during the year	-	-	-	(276,054)	(21,200)	-	-	-	(10,288)	(166,010)	(679,307)	(1,152,859)	(912,032)
Write-downs	-	-	-	-	-	-	-	(3,652)	-	-	-	(3,652)	-
Balance, end 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
Accumulated amortization													
Balance, beginning of year	-	1,484,112	12,872,896	4,393,381	1,939,097	-	398,909	14,712,686	4,666,849	1,617,327	79,483,469	121,568,727	114,760,010
Add: Amortization	-	190,565	1,304,156	1,012,551	236,541	-	52,174	622,691	370,081	178,270	4,038,137	8,005,166	7,658,367
Less: Accumulated amortization on disposals	-	-	-	(213,431)	(21,200)	-	-	-	(3,098)	(151,708)	(429,649)	(819,086)	(849,650)
Balance, end of year	-	1,674,677	14,177,052	5,192,501	2,154,438	-	451,083	15,335,377	5,033,832	1,643,889	83,091,957	128,754,807	121,568,727
Net Book Value of Tangible Capital Assets	4,205,926	7,931,135	44,832,325	16,047,819	1,734,646	12,064,816	1,961,068	18,964,131	8,104,017	984,167	130,698,263	247,528,313	244,854,751

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

2014 Inventories: \$3,149,392
2015 Inventories: \$4,861,274

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, 2015

	General Government	Protective Services	Transporation Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	Totals	
								2015	2014 (Note 20)
Cost									
Balance, beginning of year	12,472,288	6,606,785	69,339,977	237,776,200	249,271	39,951,757	27,199	366,423,478	361,895,817
Add: New acquisitions during the year	104,527	77,125	3,454,565	2,978,301	-	3,058,733	-	9,673,251	5,154,913
Add: Additions during the year	2,591	6,072	187,536	953,540	-	193,163	-	1,342,902	284,780
Less: Disposals during the year	(88,389)	(59,098)	(449,501)	(406,461)	-	(149,412)	-	(1,152,859)	(912,032)
Write-downs	-	-	-	(3,652)	-	-	-	(3,652)	-
Balance, end 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
Accumulated amortization									
Balance, beginning of year	1,392,547	3,495,785	25,004,408	78,442,465	119,264	13,112,315	1,943	121,568,727	114,760,010
Add: Amortization	340,786	312,602	1,691,983	4,595,556	8,047	1,052,307	3,886	8,005,166	7,658,367
Less: Accumulated amortization on disposals	(81,269)	(58,241)	(330,293)	(254,517)	-	(94,765)	-	(819,086)	(849,650)
Balance, end of year	1,652,064	3,750,146	26,366,098	82,783,504	127,311	14,069,857	5,829	128,754,807	121,568,727
Net Book Value of Tangible Capital Assets	10,838,953	2,880,738	46,166,479	158,514,424	121,960	28,984,384	21,370	247,528,313	244,854,751

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

For the Year Ended December 31	2015	2015	2014
	Budget \$ (unaudited)	Actual \$	Actual \$
Revenue			
Interest income	-	39,034	96,201
	-	39,034	96,201
Transfers From (To) Other Funds			
Net transfers from operating fund	1,019,093	5,622,461	6,696,703
Net transfers to capital	(2,069,220)	(3,721,235)	(1,458,817)
	(1,050,127)	1,901,226	5,237,886
Change in Fund Balance	(1,050,127)	1,940,260	5,334,087
Opening Fund Balance	48,071,966	48,071,966	42,737,879
Ending Fund Balance	47,021,839	50,012,226	48,071,966
Analyzed as follows:			
Reserves Set Aside by Council			
Working capital	4,134,848	4,462,939	3,692,640
Contingencies	8,739,215	7,173,735	8,726,768
Equipment replacement	3,911,692	4,054,961	3,500,818
Parking operations	(53,251)	(39,442)	(27,511)
Waste water treatment	7,853,927	9,360,790	8,392,698
Water system renewals	3,675,733	3,407,824	4,001,457
Capital financing	9,587,406	12,959,550	10,616,205
Tree planting	50,420	73,706	50,420
	37,899,990	41,454,063	38,953,495
Reserve Funds Set Aside by Council, Legislation, Regulation or Agreement			
Capital financing	232,949	236,570	194,572
Impost and lot levy fees	180,854	181,616	180,854
Library and cultural purposes	940,958	995,981	975,957
Union Water System	7,767,088	7,143,996	7,767,088
	9,121,849	8,558,163	9,118,471
	47,021,839	50,012,226	48,071,966

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, 2015

	General Government	Protective Services	Transportation Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	Drainage	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues									
Taxation	25,842,062	-	-	-	-	-	-	-	25,842,062
User charges	130,359	147,362	80,919	18,506,450	10,275	2,211,480	69,587	391,710	21,548,142
Government transfers	1,944,482	284,521	2,299,323	1,131,121	-	261,523	12,295	249,030	6,182,295
Licences/permits	116,961	761,195	1,280	-	-	-	-	-	879,436
Penalties/interest/fines	494,223	-	54,122	-	-	-	-	-	548,345
Investment income	99	-	-	-	-	-	-	-	99
Loss on sale of tangible capital assets	(289,375)	-	-	-	-	-	-	-	(289,375)
Donated assets	-	-	-	-	-	-	-	-	-
Deferred revenue earned	1,141,188	-	-	-	-	-	-	-	1,141,188
Essex Power net income	530,290	-	-	-	-	-	-	-	530,290
Dividends	402,473	-	-	-	-	-	-	-	402,473
Donations	-	-	-	-	-	205,194	-	-	205,194
Other	79,700	-	-	-	-	-	-	-	79,700
	<u>30,392,462</u>	<u>1,193,078</u>	<u>2,435,644</u>	<u>19,637,571</u>	<u>10,275</u>	<u>2,678,197</u>	<u>81,882</u>	<u>640,740</u>	<u>57,069,849</u>
Expenditures									
Salaries, wages and employee benefits	3,784,819	2,340,542	2,041,247	1,983,338	19,297	2,737,107	729,073	166,065	13,801,488
Materials, goods, services, utilities	1,558,105	507,644	1,497,670	3,674,533	16,562	1,833,492	125,269	1,063,005	10,276,280
Contracted services	211,632	6,113,091	266,907	8,329,678	27,530	115,246	9,600	-	15,073,684
Interest on long-term debt	189,911	33,189	-	1,627,087	-	234,652	-	20,352	2,105,191
Rents and financial expenses	-	-	-	-	-	-	151,002	-	151,002
External transfers	66,895	241,104	-	-	-	59,800	20,000	-	387,799
Inter-functional adjustments	(561,120)	1,200	239,941	353,763	17,947	72,217	-	(123,948)	-
Amortization	340,787	312,602	1,691,983	4,595,554	8,047	1,052,307	-	3,886	8,005,166
	<u>5,591,029</u>	<u>9,549,372</u>	<u>5,737,748</u>	<u>20,563,953</u>	<u>89,383</u>	<u>6,104,821</u>	<u>1,034,944</u>	<u>1,129,360</u>	<u>49,800,610</u>
Annual Surplus (Deficit)	<u>24,801,433</u>	<u>(8,356,294)</u>	<u>(3,302,104)</u>	<u>(926,382)</u>	<u>(79,108)</u>	<u>(3,426,624)</u>	<u>(953,062)</u>	<u>(488,620)</u>	<u>7,269,239</u>