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County of Bruce

Final Report to Members of the Corporate Service Committee

May 7, 2015



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BDO Canada LLP
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PO Box 397
Owen Sound ON N4K 5P7 Canada

May 7, 2015

Members of the Corporate Services Committee
County of Bruce
30 Park Street
Walkerton, Ontario
N0G 2V0

Dear Sir/Madam:

We are pleased to present the results of our audit of the consolidated financial statements of County of Bruce for the year ended December 31, 2014. The purpose of our report is to summarize certain aspects of the audit that we believe to be of interest to Council and should be read in conjunction with the consolidated financial statements and our audit report which is included as Appendix A.

Our audit, and therefore this report, will not necessarily identify all matters that may be of interest to the Council in fulfilling its responsibilities.

This report has been prepared solely for the use of the Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

We wish to express our appreciation for the co-operation we received during the audit from the County's management and staff who have assisted us in carrying out our work. We look forward to meeting with you to discuss the contents of this report and any other matters that you consider appropriate.

Yours truly,

Traci Smith, CPA, CGA, LPA
Partner
BDO & Company LLP*

*BDO & Company LLP provides accounting, assurance, tax and other professional advisory services to BDO Canada LLP, Chartered Professional Accountants, Licensed Public Accountants

TS:sb



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APPROVAL OF THE FINANCIAL STATEMENTS

Consolidated financial statements were approved by Management, as delegates of Those Charged with Governance, on April 24, 2015

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the consolidated financial statements are free from material misstatement. The scope of the work performed was substantially the same as that described in our Planning Letter to the Council dated November 17, 2014.

INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to Council at least annually, all relationships between BDO Canada LLP and its related entities and the Municipality and its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence with respect to the audit of the Municipality.

Our annual letter confirming our independence is provided in Appendix B. We know of no circumstances that would cause us to amend our previous communication to you in our planning letter.

MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

For the audit of the County of Bruce for the year ended December 31, 2014, final materiality was \$1,550,000, based on 2% of average total revenues.

AUDIT FINDINGS

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the County's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. A summary of the key discussion points are as follows:

Litigation Proceedings

We have discussed with the County's management and they have indicated that there are claims outstanding against the municipality. We have also communicated with the County's legal counsel and insurance company. The following outstanding claims have been disclosed in the financial statements:

- (a) The County has been served with statements of claims as a result of motor vehicle accidents, an incident at the Mountain Bike Adventure Park and other claims. The likelihood of the success of these actions is undeterminable at this time. The County is not aware of any possible settlements in excess of its liability insurance coverage.
- (b) The Counties of Bruce and Grey, the Province of Ontario and the Dominion of Canada as well as several lower tier municipalities in the Bruce Peninsula have been named as defendants in a land claim action filed by the Chippewas of Nawash and Saugeen, for damages alleged to total \$92,000,000,000. No breakdown as to each municipality's relative share of the damages has been provided. The likelihood of the success of this action is undeterminable at this time.

Significant accounting policies, estimates and judgments

Significant accounting policies have been disclosed in the financial statements.

There have been no changes to the accounting policies in 2014.

Significant accounting estimates include:

Post-employment benefits

The County provides post-employment health, dental, life insurance benefits and other benefits to eligible retired employees. The benefits earned by employees are determined using management's best estimate of expected benefit costs and are expensed as services are rendered. In order to help estimate the liability for post-employment benefits, the County engaged the services of an actuary.

Taxation revenue estimate

In accordance with PS 3510, amounts have been estimated for taxable events that have occurred but have not yet been assessed. The estimate was based on trend analysis by year for supplemental taxation billings and write-offs for the last 3 years; examination of building permits issued in the last two years and knowledge of potential reassessments.



ADJUSTED AND UNADJUSTED DIFFERENCES

We have disclosed all significant adjusted and unadjusted differences identified through the course of our audit engagement. Each of these items has been discussed with Management.

Management has determined that the unadjusted differences totaling \$43,231 are immaterial both individually and in aggregate to the consolidated financial statements taken as a whole. Should Council agree with this assessment, we do not propose further adjustments.

For purposes of our discussion, a summary of adjusted and unadjusted differences and disclosure omissions has been presented in Appendix C.

MANAGEMENT REPRESENTATIONS

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the consolidated financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

A copy of the management representation letter which summarizes the representations we have requested from management has been presented in Appendix D.

FRAUD DISCUSSION

Canadian generally accepted auditing standards require us to discuss fraud risk with the Members of Council on an annual basis. As an update to the letter sent to the Members of Council during the planning of our audit, we have prepared the following comments:

Required Discussion	BDO Response	Council Response
Knowledge of actual, suspected or alleged fraud.	Currently, we are not aware of any actual, suspected or alleged fraud.	If you aware of any instances of actual, suspected or alleged fraud affecting the Municipality, please contact us directly.



AUDITORS' RESPONSIBILITIES FOR DETECTING FRAUD

We are responsible for planning and performing the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

The scope of the work performed was substantially the same as that described in our Planning Letter to Council dated November 17, 2014.

INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the County's internal control environment:

- Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- Discussed and considered potential audit risks with management.
- Test the operating effectiveness of controls in the payroll transaction stream.

The results of these procedures were considered in determining the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant deficiency is defined as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

During the course of our audit, we did not become aware of any significant weaknesses in the design or implementation of internal controls. Since an audit is not designed to detect all weaknesses in internal controls, there may be weaknesses which our procedures did not detect.

BDO PUBLICATIONS

The municipality applies Public Sector Accounting Standards. We have included in Appendix E our PSAB Update publication which will provide you with details on recent changes to Public Sector Standards.



APPENDIX A

Financial Report

**The Corporation of the
County of Bruce
Financial Information
For the year ended December 31, 2014**

The Corporation of the County of Bruce
Financial Information
For the year ended December 31, 2014

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County of Bruce
Consolidated Financial Statements
For the year ended December 31, 2014**

The Corporation of the County of Bruce
Consolidated Financial Statements
For the year ended December 31, 2014

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers
of the Corporation of the County of Bruce

We have audited the accompanying consolidated financial statements of the Corporation of the County of Bruce, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 financial position of the Corporation of the County of Bruce as at December 31, 2014 and the results of its operations, changes in net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Owen Sound, Ontario
April 24, 2015

The Corporation of the County of Bruce
Consolidated Statement of Financial Position

December 31	2014	2013
Financial assets		
Cash and temporary investments (Note 1)	\$ 24,412,735	\$ 24,496,713
Accounts receivable	2,221,094	2,335,743
Inventory held for resale	30,065	45,031
	<u>26,663,894</u>	<u>26,877,487</u>
Liabilities		
Accounts payable and accrued liabilities	8,514,993	7,883,868
WSIB future benefits (Note 11)	1,436,536	1,355,034
Post-employment benefits (Note 10)	1,134,427	1,145,259
Deferred revenue	63,777	30,104
Long-term liabilities (Note 2)	29,067,312	29,106,564
	<u>40,217,045</u>	<u>39,520,829</u>
Net debt	<u>(13,553,151)</u>	<u>(12,643,342)</u>
Contingencies (Note 9)		
Non-financial assets		
Tangible capital assets (Note 3)	160,799,234	157,934,115
Other	1,211,276	455,307
	<u>162,010,510</u>	<u>158,389,422</u>
Accumulated surplus (Note 4)	<u>\$ 148,457,359</u>	<u>\$ 145,746,080</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the County of Bruce
Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	2014	2014	2013
	Budget (Note 7)	Actual	Actual
Revenue			
Taxation	\$ 39,809,195	\$39,673,534	\$ 38,620,371
Fees and user charges	9,566,561	9,948,844	9,690,503
Government transfers (Note 6)	30,880,625	31,299,901	30,804,212
Investment income	76,700	343,319	254,734
Gain (loss) on disposal of tangible capital assets	25,300	(203,066)	(82,904)
Donations and fundraising	195,540	735,027	801,950
Other income	175,379	254,384	347,718
	80,729,300	82,051,943	80,436,584
Expenses			
General government	6,060,652	5,804,797	5,684,490
Protection services	97,111	65,007	67,765
Transportation services	6,075,775	11,713,674	12,215,906
Environmental services	233,000	178,628	205,108
Land ambulance	9,119,330	9,671,123	9,233,510
Health Unit	1,388,222	1,289,094	1,145,682
Social and family services	37,337,438	40,291,471	38,500,552
Recreation and cultural services	4,969,469	5,806,899	5,803,796
Planning and development	3,232,379	2,810,719	2,947,718
Interest on long-term debt	1,724,892	1,709,252	1,820,144
	70,238,268	79,340,664	77,624,671
Annual surplus (Note 7)	10,491,032	2,711,279	2,811,913
Accumulated surplus, beginning of the year	145,746,080	145,746,080	142,934,167
Accumulated surplus, end of the year	\$156,237,112	\$ 148,457,359	\$145,746,080

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**The Corporation of the County of Bruce
Consolidated Statement of Changes in Net Debt**

<u>For the year ended December 31</u>	2014 Budget (Note 7)	2014 Actual	2013 Actual
Annual surplus (Page 6)	\$ 10,491,032	\$ 2,711,279	\$ 2,811,913
Acquisition of tangible capital assets	(15,497,076)	(11,409,792)	(8,786,634)
Amortization of tangible capital assets	-	9,773,782	9,354,902
Loss on disposal of tangible capital assets	-	203,066	82,904
Proceeds on disposal of capital assets	25,300	253,067	56,497
Acquisition of a consolidated entity tangible capital assets (Note 14)	-	(1,685,242)	-
	<u>(15,471,776)</u>	<u>(2,865,119)</u>	<u>707,669</u>
Change in other assets	-	(755,969)	71,412
(Increase) decrease in net debt	(4,980,744)	(909,809)	3,590,994
Net debt, beginning of the year	<u>(12,643,342)</u>	<u>(12,643,342)</u>	<u>(16,234,336)</u>
Net debt, end of the year	<u>\$ (17,624,086)</u>	<u>\$ (13,553,151)</u>	<u>\$ (12,643,342)</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the County of Bruce
Consolidated Statement of Cash Flows

<u>For the year ended December 31</u>	<u>2014</u>	<u>2013</u>
Cash provided by (used in)		
Operating activities		
Annual surplus (Page 6)	\$ 2,711,279	\$ 2,811,913
Items not involving cash		
WSIB future benefits	81,502	78,301
Post-employment benefits	(10,832)	32,626
Amortization	9,773,782	9,354,902
Donation of capital assets	(102,000)	(18,617)
Loss on disposal of capital assets	203,066	82,904
	<u>12,656,797</u>	<u>12,342,029</u>
Changes in non-cash working capital balances		
Accounts receivable	157,038	(145,139)
Inventory held for resale	14,966	5,151
Accounts payable and accrued liabilities	614,945	2,148,669
Deferred revenue	33,673	(129,670)
Other non-financial assets	(755,063)	71,412
	<u>65,559</u>	<u>1,950,423</u>
	<u>12,722,356</u>	<u>14,292,452</u>
Capital transactions		
Cash used to acquire capital assets	(11,307,792)	(8,768,017)
Proceeds on disposal of capital assets	253,067	56,497
	<u>(11,054,725)</u>	<u>(8,711,520)</u>
Investing activities		
Cash acquired upon consolidating an entity (Note 14)	350,090	-
Financing activities		
Repayment of long-term liabilities	(2,101,699)	(1,950,085)
Net change in cash and cash equivalents	(83,978)	3,630,847
Cash and cash equivalents, beginning of the year	<u>24,496,713</u>	<u>20,865,866</u>
Cash and cash equivalents, end of the year	\$24,412,735	\$ 24,496,713

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the County of Bruce Summary of Significant Accounting Policies

December 31, 2014

Basis of Accounting	<p>The consolidated financial statements of the Corporation of the County of Bruce have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ministry of Municipal Affairs and Housing.</p> <p>Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.</p>
Use of Estimates	<p>The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future. Estimates are used when accounting for items such as accrued liabilities, useful lives of capital assets, post-employment and WSIB future benefit liabilities and taxation revenue.</p>
Basis of Consolidation	<p>The consolidated statements reflect the assets, liabilities, revenues and expenses of all municipal organizations, committees, and boards which are owned or controlled by Council. All interfund assets and liabilities and revenues and expenses have been eliminated on consolidation.</p> <p>The following boards and municipal enterprises owned or controlled by Council have been consolidated:</p> <p>Bruce County Library Board Bruce County Housing Corporation</p>
Cash and Cash Equivalents	<p>Cash and cash equivalents include all cash balances and short-term highly liquid investments that are readily convertible into cash.</p>
Temporary Investments	<p>Temporary investments are recorded at cost unless there has been a decline in the market value which is other than temporary in nature in which case the investments are written down to market.</p>

The Corporation of the County of Bruce Summary of Significant Accounting Policies

December 31, 2014

Inventory Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined on the average cost basis.

Inventory held for consumption is recorded at the lower of cost and replacement cost.

Non-Financial Assets Tangible capital and other non-financial assets are accounted for as assets by the organization because they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the organization unless they are sold.

Tangible Capital Assets Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Amortization is provided over the estimated useful life of the assets, using the straight-line method. The useful life of the assets is based on estimates made by management. The following rates are used:

Buildings	10 to 50 years
Equipment	10 years
Technology	4 years
Vehicles and machinery	5 years
Furniture and fixtures	5 years
Roads	15 to 75 years
Bridges	25 to 75 years
Other infrastructure	10 years

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

Post-Employment Benefits The County provides post-employment health, dental, life insurance and other benefits to eligible retired employees. The benefits earned by employees are determined using management's best estimate of expected benefit costs and are expensed as services are rendered.

The County is an employer included under Schedule 2 of the Workplace Safety and Insurance Act, it self-ensures the entire risk of its own WSIB claims and is individually liable for reimbursing the WSIB for all costs relating to its workers' WSIB claims. The cost of the claims are determined using management's best estimate and are expensed as incidents occur.

The contributions to the Ontario Municipal Employers Retirement System ("OMERS"), a multi-employer defined benefit plan are expensed when contributions are due.

The Corporation of the County of Bruce Summary of Significant Accounting Policies

December 31, 2014

Trust Funds	Funds held in trust by the municipality, and their related operations, are not included in these financial statements. The financial activity and position of the trust funds are reported separately on the trust funds statement of continuity and balance sheet.
Revenue Recognition	<p>Revenues are reported on the accrual basis of accounting. Revenues are recognized as follows:</p> <ol style="list-style-type: none">Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. For property taxes, the taxable event is the period for which the tax is entitled to be levied. Taxes receivable are recognized net of an allowance for anticipated uncollectible amounts.Fines and donations are recognized when collected.Other revenues are recorded upon sale of goods or provision of service when collection is reasonably assured.Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of financial position. The revenue is reported on the consolidated statement of operations and accumulated surplus in the year in which it is used for the specified purpose.Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.
Provincial Subsidies	Subsidies from the Province of Ontario are subject to review of year-end settlement forms and adjustments by the Province. Adjustments to funding, if any, are recorded in the year in which they occur.

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

1. Cash and Temporary Investments

	<u>2014</u>	<u>2013</u>
Unrestricted	<u>\$24,412,735</u>	<u>\$ 24,496,713</u>

A cash balance of \$21,687,425 is being held in bank accounts at one Canadian chartered bank as part of a centralized cash control service. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of \$100,000 per depositor.

Temporary investments of \$3,967,927 (2013 - \$3,614,214) consist of investments in Canadian short-term bond funds and a non-redeemable guaranteed investment certificate with interest at 2.05% due June 2015.

The cash balance includes \$143 (2013 - \$90,230) denominated in U.S. dollars.

The County of Bruce has a demand operating facility agreement with a financial institution. At December 31, 2014, the County of Bruce had undrawn credit capacity of \$3,000,000. Interest is calculated at bank prime rate minus 0.5%.

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

2. Long-Term Liabilities

The balance of long-term liabilities reported on the consolidated statement of financial position is made up of the following:

	2014	2013
Bruce County Housing Corporation		
Mortgage payable, Canada Mortgage & Housing Company, 4.37%, repayable in blended monthly instalments of \$2,631, due February 2018	\$ 93,279	\$ 120,180
Mortgage payable, Canada Mortgage & Housing Company, 3.65%, repayable in blended monthly instalments of \$3,448, due May 2018	132,790	168,651
Mortgage payable, Canada Mortgage & Housing Company, 3.54%, repayable in blended monthly instalments of \$7,958, due July 2018	321,075	403,704
Mortgage payable, Canada Mortgage & Housing Company, 4.39%, repayable in blended monthly instalments of \$7,032, due June 2015	389,837	455,700
Mortgage payable, Canada Mortgage & Housing Company, 4.372%, repayable in blended monthly instalments of \$12,643, due February 2016	1,729,508	1,805,401
Mortgage payable, Scotia Bank, 3.938%, repayable in blended monthly instalments of \$5,014, due June 2021	434,571	476,862
Mortgage payable, TD Canada Trust, 6.117%, repayable in blended monthly instalments of \$7,406, due April 2024	760,901	802,443
Mortgage payable, Scotiabank, 2.66%, repayable in blended monthly instalments of \$6,133, due September 2024	764,962	811,236
Mortgage payable, TD Canada Trust, 3.953%, repayable in blended monthly instalments of \$7,523, due May 2015	923,170	978,516
Mortgage payable, Canada Mortgage & Housing Company, 2.61%, repayable in blended monthly instalments of \$14,442, due December 2023	2,032,395	-
Total Bruce County Housing Corporation	\$ 7,582,488	\$ 6,022,693

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

2. Long-Term Liabilities - (continued)

	2014	2013
Total Bruce County Housing Corporation - brought forward	\$ 7,582,488	\$ 6,022,693
County of Bruce		
Debenture payable, 6.73% repayable in blended quarterly instalments of \$597,315, due July 2022	14,379,082	15,742,789
Loan payable, OSIFA, 5.32% repayable in blended semi-annual payments of \$311,399, due October 2032	7,105,742	7,341,082
Total County of Bruce	21,484,824	23,083,871
	\$29,067,312	\$ 29,106,564

All mortgages are secured by real property.

The gross interest paid relating to the above long-term debt was \$1,702,085 (2013 - \$1,811,758).

The gross interest expensed during the year was \$1,709,252 (2013 - \$1,820,144).

Principal payments for the next 5 fiscal years and thereafter are as follows:

2015	\$	2,302,110
2016		2,438,012
2017		2,582,365
2018		2,644,608
2019		2,723,911
Thereafter		16,376,306
		\$ 29,067,312

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2013

3. Tangible Capital Assets

2014

	Land	Buildings	Equipment	Technology	Vehicles and Machinery	Furniture and Fixtures	Roads, Bridges and Other Infrastructure	Work in Progress	Total
Cost, beginning of the year	\$ 8,448,403	\$ 81,445,062	\$ 5,546,859	\$ 4,279,223	\$ 8,141,995	\$ 1,895,717	\$ 143,459,762	\$ 1,917,096	\$ 255,134,117
Additions	235,597	1,789,137	596,913	527,768	477,320	24,125	4,679,694	3,079,238	11,409,792
Acquired consolidated entity (Note14)	343,697	1,273,061	-	-	-	68,484	-	-	1,685,242
Disposals	(43,434)	(521,665)	(635,596)	(185,418)	(461,034)	(32,673)	(561,012)	-	(2,440,832)
Reallocation of completed work	4,070	80,426	-	-	-	-	1,183,898	(1,268,394)	-
Cost, end of the year	8,988,333	84,066,021	5,508,176	4,621,573	8,158,281	1,955,653	148,762,342	3,727,940	265,788,319
Accumulated amortization, beginning of the year	-	29,207,763	3,492,878	3,238,178	5,902,412	1,826,791	53,531,980	-	97,200,002
Amortization	-	2,939,209	522,901	508,861	657,998	25,748	5,119,065	-	9,773,782
Disposals	-	(350,012)	(629,360)	(183,636)	(461,034)	(32,673)	(327,984)	-	(1,984,699)
Accumulated amortization, end of the year	-	31,796,960	3,386,419	3,563,403	6,099,376	1,819,866	58,323,061	-	104,989,085
Net carrying amount, end of the year	\$ 8,988,333	\$ 52,269,061	\$ 2,121,757	\$ 1,058,170	\$ 2,058,905	\$ 135,787	\$ 90,439,281	\$ 3,727,940	\$ 160,799,234

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2013

3. Tangible Capital Assets - (continued)

2013

	Land	Buildings	Equipment	Technology	Vehicles and Machinery	Furniture and Fixtures	Roads, Bridges and Other Infrastructure	Work in Progress	Total
Cost, beginning of the year	\$ 8,430,218	\$ 79,853,877	\$ 5,422,872	\$ 3,723,640	\$ 7,813,834	\$ 1,869,710	\$ 138,761,955	\$ 1,983,382	\$ 247,859,488
Additions	18,185	1,838,242	608,797	366,608	737,807	29,774	4,028,343	1,158,878	8,786,634
Disposals		(360,457)	(484,810)	(103,136)	(409,646)	(3,767)	(150,189)	-	(1,512,005)
Reallocation of completed work	-	113,400	-	292,111	-	-	819,653	(1,225,164)	-
Cost, end of the year	8,448,403	81,445,062	5,546,859	4,279,223	8,141,995	1,895,717	143,459,762	1,917,096	255,134,117
Accumulated amortization, beginning of the year	-	26,595,633	3,478,452	2,870,111	5,732,314	1,809,927	48,731,267	-	89,217,704
Amortization		2,847,889	499,237	470,737	579,744	20,631	4,936,664	-	9,354,902
Disposals		(235,759)	(484,811)	(102,670)	(409,646)	(3,767)	(135,951)	-	(1,372,604)
Accumulated amortization, end of the year	-	29,207,763	3,492,878	3,238,178	5,902,412	1,826,791	53,531,980	-	97,200,002
Net carrying amount, end of the year	\$ 8,448,403	\$ 52,237,299	\$ 2,053,981	\$ 1,041,045	\$ 2,239,583	\$ 68,926	\$ 89,927,782	\$ 1,917,096	\$ 157,934,115

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

3. Tangible Capital Assets - (continued)

The net book value of tangible capital assets not being amortized because they are under construction (or development) is \$3,727,940 (2013 - \$1,917,096).

During the year, \$102,000 (2013 - \$18,617) in contributed capital assets were recognized in the financial statements.

The municipality holds various works of art and historical treasures pertaining to the County of Bruce Museum. These items are not recognized as tangible capital assets in the financial statements because a reasonable estimate of the future benefits associated with such property cannot be made.

4. Accumulated Surplus

Accumulated surplus consists of individual fund surplus (deficit) and reserves as follows:

	2014	2013
Invested in tangible capital assets		
Tangible capital assets purchased	\$ 160,799,234	\$157,934,115
Unfinanced capital assets	(2,542,575)	(2,663,413)
Capital assets financed by long-term liabilities and to be funded in future years	(29,067,312)	(29,106,564)
Total invested in capital assets	129,189,347	126,164,138
Unfunded post-employment benefits	(1,134,427)	(1,145,259)
Unfunded WSIB future benefits	(1,436,536)	(1,355,034)
General surplus (deficit) (Note 7)	(141,616)	51,822
Consolidated entity (Elgin Place West) surplus	86,301	-
	126,563,069	123,715,667
Reserve funds (Note 5)	21,894,290	22,030,413
Accumulated surplus	\$ 148,457,359	\$145,746,080

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

5. Reserve Funds Set Aside for Specific Purpose by Council

	2014	2013
Reserve funds		
Working funds	\$ 1,964,481	\$ 2,005,999
Tax stabilization - General	240,837	202,789
Tax stabilization - Library	33,098	16,003
WSIB	1,922,093	2,003,756
Current purposes	250,000	250,000
Capital purposes	17,483,781	17,551,866
Reserves funds set aside for specific purpose by Council	\$21,894,290	\$ 22,030,413

6. Government Transfers

	2013	2014	2013
	Budget	Actual	Actual
Operating			
Province of Ontario	\$ 27,531,480	\$27,803,193	\$ 26,711,778
Government of Canada	789,672	905,858	1,191,427
Other municipalities	633,347	663,906	821,175
Total operating transfers	28,954,499	29,372,957	28,724,380
Capital			
Province of Ontario	-	818	73,709
Government of Canada	1,926,126	1,926,126	2,006,123
Total capital transfers	1,926,126	1,926,944	2,079,832
Total government transfers	\$ 30,880,625	\$31,299,901	\$ 30,804,212

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

7. Budgets

Under Canadian public sector accounting principles, budget amounts are to be reported on the consolidated statement of operations and changes in net debt for comparative purposes. The 2014 budget amounts for the Corporation of the County of Bruce approved by Council have been reclassified to conform to the presentation of the consolidated statements of operations and changes in net debt. The following is a reconciliation of the budget approved by Council.

	<u>2014</u>	<u>2014</u>	<u>2013</u>
	Budget	Actual	Actual
Annual surplus (Page 6)	\$ 10,491,032	\$ 2,711,279	\$ 2,811,913
Transfers to reserves	(3,703,593)	(6,739,297)	(6,848,128)
Transfers from reserves	10,877,628	7,212,391	5,843,761
Transfers of surplus to reserves	-	(51,822)	(218,791)
	<u>7,174,035</u>	<u>421,272</u>	<u>(1,223,158)</u>
Capital acquisitions, disposals and write-down	(15,497,076)	(10,953,659)	(8,647,233)
Amortization	-	9,773,782	9,354,902
Prior year capital projects funded	-	(120,838)	(105,491)
	<u>(15,497,076)</u>	<u>(1,300,715)</u>	<u>602,178</u>
Debt principal repayments	<u>(2,167,991)</u>	<u>(2,101,699)</u>	<u>(1,950,085)</u>
Change in unfunded liabilities	-	70,670	110,927
Change in general surplus in the year	-	(199,193)	351,775
Prior year general surplus (deficit)	-	51,822	(299,953)
General surplus (deficit) (Note 4)	<u>\$ -</u>	<u>\$ (147,371)</u>	<u>\$ 51,822</u>
General surplus (deficit)		(141,616)	51,822
Consolidated entity (Elgin Place West) deficit		<u>(5,755)</u>	-
		<u>\$ (147,371)</u>	<u>\$ 51,822</u>

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

8. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 562 members of its staff. This 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. Employees and employers contribute jointly to the plan. The amount contributed to OMERS by the municipality for 2014 was \$2,728,240 (2013 - \$2,538,934). The contribution rate for 2014 was 9.0% or 15.9% depending on income level (2013 - 9.0% or 15.9%).

OMERS is a multi-employer plan, therefore any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the municipality does not recognize any share of the OMERS pension surplus or deficit. The last available report for the OMERS plan was December 31, 2014. The plan reported a \$7.1 billion actuarial deficit (2013 - \$8.6 billion deficit) at that time, based on actuarial liabilities of \$76.9 billion (2013 - \$73.0 billion) and actuarial assets of \$69.8 billion (2013 - \$64.4 billion). Ongoing adequacy of the current contribution rates will need to be monitored and the decline in the financial markets may lead to increased future funding requirements.

9. Contingencies

- (a) The County has been served with statements of claims as a result of motor vehicle accidents, an incident at the Mountain Bike Adventure Park and other claims. The likelihood of the success of these actions is undeterminable at this time. The County is not aware of any possible settlements in excess of its liability insurance coverage.
 - (b) The Counties of Bruce and Grey, the Province of Ontario and the Dominion of Canada as well as several lower tier municipalities in the Bruce Peninsula have been named as defendants in a land claim action filed by the Chippewas of Nawash and Saugeen, for damages alleged to total \$92,000,000,000. No breakdown as to each municipality's relative share of the damages has been provided. The likelihood of the success of this action is undeterminable at this time.
-

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

10. Post-Employment Benefits

The County pays certain life insurance, health and dental benefits on behalf of its retired employees. The County also participates in a retirement gift program, based on years of service. The County recognizes these post-retirement costs in the period in which the employees render the services.

	2014	2013
Retirement benefits	\$ 985,212	\$ 1,060,798
Unamortized actuarial gain	149,215	84,461
Post-employment benefits	\$ 1,134,427	\$ 1,145,259

Actuarial valuations for accounting purposes are performed using the projected benefit method. The most recent actuarial report was prepared as at December 31, 2013.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical inflation rates, wage increases, employee turnover and remaining service life. The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 4.75%. For extended health care costs, a 5.67% annual rate of increase was assumed for 2014, decreasing to an ultimate rate of 4% per year for 2020. For dental costs, a 4% annual rate of increase was assumed.

	2014	2013
Current period benefit cost	\$ 38,279	\$ 48,067
Amortization of actuarial gain	(13,250)	(7,678)
Retirement benefit expense	25,029	40,389
Interest costs	45,656	48,284
Total expense for the year	\$ 70,685	\$ 88,673

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

11. WSIB Future Benefit and Commitment

As the County is an employer included under Schedule 2 of the Workplace Safety and Insurance Act, it self-ensures the entire risk of its own WSIB claims and is individually liable for reimbursing the WSIB for all costs relating to its workers' WSIB claims.

	<u>2014</u>	<u>2013</u>
WSIB future benefit	\$ 1,436,536	\$ 1,355,034

Actuarial valuations for accounting purposes are performed using the projected benefit method. The most recent actuarial report was prepared as at December 31, 2011.

The actuarial valuation was based on a number of assumptions such as, discount rates, wage increases, and WSIB payment rates. The assumptions used reflect management's best estimates. The WSIB benefit liability was determined using a discount rate of 4.25%, average lost time injury payment rate of 65%, a WSIB administrative rate of 28% and a average lost time injury count of 12.

	<u>2014</u>	<u>2013</u>
Current period benefit cost	\$ 269,618	\$ 261,016
Interest costs	58,087	54,761
Total expense for the year	<u>\$ 327,705</u>	<u>\$ 315,777</u>

In addition to the amounts recorded in the financial statements, the County has a commitment for future benefit costs for injured workers which occurred in the past. This liability is estimated at \$232,456. Management believes this liability will be fully funded for by a private insurer and, accordingly, is not recorded in these financial statements.

12. Trust Funds

The trust funds administered by the municipality amounting to \$60,149 (2013 - \$60,871) have not been included in the consolidated statement of financial position nor have the operations been included in the consolidated statement of financial activities.

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

13. Contractual Commitments

- (a) As part of the Provincial Local Services Realignment Program, the Ontario Housing Corporation (OHC) remains responsible for the servicing of the debentures used to finance the public housing projects transferred to the Bruce County Housing Corporation under authority of the Social Housing Reform Act, 2000.

Information received from OHC as at December 31, 2014 indicates the following:

Principal payments on debentures during the year	\$ 270,133
Interest payments on debentures during the year	<u>188,127</u>
Total	<u>\$ 458,260</u>
Debentures outstanding at year end	<u>\$ 2,703,897</u>

The principal and interest repayments are recovered by the Province from Federal Social Housing Funding provided to the Province and the balance is recovered from the Consolidated Municipal Service Manager (Bruce County).

- (b) As at December 31, 2014, the County has committed to complete multiple capital projects at an approximate cost of \$6,968,000. The County has paid costs totaling approximately \$2,499,000 relating to these commitments.

14. Consolidated Entity

Effective October 1, 2014 the County of Bruce took control of Port Elgin Rotary Non-Profit Accommodations, a non-profit housing company. The operations from October 1, 2014 to December 31, 2014 have been consolidated in the financial statements. The net assets and liabilities assumed and consolidated on October 1, 2014 were as follows: cash \$350,090, accounts receivable \$42,389 other non-financial assets of \$906, tangible capital assets of \$1,685,242, liabilities of \$16,180, and long-term liabilities of \$2,062,447.

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

15. Segmented Information

The County of Bruce is a diversified municipal government institution that provides a wide range of services to its citizens such as social services, health, recreational, library and planning. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

General Government

General Government consists of the revenues and expenses that relate to the governance and operations of the County itself and cannot be directly attributed to a specific segment.

Protection Services

Protection Services is comprised of emergency measures programs and services and provincial offenses act revenues.

Transportation Services

Transportation Services is responsible for construction and maintenance of the County's roadways and bridges.

Environmental Services

Environmental Services consists of providing household hazardous waste programs.

Health Services

Health Services includes contributions to support local health units and the operating costs for ambulance services.

Social and Family Services

Social and Family Services provides services that are meant to help the less fortunate in society and includes social assistance through the Ontario Works program and Child Care. Social Housing is provided to help shelter families and elderly in need. The County operates two long-term care facilities, Brucelea Haven and Gateway Haven.

Recreation and Cultural Services

Recreation and Cultural Services provides services to improve the health and development of the County's citizens. The County operates and maintains a museum and provides library services.

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

15. Segmented Information - (continued)

Planning and Development

This department is responsible for planning and zoning including the official plan. This service area also includes tourist information and promotion, agricultural and reforestation services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Amounts that are directly attributable to a number of segments have been allocated on a reasonable basis as follows:

Taxation, Payments-in-Lieu and Penalties and Interest

Allocated to those segments that are funded by these amounts based on budgeted amounts.

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

For the year ended December 31	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2014 Total
Revenue									
Taxation	\$ 6,468,695	\$ 70,615	\$ 11,462,544	\$ 127,084	\$ 5,965,532	\$ 8,714,862	\$ 4,489,826	\$ 2,374,376	\$ 39,673,534
Fees and user charges	543,735	-	22,350	-	-	8,913,123	225,817	243,819	9,948,844
Government transfers	926,303	344,183	2,101,242	71,544	4,962,182	22,319,979	368,040	206,428	31,299,901
Investment income	293,347	-	-	-	-	49,972	-	-	343,319
Other revenue	15,874	-	58,044	-	231	39,543	42,133	98,559	254,384
Donations	-	-	1,000	-	720	510,854	196,722	25,731	735,027
Gain or loss on disposal of assets	(675,467)	-	312,281	-	10,780	146,944	2,396	-	(203,066)
	<u>7,572,487</u>	<u>414,798</u>	<u>13,957,461</u>	<u>198,628</u>	<u>10,939,445</u>	<u>40,695,277</u>	<u>5,324,934</u>	<u>2,948,913</u>	<u>82,051,943</u>
Expenses									
Salaries and benefits	3,106,367	-	2,902,252	31,432	9,433,101	21,080,170	3,408,694	1,688,358	41,650,374
Interest on debt	1,413,008	-	-	-	-	296,244	-	-	1,709,252
Materials and supplies	135,617	8,316	2,319,618	15,534	842,582	5,794,142	707,422	487,022	10,310,253
Contracted services	2,041,212	56,691	645,185	131,662	94,586	2,571,741	220,292	291,643	6,053,012
Other transfers	88,414	-	-	-	55,000	8,330,333	329,913	249,642	9,053,302
Rents and financial expenses	235	-	229,050	-	165,095	187,772	143,836	64,701	790,689
Amortization	432,950	-	5,617,569	-	369,853	2,327,315	996,742	29,353	9,773,782
	<u>7,217,803</u>	<u>65,007</u>	<u>11,713,674</u>	<u>178,628</u>	<u>10,960,217</u>	<u>40,587,717</u>	<u>5,806,899</u>	<u>2,810,719</u>	<u>79,340,664</u>
Annual surplus (deficit)	\$ 354,684	\$ 349,791	\$ 2,243,787	\$ 20,000	\$ (20,772)	\$ 107,560	\$ (481,965)	\$ 138,194	\$ 2,711,279

The Corporation of the County of Bruce
Notes to Financial Statements

December 31, 2014

For the year ended December 31	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2013 Total
Revenue									
Taxation	\$ 6,276,050	\$ 69,719	\$ 11,503,077	\$ 131,660	\$ 5,597,057	\$ 8,188,464	\$ 4,469,274	\$ 2,385,070	\$ 38,620,371
Fees and user charges	547,930	-	19,890	-	-	8,692,312	189,389	240,982	9,690,503
Government transfers	891,101	538,004	2,185,720	71,400	4,869,212	21,628,422	534,015	86,338	30,804,212
Investment income	231,231	-	-	-	-	23,503	-	-	254,734
Other revenue	1,631	-	76,750	-	9,086	50,688	40,763	168,800	347,718
Donations	-	-	18,617	-	4,860	127,214	637,259	14,000	801,950
Gain or loss on disposal of assets	(1,763)	-	42,079	-	-	(122,033)	(1,187)	-	(82,904)
	7,946,180	607,723	13,846,133	203,060	10,480,215	38,588,570	5,869,513	2,895,190	80,436,584
Expenses									
Salaries and benefits	3,214,707	-	3,013,330	33,919	8,863,489	20,218,607	3,508,818	1,733,369	40,586,239
Interest on debt	1,513,089	-	-	-	-	307,055	-	-	1,820,144
Materials and supplies	141,430	10,876	2,993,845	15,630	768,900	5,517,231	717,307	606,400	10,771,619
Contracted services	1,895,875	56,889	695,642	155,559	197,048	2,359,640	137,201	150,515	5,648,369
Other transfers	40,855	-	-	-	55,000	7,984,920	349,857	362,162	8,792,794
Rents and financial expenses	590	-	132,426	-	163,392	186,070	109,422	58,704	650,604
Amortization	391,033	-	5,380,663	-	331,363	2,234,083	981,192	36,568	9,354,902
	7,197,579	67,765	12,215,906	205,108	10,379,192	38,807,606	5,803,797	2,947,718	77,624,671
Annual surplus (deficit)	\$ 748,601	\$ 539,958	\$ 1,630,227	\$ (2,048)	\$ 101,023	\$ (219,036)	\$ 65,716	\$ (52,528)	\$ 2,811,913

**The Corporation of the
County of Bruce
Brucelea Haven and Gateway Haven Resident
Trust Funds
Financial Information
For the year ended December 31, 2014**

The Corporation of the County of Bruce
Brucelea Haven and Gateway Haven Resident Trust Funds
Financial Information
For the year ended December 31, 2014

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The Corporation of the County of Bruce Trust Funds

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers
of the Corporation of the County of Bruce

We have audited the accompanying statement of financial position as at December 31, 2014 and the statement of resident trust fund receipts and disbursements for Brucelea Haven and Gateway Haven of the Corporation of the County of Bruce for the year ended December 31, 2014 and a summary of significant accounting policies and other explanatory information. The financial information has been prepared by management based on Section 241 of Ontario Regulation 79/10 made under the Long-Term Care Homes Act, 2007.

Management's Responsibility for the Financial Information

Management is responsible for the preparation of the financial information in accordance with Section 241 of Ontario Regulation 79/10 and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial information 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 information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial information 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 information.

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 information in the statement of financial position as at December 31, 2014 and the statement of resident trust fund receipts and disbursements of Brucelea Haven and Gateway Haven of the County of Bruce for the year ended December 31, 2014 is prepared, in all material respects, in accordance with Section 241 of Ontario Regulation 79/10.

Basis of Accounting and Restrictions on Distribution and Use

Without modifying our opinion, we draw attention to the summary of significant accounting policies in the financial information, which describes the basis of accounting. The financial information is prepared to assist Brucelea Haven and Gateway Haven of the Corporation of the County of Bruce comply with reporting requirements of the Long-Term Care Homes Act, 2007. As a result, the financial information may not be suitable for another purpose. Our report is intended solely for the information and use of the Corporation of the County of Bruce and the Province of Ontario and should not be distributed to or used by parties other than the Corporation of the County of Bruce and the Province of Ontario.

Chartered Professional Accountants, Licensed Public Accountants

Owen Sound, Ontario
April 24, 2015

The Corporation of the County of Bruce
Resident Trust Funds
Statement of Financial Position

December 31, 2014

Assets	Total	Gateway Haven Residents	Brucelea Haven Residents
Cash	\$ 60,149	\$ 21,045	\$ 39,104
Fund balance	\$ 60,149	\$ 21,045	\$ 39,104

Statement of Resident Trust Fund Receipts and Disbursements

For the year ended December 31, 2014

	Total	Gateway Haven Residents	Brucelea Haven Residents
Balance, beginning of the year	\$ 60,871	\$ 25,609	\$ 35,262
Receipts			
Residents' contributions	302,082	140,016	162,066
	362,953	165,625	197,328
Expenses			
Residents' withdrawals	302,804	144,580	158,224
Balance, end of the year	\$ 60,149	\$ 21,045	\$ 39,104

The Corporation of the County of Bruce
Trust Funds
Note to Financial Statements

December 31, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The financial information for the resident trust funds for Brucelea Haven and Gateway Haven of the Corporation of the County of Bruce is the representation of management. It has been prepared in accordance with Section 241 of Ontario Regulation 79/10 as prescribed by the Long-Term Care Homes Act, 2007.

Revenue and expenses are reported on the cash basis of accounting. The cash basis of accounting recognizes revenues as they are received; expenses are recognized as they are disbursed.

Basis of Consolidation

This trust funds have not been consolidated with the financial statements of the Corporation of the County of Bruce.

The County of Bruce
Library Board
Financial Statements
For the year ended December 31, 2014

The County of Bruce Library Board
Financial Statements
For the year ended December 31, 2014

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Independent Auditor's Report

To the Board Members of the County of Bruce Library

We have audited the accompanying financial statements of the County of Bruce Library Board, which comprise the statement of financial position as at December 31, 2014, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 County of Bruce Library Board as at December 31, 2014 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Owen Sound, Ontario
April 24, 2015

The County of Bruce Library Board
Statement of Financial Position

December 31	2014	2013
Financial assets		
Cash held by the County of Bruce (Note 2)	\$ 605,283	\$ 657,192
Due from County of Bruce	164,513	192,667
Due from Canada	357	108
Due from Province of Ontario	5,753	7,952
Accounts receivable - other municipalities	159	159
Accounts receivable	4,975	2,764
	<u>781,040</u>	<u>860,842</u>
Liabilities		
Accounts payable and accrued liabilities	<u>191,119</u>	<u>194,397</u>
Net financial assets	<u>589,921</u>	<u>666,445</u>
Non-financial assets		
Tangible capital assets (Note 3)	1,351,313	1,310,329
Prepaid expenses	14,409	6,445
	<u>1,365,722</u>	<u>1,316,774</u>
Accumulated surplus (Note 4)	<u>\$ 1,955,643</u>	<u>\$ 1,983,219</u>

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

The County of Bruce Library Board
Statement of Operations and Accumulated Surplus

<u>For the year ended December 31</u>	2014	2014	2013
	Budget (Note 5)	Actual	Actual
Revenue			
Grants:			
County of Bruce	\$ 3,020,924	\$ 2,997,760	\$ 2,955,209
Province of Ontario	208,712	205,851	221,897
Fines and sale of books	20,700	27,352	24,708
Donations	6,400	34,471	19,588
Rental income and user fees	9,700	24,521	29,412
Loss on disposal of tangible capital assets	-	(726)	(25)
	<u>3,266,436</u>	<u>3,289,229</u>	<u>3,250,789</u>
Expenses			
Salaries and benefits	2,171,999	2,155,613	2,124,359
Contract services	105,100	96,786	59,680
Materials	344,590	358,648	348,159
External transfers	323,947	323,913	323,913
Amortization	-	381,845	364,473
	<u>2,945,636</u>	<u>3,316,805</u>	<u>3,220,584</u>
Annual surplus (deficit) (Note 5)	320,800	(27,576)	30,205
Accumulated surplus, beginning of the year	<u>1,983,219</u>	<u>1,983,219</u>	<u>1,953,014</u>
Accumulated surplus, end of the year	<u>\$ 2,304,019</u>	<u>\$ 1,955,643</u>	<u>\$ 1,983,219</u>

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

The County of Bruce Library Board
Statement of Changes in Net Financial Assets

<u>For the year ended December 31</u>	2014	2014	2013
	Budget (Note 5)	Actual	Actual
Annual surplus (deficit) (Page 5)	\$ 320,800	\$ (27,576)	\$ 30,205
Acquisition of tangible capital assets	(444,800)	(423,555)	(358,107)
Amortization of tangible capital assets	-	381,845	364,473
Loss on the disposal of tangible capital assets	-	726	25
	<u>(444,800)</u>	<u>(40,984)</u>	<u>6,391</u>
Change in prepaid expenses	-	(7,964)	(148)
Increase (decrease) in net financial assets	(124,000)	(76,524)	36,448
Net financial assets, beginning of the year	<u>666,445</u>	<u>666,445</u>	<u>629,997</u>
Net financial assets, end of the year	<u>\$ 542,445</u>	<u>\$ 589,921</u>	<u>\$ 666,445</u>

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

The County of Bruce Library Board
Consolidated Statement of Cash Flows

December 31, 2014	2014	2013
Cash provided by (used in)		
Operating activities		
Annual surplus (deficit)	\$ (27,576)	\$ 30,205
Items not involving cash		
Amortization	381,845	364,473
Loss on disposal of tangible capital assets	726	25
	<u>354,995</u>	<u>394,703</u>
Changes in non-cash working capital balances		
Accounts receivable	(2,211)	(2,224)
Accounts payable and accrued liabilities	(3,278)	33,377
Due from Canada	(249)	(43)
Due from Province of Ontario	2,199	189,606
Due from other municipalities	-	(14)
Due to County of Bruce	28,154	(220,426)
Prepaid expenses	(7,964)	(148)
	<u>16,651</u>	<u>128</u>
	<u>371,646</u>	<u>394,831</u>
Capital transaction		
Cash used to acquire tangible capital assets	<u>(423,555)</u>	<u>(358,107)</u>
Net change in cash	(51,909)	36,724
Cash, beginning of the year	<u>657,192</u>	<u>620,468</u>
Cash, end of the year	\$ 605,283	\$ 657,192

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

The County of Bruce Library Board

Notes to Financial Statements

December 31, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting The financial statements of the County of Bruce Library Board are the representation of management. They have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ontario Ministry of Municipal Affairs and Housing.

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

Basis of Consolidation The Library Board has been consolidated within the financial statements of the County of Bruce.

Use of Estimates The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future. Estimates are used when accounting for items such as accrued liabilities and useful life of tangible capital assets.

Tangible Capital Assets Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Amortization is provided over the estimated useful life of the assets, using the straight-line method. The useful life of the assets is based on estimates made by management. The following rates are used:

Library collections	7 years
Technology and communication	5 years
Furniture and fixtures	20 years
Vehicle and machinery	5 years

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

The County of Bruce Library Board
Notes to Financial Statements

December 31, 2014

1. Summary of Significant Accounting Policies - (continued)

Revenue Recognition

- a) Fines and donations are recognized when collected.
 - b) Other revenues are recorded upon sale of goods or provision of service when collection is reasonably assured.
 - c) Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of financial position. The revenue is reported on the consolidated statement of operations and accumulated surplus in the year in which it is used for the specified purpose.
 - d) Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.
-

The County of Bruce Library Board
Notes to Financial Statements

December 31, 2014

2. Cash Held by the County of Bruce

	2014	2013
Restricted	\$ 605,283	\$ 657,192

The cash balance is being held in County of Bruce bank accounts as part of a centralized cash control service. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of \$100,000 per depositor.

3. Tangible Capital Assets

	2014		2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Library collections	\$ 2,787,301	\$ 1,638,155	\$ 3,014,806	\$ 1,880,992
Technology and communication	561,727	484,038	552,546	482,236
Vehicle and machinery	56,002	38,633	56,002	32,502
Furniture and fixtures	347,414	240,305	313,601	230,896
	\$ 3,752,444	\$ 2,401,131	\$ 3,936,955	\$ 2,626,626
Net book value		\$ 1,351,313		\$ 1,310,329

The County of Bruce Library Board
Notes to Financial Statements

December 31, 2014

4. Accumulated Surplus

The organization segregates its accumulated surplus in the following categories:

	2014	2013
Invested in capital assets	\$ 1,351,313	\$ 1,310,329
General surplus (Note 5)	-	16,693
	1,351,313	1,327,022
Reserves	604,330	656,197
Accumulated surplus	\$ 1,955,643	\$ 1,983,219

5. Budgets

Under Canadian public sector accounting principles, budget amounts are to be reported on the consolidated statement of operations and accumulated surplus and changes in net financial assets for comparative purposes. The 2014 budget amounts for The County of Bruce Library Board approved by the Board have been reclassified to conform to the presentation of the consolidated statements of operations and accumulated surplus and changes in net financial assets. The following is a reconciliation of the budget approved by the Board.

	2014 Budget	2014 Actual	2013 Actual
Annual surplus (deficit) (Page 5)	\$ 320,800	\$ (27,576)	\$ 30,205
Prior year general surplus	-	16,693	-
Net transfers (to) from reserves	124,000	51,867	(19,903)
Capital acquisitions and disposals	(444,800)	(422,829)	(358,082)
Amortization	-	381,845	364,473
	-	-	16,693
General Surplus (Note 4)	\$ -	\$ -	\$ 16,693



APPENDIX B Independence Update



Tel: 519 376 6110
Fax: 519 376 4741
www.bdo.ca

BDO Canada LLP
1717 2nd Avenue E, Third Floor
PO Box 397
Owen Sound ON N4K 5P7 Canada

May 7, 2015

Members of the Corporate Services Committee
County of Bruce
30 Park Street
Walkerton, Ontario
N0G 2V0

Dear Sir/Madam:

We have been engaged to audit the consolidated financial statements of the County of Bruce for the year ended December 31, 2014.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the County and our Firm that, in our professional judgment, may reasonably be thought to bear on our independence.

We are aware of the following relationships between the County and us that, in our professional judgment, may reasonably be thought to bear on our independence. The following relationships represent matters that have occurred from November 17, 2014 to May 7, 2015.

We provided assistance in the preparation of the financial statements, including adjusting journal entries. These services created a self-review threat to our independence since we subsequently expressed an opinion on whether the financial statements presented fairly, in all material respects, the financial position, results of operations and cash flows of the organization in accordance with Canadian Public Sector Accounting Standards.

We, therefore, required that the following safeguards be put in place related to the above:

- Management created the source data for all the accounting entries.
- Management reviewed advice and comments provided and undertook their own analysis considering the County's circumstances and generally accepted accounting principles.
- Management reviewed and approved all journal entries prepared by us, as well as changes to financial statement presentation and disclosure.
- Someone other than the preparer reviewed the proposed journal entries and financial statements.

We hereby confirm that we are independent with respect to the County within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 7, 2015.



This letter is intended solely for the use of the Council, Management and others within the County, and should not be used for any other purposes.

Yours truly,

Traci Smith, CPA, CGA, LPA
Partner
BDO & Company LLP*

*BDO & Company LLP provides accounting, assurance, tax and other professional advisory services to BDO Canada LLP, Chartered Professional Accountants, Licensed Public Accountants

TS:sb



APPENDIX C

Adjusted and Unadjusted Differences

County of Bruce
 Summary of Unadjusted Misstatements
 December 31, 2014

Description of the Misstatement	Identified Misstatement	Projected Misstatement	Estimates	Proposed Adjustments				Details of why no adjustment has been made to financial statements
				Assets Dr(Cr)	Liabilities Dr(Cr)	Opening Fund Balance Dr(Cr)	Income Dr(Cr)	
Social Service payments paid by SAMS.	43,231	-	-	(43,231)	-	-	43,231	
Likely Aggregate Misstatements Before Effect of Previous Year's Errors and Estimates	43,231	-	-	(43,231)	-	-	43,231	
Effect of Previous Year's Errors				-	-	-	-	
Likely Aggregate Misstatements				(43,231)	-	-	43,231	



APPENDIX D
Representation Letter

County of Bruce
30 Park Street
Walkerton Ontario N0G 2V0

April 24, 2015

BDO Canada LLP
Chartered Accountants
1717 Second Avenue East, 3rd Floor
P.O. Box 397
Owen Sound, Ontario N4K 5P7

Dear Sir/Madam:

This representation letter is provided in connection with your audit of the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of operations and accumulated surplus, changes in net debt and cash flows for the year then ended of the County of Bruce for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position as at December 31, 2014 and the results of operations and cash flows for the year then ended of the County of Bruce in accordance with Canadian public sector accounting standards.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 22, 2013, for the preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards; in particular the consolidated financial statements are fairly presented in accordance therewith.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards.
4. All events subsequent to the date of the consolidated financial statements and for which Canadian public sector accounting standards require adjustment or disclosure have been adjusted or disclosed.
5. The consolidated financial statements of the municipality use appropriate accounting policies that have been properly disclosed and consistently applied.

Information Provided

6. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the consolidated financial statements, such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

7. We are responsible for the design, implementation and maintenance of internal controls to prevent, detect and correct fraud and error, and have communicated to you all deficiencies in internal control of which we are aware.
8. The minute books of the municipality are a complete record of all meetings and resolutions of the Council and Committees of Council throughout the year and to the present date.
9. We have disclosed to you all significant matters contained in the minutes of all meetings and resolutions of the Council and Committees of Council throughout the year and to the present date.
10. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.
11. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing consolidated financial statements.
12. We have identified to you:
 - guarantees;
 - indemnifications against damages, liabilities, costs, charges or expenses suffered or incurred by officers or directors as a result of their service, and/or by any subsidiaries; and
 - non-monetary transactions and transactions for no consideration.
13. We have disclosed to you the identity of the entity's related parties and the related party relationships and transactions of which we are aware.
14. We are aware of the environmental laws and regulations that impact our municipality and we are in compliance. There are no known environmental liabilities or contingencies that have not been accrued for or disclosed in the consolidated financial statements.

Fraud and Error

15. We have disclosed to you the results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.
16. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the consolidated financial statements.
17. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's consolidated financial statements communicated by employees, former employees, analysts, regulators, or others.
18. The effects of unadjusted misstatements are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. A list of the uncorrected misstatements is attached to the representation letter.

Existence, Completeness and Valuation of Specific Financial Statement Balances

19. All assets, wherever located, to which the municipality had satisfactory title at the year-end, have been fairly stated and recorded in the consolidated financial statements. There are no liens or encumbrances on the municipality's assets.
20. All financial instruments have been appropriately recognized and measured in accordance with Canadian public sector accounting standards. Significant assumptions used in arriving at fair value of financial instruments are reasonable and appropriate in the circumstances.
21. Where the value of any asset has been impaired, an appropriate provision has been made in the consolidated financial statements or has otherwise been disclosed to you.
22. The inventories as set out in the consolidated financial statements represent all of the inventories to which the municipality held title as at the balance sheet date. Inventories do not include any goods consigned to the municipality, merchandise billed to customers or any items for which the liability has not been provided in the books. Appropriate provisions have been made for obsolete, slow-moving and defective inventories.
23. The employee future benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with Canadian public sector accounting standards. The source data and plan provisions provided are complete and accurate. The plans included in the valuation are complete. The determination of the discount rate and the use of specific actuarial assumptions are our best estimate assumptions. We feel that the extrapolations are accurate and have properly reflected the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

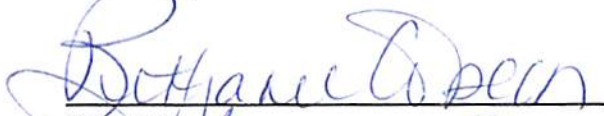
General Representations

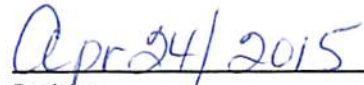
24. The nature of all material uncertainties have been appropriately measured and disclosed in the consolidated financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the consolidated financial statements.
25. There were no direct contingencies or provisions (including those associated with guarantees or indemnification provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially affect the consolidated financial statements or financial position of the municipality, except as disclosed in the consolidated financial statements.
26. We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel. When applicable, these claims have been appropriately disclosed in the consolidated financial statements.
27. We confirm that there are no derivatives or off-balance sheet financial instruments held at year-end that have not been properly recorded or disclosed in the consolidated financial statements.
28. We have disclosed to you all significant customers and/or suppliers of the municipality who individually represent a significant volume of business with the municipality. We are of the opinion that the volume of business (sales, services, purchases, borrowing and lending) done by the municipality with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the municipality.
29. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

30. We confirm that operating segments are appropriately identified and disclosed in accordance with Canadian public sector accounting standards.

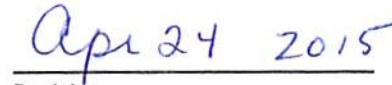
31. No significant matters, other than those disclosed in the consolidated financial statements, have arisen that would require a restatement of the comparative consolidated financial statements.

Yours truly,


Signature


Position


Signature


Position



APPENDIX E
BDO Publications

ASSURANCE AND ACCOUNTING

PUBLIC SECTOR ACCOUNTING STANDARDS (PSAS) UPDATE 2014

Introduction

During 2014, the Public Sector Accounting Board (PSAB or the "Board") made revisions to the CPA Canada Public Sector Accounting Handbook (PSA Handbook). In addition, Section PS 3260, Liability for Contaminated Sites, became effective. The Board also undertook new projects and advanced the progress of existing projects that propose future changes to the PSA Handbook. These current and proposed changes will be discussed in this publication.

New and Amended Standards

Liability for Contaminated Sites

In 2010, the Board issued Section PS 3260, Liability for Contaminated Sites. This standard is effective for years beginning on or after April 1, 2014. The standard explains when environmental obligations meet the definition of a liability; what is considered contamination; when an entity becomes responsible; how environmental liabilities should be measured given the uncertainties; and the disclosure requirements.

A liability for remediation may occur in the following situations:

- An operation of a government or government organization that is no longer in productive use (e.g. abandoned military installations);
- An operation of entities outside the government reporting entity that is no longer in productive use for which the government accepts responsibility (e.g. an abandoned gas station);
- Changes to environmental standards relating to an operation that is no longer in productive use (e.g. new regulations requiring the destruction of stored PCBs); and
- An unexpected event resulting in contamination (e.g. accidental toxic chemical spill or natural disaster).

An entity will recognize a liability for remediation of a contaminated site when all of the following are satisfied at the financial reporting date:

- An environmental standard exists;
- Contamination exceeds an existing environmental standard;
- The entity is directly responsible or accepts responsibility for the contamination or damage;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

Uncertainty about the existence or non-existence of contamination does not eliminate the need to determine whether a liability exists and should be recognized. Instead, recognition depends on the probability that future site investigations will confirm that contamination that exceeds an environmental standard existed at the financial statement date.

The estimate of a liability includes the costs to bring the site up to current minimum standards for its use prior to contamination. The liability is estimated based on information available at the financial statement date. It represents management's best estimates at the

financial statement date of the amount required to remediate contaminated sites (i.e. the amount that a public sector entity would rationally pay to settle or otherwise extinguish the liability at the financial statement date based on the best estimate of expenditures required to complete the remediation). To arrive at the estimate, the entity will have to use its professional judgment supplemented by experience, third party quotes and perhaps independent experts' reports.

For a more detailed look at this standard, please refer to our publications "[Liability for Contaminated Sites](#)" and "[PSAB at a Glance: Section PS 3260 — Liability for Contaminated Sites](#)."

Financial Instruments, Foreign Currency, Financial Statement Presentation and Portfolio Investments

During 2014, the Board extended the effective date for Sections PS 3450, Financial Instruments, and PS 2601, Foreign Currency Translation, by one year. These Sections are now applicable for fiscal years beginning on or after April 1, 2016, for public sector entities that did not previously apply the CPA Canada Handbook — Accounting prior to adopting the PSA Handbook. Therefore, public sector entities that meet this criteria, such as governments, will apply these Sections for the first time for their March 31, 2017 year ends (for governments with calendar year ends, December 31, 2017 will be the first year end affected). At the same time public sector entities adopt these two Sections, they must also adopt Section PS 1201, Financial Statement Presentation, Section PS 3041, Portfolio Investments, and the effective interest method stated in paragraph .25 of Section PS 3050, Loans Receivable. For more details on these standards please refer to our publication "[A Guide to Accounting for Financial Instruments in the Public Sector](#)".

Projects on the Go

The Board currently has a number of projects in progress which propose future changes to the PSA Handbook. The following provides a brief discussion of these projects.

Re-exposure Draft — Amendments to the Introduction

The Board originally issued an Exposure Draft, Amendments to the Introduction, for comment in early 2013. The Exposure Draft proposed amending the definition of a government organization to exclude entities that are actually component parts of a government. It did this by defining government organizations as separate entities with the power to contract in their own name and that can sue and be sued.

Clarification was also provided that when component parts of a government issue general purpose financial statements, they would follow the standards for governments supplemented by other appropriate accounting policies. The Exposure Draft proposed adding guidance on what standards government partnerships would follow.

In addition, general purpose and special purpose financial statements were defined. Clarification was also added that the PSA Handbook does not require government components, government organizations and government partnerships to prepare general purpose financial statements.

As a result of responses received, a Re-exposure Draft on this topic was issued in February 2014. The Re-exposure Draft proposes to amend the set of standards to be followed by a non-business government partnership that has only public sector entity partners. This would allow the partnership to follow either the PSA Handbook or Part I of the CPA Canada Handbook depending on user needs.

In addition the proposals clarify the transitional provisions for a government organization that would now be classified as a government component, and for a non-business government partnership and a government business partnership with only public sector entity partners.

Second Re-Exposure Draft — Related Party Transactions

The PSA Handbook currently does not include a standard dealing with related party transactions. A proposed standard on related party transactions was exposed in 2012 and re-exposed in 2013 as a result of comments received from respondents. During April 2014 a second Re-exposure Draft was issued. The previous Re-exposure Draft proposed including all the guidance on recognition and disclosure of related party transactions in one Section. While related party transactions can occur with entities outside of the government's reporting entity, the proposed guidance on recognition and measurement can only be applied to entities within a government's reporting entity that follow the PSA Handbook. In order to clarify the requirements the latest Re-exposure Draft proposes creating two new Handbook Sections: Related Party Disclosures and Inter-entity Transactions.

Under the proposed new standard on Related Party Disclosures:

- Related parties are defined as:
 - Entities that control or are controlled by a reporting entity;
 - Entities subject to common control;
 - Entities that have shared control over or that are subject to shared control; and

- Key management personnel and close members of their family.
- Two entities that have a member of key management personnel in common may be related depending on the individual's ability to affect the policies of both entities in mutual dealings;
- Transactions and events between related parties are only required to be disclosed when they have or could have a material financial effect on the financial statements; and
- Determining which items to disclose is based on an assessment of the terms and conditions underlying the transactions, financial materiality of the transactions, relevance of the information, and the need for the information to enable users' understanding of the financial statements and for making comparisons. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.

Under the proposed new standard on Inter-entity Transactions:

- Depending on the particular circumstances, inter-entity transactions involving the transfer of assets or liabilities are recognized by both a provider and a recipient at either carrying amount, exchange amount or fair value;
- When inter-entity transactions are in the normal course of operations or under a policy of cost allocation and recovery they would be recognized on a gross basis at the exchange amount;
- Depending on the particular circumstances, a recipient may recognize unallocated costs as a revenue and expense at carrying amount, fair value or another amount based on existing policy; and
- The disclosure of inter-entity transactions would be in accordance with the proposed new Section on related party disclosures.

This proposed Section would apply to fiscal years beginning on or after April 1, 2017.

Exposure Draft — Restructurings

Currently there is no specific guidance on accounting for restructuring transactions in the PSA Handbook. Restructuring transactions include:

- An amalgamation of entities;
- A transfers of program responsibilities (with related assets / liabilities) from one entity to another; and
- A shared services arrangement to which the responsibility for delivery of certain services or certain administrative functions (together with related assets / liabilities) is transferred from a number of entities.

As public sector entities are entering into these types of transactions more often, guidance is needed to ensure these transactions are accounted for on a consistent basis. As a result, the Board issued an Exposure Draft in August proposing a new Section on restructurings.

The Exposure Draft defines a restructuring transaction as a transfer of an integrated set of assets and / or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration. A restructuring transaction is defined separately from an acquisition. The key distinction is the absence of an exchange of consideration in a restructuring transaction.

The individual assets and liabilities transferred in a restructuring transaction would be derecognized by the transferor at their carrying amounts and recognized by the recipient at their carrying amounts with applicable adjustments. The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors, and transferred to all recipients in a restructuring transaction would be recognized as revenue or as an expense. In addition:

- Any costs incurred related to the restructuring would be expensed when incurred;
- The accounting policies and circumstances of the recipient at the restructuring date would determine the initial classification of the individual assets and liabilities received in the restructuring transaction;
- Financial position and results of operations prior to the restructuring date would not be restated; and
- The proposed standard would encourage but not require the recipient to disclose information about the transferred assets, liabilities and related operations prior to restructuring date.

This proposed Section would apply to new restructuring transactions that occur in fiscal years beginning on or after April 1, 2018.

Exposure Draft — Assets, Contingent Assets and Contractual Rights

This Exposure Draft, issued in August, proposes adding three new Sections to the PSA Handbook on assets, contingent assets and contractual rights. The first proposed Section on assets would provide additional guidance on the definition of assets. Assets are defined as economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. The proposed new Section would provide additional guidance on economic resources, control, past transactions or events, and future economic benefits. It would also require disclosure of types of unrecognized assets.

The second proposed Section to be added under this Exposure Draft is on contingent assets. Currently there is no definition of contingent assets in the PSA Handbook. This Section proposes defining contingent assets as possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset. The proposed Section would also require disclosure when the occurrence of a confirming future event is likely.

The third proposed Section is on contractual rights. Currently the PSA Handbook provides a definition of contractual obligations, but no definition is provided for contractual rights. This proposed Section would define contractual rights as rights to revenue generating contracts or agreements that will, when the term of those contracts or agreements are met, become assets and revenue. The proposed Section would also require disclosure of contractual rights in an entity's financial statements. Disclosure would require professional judgment and would take into consideration contractual rights to revenue that are abnormal in relation to the financial position or usual business operations and contractual rights that will govern the level of a certain type of revenue for a considerable period into the future.

This proposed Section would apply to fiscal years beginning on or after April 1, 2017.

Statement of Principles — Revenue

Currently, the PSA Handbook does not include a standard on overall revenue recognition. As a result, many public sector entities need to consult other sources of GAAP when accounting for types of revenues for which the PSA Handbook does not provide guidance. The Board believes guidance in this area is needed as there is diversity in practice. As a result, a new revenue standard was proposed in a Statement of Principles issued August 2013. This proposed standard would focus on two main areas of revenue:

- Exchange transactions; and
- Unilateral (non-exchange) transactions.

The proposed standard would define exchange transactions as transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor. A performance obligation is defined as an enforceable promise to provide goods or services to a payor as a result of exchange transactions.

Revenue from an exchange transaction would be recognized as the public sector entity satisfies the performance obligation. An exchange transaction would be evaluated to identify goods and services that are distinct and would be accounted for as a separate performance obligation. An example of an exchange transaction is a user fee charged by a municipality for providing water services.

According to the proposed definition, unilateral revenues increase the economic resources of a public sector entity without a direct transfer of economic resources to the payor. The right to the economic resources is attributable to legislation grounded on a constitutional authority, or delegated constitutional authority, and an event entitling the public sector entity to recognize revenue.

Unilateral revenues are unique to the public sector as the authority to enact legislation is unique to governments. Unilateral revenues do not necessarily entitle the payor to a specific public service or benefit. Instead the public sector entity's right to the revenue results from its constitutional powers that allow it to impose the unilateral revenue. A public sector entity would recognize unilateral revenues when it has authority to the revenues and can identify a past event that gives it a right to those revenues. Tax revenue collected by a municipality is an example of unilateral revenue.

As a result of responses received on this Statement of Principles the Board is currently undertaking further research on these issues and the project timeline has been extended. An Exposure Draft is expected to be issued in the second quarter of 2015.

Statement of Principles — Retirement Obligations

The PSA Handbook does not include a standard on retirement obligations, and as a result there are inconsistencies in how public sector entities account for these obligations currently. In August of this year, the Board issued a Statement of Principles which proposes exposing a new Section on retirement obligations associated with tangible capital assets controlled by a public sector entity.

Under the proposed standard, retirement obligations associated with tangible capital assets can result from legal, constructive and equitable obligations. Retirement obligations associated with tangible capital assets include post-retirement operation, maintenance and monitoring costs.

Recognition of retirement costs would be accomplished by increasing the carrying amount of the related tangible capital asset or a component thereof and then expensing this amount in a rational and systematic manner. A present value technique may be the best method of estimating the liability. Depending on the nature of the re-measurement and whether the asset remains in productive use, subsequent re-measurement of the liability could result in either a change in the carrying amount of the related tangible capital asset or a component thereof, or an expense.

The issuance of this standard would result in complete and consistent reporting of existing retirement obligations associated with controlled tangible capital assets in public sector entities.

Statement of Principles — Improvements to Not-for-Profit Standards

The Accounting Standards Board (AcSB) which develops accounting standards for private sector not-for-profit organizations (NPOs) and the Public Sector Accounting Board which establishes accounting standards for public sector entities, including government NPOs are working together to improve not-for-profit standards to better meet the needs of users.

Currently, some not-for-profit standards have requirements that differ from the conceptual frameworks on which Part III of the CPA Canada Handbook — Accounting and the PSA Handbook are based. To address this issue, the two Boards established a Joint Not-for-Profit Task Force to review the standards in the 4400 series of Sections in Part III of the Handbook (applicable for not-for-profit organizations in the private sector) and the PS 4200 series of Sections in the PSA Handbook (applicable to government not-for-profit organizations).

As a result of this project, the AcSB and PSAB jointly issued a Statement of Principles — Improvements to Not-for-Profit Standards in April 2013. This Statement of Principles contains fifteen proposed principles. Some of these principles apply to both private and public sector NPOs where user needs are considered to be similar, while others apply to only private or public sector NPOs where user needs are considered to be different.

The main features of the Statement of Principles that affect both private and public sector NPOs are as follows:

- Contributions:
 - The deferral and restricted fund methods of accounting for contributions would be eliminated;
 - A contribution would be recognized as an asset when the NPO has control of the contribution, would exercise that control if necessary, and can reasonably estimate the amount to be received; and
 - A contribution would be revenue, except when the contribution gives rise to an obligation that meets the definition of a liability.
- Capital assets:
 - The size exemption currently available for capital assets would be eliminated; and
 - A NPO would recognize capital assets in its statement of financial position regardless of its size.

The following features of the Statement of Principles affect public sector NPOs only:

- Accounting for tangible capital assets, controlled and related entities, and financial statement presentation:
 - A public sector NPO would follow the standards in the PSA Handbook currently followed by governments and other government organizations;
 - Current options available for reporting controlled and related entities by a public sector NPO would be removed; and
 - There would be a requirement for the financial statements to show the “net debt” indicator, a statement of change in net debt, a statement of remeasurement gains and losses, and present budget information.
- Intangibles, works of arts and historical treasures (including collections), and economic interests:
 - Until the Board can further consider these matters, such items would continue to be accounted for and presented on a basis consistent with the guidance currently in the PS 4200 series of Sections.

For information on the main features affecting private sector NPOs please refer to the Statement of Principles which can be accessed on the Financial Reporting and Assurance Standards Canada website or by clicking [here](#).

The AcSB and PSAB are currently in the process of considering the responses received on the Statement of Principles, additional information that needs to be gathered and their next steps for this project. As the proposals in the Statement of Principles could have a significant impact on accounting for both private and public sector NPOs we encourage NPOs to watch this project closely.

Public Sector Accounting Discussion Group

In 2013, the Board established the Public Sector Accounting Discussion Group (PSADG) as a regular public forum at which issues arising on the application of the PSA Handbook can be discussed. The group meets three times a year and consists of 11 members and includes preparers, auditors and users of government and government organization financial reports. The purpose of the group is to assist the Board regarding issues arising on the application of the PSA Handbook and to gather information to advise the Board on priorities and possible agenda items for its consideration. While the group does not issue any authoritative guidance or interpretations, as only the Board has the ability to do so, the group's meeting summaries provide meaningful insights on the application of the standards that can be used as a resource. These meeting summaries are available on the Financial Reporting and Assurance Standards Canada website or by clicking [here](#). We would encourage public sector entities to keep up to date on topics discussed at these meetings.

Conclusion

As we head closer to the end of the year, now is the time to discuss with your BDO advisor how the changes made to the PSA Handbook and the proposed changes affect your organization.

The information in this publication is current as of October 1, 2014.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

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