

Audited Consolidated Financial Statements and
Other Financial Information of

**CORPORATION OF THE
MUNICIPALITY OF PORT HOPE**

Year ended December 31, 2013

Audited Consolidated Financial Statements and Other Financial Information of

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Year ended December 31, 2013

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 "Corporation") are the responsibility of the Corporation'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 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.

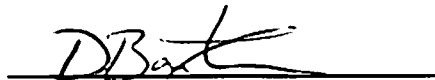
The Corporation's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a 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 Corporation. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's consolidated financial statements.



Carl Cannon
Chief Administrative Officer



David Baxter
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, 2013, the consolidated statements of operations, 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, 2013, and its consolidated results of operations, its consolidated changes 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 Schedules 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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Professional Accountants, Licensed Public Accountants

July 22, 2014

Kingston, Canada

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Consolidated Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
Assets		
Financial assets:		
Taxes receivable	\$ 4,053,759	\$ 3,662,736
Accounts receivable	3,639,014	3,291,656
Investments, at cost (note 6)	34,398,722	35,985,371
	<u>42,091,495</u>	<u>42,939,763</u>
Liabilities and deferred revenue:		
Bank indebtedness (note 5)	3,971,124	5,412,978
Accounts payable and accrued liabilities	5,774,904	4,776,008
Employee future benefit liabilities (note 8)	2,732,028	2,552,744
Deferred revenue - obligatory reserve funds (note 13)	6,093,365	4,440,556
Deferred revenue - other	1,059,114	1,059,692
Net long-term liabilities (note 9)	35,767,196	37,287,875
Total liabilities	<u>55,397,731</u>	<u>55,529,853</u>
Net debt	(13,306,236)	(12,590,090)
Other non-financial assets:		
Tangible capital assets (note 17)	141,900,645	144,943,263
Inventories of supplies	121,070	155,705
Prepaid expenses	378,057	270,912
Total non-financial assets	<u>142,399,772</u>	<u>145,369,880</u>
Contingent liabilities (note 12)		
Commitments (note 19)		
Accumulated municipal equity (note 10)	\$ 129,093,536	\$ 132,779,790

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

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Consolidated Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	Budget 2013 (note 16)	Actual 2013	Actual 2012
Revenue:			
Property taxation	\$ 14,508,400	\$ 14,781,176	\$ 13,948,008
Taxation from other governments	222,200	287,840	210,619
User charges	7,976,100	8,724,805	8,391,780
Government grants	1,610,900	1,591,209	1,587,894
Grants from other municipalities	110,450	98,678	106,040
Investment income	1,299,300	1,168,473	1,312,736
Penalties and interest on taxes	560,000	546,057	483,750
Donations	64,500	143,963	68,519
Other	313,400	(17,097)	130,733
Total revenue	-26,665,250	27,325,104	26,240,079
Expenses (note 15):			
General government	3,308,343	3,199,416	2,856,220
Protection to persons and property	7,581,731	9,097,469	7,463,782
Transportation services	6,250,059	6,257,724	5,849,691
Environmental services	8,968,316	8,135,842	9,318,617
Cemetery	184,637	174,850	181,175
Library	829,556	777,792	885,387
Recreational and cultural services	3,339,965	3,377,242	3,404,249
Planning and development	986,356	1,196,306	1,148,850
Total expenses	31,448,963	32,216,641	31,107,971
Annual operating deficit	(4,783,713)	(4,891,537)	(4,867,892)
Revenue related to capital:			
Government grants	–	474,489	2,653,978
Transfers from obligatory reserve funds	–	530,850	48,879
Donations	–	22,775	97,377
Interest and other	–	177,169	105,383
Total revenue related to capital	–	1,205,283	2,905,617
Annual deficit before transfer	(4,783,713)	(3,686,254)	(1,962,275)
Revenue related to transfer of deferred government grants (note 14)	–	–	20,012,417
Annual surplus (deficit)	(4,783,713)	(3,686,254)	18,050,142
Accumulated municipal equity, beginning of year		132,779,790	114,729,648
Accumulated municipal equity, end of year (note 10)		\$ 129,093,536	\$ 132,779,790

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, 2013, with comparative information for 2012

	2013	2012
Annual deficit before transfer	\$ (3,686,254)	\$ (1,962,275)
Revenue related to transfer of deferred government grants (note 14)	–	20,012,417
Annual surplus (deficit)	(3,686,254)	18,050,142
Acquisition of tangible capital assets (net transfers from work-in-progress)	(2,249,156)	(3,498,351)
Loss on disposal of tangible capital assets	90,473	–
Amortization of tangible capital assets	5,201,302	5,342,444
	(643,635)	19,894,235
Acquisition of prepaid expenses and inventories of supplies	(72,511)	(53,723)
Change in net financial assets	(716,146)	19,840,512
Net debt, beginning of year	(12,590,090)	(32,430,602)
Net debt, end of year	\$ (13,306,236)	\$ (12,590,090)

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, 2013, with comparative information for 2012

	2013	2012
Operating transactions:		
Annual deficit before transfer	\$ (3,686,254)	\$ (1,962,275)
Revenue related to transfer of deferred government grants (note 14)	–	20,012,417
Annual surplus (deficit)	(3,686,254)	18,050,142
Items not involving cash:		
Amortization of tangible capital assets	5,201,302	5,342,444
Loss on disposal of tangible capital assets	90,473	–
Change in employee future benefits liabilities	179,286	160,301
Change in non-cash assets and liabilities:		
Decrease (increase) in taxes receivable	(391,023)	441,199
Decrease (increase) in accounts receivable	(347,357)	251,994
Increase in accounts payable and accrued liabilities	998,898	465,948
Increase in deferred revenues - obligatory reserve funds	1,652,805	414,718
Decrease in deferred revenue - other	(578)	(19,853,391)
Decrease (increase) in inventories of supplies	34,635	(44,089)
Increase in prepaid expenses	(107,146)	(9,634)
Net change in cash from operations	3,625,041	5,219,632
Capital transactions:		
Cash used to acquire tangible capital assets	(2,249,156)	(3,498,351)
Investing transactions:		
Sale (purchase) of investments	1,586,648	(1,099,950)
Financing transactions:		
New debt	–	624,804
Debt principal repayments	(1,520,679)	(1,471,453)
Decrease (increase) in bank indebtedness	1,441,854	(225,318)
Bank indebtedness, beginning of year	(5,412,978)	(5,187,660)
Bank indebtedness, end of year	\$ (3,971,124)	\$ (5,412,978)
Supplementary cash flow information:		
Cash paid for interest	\$ 1,687,610	\$ 1,741,241
Cash received from interest	(1,230,913)	(1,029,417)

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, 2013

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
Commissioners of the Port Hope Harbor

(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 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, which is 12 years.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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, 2013

1. Accounting policies (continued):

(h) 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 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 are 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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

1. Accounting policies (continued):

(i) Non-financial assets (continued):

(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.

(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.

2. Change in accounting policies:

(a) Property taxation:

The Municipality adopted Public Sector Accounting Standard PS 3510, Tax Revenue effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3510, municipalities recognize 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 statement of operations. There was one adjustment as a result of the adoption of this standard.

(b) Government transfers:

The Municipality adopted Public Sector Accounting Standard PS 3410, Government Transfers effective January 1, 2013. This standard was adopted on a prospective basis. Under PS 3410, 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. There were no adjustments as a result of the adoption of this standard.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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	
	2013	2012	2013	2012
Amounts requisitioned	\$ 6,171,360	\$ 6,118,307	\$ 9,037,973	\$ 8,560,773

4. Trust funds:

Trust funds administered by the Municipality amounting to \$601,589 (2012 - \$586,678) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations".

5. Bank indebtedness:

The Municipality's financial agreement with its bank provides for an operating credit facility of up to \$11,000,000 from January 1 to September 30, 2012 and \$5,800,000 from October 1 to December 31, 2012 to finance expenses, pending receipt of property taxes and other income. As at December 31, 2013, \$3,971,124 (2012 - \$5,412,978) was drawn, bearing interest at prime rate plus 0.00%.

6. Investments:

	2013		2012	
	Cost	Market value	Cost	Market value
Cash and cash equivalents	\$ 356,127	\$ 356,482	\$ 852,900	\$ 853,990
Fixed income securities	34,042,595	34,731,489	35,132,471	36,992,478
	\$ 34,398,722	\$ 35,087,971	\$ 35,985,371	\$ 37,846,468

The fixed income securities yield interest between 2.4% and 4.8% and have maturities ranging from March 2015 to December 2022.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

7. Pension agreements:

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 148 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 2013 was \$897,073 (2012 - \$814,378) and is included as an expense on the "Consolidated Statement of Operations".

8. Employee future benefit obligations:

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 2013.

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, 2013, the accrued benefit liability was \$2,732,028 (2012 - \$2,552,744).

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 6.1429% in 2013 vs 2012, reducing by 0.357143% 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, 2013

8. Employee future benefit obligations (continued):

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

	2013	2012
Accrued benefit liability, beginning of year	\$ 2,552,744	\$ 2,392,443
Expense recognized for the year	110,596	103,511
Interest cost	134,656	127,870
Benefits paid for the year	(89,511)	(94,624)
Amortization of actuarial loss (gain)	23,543	23,544
Accrued benefit liability, end of year	\$ 2,732,028	\$ 2,552,744

	2013	2012
Accrued benefit obligation at December 31	\$ 2,980,061	\$ 2,824,320
Unamortized actuarial loss	(248,033)	(271,576)
Accrued benefit liability at December 31	\$ 2,732,028	\$ 2,552,744

9. 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:

	2013	2012
Infrastructure Ontario Debenture, bears interest at 2.5%, payable in semi-annual payments with a maturity date of September 15, 2021	\$ 5,793,863	\$ 6,440,440
Infrastructure Ontario Debenture, bears interest at 4.7%, payable in semi-annual payments with a maturity date of June 17, 2024	621,600	680,800
Infrastructure Ontario Debenture, bears interest at 4.42%, payable in semi-annual payments with a maturity date of February 17, 2031	192,500	203,500
Infrastructure Ontario Debenture, bears interest at 4.73%, payable in semi-annual payments with a maturity date of January 17, 2051	28,584,375	29,346,625
Infrastructure Ontario Debenture, bears interest at 3.35%, payable in semi-annual payments with a maturity date of May 3, 2027	223,924	240,510
Infrastructure Ontario Debenture, bears interest at 3.07%, payable in semi-annual payments with a maturity date of December 17, 2027	350,934	376,000
	\$ 35,767,196	\$ 37,287,875

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

9. Net long-term liabilities (continued):

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

2014	\$ 1,536,945
2015	1,553,620
2016	1,570,714
2017	1,588,242
2018	1,606,203
Thereafter	27,911,472
	<hr/>
	\$ 35,767,196

- (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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

10. Accumulated municipal equity:

	2013	2012
Operating surplus/deficit breakdown:		
General operating fund	\$ (4,697,904)	\$ (3,459,511)
Unfunded liability – employee future benefits	(2,732,028)	(2,552,744)
Heritage Business Improvement Area	10,062	15,618
Public Library Board	(55,414)	(39,960)
Cemetery Board	(83,166)	(97,842)
Commissioners of the Port Hope Harbour	–	490,314
Total operating surplus/deficit	(7,558,450)	(5,644,125)
Reserves set aside for specific purposes by Council:		
Working capital	5,304,859	5,023,617
Sick leave	85,297	85,297
Insurance	47,619	50,119
Other	935,828	985,534
Total reserves	6,373,603	6,144,567
Reserve funds set aside for specific purposes by Council:		
Fire	51	9,731
HBIA	92,891	90,240
Waterworks system	94,154	716,215
Sanitary sewer	(393,373)	(342,380)
Hydro proceeds	5,501,364	5,338,333
Roads	1,314	1,276
Low level radioactive waste – Ward 1	10,059,486	10,009,486
Low level radioactive waste – Ward 2	10,003,217	10,002,932
Other	989,417	2,389,720
Total reserve funds	26,348,521	28,215,553
Investment in tangible capital assets:		
Tangible capital assets	141,900,645	144,943,263
Long-term liabilities	(35,767,196)	(37,287,875)
Unfinanced capital expenditures	(7,116,007)	(8,605,086)
Unexpended capital financing	4,912,420	5,013,493
Investment in tangible capital assets	103,929,862	104,063,795
Total accumulated municipal equity	\$ 129,093,536	\$ 132,779,790

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

11. Charges for net long-term liabilities:

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

	2013	2012
Principal payments	\$ 1,520,679	\$ 1,471,455
Interest	1,595,509	1,618,917
	<u>\$ 3,116,188</u>	<u>\$ 3,090,372</u>

12. Contingent liabilities:

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, 2013, 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.

13. 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:

	2013	2012
Balance, beginning of year	\$ 4,440,556	\$ 4,025,838
Parkland	46,250	–
Building inspection surplus	209,172	–
Federal grant – gasoline tax	502,764	502,763
Provincial grant – gasoline tax	202,920	159,579
Development contributions	2,597,384	1,198,449
Investment income	127,982	121,481
Utilization as follows:		
Government grants	(601,248)	(1,342,690)
Developer contributions	(1,432,415)	(224,864)
Balance, end of year	<u>\$ 6,093,365</u>	<u>\$ 4,440,556</u>

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

13. Deferred revenue – obligatory reserve funds (continued):

	2013	2012
Analyzed as follows:		
Parkland	\$ 253,157	\$ 230,556
Development charges	3,331,668	2,112,047
Gasoline tax:		
Provincial	759,727	754,587
Federal	1,467,997	1,020,177
Ontario potable water program	65,494	208,274
Infrastructure Ontario	6,150	114,915
Building inspection	209,172	–
	<hr/>	<hr/>
	\$ 6,093,365	\$ 4,440,556

14. Deferred government grants:

Under the terms of an agreement between the Municipality and the Minister of Natural Resources for the long-term safe management of low-level radioactive waste, the Municipality received a host community fee in the amount of \$20 million representing \$10 million with respect to the former Town of Port Hope and \$10 million with respect to the former Township of Hope. In 2012, the covenants of these agreements had been complied with; therefore these funds were reported as revenue on the “Consolidated Statement of Operations” in 2012 and are included in accumulated municipal equity as reserve funds.

The Municipality maintains the principal amount of the funds with income earned on the funds available for the Municipality’s general use.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

15. Supplementary information:

	2013 Budget	2013	2012
Operating expenses by object:			
Salaries, wages and employee benefits	\$ 13,960,700	\$ 15,054,505	\$ 13,004,808
Long-term debt interest expense	1,874,390	1,599,846	1,857,062
Materials	5,263,141	5,354,542	5,049,565
Contracted services	4,498,930	4,449,887	4,990,351
Rents and financial expenses	106,400	121,541	300,093
External transfers	544,100	435,018	563,647
	26,247,661	27,015,339	25,765,526
Amortization of tangible capital assets	5,201,302	5,201,302	5,342,445
Total	\$ 31,448,963	\$ 32,216,641	\$ 31,107,971

16. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2013 operating and capital budgets approved by Council on April 9, 2013. 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 2013 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:

	2013 Budget
Reported on consolidated statement of operations:	
Operating revenue	\$ 26,665,250
Less budget adjustments	(3,054,979)
	23,610,271
Operating expenses	(31,448,963)
Less budget adjustments	3,422,000
	(28,026,963)
Total budgeted annual operating deficit	(4,416,692)
Amortization of tangible capital assets	5,201,302
Acquisition of tangible capital assets	(4,269,892)
Total budgeted deficit not reported on consolidated financial statements	\$ (3,485,282)

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

16. Budget data (continued):

	2013 Budget
<hr/>	
Budget not reported on consolidated financial statements:	
Capital revenue - reserve and reserve fund transfers	\$ 2,067,633
Operating revenue - reserve and reserve fund transfers	1,625,000
Operating expense - transfer to reserves	(275,000)
Other	67,649
	<hr/>
	\$ 3,485,282
	<hr/>
Revenue budget adjustments:	
User fees - Harbour Commission Rental	\$ 60,000
Government grant - Federal government (LLRW reimbursement)	587,000
HBIA advertising	-
Recovery of legal fees	-
Transfer station reimbursement	77,979
Reserve fund interest	256,000
Interest on accounts and investments (interfund charges)	28,000
Donations received	43,000
Prior project funding from obligatory reserves	583,000
Transfer from screening reserve	1,420,000
	<hr/>
	\$ 3,054,979
	<hr/>
Expense budget adjustments:	
Year-end adjustments	\$ (154,000)
Tangible capital loss	(104,000)
Transfer station expenses	(77,000)
Planning and development services	85,000
Planning and development site plan	(7,000)
LLRW expenses	(617,000)
Water emergency	(55,000)
Business park servicing	(191,000)
HBIA expenses	(22,000)
Transfer from screening reserve	(1,420,000)
Harbour Commission transfers to capital	(115,000)
Additional transfers to reserve	(745,000)
	<hr/>
	\$ (3,422,000)
	<hr/>

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

17. Tangible capital assets:

Cost	Balance at December 31, 2012	Transfers and additions	Transfers, disposals and adjustments	Balance at December 31, 2013
Land	\$ 4,251,552	\$ —	\$ —	\$ 4,251,552
Land improvements	6,965,663	79,935	—	7,045,598
Buildings and building improvements	83,475,210	508,271	—	83,983,481
Linear assets	97,596,946	—	—	97,596,946
Machinery and equipment	1,907,102	71,464	178,261	1,800,305
Technology and communications	1,080,515	30,431	20,467	1,090,479
Vehicles	8,356,569	161,522	199,584	8,318,507
Work-in-progress	6,194,609	2,258,481	860,948	7,592,142
Total	\$ 209,828,166	\$ 3,110,104	\$ 1,259,260	\$ 211,679,010

Accumulated amortization	Balance at December 31, 2012	Amortization expense	Transfers, disposals and adjustments	Balance at December 31, 2013
Land improvements	\$ 4,024,450	\$ 230,014	\$ —	\$ 4,254,464
Buildings and building improvements	16,250,423	2,585,919	—	18,836,342
Linear assets	38,259,244	1,581,881	—	39,841,125
Machinery and equipment	1,124,369	131,670	90,755	1,165,284
Technology and communications	715,351	134,608	17,501	832,458
Vehicles	4,511,066	537,210	199,584	4,848,692
Work-in-progress	—	—	—	—
Total	\$ 64,884,903	\$ 5,201,302	\$ 307,840	\$ 69,778,365

	Net book value December 31, 2012	Net book value December 31, 2013
Land	\$ 4,251,552	\$ 4,251,552
Land improvements	2,941,213	2,791,134
Buildings and building improvements	67,224,787	65,147,139
Linear assets	59,337,702	57,755,821
Machinery and equipment	782,733	635,021
Technology and communications	365,164	258,021
Vehicles	3,845,503	3,469,815
Work-in-progress	6,194,609	7,592,142
Total	\$ 144,943,263	\$ 141,900,645

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

17. Tangible capital assets (continued):

(a) Work-in-progress:

Assets under construction having a value of \$7,592,142 (2012 - \$6,194,609) 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.

18. Comparative information:

Certain comparative information have been reclassified to conform to the current year financial statement presentation.

19. Commitments:

(a) The Municipality has an outstanding commitment to Northumberland Hills Hospital of \$300,000 payable \$150,000 in 2014 and \$150,000 in 2015 for capital equipment.

(b) At December 31, 2013, the Municipality has outstanding capital project contractual commitments of approximately \$1.6 million.

20. 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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

20. Segmented information (continued):

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 Services:

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.

(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 Board:

Includes the management and maintenance of municipal cemeteries.

(f) 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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

20. Segmented information (continued):

(j) 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, 2013

20. Segmented information (continued):

	General Government	Protection Services	Transportation Services	Environmental Services	Cemetery Board	Library Board	Parks, Recreation and Culture	Planning and Development	Total
Revenue:									
User charges	\$ 148,330	\$ 226,084	\$ 334,353	\$ 6,409,865	\$ 82,621	\$ 19,080	\$ 802,514	\$ 701,957	\$ 8,724,804
Government grants	481,341	267,510	425,939	586,821	—	—	120,875	183,212	2,065,698
Grants from other municipalities	—	—	97,603	—	—	—	1,075	—	98,678
Investment income	1,083,768	62,944	—	24,708	—	—	(5,597)	2,650	1,168,473
Penalties and interest on taxes	546,057	—	—	—	—	—	—	—	546,057
Donations	1,743	1,225	9,125	—	10,448	12,295	117,257	14,646	166,739
Other	14,327	85,620	28,175	2,328	13,470	5,000	11,153	—	160,073
	2,275,566	643,383	895,195	7,023,722	106,539	36,375	1,047,277	902,465	12,930,522
Expenses:									
Salaries, wages and employee benefits	1,860,523	6,799,808	1,846,709	1,368,727	119,404	495,690	1,841,615	722,029	15,054,505
Long-term debt interest	—	59,463	—	1,540,383	—	—	—	—	1,599,846
Materials	420,012	673,008	1,530,893	1,810,706	34,858	136,456	692,016	56,593	5,354,542
Contracted services	646,102	1,042,206	1,144,150	851,355	5,912	76,461	279,936	403,765	4,449,887
Rents and financial expenses	81,291	9,653	—	13,080	—	—	9,463	8,054	121,541
External transfers	27,343	253,818	—	—	—	—	160,508	(6,650)	435,019
Amortization	164,145	259,513	1,735,972	2,551,592	14,676	69,185	393,703	12,515	5,201,301
	3,199,416	9,097,469	6,257,724	8,135,843	174,850	777,792	3,377,241	1,196,306	32,216,641
Excess of expenses over revenue before tax									
	\$ (923,850)	\$ (8,454,086)	\$ (5,362,529)	\$ (1,112,121)	\$ (68,311)	\$ (741,417)	\$ (2,329,964)	\$ (293,841)	\$ (19,286,119)
Funded through:									
Property taxation									\$ 14,781,176
Taxation from other governments									287,840
Transfer from deferred obligatory									530,849
Excess of revenue over expenses	\$ (923,850)	\$ (8,454,086)	\$ (5,362,529)	\$ (1,112,121)	\$ (68,311)	\$ (741,417)	\$ (2,329,964)	\$ (293,841)	\$ (3,686,254)

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Schedule A: Heritage Business Improvement Area

Statement of Revenue and Expenses and Surplus

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Revenue:		
Net levy	\$ 45,150	\$ 45,150
Contribution from Municipality	15,000	15,000
Other revenue	1,395	1,025
Advertising revenue	9,060	16,249
	<u>70,605</u>	<u>77,424</u>
Expenses:		
Stationery, supplies and office	4,961	6,020
Improvements	28,120	30,201
Advertising	15,699	22,492
Special events	2,221	4,346
Wages and employee benefits	25,160	24,079
	<u>76,161</u>	<u>87,138</u>
Net expenses over revenue	(5,556)	(9,714)
Surplus, beginning of year	15,618	25,332
Surplus, end of year	<u>\$ 10,062</u>	<u>\$ 15,618</u>

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Schedule B: Commissioners of the Port Hope Harbor

Statement of Revenue and Expenses and Surplus

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Surplus, beginning of year	\$ 490,314	\$ 466,053
Revenue:		
Lease revenue	58,870	128,312
Interest	3,914	6,510
Transfer from municipal capital	–	17,715
	<u>62,784</u>	<u>152,537</u>
Expenses:		
Office and administration	133	436
Donations	–	5,000
Professional fees	1,845	–
Operating capital expense projects	112,417	38,557
Transfers to municipal capital	438,703	84,283
	<u>553,098</u>	<u>128,276</u>
Surplus, end of year	\$ –	\$ 490,314



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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, 2013 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, 2013, and its results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

July 22, 2014

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, 2013, with comparative information for 2012

	Cemetery Care and Maintenance Fund	Developer Deposits	Total 2013	Total 2012
Assets				
Cash	\$ 4,196	\$ 67,028	\$ 71,224	\$ 88,292
Accounts receivable	2,480	–	2,480	2,783
Investments, at cost (market value \$527,187)	529,755	–	529,755	495,400
Due from operating	(1,870)	–	(1,870)	203
	\$ 534,561	\$ 67,028	\$ 601,589	\$ 586,678

Liabilities and Fund Balances

Trust fund:				
Balances:				
Capital	\$ 405,174	\$ 67,028	\$ 472,202	\$ 456,535
Income	129,387	–	129,387	130,143
	\$ 534,561	\$ 67,028	\$ 601,589	\$ 586,678

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, 2013, with comparative information for 2012

	Cemetery Care and Maintenance Fund	Developer Deposits	Total 2013	Total 2012
Funds balance at the beginning of the year	\$ 520,297	\$ 66,381	\$ 586,678	\$ 584,461
Revenue:				
Cemetery care and maintenance	15,020	–	15,020	12,050
Interest and dividends earned	16,544	647	17,191	17,467
	31,564	647	32,211	29,517
Expenses:				
Refunds	–	–	–	10,000
Transfer to operating fund	17,300	–	17,300	17,300
	17,300	–	17,300	27,300
Funds balance at the end of the year	\$ 534,561	\$ 67,028	\$ 601,589	\$ 586,678

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, 2013

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.

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.