

Audited Consolidated Financial Statements and
Other Financial Information of

**CORPORATION OF THE
MUNICIPALITY OF PORT HOPE**

Year ended December 31, 2014

Audited Consolidated Financial Statements and Other Financial Information of

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Year ended December 31, 2014

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

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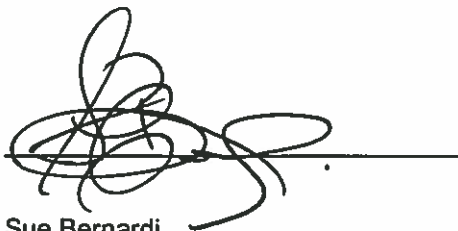
Management's Responsibility for the Consolidated Financial Statements

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 Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's consolidated financial statements.

A handwritten signature in black ink, appearing to be 'Sue Bernardi', written over a horizontal line.

Sue Bernardi
Executive Director

A handwritten signature in blue ink, appearing to be 'David Baxter', written over a horizontal line.

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, 2014, 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, 2014, 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

September 15, 2015

Kingston, Canada

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Consolidated Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Financial assets:		
Taxes receivable	\$ 3,680,720	\$ 4,053,759
Accounts receivable	3,851,272	3,639,014
Investments, at cost (note 4)	30,577,756	34,398,722
	<u>38,109,748</u>	<u>42,091,495</u>
Liabilities and deferred revenue:		
Bank indebtedness (note 5)	3,377,407	3,971,124
Accounts payable and accrued liabilities	5,179,323	5,774,904
Employee future benefit liabilities (note 7)	2,854,024	2,732,028
Deferred revenue - obligatory reserve funds (note 8)	3,404,131	6,093,365
Deferred revenue - other	1,100,861	1,059,114
Net long-term liabilities (note 9)	34,230,251	35,767,196
Total liabilities	<u>50,145,997</u>	<u>55,397,731</u>
Net debt	(12,036,249)	(13,306,236)
Other non-financial assets:		
Tangible capital assets (note 11)	141,139,030	141,900,645
Inventories of supplies	175,109	121,070
Prepaid expenses	262,098	378,057
Land held for resale	1,289,962	—
Total non-financial assets	<u>142,866,199</u>	<u>142,399,772</u>
Contingent liabilities (note 12)		
Commitments (note 13)		
Accumulated municipal equity (note 14)	\$ 130,829,950	\$ 129,093,536

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, 2014, with comparative information for 2013

	Budget 2014 (note 15)	Actual 2014	Actual 2013
Revenue:			
Property taxation	\$ 15,153,652	\$ 15,206,323	\$ 14,642,176
Taxation from other governments	184,300	210,000	287,840
User charges	8,529,150	9,811,876	8,724,805
Government grants	970,500	1,525,096	1,591,209
Grants from other municipalities	106,600	110,712	98,678
Investment income	914,851	892,881	1,168,473
Penalties and interest on taxes	530,000	527,875	546,057
Donations	15,850	42,254	143,963
Other	2,100	338,633	(17,097)
Total revenue	26,407,003	28,665,650	27,186,104
Expenses (note 16):			
General government	3,164,835	3,881,326	3,199,416
Protection to persons and property	7,337,338	7,523,640	9,097,469
Transportation services	4,392,398	6,844,795	6,257,724
Environmental services	5,248,596	8,620,274	8,135,842
Cemetery	174,820	210,764	174,850
Library	716,637	856,740	777,792
Recreational and culture	3,056,350	3,350,387	3,377,242
Planning and development	1,107,340	1,240,588	1,196,306
Total expenses	25,198,314	32,528,514	32,216,641
Annual operating surplus (deficit)	1,208,689	(3,862,864)	(5,030,537)
Revenue related to capital:			
Property taxation	298,000	298,523	139,000
Government grants	50,000	226,242	474,489
Transfers from obligatory reserves	140,000	4,786,859	530,850
Contributions from others (tangible capital assets)	100,000	174,686	–
Donations	8,000	64,937	22,775
Other	145,000	48,031	177,169
Total revenue related to capital	741,000	5,599,278	1,344,283
Annual surplus (deficit)	1,949,689	1,736,414	(3,686,254)
Accumulated municipal equity, beginning of year		129,093,536	132,779,790
Accumulated municipal equity, end of year (note 15)		\$ 130,829,950	\$ 129,093,536

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, 2014, with comparative information for 2013

	2014	2013
Annual surplus (deficit)	\$ 1,736,414	\$ (3,686,254)
Acquisition of tangible capital assets (net transfers from work-in-progress)	(5,195,792)	(2,249,156)
Proceeds of disposition of tangible capital assets	88,307	-
Loss on disposal of tangible capital assets	562,600	90,473
Amortization of tangible capital assets	5,306,500	5,201,302
	2,498,029	(643,635)
Acquisition of prepaid expenses and inventories of supplies	61,920	(72,511)
Acquisition of land held for resale	(1,289,962)	-
Change in net financial assets	1,269,987	(716,146)
Net debt, beginning of year	(13,306,236)	(12,590,090)
Net debt, end of year	\$ (12,036,249)	\$ (13,306,236)

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, 2014, with comparative information for 2013

	2014	2013
Operating transactions:		
Annual surplus (deficit)	\$ 1,736,414	\$ (3,686,254)
Items not involving cash:		
Amortization of tangible capital assets	5,306,500	5,201,302
Loss on disposal of tangible capital assets	562,600	90,473
Change in employee future benefits liabilities	121,996	179,286
Change in non-cash assets and liabilities:		
Decrease (increase) in taxes receivable	373,039	(391,023)
Increase in accounts receivable	(212,258)	(347,357)
Increase (decrease) in accounts payable and accrued liabilities	(595,581)	998,898
Increase (decrease) in deferred revenues - obligatory reserve funds	(2,689,234)	1,652,805
Increase (decrease) in deferred revenue - other	41,747	(578)
Decrease (increase) in inventories of supplies	(54,039)	34,635
Decrease (increase) in prepaid expenses	115,959	(107,146)
Increase in land held for resale	(1,289,962)	—
	1,680,767	7,311,295
Net change in cash from operations	3,417,181	3,625,041
Capital transactions:		
Cash used to acquire tangible capital assets	(5,195,792)	(2,249,156)
Proceeds on disposition of tangible capital assets	88,307	—
	(5,107,485)	(2,249,156)
Investing transactions:		
Sale of investments	3,820,966	1,586,648
Financing transactions:		
Debt principal repayments	(1,536,945)	(1,520,679)
Decrease in bank indebtedness	593,717	1,441,854
Bank indebtedness, beginning of year	(3,971,124)	(5,412,978)
Bank indebtedness, end of year	\$ (3,377,407)	\$ (3,971,124)
Supplementary cash flow information:		
Cash paid for interest	\$ 1,698,697	\$ 1,687,610
Cash received from interest	(1,071,878)	(1,230,913)

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, 2014

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, 2014

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, 2014

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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

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.

(j) Property taxation:

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 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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

2. 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	
	2014	2013	2014	2013
Amounts requisitioned	\$ 6,224,485	\$ 6,171,360	\$ 9,425,870	\$ 9,037,973

3. Trust funds:

Trust funds administered by the Municipality amounting to \$615,747 (2013 - \$601,589) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations and Accumulated Municipal Equity".

4. Investments:

	2014		2013	
	Cost	Market value	Cost	Market value
Cash and cash equivalents	\$ 708,638	\$ 708,638	\$ 356,127	\$ 356,482
Fixed income securities	29,869,118	31,514,616	34,042,595	34,731,489
	\$ 30,577,756	\$ 32,223,254	\$ 34,398,722	\$ 35,087,971

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

5. Bank indebtedness:

The Municipality's financial agreement with its bank provides for an operating credit facility of up to \$7,800,000 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 (2013 - \$3,971,124) was drawn, bearing interest at prime rate, less 0.25%.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

6. Pension agreements:

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 142 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 2014 was \$957,964 (2013 - \$897,073) and is included as an expense on the "Consolidated Statement of Operations and Accumulated Municipal Equity".

7. 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 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, 2014, the accrued benefit liability was \$2,854,024 (2013 - \$2,732,028).

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, 2014

7. Employee future benefit obligations (continued):

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

	2014	2013
Accrued benefit liability, beginning of year	\$ 2,732,028	\$ 2,552,744
Expense recognized for the year	118,167	110,596
Interest cost	142,063	134,656
Benefits paid for the year	(96,712)	(89,511)
Plan amendments	(65,065)	-
Amortization of actuarial loss	23,543	23,543
Accrued benefit liability, end of year	\$ 2,854,024	\$ 2,732,028

	2014	2013
Accrued benefit obligation at December 31	\$ 2,655,570	\$ 2,980,061
Unamortized actuarial gain (loss)	198,454	(248,033)
Accrued benefit liability at December 31	\$ 2,854,024	\$ 2,732,028

8. 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:

	2014	2013
Balance, beginning of year	\$ 6,093,365	\$ 4,440,556
Parkland	-	46,250
Building inspection surplus	-	209,172
Federal grant - gasoline tax	489,931	502,764
Provincial grant - gasoline tax	40,690	202,920
Development contributions	1,426,473	2,597,384
Investment income	217,477	127,982
Utilization as follows:		
Operating	(76,946)	-
Capital	(4,786,859)	(2,033,663)
Balance, end of year	\$ 3,404,131	\$ 6,093,365

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

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

	2014	2013
Analyzed as follows:		
Parkland	\$ 263,412	\$ 253,157
Development charges	1,293,188	3,331,668
Gasoline tax:		
Provincial	471,275	759,727
Federal	1,154,268	1,467,997
Ontario potable water program	18,659	65,494
Infrastructure Ontario	-	6,150
Building inspection	191,098	209,172
RCAC Grant	12,231	-
	\$ 3,404,131	\$ 6,093,365

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:

	2014	2013
Infrastructure Ontario Debenture, bears interest at 4.73%, payable in semi-annual payments with a maturity date of January 17, 2051	\$ 27,822,125	\$ 28,584,375
Infrastructure Ontario Debenture, bears interest at 2.5%, payable in semi-annual payments with a maturity date of September 15, 2021	5,131,022	5,793,863
Infrastructure Ontario Debenture, bears interest at 4.7%, payable in semi-annual payments with a maturity date of June 17, 2024	562,400	621,600
Infrastructure Ontario Debenture, bears interest at 3.07%, payable in semi-annual payments with a maturity date of December 17, 2027	325,867	350,934
Infrastructure Ontario Debenture, bears interest at 3.35%, payable in semi-annual payments with a maturity date of May 3, 2027	207,337	223,924
Infrastructure Ontario Debenture, bears interest at 4.42%, payable in semi-annual payments with a maturity date of February 17, 2031	181,500	192,500
	\$ 34,230,251	\$ 35,767,196

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

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:

2015	\$	1,553,620
2016		1,570,714
2017		1,588,238
2018		1,606,203
Thereafter		27,911,476
		<hr/>
	\$	34,230,251

(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.

10. Charges for net long-term liabilities:

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

	2014	2013
Principal payments	\$ 1,536,945	\$ 1,520,679
Interest	1,538,650	1,595,509
	<hr/>	<hr/>
	\$ 3,075,595	\$ 3,116,188

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

11. Tangible capital assets:

Cost	Balance at December 31, 2013	Transfers and additions	Transfers, disposals and adjustments	Balance at December 31, 2014
Land	\$ 4,251,552	\$ 1,315,886	\$ -	\$ 5,567,438
Land improvements	7,045,598	822,289	17,770	7,850,117
Buildings and building improvements	83,983,481	552,273	424,877	84,110,877
Linear assets	97,596,946	4,478,847	45,577	102,030,216
Machinery and equipment	1,800,305	225,212	341,028	1,684,489
Technology and communications	1,090,479	607,452	175,135	1,522,796
Vehicles	8,318,507	570,416	849,282	8,039,641
Work-in-progress	7,592,142	3,237,976	6,623,621	4,206,497
Total	\$ 211,679,010	\$ 11,810,351	\$ 8,477,290	\$ 215,012,071

Accumulated amortization	Balance at December 31, 2013	Amortization expense	Transfers, disposals and adjustments	Balance at December 31, 2014
Land improvements	\$ 4,254,464	\$ 245,133	\$ 13,812	\$ 4,485,785
Buildings and building improvements	18,836,342	2,612,199	152,543	21,295,998
Linear assets	39,841,125	1,619,578	17,048	41,443,655
Machinery and equipment	1,165,284	133,529	313,675	985,138
Technology and communications	832,458	174,718	139,023	868,153
Vehicles	4,848,692	521,343	575,723	4,794,312
Work-in-progress	-	-	-	-
Total	\$ 69,778,365	\$ 5,306,500	\$ 1,211,824	\$ 73,873,041

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

11. Tangible capital assets (continued):

	Net book value December 31, 2013	Net book value December 31, 2014
Land	\$ 4,251,552	\$ 5,567,438
Land improvements	2,791,134	3,364,332
Buildings and building improvements	65,147,139	62,814,879
Linear assets	57,755,821	60,586,561
Machinery and equipment	635,021	699,351
Technology and communications	258,021	654,643
Vehicles	3,469,815	3,245,329
Work-in-progress	7,592,142	4,206,497
Total	\$ 141,900,645	\$ 141,139,030

(a) Work-in-progress:

Assets under construction having a value of \$4,206,497 (2013 - \$7,592,142) 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.

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, 2014, 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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

13. Commitments:

- (a) The Municipality has an outstanding commitment to Northumberland Hills Hospital of \$150,000 payable \$50,000 in 2015, \$50,000 in 2016 and \$50,000 in 2017 for capital equipment.
- (b) At December 31, 2014, the Municipality has outstanding capital project contractual commitments of approximately \$7.33 million.

14. Accumulated municipal equity:

	2014	2013
Operating surplus (deficit) breakdown:		
General operating fund	\$ (5,422,515)	\$ (4,697,904)
Unfunded liability - employee future benefits	(2,854,024)	(2,732,028)
Heritage Business Improvement Area	3,447	10,062
Public Library Board	(63,020)	(55,414)
Cemetery Board	(89,674)	(83,166)
Total operating deficit	(8,425,786)	(7,558,450)
Reserves set aside for specific purposes by Council:		
Working capital	4,177,397	5,304,859
Sick leave	85,297	85,297
Insurance	47,619	47,619
Other	975,891	935,828
Total reserves	5,286,204	6,373,603
Reserve funds set aside for specific purposes by Council:		
Downtown Beautification	58,463	92,891
Waterworks system	63,113	94,154
Sanitary sewer	1,133,648	(393,373)
Hydro proceeds	4,205,992	5,501,364
Pumping Station	264,022	251,830
Low level radioactive waste - Ward 1	10,289,345	10,059,486
Low level radioactive waste - Ward 2	10,313,095	10,003,217
Other	62,286	738,952
Total reserve funds	26,389,964	26,348,521
Investment in tangible capital assets:		
Tangible capital assets	141,139,030	141,900,645
Long-term liabilities	(34,230,251)	(35,767,196)
Unfinanced capital expenditures	(4,226,512)	(7,116,007)
Unexpended capital financing	4,897,301	4,912,420
Investment in tangible capital assets	107,579,568	103,929,862
Total accumulated municipal equity	\$ 130,829,950	\$ 129,093,536

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

15. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2014 operating and capital budgets approved by Council on March 25, 2014. 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 2014 budget figures reported on the consolidated statement of operations and accumulated municipal equity. 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:

	2014 Budget
Reported on consolidated statement of operations and accumulated municipal equity:	
Operating revenue	\$ 26,407,003
Revenue related to capital	741,000
Less budget adjustments	(3,543,718)
	<u>23,604,285</u>
Operating expenses	(25,198,314)
Less budget adjustments	4,787,415
	<u>(20,410,899)</u>
Total budgeted annual operating surplus	3,193,386
Amortization of tangible capital assets	5,306,500
Acquisition of tangible capital assets	(5,107,485)
Total budgeted surplus not reported on consolidated financial statements	<u>\$ 3,392,401</u>

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

15. Budget data (continued):

	2014 Budget
Budget not reported on consolidated financial statements:	
Capital revenue - reserve and reserve fund transfers	\$ 1,192,000
Operating revenue - reserve and reserve fund transfers	1,748,113
Operating expense - transfer to reserves	(1,034,765)
Other	1,487,053
	<hr/> \$ 3,392,401 <hr/>
Revenue budget adjustments:	
LLRW Cleanup agreement costs recovery	\$ 586,550
Municipal Year-end Adjustments	692,488
HBIA advertising	6,996
Transfer station reimbursement	87,471
Reserve fund interest	745,246
Donations received	75,008
Additional transfer to reserves	1,194,059
Transfer from screening reserve	155,900
	<hr/> \$ 3,543,718 <hr/>
Expense budget adjustments:	
Tangible capital loss	\$ (562,600)
Transfer station expenses	(80,246)
LLRW Cleanup agreement costs expense	(588,598)
HBIA expenses	(75,115)
Transfer from screening reserve	(155,900)
Additional transfers to reserve	(3,324,956)
	<hr/> \$ (4,787,415) <hr/>

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

16. Supplementary information:

	2014 Budget	2014	2013
Operating expenses by object:			
Salaries, wages and employee benefits	\$ 13,945,302	\$ 13,529,000	\$ 15,054,505
Long-term debt interest expense	1,707,901	1,618,318	1,599,846
Materials	4,921,268	5,325,837	5,354,542
Contracted services	3,889,453	5,096,518	4,449,887
Rents and financial expenses	210,900	988,008	121,541
External transfers	523,490	664,333	435,018
	25,198,314	27,222,014	27,015,339
Amortization of tangible capital assets	–	5,306,500	5,201,302
Total	\$ 25,198,314	\$ 32,528,514	\$ 32,216,641

17. Comparative information:

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

18. 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.

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

18. Segmented information (continued):

(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.

(g) 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, 2014

18. Segmented information (continued):

	General Government	Protection Services	Transportation Services	Environmental Services	Cemetery Board	Library Board	Parks and Recreation	Planning and Development	Total
Revenue:									
User charges	\$ 195,096	\$ 478,278	\$ 413,549	\$ 7,554,758	\$ 67,814	\$ 16,137	\$ 654,791	\$ 431,453	\$ 9,811,876
Government grants	395,417	200,517	11,607	831,267	—	—	261,288	51,242	1,751,338
Grants from other municipalities	—	—	20,000	87,471	—	—	3,241	—	110,712
Investment income	834,139	30,564	64	(2,294)	30,408	—	—	—	892,881
Penalties and interest on taxes	527,875	—	—	—	—	—	—	—	527,875
Donations	9,500	10,238	—	20,757	770	13,123	48,768	4,035	107,191
Other	324,983	—	26,812	11,032	5,000	89	18,748	—	386,664
Transfer from deferred obligatory	—	—	—	—	—	—	—	—	—
Contribution from others (TCA)	—	—	40,000	—	—	—	134,686	—	174,686
	2,287,010	719,597	512,032	8,502,991	103,992	29,349	1,121,522	486,730	13,763,223
Expenses:									
Salaries, wages and employee benefits	1,967,777	4,966,256	1,950,604	1,500,503	121,849	515,563	1,762,093	744,355	13,529,000
Long-term debt interest expense	—	15,494	—	1,602,824	—	—	—	—	1,618,318
Materials	421,030	593,082	1,727,943	1,673,636	39,799	122,055	667,020	81,272	5,325,837
Contracted services	863,839	1,357,862	1,175,150	938,805	5,549	88,855	288,937	377,521	5,096,518
Rents and financial expenses	301,602	46,272	263,392	331,018	—	—	37,308	8,416	988,008
External transfers	181,192	253,071	—	—	29,245	—	184,968	15,857	664,333
Amortization	145,886	291,603	1,727,706	2,573,488	14,322	130,267	410,061	13,167	5,306,500
	3,881,326	7,523,640	6,844,795	8,620,274	210,764	856,740	3,350,387	1,240,588	32,528,514
Excess of expenditures over revenue before tax	\$ (1,594,316)	\$ (6,804,043)	\$ (6,332,763)	\$ (117,283)	\$ (106,772)	\$ (827,391)	\$ (2,228,865)	\$ (753,858)	\$ (18,765,291)
Funded through:									
Property taxation									15,504,846
Taxation from other governments									210,000
Transfer from deferred obligatory									4,786,859
Excess of revenue over expenditures (expenditures over revenue) after tax	\$ (1,594,316)	\$ (6,804,043)	\$ (6,332,763)	\$ (117,283)	\$ (106,772)	\$ (827,391)	\$ (2,228,865)	\$ (753,858)	\$ 1,736,414

CORPORATION OF THE MUNICIPALITY OF PORT HOPE

Schedule A: Heritage Business Improvement Area

Statement of Revenue and Expenses and Surplus

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Net levy	\$ 46,504	\$ 45,150
Contribution from Municipality	15,000	15,000
Other revenue	448	1,395
Advertising revenue	6,961	9,060
	<u>68,913</u>	<u>70,605</u>
Expenses:		
Stationery, supplies and office	5,176	4,961
Improvements	30,092	28,120
Advertising	14,039	15,699
Special events	1,363	2,221
Wages and employee benefits	24,858	25,160
	<u>75,528</u>	<u>76,161</u>
Net expenses over revenue	(6,615)	(5,556)
Surplus, beginning of year	10,062	15,618
Surplus, end of year	<u>\$ 3,447</u>	<u>\$ 10,062</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, 2014 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, 2014, 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

September 15, 2015

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, 2014, with comparative information for 2013

	Cemetery Care and Maintenance Fund	Developer Deposits	Total 2014	Total 2013
Assets				
Cash	\$ 22,970	\$ 67,270	\$ 90,240	\$ 71,224
Accounts receivable	2,706	–	2,706	2,480
Investments, at cost (market value \$554,665)	527,566	–	527,566	529,755
Due from operating	(4,765)	–	(4,765)	(1,870)
	\$ 548,477	\$ 67,270	\$ 615,747	\$ 601,589

Liabilities and Fund Balances

Trust fund:				
Balances:				
Capital	\$ 419,399	\$ 67,270	\$ 486,669	\$ 472,202
Income	129,078	–	129,078	129,387
	\$ 548,477	\$ 67,270	\$ 615,747	\$ 601,589

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, 2014, with comparative information for 2013

	Cemetery Care and Maintenance Fund	Developer Deposits	Total 2014	Total 2013
Funds balances, beginning of year	\$ 534,561	\$ 67,030	\$ 601,591	\$ 586,678
Revenue:				
Cemetery care and maintenance	14,225	–	14,225	15,020
Interest and dividends earned	16,991	1,906	18,897	17,191
	31,216	1,906	33,122	32,211
Expenses:				
Payments to developers	–	1,666	1,666	–
Transfer to operating fund	17,300	–	17,300	17,300
	17,300	1,666	18,966	17,300
Funds balances, end of year	\$ 548,477	\$ 67,270	\$ 615,747	\$ 601,589

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, 2014

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.