

Audited Consolidated Financial Statements and
Other Financial Information of

**CORPORATION OF THE
MUNICIPALITY OF PORT HOPE**

Year ended December 31, 2015

Audited Consolidated Financial Statements and Other Financial Information of

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CORPORATION OF THE MUNICIPALITY OF PORT HOPE

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Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of the Corporation of the Municipality of Port Hope (the "Municipality") are the responsibility of the Municipality's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards. A summary of the significant accounting policies is contained in note 1 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Municipality's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The audit committee meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the Municipality. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Municipality's consolidated financial statements.



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Director of Finance



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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Municipality of Port Hope

We have audited the consolidated financial statements of the Corporation of the Municipality of Port Hope, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of operations and accumulated municipal equity, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the Municipality of Port Hope as at December 31, 2015, and its consolidated results of operations and accumulated municipal equity, its consolidated change in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in the schedule is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

July 19, 2016

Kingston, Canada

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Consolidated Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Financial assets:		
Cash	\$ 2,258,362	\$ —
Taxes receivable	2,675,142	3,680,720
Accounts receivable	3,518,787	3,851,272
Investments (note 5)	29,468,261	30,577,756
	<u>37,920,552</u>	<u>38,109,748</u>
Liabilities and deferred revenue:		
Bank indebtedness (note 6)	—	3,377,407
Accounts payable and accrued liabilities	5,448,016	5,179,323
Employee future benefit liabilities (note 8)	2,913,218	2,854,024
Deferred revenue - obligatory reserve funds (note 9)	3,232,022	3,391,900
Deferred revenue - other	1,071,146	1,113,092
Net long-term liabilities (note 10)	32,676,631	34,230,251
Temporary borrowings (note 11)	5,500,000	—
Total liabilities	<u>50,841,033</u>	<u>50,145,997</u>
Net debt	(12,920,481)	(12,036,249)
Other non-financial assets:		
Tangible capital assets (note 13)	143,508,939	141,139,030
Inventories of supplies	186,539	175,109
Prepaid expenses	246,391	262,098
Land held for resale	1,289,962	1,289,962
Total non-financial assets	<u>145,231,831</u>	<u>142,866,199</u>
Contingent liabilities (note 14)		
Commitments (note 15)		
Subsequent event (note 20)		
Accumulated municipal equity (note 16)	<u>\$ 132,311,350</u>	<u>\$ 130,829,950</u>

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

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Consolidated Statement of Operations and Accumulated Municipal Equity

Year ended December 31, 2015, with comparative information for 2014

	Budget 2015	Actual 2015	Actual 2014
	(note 17)		
Revenue:			
Property taxation	\$ 15,595,568	\$ 15,163,720	\$ 15,206,323
Taxation from other governments	206,500	206,650	210,000
User charges	9,551,096	9,290,595	9,811,876
Government grants	1,060,450	2,226,472	1,525,096
Grants from other municipalities	127,447	134,470	110,712
Investment income	37,300	758,771	892,881
Penalties and interest on taxes	510,000	568,993	527,875
Donations	16,350	129,342	42,254
Transfers from reserves	30,000	30,000	–
Other	–	568,895	338,633
Total revenue	27,134,711	29,077,908	28,665,650
Expenses (note 18):			
General government	3,653,395	3,789,296	3,881,326
Protection to persons and property	7,193,491	7,583,085	7,523,640
Transportation services	4,117,704	5,695,509	6,844,795
Environmental services	5,442,689	8,233,531	8,620,274
Cemetery	173,621	192,762	210,764
Library	712,000	829,902	856,740
Parks, recreation and culture	2,939,367	3,163,976	3,350,387
Planning and development	1,137,833	1,158,153	1,240,588
Total expenses	25,370,100	30,646,214	32,528,514
Annual operating surplus (deficit)	1,764,611	(1,568,306)	(3,862,864)
Revenue related to capital:			
Property taxation	250,909	250,909	298,523
Government grants	–	32,500	226,242
Transfers from obligatory reserves	130,960	2,593,702	4,786,859
Contributions from others (tangible capital assets)	–	(40,000)	174,686
Donations	–	170,054	64,937
Other	–	42,541	48,031
Total revenue related to capital	381,869	3,049,706	5,599,278
Annual surplus	2,146,480	1,481,400	1,736,414
Accumulated municipal equity, beginning of year		130,829,950	129,093,536
Accumulated municipal equity, end of year (note 16)		\$ 132,311,350	\$ 130,829,950

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

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Consolidated Statement of Change in Net Debt

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Annual surplus	\$ 1,481,400	\$ 1,736,414
Acquisition of tangible capital assets (net transfers from work-in-progress)	(7,724,431)	(5,195,792)
Proceeds of disposition of tangible capital assets	–	88,307
Loss on disposal of tangible capital assets	7,769	562,600
Amortization of tangible capital assets	5,346,753	5,306,500
	(888,509)	2,498,029
Acquisition of prepaid expenses and inventories of supplies	4,277	61,920
Acquisition of land held for resale	–	(1,289,962)
Change in net financial assets	(884,232)	1,269,987
Net debt, beginning of year	(12,036,249)	(13,306,236)
Net debt, end of year	\$ (12,920,481)	\$ (12,036,249)

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

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Consolidated Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Operating transactions:		
Annual surplus	\$ 1,481,400	\$ 1,736,414
Items not involving cash:		
Amortization of tangible capital assets	5,346,753	5,306,500
Loss on disposal of tangible capital assets	7,769	562,600
Change in employee future benefits liabilities	59,194	121,996
Change in non-cash assets and liabilities:		
Decrease in taxes receivable	1,005,578	373,039
Decrease (increase) in accounts receivable	332,485	(212,258)
Increase (decrease) in accounts payable and accrued liabilities	268,693	(595,581)
Decrease in deferred revenue - obligatory reserve funds	(159,878)	(2,701,464)
Increase (decrease) in deferred revenue - other	(41,946)	53,977
Increase in inventories of supplies	(11,430)	(54,039)
Decrease in prepaid expenses	15,707	115,959
Increase in land held for resale	-	(1,289,962)
	<u>6,822,925</u>	<u>1,680,767</u>
Net change in cash from operations	8,304,325	3,417,181
Capital transactions:		
Cash used to acquire tangible capital assets	(7,724,431)	(5,195,792)
Proceeds on disposition of tangible capital assets	-	88,307
	<u>(7,724,431)</u>	<u>(5,107,485)</u>
Investing transactions:		
Sale of investments	1,109,495	3,820,966
Financing transactions:		
Debt principal repayments	(1,553,620)	(1,536,945)
Temporary borrowings	5,500,000	-
	<u>3,946,380</u>	<u>(1,536,945)</u>
Increase in cash	5,635,769	593,717
Bank indebtedness, beginning of year	(3,377,407)	(3,971,124)
Cash (bank indebtedness), end of year	<u>\$ 2,258,362</u>	<u>\$ (3,377,407)</u>

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

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

1. Accounting policies:

The consolidated financial statements of the Corporation of the Municipality of Port Hope ("Municipality") are the representation of management prepared in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Municipality are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

These consolidated financial statements reflect the assets, liabilities, revenue and expenses of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Municipality and which are owned or controlled by the Municipality. Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

These consolidated financial statements include:

Port Hope Public Library Board
Municipality of Port Hope Cemetery Board
Heritage Business Improvement Area

(ii) Accounting for County and School Board transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards, and the County of Northumberland are not reflected in the municipal fund balances of these consolidated financial statements.

(iii) Trust funds and their related operations administered by the Municipality are not consolidated, but are reported separately on the "Trust Funds Statement of Continuity and Trust Funds Statement of Financial Position".

(b) Employee future benefit obligations:

The Municipality accrues its obligations for employee benefit plans. The cost of post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued benefit obligation, are amortized over the average remaining service period of active employees.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

1. Accounting policies (continued):

(c) Accrual accounting:

Revenue and expenses are reported on the accrual basis of accounting. Revenue is recognized in the year in which it is earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(d) Deferred revenue:

The Municipality receives contributions pursuant to legislation, regulations or agreement that may only be used for certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed.

(e) Deferred revenue - obligatory reserve funds:

The Municipality receives restricted contributions under the authority of provincial legislation and Municipal by-laws. These funds by their nature are restricted in their use, and until applied to applicable expenses, are recorded as deferred revenue. Amounts applied to qualifying costs are recorded as revenue in the fiscal period that they are expended.

(f) Investments:

Investments are recorded at cost plus accrued interest and amortization of purchase premiums and discounts. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

Investment income earned on available general funds and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balance.

(g) Government transfers:

Government transfers are recognized as revenue in the consolidated financial statements when the transfer is authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made except when and to the extent that stipulations by the transferor give rise to an obligation that meets the definition of a liability. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

1. Accounting policies (continued):

(h) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the consolidated financial statements in the period in which they become known.

(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.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Land improvements	15 - 40
Buildings and building improvements	20 - 50
Linear assets	20 - 75
Machinery and equipment	5 - 25
Technology and communications	3 - 10
Vehicles	2 - 20

Work-in-progress is not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these consolidated financial statements.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

1. Accounting policies (continued):

(i) Non-financial assets (continued):

(iv) Interest capitalization:

Interest is capitalized whenever debt is used to finance the construction of tangible capital assets.

(v) Inventories of supplies:

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

(j) Property taxation:

The Municipality recognizes property tax revenue using the approved tax rate and the anticipated assessment. Taxes receivable and tax revenue are recognized when they meet the definition of an asset, the tax is authorized and the taxable event has occurred. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the consolidated statement of operations and accumulated municipal equity.

(k) Government transfers:

Government contribution transfers received or receivable are recognized in revenue once the eligibility criteria, if any, are met unless they meet the definition of a liability.

Government transfers distributed are recognized as a liability and an expense when the transfer is authorized and all eligibility criteria have been met by the recipient.

2. Change in accounting policies:

The Municipality has implemented Public Sector Accounting Board (PSAB) Section 3260 Liability for Contaminated Sites. Section 3260 requires governments to record a liability in their financial statements if they have a contaminated site that meets the requirements set out in the standard. The standard defines contamination as the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The standard generally applies to sites that are not in productive use. Sites that are in productive use are only considered contaminated if there was an unexpected event that resulted in contamination. This change has been applied retroactively without the restatement of prior periods.

The adoption of this standard did not have an impact on the Municipality's consolidated financial statements.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

3. Operations of school boards and the County of Northumberland:

Requisitions were made by the school boards and the County of Northumberland requesting the Municipality to collect property taxes and payments in lieu of property taxes on their behalf. The amounts requisitioned are summarized below:

	School Boards		County of Northumberland	
	2015	2014	2015	2014
Amounts requisitioned	\$ 6,185,483	\$ 6,224,485	\$ 9,724,676	\$ 9,425,870

4. Trust funds:

Trust funds administered by the Municipality amounting to \$628,508 (2014 - \$615,747) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations".

5. Investments:

	2015		2014	
	Cost	Market value	Cost	Market value
Cash and cash equivalents	\$ 2,176,251	\$ 2,176,251	\$ 708,638	\$ 708,638
Fixed income securities	27,292,010	29,009,878	29,869,118	31,514,616
	\$ 29,468,261	\$ 31,186,129	\$ 30,577,756	\$ 32,223,254

The fixed income securities yield interest between 2.4% and 4.8% and have maturities ranging from June 2016 to December 2022.

6. Bank indebtedness:

In fiscal 2014, the Municipality had a financial agreement with its bank providing for an operating credit facility of up to \$6,000,000 from October 1 to December 31, 2014 to finance expenses, pending receipt of property taxes and other income. As at December 31, 2014, \$3,377,407 had been drawn and was bearing interest at prime rate, less 0.25%. As at December 31, 2015, the previous draws were fully repaid.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

7. Pension agreements:

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 141 members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for current service in 2015 was \$889,901 (2014 - \$957,964) and is included as an expense on the "Consolidated Statement of Operations and Accumulated Municipal Equity".

8. Employee future benefit liabilities:

Extended health care and dental benefits: The Municipality provides extended health care, dental and other benefits to its employees. Extended health care and dental benefits continue to be available to early retirees up to the age of 65, with the exception of a closed group of former Port Hope Hydro retirees who receive benefits up until the age of 70 and Uniformed Police Association retirees who receive benefits for life.

Life insurance benefits: The Municipality provides a retiree life benefit of one times salary at retirement to eligible full-time non-police members until age 65, with the exception of a closed group of former Port Hope Hydro retirees who do not receive a life benefit.

Early retirement incentive: The Municipality provides Municipal uniform police with an early retirement incentive if they become eligible for an unreduced OMERS pension before age 60.

An independent actuarial study of the employee non-pension retirement benefits has been undertaken. The most recent valuation of the employee future benefits was completed for 2014.

The accrued benefit obligation relating to employee non-pension retirement benefits has been actuarially determined using the projected benefit method pro-rated on services. At December 31, 2015, the accrued benefit liability was \$2,913,218 (2014 - \$2,854,024).

The significant actuarial assumptions adopted in estimating the Municipality's accrued benefit obligations are as follows:

Discount rate	4.75% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	Escalate at 5.4286% in 2015 vs 2014, reducing by 0.3571% per year at 4.0000% in 2019 vs 2018 and 4% thereafter

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

8. Employee future benefit obligations (continued):

Information with respect to the Municipality's non-pension retirement obligations is as follows:

	2015	2014
Accrued benefit liability, beginning of year	\$ 2,854,024	\$ 2,732,028
Expense recognized for the year	85,086	118,167
Interest cost	124,933	142,063
Benefits paid for the year	(135,918)	(96,712)
Plan amendments	—	(65,065)
Amortization of actuarial loss (gain)	(14,907)	23,543
Accrued benefit liability, end of year	\$ 2,913,218	\$ 2,854,024

	2015	2014
Accrued benefit obligation at December 31	\$ 2,729,671	\$ 2,655,570
Unamortized actuarial gain	183,547	198,454
Accrued benefit liability at December 31	\$ 2,913,218	\$ 2,854,024

9. Deferred revenue - obligatory reserve funds:

A requirement of the CPA Canada Public Sector Accounting Handbook is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial and municipal legislation restricts how these funds may be used. The balances in the obligatory reserve funds of the Municipality are summarized below:

	2015	2014
Balance, beginning of year	\$ 3,391,900	\$ 6,093,365
Revenue as follows:		
Parkland	44,942	—
Building inspection surplus	126,440	—
Federal grant - gasoline tax	469,483	489,930
Provincial grant - gasoline tax	151,207	40,690
Development contributions	1,989,365	1,426,475
Investment income	46,214	217,477
Utilization as follows:		
Operating	(180,000)	(244,681)
Capital	(1,490,407)	(3,262,838)
Debt repayment	(1,103,294)	(1,194,059)
Direct payment to developer	(213,828)	(174,459)
Balance, end of year	\$ 3,232,022	\$ 3,391,900

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

9. Deferred revenue - obligatory reserve funds (continued):

	2015	2014
Analyzed as follows:		
Parkland	\$ 243,311	\$ 263,412
Development charges	651,967	1,293,188
Gasoline tax:		
Provincial	478,662	471,275
Federal	1,540,545	1,154,268
Ontario potable water program	-	18,659
Building inspection	317,537	191,098
	\$ 3,232,022	\$ 3,391,900

10. Net long-term liabilities:

- (a) The balance of net long-term liabilities reported on the "Consolidated Statement of Financial Position" is made up of the following:

	2015	2014
Infrastructure Ontario Debenture, bears interest at 4.73%, payable in semi-annual payments with a maturity date of January 17, 2051	\$ 27,059,875	\$ 27,822,125
Infrastructure Ontario Debenture, bears interest at 2.5%, payable in semi-annual payments with a maturity date of September 15, 2021	4,451,506	5,131,022
Infrastructure Ontario Debenture, bears interest at 4.7%, payable in semi-annual payments with a maturity date of June 17, 2024	503,200	562,400
Infrastructure Ontario Debenture, bears interest at 3.07%, payable in semi-annual payments with a maturity date of December 17, 2027	300,800	325,867
Infrastructure Ontario Debenture, bears interest at 3.35%, payable in semi-annual payments with a maturity date of May 3, 2027	190,750	207,337
Infrastructure Ontario Debenture, bears interest at 4.42%, payable in semi-annual payments with a maturity date of February 17, 2031	170,500	181,500
	\$ 32,676,631	\$ 34,230,251

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

10. Net long-term liabilities (continued):

- (b) Principal due on net long-term liabilities from general municipal revenues and user fees is summarized as follows:

2016	\$	1,570,714
2017		1,588,238
2018		1,606,203
2019		1,624,620
2020		1,643,498
Thereafter		24,643,358
	\$	32,676,631

- (c) The long-term liabilities in (a) issued in the name of the Municipality have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs & Housing.

11. Temporary borrowings:

The Municipality has construction loans through The Ontario Infrastructure and Lands Corporation to finance the construction of the new Police Station and the Revitalization of the Jack Burger Sports Complex to a maximum combined value of \$7,312,802. The loan requires monthly interest payments with rates that float throughout the term of the loan until they are replaced by a debenture. Repayment terms of principal and interest will be determined upon completion of the capital projects. At December 31, 2015, \$5,500,000 (2014 - \$Nil) of the facility was used.

12. Charges for net long-term liabilities:

Total charges for the year for net long-term liabilities are as follows:

	2015	2014
Principal payments	\$ 1,553,620	\$ 1,520,679
Interest	1,452,856	1,595,509
	\$ 3,006,476	\$ 3,116,188

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

13. Tangible capital assets:

Cost	Balance at December 31, 2014	Transfers and additions	Transfers, disposals and adjustments	Balance at December 31, 2015
Land	\$ 5,567,438	\$ 659,643	\$ –	\$ 6,227,081
Land improvements	7,850,117	284,447	–	8,134,564
Buildings and building improvements	84,110,877	3,313,205	7,227	87,416,855
Linear assets	102,030,216	60,996	–	102,091,212
Machinery and equipment	1,684,489	237,021	7,181	1,914,329
Technology and communications	1,522,796	185,415	–	1,708,211
Vehicles	8,039,641	110,404	66,294	8,083,751
Work-in-progress	4,206,497	4,840,916	1,967,616	7,079,797
Total	\$ 215,012,071	\$ 9,692,047	\$ 2,048,318	\$ 222,655,800

Accumulated amortization	Balance at December 31, 2014	Amortization expense	Transfers, disposals and adjustments	Balance at December 31, 2015
Land improvements	\$ 4,485,785	\$ 261,652	\$ –	\$ 4,747,437
Buildings and building improvements	21,295,998	2,670,173	5,204	23,960,967
Linear assets	41,443,655	1,640,713	–	43,084,368
Machinery and equipment	985,138	150,768	1,436	1,134,470
Technology and communications	868,153	169,240	–	1,037,393
Vehicles	4,794,312	454,207	66,293	5,182,226
Total	\$ 73,873,041	\$ 5,346,753	\$ 72,933	\$ 79,146,861

	Net book value December 31, 2014	Net book value December 31, 2015
Land	\$ 5,567,438	\$ 6,227,081
Land improvements	3,364,332	3,387,127
Buildings and building improvements	62,814,879	63,455,888
Linear assets	60,586,561	59,006,844
Machinery and equipment	699,351	779,859
Technology and communications	654,643	670,818
Vehicles	3,245,329	2,901,525
Work-in-progress	4,206,497	7,079,797
Total	\$ 141,139,030	\$ 143,508,939

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

13. Tangible capital assets (continued):

(a) Work-in-progress:

Assets under construction having a value of \$7,079,797 (2014 - \$4,206,497) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

There were no contributed tangible capital assets.

(c) Works of art and historical treasures:

The Municipality manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at Municipality sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(d) Write-down of tangible capital assets:

There were no write-downs of tangible capital assets.

14. Contingent liabilities:

(a) The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2015, management believes that the Municipality has valid defences and appropriate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable; therefore no amount has been accrued in the consolidated financial statements.

(b) Liability for contaminated sites:

While adopting PS3260 Liability for Contaminated Sites, the Municipality worked through the exercise of identifying properties not in productive use and determining which may have risk of contamination. At this time, per the 2001 agreement "An Agreement for Clean-up and the Long Term Safe Management of Low Level Radioactive Waste situate in the Town of Port Hope and the Township of Hope", specific sites identified to be contaminated by low-level radioactive waste will be a Federal government responsibility, with cleanup work completed under the Port Hope Area Initiative.

However, there may be sites that are not subject to review by the Port Hope Area Initiative and at this time, until those sites become identified, no reasonable estimate for liability can be determined, therefore the Municipality has not accrued for amounts related to clean up of these contaminated sites on the consolidated Statement of Financial Position and the consolidated Statement of Operations as at December 31, 2015.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

15. Commitments:

- (a) The Municipality has an outstanding commitment to Northumberland Hills Hospital of \$100,000 payable \$50,000 in 2016 and \$50,000 in 2017 for capital equipment.
- (b) At December 31, 2015, the Municipality has outstanding capital project contractual commitments of approximately \$450,000.

16. Accumulated municipal equity:

	2015	2014
Operating surplus (deficit) breakdown:		
General operating fund	\$ —	\$ (5,422,515)
Unfunded liability - employee future benefits	(2,913,218)	(2,854,024)
Heritage Business Improvement Area	(1,457)	3,447
Public Library Board	37,035	(63,020)
Cemetery Board	(38,196)	(89,674)
Total operating deficit	(2,915,836)	(8,425,786)
Reserves set aside for specific purposes by Council:		
Working capital	4,185,390	4,177,397
Sick leave	85,297	85,297
Insurance	47,619	47,619
Waterfront	604,611	549,454
Parking Authority	215,463	139,850
Other	307,547	286,587
Total reserves	5,445,927	5,286,204
Reserve funds set aside for specific purposes by Council:		
Downtown Beautification	50,000	58,463
Water system	(3,166,234)	50,149
Wastewater system	2,142,751	1,162,306
Hydro proceeds	4,142,668	4,205,993
Pumping Station	266,456	264,022
Low level radioactive waste - urban area	10,350,816	10,289,345
Low level radioactive waste - rural area	10,346,912	10,313,095
Other	223,745	46,591
Total reserve funds	24,357,114	26,389,964
Investment in tangible capital assets:		
Tangible capital assets	143,508,939	141,139,030
Long-term liabilities	(32,676,631)	(34,230,251)
Temporary borrowings	(5,500,000)	—
Unfinanced capital expenditures	(815,768)	(4,226,512)
Unexpended capital financing	907,605	4,897,301
Investment in tangible capital assets	105,424,145	107,579,568
Total accumulated municipal equity	\$ 132,311,350	\$ 130,829,950

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

17. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2015 operating and capital budgets approved by Council on April 21, 2015. In accordance with Ontario Regulation 284/09, the budget approved by Council excluded amortization expense and post-employment benefit expense. Estimates for certain revenue and expenses that were not included as part of the approved operating budgets have been included in the 2015 budget figures reported on the consolidated statement of operations. Amortization expense was not contemplated in development of the budget and, as such, has not been included. The reconciliation of the approved budget to the budget figures reported in these consolidated financial statements is detailed below:

	2015 Budget
Reported on consolidated statement of operations and accumulated municipal equity:	
Operating revenue	\$ 27,134,711
Revenue related to capital	381,869
	<u>27,516,580</u>
Operating expenses	(25,370,100)
Total budgeted annual operating surplus	\$ 2,146,480
	<u>2015 Budget</u>
Budget not reported on consolidated financial statements:	
Capital revenue - reserve and reserve fund transfers	\$ 2,176,799
Operating revenue - reserve and reserve fund transfers	479,200
Operating expense - transfer to reserves	(1,733,657)
Other	(3,068,822)
	<u>\$ (2,146,480)</u>

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

18. Supplementary information:

	2015 Budget	2015	2014
Operating expenses by object:			
Salaries, wages and employee benefits	\$ 13,878,533	\$ 13,347,882	\$ 13,529,000
Long-term debt interest	1,488,565	1,452,856	1,618,318
Materials	5,109,540	5,173,866	5,325,837
Contracted services	4,170,270	4,603,429	5,096,518
Rents and financial expenses	170,800	180,034	988,008
External transfers	552,392	541,394	664,333
	25,370,100	25,299,461	27,222,014
Amortization of tangible capital assets	–	5,346,753	5,306,500
Total	\$ 25,370,100	\$ 30,646,214	\$ 32,528,514

19. Segmented information:

The Municipality is a municipal government institution that provides a range of services to its citizens, including police, fire, transportation, recreational and environmental. For management reporting purposes the Municipality's operations and activities are organized and reported by department. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

Municipal services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

(a) General Government:

Includes administration, corporate services and governance of the Municipality. Administration as a segment includes human resource management, support to Council for policy development, by-law development in compliance with the Municipal Act, tax billing and collection responsibilities, financial management reporting, monitoring and overall budget status as well as frontline reception and customer service.

(b) Protection to Persons and Property:

Includes policing, fire protection, conservation authority, protective inspection and control and emergency measures. The mandate of the police services is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. Fire protection includes inspection, extinguishing and suppression services; emergency medical first response; and prevention education and training programs. Inspection and control includes building inspection, by-law enforcement and dog control services.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

19. Segmented information (continued):

(c) Transportation Services:

This department provides the winter and summer maintenance, the repair and the construction of the municipal roads system including bridges and culverts.

(d) Environmental Services:

Includes management and maintenance of water treatment and distribution, waste water plant and sanitary sewer services and storm sewer, waste collection and low level radioactive waste management and administration.

(e) Cemetery:

Includes the management and maintenance of municipal cemeteries.

(f) Library:

Includes allocations for the purpose of providing library services.

(g) Parks, Recreation and Culture:

Provides services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure programs and facilities including community halls, libraries, parks, recreation fields and the arena.

(h) Planning and Development:

Manages development for business interests, environmental concerns, heritage matters, local neighbourhoods and community development. It facilitates economic development by providing services for the approval of all land development plans, the application and enforcement of the zoning by-law and official plan, and the provision of geomatics services.

For each segment separately reported, the segment revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. These municipal services are funded primarily by property tax revenue. Taxation and payments-in-lieu of taxes are apportioned to these services based on the net surplus. Certain government transfers, transfer from other funds, and other revenue have been apportioned based on a percentage of budgeted expenses.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

19. Segmented information (continued):

	General Government	Protection to persons and property	Transportation Services	Environmental Services	Cemetery	Library	Parks, recreation and culture	Planning and Development	Total
Revenue:									
User charges	\$ 236,599	\$ 971,292	\$ 484,398	\$ 6,796,142	\$ 85,998	\$ 24,048	\$ 659,632	\$ 32,486	\$ 9,290,595
Government grants	707,151	68,401	338,679	933,935	—	43,015	113,261	54,530	2,258,972
Grants from other municipalities	—	(4,531)	36,673	95,294	—	—	4,534	2,500	134,470
Investment income	746,150	3,895	—	(8,334)	16,301	—	—	759	758,771
Penalties and interest on taxes	568,993	—	—	—	—	—	—	—	568,993
Donations	—	14,150	23,377	—	50	73,883	180,629	7,307	299,396
Other	563,272	12,269	873	29,190	(4,558)	—	10,390	—	611,436
Transfer from deferred obligatory	—	—	30,000	—	—	—	—	—	30,000
Contribution from others (TCA)	—	—	(40,000)	—	—	—	—	—	(40,000)
	2,822,165	1,065,476	874,000	7,846,227	97,791	140,946	968,446	97,582	13,912,633
Expenses:									
Salaries, wages and employee benefits	2,094,923	4,996,454	1,544,882	1,676,920	125,929	519,616	1,690,861	698,297	13,347,882
Long-term debt interest expense	—	49,828	—	1,403,028	—	—	—	—	1,452,856
Materials	389,375	637,811	1,478,850	1,761,556	33,228	115,782	630,362	126,902	5,173,866
Contracted services	980,591	1,218,625	987,621	818,242	7,031	68,324	265,090	257,905	4,603,429
Rents and financial expenses	97,919	59,454	—	5,436	—	—	8,678	8,547	180,034
External transfers	79,204	257,705	—	—	14,563	—	138,647	51,275	541,394
Amortization	147,284	363,208	1,684,156	2,568,349	12,011	126,180	430,338	15,227	5,346,753
	3,789,296	7,583,085	5,695,509	8,233,531	192,762	829,902	3,163,976	1,158,153	30,646,214
Excess of expenses over revenue before tax	\$ (967,131)	\$ (6,517,609)	\$ (4,821,509)	\$ (387,304)	\$ (94,971)	\$ (688,956)	\$ (2,195,530)	\$ (1,060,571)	\$ (16,733,581)
Funded through:									
Property taxation									15,414,629
Taxation from other governments									206,650
Transfer from deferred obligatory									2,593,702
Excess of revenue over expenses (expenses over revenue) after tax	\$ (967,131)	\$ (6,517,609)	\$ (4,821,509)	\$ (387,304)	\$ (94,971)	\$ (688,956)	\$ (2,195,530)	\$ (1,060,571)	\$ 1,481,400

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

20. Subsequent event:

On June 30, 2016 the court released a judgment regarding the use and status of the \$10 million Low Level Radioactive Waste – Rural Area fund as shown in 2015 financial statements note 16: Accumulated Municipal Equity. At this time, the Municipality is working with legal counsel to understand the impact of the judgment and consider all of the available options.

There have been no adjustments to reflect the judgment of the court in the consolidated Statement of Financial Position, consolidated Statement of Operations or consolidated Statement of Change in Net Debt as at December 31, 2015.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Schedule A: Heritage Business Improvement Area

Statement of Revenue and Expenses and Surplus (Deficit)

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Net levy	\$ 46,598	\$ 46,504
Contribution from Municipality	2,256	15,000
Other revenue	3,307	448
Advertising revenue	5,280	6,961
	<u>57,441</u>	<u>68,913</u>
Expenses:		
Stationery, supplies and office	5,974	5,176
Improvements	15,615	30,092
Advertising	11,718	14,039
Special events	2,835	1,363
Wages and employee benefits	26,203	24,858
	<u>62,345</u>	<u>75,528</u>
Excess of expenses over revenue	(4,904)	(6,615)
Surplus, beginning of year	3,447	10,062
Surplus (deficit), end of year	<u>\$ (1,457)</u>	<u>\$ 3,447</u>



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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Municipality of Port Hope

We have audited the financial statements of the trust funds of the Corporation of the Municipality of Port Hope, which comprise the statement of financial position as at December 31, 2015 and the statement of continuity of trust funds for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, the financial statements present fairly, in all material respects, the financial position of the Corporation of the Municipality of Port Hope trust funds as at December 31, 2015, and the continuity of trust funds for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

July 19, 2016

Kingston, Canada

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Cemetery Care and Maintenance and Developer Deposits Trust Funds

Statement of Financial Position

Year ended December 31, 2015, with comparative information for 2014

	Cemetery Care and Maintenance Fund	Developer Deposits	Total 2015	Total 2014
Assets				
Cash	\$ 72,431	\$ 67,807	\$ 140,238	\$ 90,240
Accrued interest receivable	1,778	–	1,778	2,706
Investments (market value \$503,312)	481,096	–	481,096	527,566
Due from (to) operating fund	5,396	–	5,396	(4,765)
	\$ 560,701	\$ 67,807	\$ 628,508	\$ 615,747

Liabilities and Fund Balances

Trust fund:				
Balances:				
Capital	\$ 433,962	\$ 67,807	\$ 501,769	\$ 486,669
Income	126,739	–	126,739	129,078
	\$ 560,701	\$ 67,807	\$ 628,508	\$ 615,747

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

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Cemetery Care and Maintenance and Developer Deposits Trust Funds

Statement of Continuity

Year ended December 31, 2015, with comparative information for 2014

	Cemetery Care and Maintenance Fund	Developer Deposits	Total 2015	Total 2014
Funds balances, beginning of year	\$ 548,477	\$ 67,270	\$ 615,747	\$ 601,591
Revenue:				
Cemetery care and maintenance	14,563	—	14,563	14,225
Interest and dividends earned	15,787	537	16,324	18,897
	30,350	537	30,887	33,122
Expenses:				
Payments to developers	—	—	—	1,666
Transfer to operating fund	18,126	—	18,126	17,300
	18,126	—	18,126	18,966
Funds balances, end of year	\$ 560,701	\$ 67,807	\$ 628,508	\$ 615,747

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

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Cemetery Care and Maintenance and Developer Deposits Trust Funds

Notes to Financial Statements

Year ended December 31, 2015

1. Significant accounting policies:

The financial statements of the Corporation of the Municipality of Port Hope Trust funds ("Trusts") are prepared by management in accordance with Canadian public sector accounting standards.

(a) Basis of presentation:

These statements reflect the assets, liabilities, revenue and expenses of the Trusts.

(b) Basis of accounting:

Revenue and expenses are recorded on an accrual basis.

The accrual basis recognizes revenue 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.

(c) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

(d) Investments:

Investments are recorded at cost plus accrued interest and amortization of purchase premiums and discounts. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

Interest earned on investments are reported as revenue in the period earned.

2. Statement of cash flows:

A statement of cash flows has not been included in these financial statements as it would not provide additional meaningful information.