

**The Corporation of the
Town of Hanover
Consolidated Financial Statements
For the year ended December 31, 2013**

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Consolidated Financial Statements
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Independent Auditor's Report

**To the Members of Council,
Inhabitants and Ratepayers of
The Corporation of the Town of Hanover**

We have audited the accompanying consolidated financial statements of The Corporation of the Town of Hanover, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of operations, change 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 Town of Hanover as at December 31, 2013 and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

"BDO CANADA LLP"

Chartered Accountants, Licensed Public Accountants

Hanover, Ontario
June 23, 2014

The Corporation of the Town of Hanover

Consolidated Statement of Financial Position

December 31	2013	2012
Financial assets		
Cash (Note 2, page 12)	\$ 5,771,007	\$ 6,877,772
Taxes receivable	277,129	286,912
Water and wastewater charges receivable	384,639	404,011
Government transfers receivable	281,223	344,912
Other receivables	446,291	513,935
Inventory for resale	9,061	5,597
Loans receivable (Note 3, page 12)	1,229,955	1,284,159
Long-term investments (Note 4, page 13)	2,756,742	2,756,742
	<u>11,156,047</u>	<u>12,474,040</u>
Contingencies (Note 21, page 30)		
Liabilities		
Temporary borrowings	35,212	32,082
Accounts payable and accrued liabilities	1,063,933	1,822,433
Deferred revenue (Note 5, page 13)	883,295	965,725
Long-term debt (Note 6, page 14)	3,831,710	4,199,000
Landfill site closure and post-closure care liability (Note 7, page 15)	401,715	242,377
Retirement benefit liability (Note 9, page 16)	1,113,844	1,016,106
	<u>7,329,709</u>	<u>8,277,723</u>
Net financial assets	<u>3,826,338</u>	<u>4,196,317</u>
Non-financial assets		
Prepaid expenses	50,922	13,131
Inventory of supplies	107,836	99,059
Assets held for sale	2,408,095	2,566,899
Tangible capital assets (Note 10, page 18)	66,452,546	65,496,212
	<u>69,019,399</u>	<u>68,175,301</u>
Accumulated surplus (Note 11, page 20)	<u>\$72,845,737</u>	<u>\$ 72,371,618</u>

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

The Corporation of the Town of Hanover Consolidated Statement of Operations

For the year ended December 31	2013 Budget	2013 Actual	2012 Actual
Revenue			
Taxation	\$ 5,107,471	\$ 5,022,378	\$ 4,905,114
Government transfers (Note 14, page 23)	3,899,500	4,139,435	4,685,675
Water and wastewater charges	2,958,000	2,876,692	3,026,047
User fees and service charges	1,785,882	1,735,337	1,681,084
Investment income	179,700	234,492	258,452
Donations	154,450	172,698	172,138
Other income (Note 15, page 24)	399,500	399,187	364,627
	<u>14,484,503</u>	<u>14,580,219</u>	<u>15,093,137</u>
Expenses			
General government	1,122,000	1,304,151	1,294,503
Protection services	3,415,250	3,530,493	4,613,888
Transportation services	1,234,890	1,388,198	1,260,411
Transit	303,023	748,506	479,793
Environmental services	2,655,954	2,753,794	2,706,799
Health and social services	445,668	454,769	475,203
Recreation and cultural services	3,430,120	3,536,613	3,467,426
Planning and development	331,550	389,576	356,690
	<u>12,938,455</u>	<u>14,106,100</u>	<u>14,654,713</u>
Annual surplus	1,546,048	474,119	438,424
Accumulated surplus, beginning of the year	<u>72,371,618</u>	<u>72,371,618</u>	<u>71,933,194</u>
Accumulated surplus, end of the year	<u>\$ 73,917,666</u>	<u>\$ 72,845,737</u>	<u>\$ 72,371,618</u>

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

The Corporation of the Town of Hanover Consolidated Statement of Change in Net Debt

For the year ended December 31	2013 Budget	2013 Actual	2012 Actual
Annual surplus	\$ 1,546,048	\$ 474,119	\$ 438,424
Acquisition of tangible capital assets	(5,038,562)	(3,112,098)	(2,513,739)
Proceeds on disposal of tangible capital assets	-	6,594	12,675
Amortization expense	1,854,817	1,911,729	1,872,826
Write down of tangible capital assets on disposal	-	237,441	198,281
	<u>(3,183,745)</u>	<u>(956,334)</u>	<u>(429,957)</u>
Increase in prepaid expenses	-	(37,791)	150,586
Increase in inventory of supplies	-	(8,777)	8,654
Decrease (increase) in assets held for sale	-	158,804	(1,703,104)
	<u>-</u>	<u>112,236</u>	<u>(1,543,864)</u>
Change in net financial assets	(1,637,697)	(369,979)	(1,535,397)
Net financial assets, beginning of year	<u>4,196,317</u>	<u>4,196,317</u>	<u>5,731,714</u>
Net financial assets, end of year	<u>\$ 2,558,620</u>	<u>\$ 3,826,338</u>	<u>\$ 4,196,317</u>

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

The Corporation of the Town of Hanover Consolidated Statement of Cash Flows

For the year ended December 31	2013	2012
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 474,119	\$ 438,424
Items not involving cash		
Amortization and write down of tangible capital assets	2,149,170	2,071,107
Retirement benefit liability	97,738	121,764
Landfill site closure and post-closure care	159,338	(88,603)
	<u>2,880,365</u>	<u>2,542,692</u>
Change in balances		
Decrease in taxes receivable	9,783	28,322
Decrease in accounts receivable	150,705	306,945
Decrease (increase) in inventory for resale	(3,464)	13,205
Increase (decrease) in accounts payable	(758,500)	270,240
Increase (decrease) in deferred revenue	(82,430)	(167,925)
Decrease (increase) in non-financial assets	112,236	(1,543,864)
	<u>2,308,695</u>	<u>1,449,615</u>
Capital activities		
Acquisition of tangible capital assets	(3,112,098)	(2,513,739)
Proceeds on disposal of tangible capital assets	6,594	12,675
	<u>(3,105,504)</u>	<u>(2,501,064)</u>
Investing activities		
Decrease in loans receivable	54,204	49,692
Financing activities		
Increase in temporary borrowings	3,130	14,135
Additions to long-term liabilities	39,687	-
Repayment of long-term liabilities	(406,977)	(388,000)
	<u>(364,160)</u>	<u>(373,865)</u>
Net change in cash and cash equivalents	(1,106,765)	(1,375,622)
Cash and cash equivalents, beginning of year	6,877,772	8,253,394
Cash and cash equivalents, end of year	\$ 5,771,007	\$ 6,877,772

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

The Corporation of the Town of Hanover Summary of Significant Accounting Policies

December 31, 2013

Management Responsibility

The consolidated financial statements of The Corporation of the Town of Hanover are the representations of management. They have been prepared in accordance with Canadian generally accepted 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.

Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the current fund, capital fund, reserves and reserve funds of all municipal organizations, committees, and boards which are owned or controlled by council. All interfund assets, liabilities, revenues and expenses have been eliminated on consolidation.

The following boards owned or controlled by council have been consolidated:

Hanover Police Services Board
Hanover Cemetery Board
Hanover Public Library Board
Hanover Downtown Improvement Area

A government partnership exists where the municipality has shared control over the board or entity. The municipality's pro-rata share of the assets, liabilities, revenues and expenses are reflected in the financial statements using the proportionate consolidation method. The municipality's proportionate interest of the following government partnerships are reflected in the consolidated financial statements:

Saugeen Mobility and Regional Transit	37.4% (2012- 43.1%)
Saugeen Municipal Airport	31.2% (2012- 31.2%)
Hanover / Walkerton Landfill Site	50%

The Corporation of the Town of Hanover Summary of Significant Accounting Policies

December 31, 2013

Basis of Accounting	Items recognized in the financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting recognizes a liability until the obligation or condition(s) underlying the liability is partly or wholly satisfied. Accrual accounting recognizes an asset until the future economic benefit underlying the asset is partly or wholly used or lost.
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.
Revenue Recognition	<p>Taxation revenues 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 levied. Taxes receivable are recognized net of an allowance for anticipated uncollectable amounts.</p> <p>User fees and other revenues are recognized as the goods are delivered or services are rendered, providing the amount is fixed or determinable, and collectability is reasonably assured.</p>
Government Transfers	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.
Temporary Investments	Temporary investments are recorded at the lower of cost and market value.
Loans Receivable	Loans receivable are recorded at cost.

The Corporation of the Town of Hanover Summary of Significant Accounting Policies

December 31, 2013

**Portfolio and
Long-term Investments**

Portfolio and long-term investments are recorded at cost.

Inventory

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

Assets held for sale, where it is not anticipated that the sale will be completed within one year, are reported as a non-financial asset.

Inventory of goods held for consumption are recorded as a non-financial asset 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

Purchased tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Tangible capital assets received as contributions are recorded at their fair value at the date of contribution. Where fair market value cannot be reasonably determined, contributed tangible capital assets are recorded at a nominal amount. Amortization is calculated on a straight-line basis over the estimated useful life of the asset. The useful lives of the assets are based on estimates made by management as follows:

Land improvements	25 to 40 years
Buildings	50 to 100 years
Building components	10 to 80 years
Equipment	5 to 25 years
Vehicles	5 to 30 years
Infrastructure:	
Road surfaces	20 to 80 years
Utility systems	70 to 100 years

Intangible Assets

Intangible assets, art and historic treasures, and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources, are not recognized in these financial statements.

The Corporation of the Town of Hanover Summary of Significant Accounting Policies

December 31, 2013

**Landfill Site Closure
and Post-Closure Care**

Landfill site closure and post-closure care costs are recognized over the operating life of the landfill, based on capacity used. The liability is recorded at its discounted value, based on the average long-term borrowing rate of the municipality.

Employee Future Benefits

The municipality pays post-employment benefits to eligible employees on retirement. The benefits earned are recognized over the service life of the employees using the projected benefit method and management's best estimate of salary escalation, benefit costs, and retirement ages of employees.

Defined contribution plan accounting is applied to the municipality's multi-employer defined benefit pension plan.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash accounts held at financial institutions, and investments in money market instruments with maturities of three months or less.

County and School Board

The municipality collects taxation revenue on behalf of the school boards and the County of Grey. The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the County of Grey are not reflected in these financial statements.

Trust Funds

Funds held in trust by the municipality, and their related operations, are not included in these financial statements. The financial position and activity of the trust funds are reported separately on the trust fund balance sheet and statement of continuity.

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

1. Change in Accounting Policy

Effective January 1, 2013, the municipality adopted on a prospective basis the new accounting standard PS 3510 Tax Revenue from the Chartered Professional Accountants of Canada Handbook.

Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. The prospective application of this change in accounting policy resulted in a decrease of \$35,678 in taxes receivable and taxation revenue.

2. Cash

Cash consists of deposits at a financial institution. Effective January 1, 2013, the deposits earn interest at prime less 1.55% on all business accounts or prime less 1.45% for consolidated balances in excess of \$5,000,000, payable monthly.

The municipality has a line of credit that bears interest at the lender's prime rate less 0.5%. At December 31, 2013, the municipality had undrawn credit capacity under this facility of \$500,000.

Included in cash is \$914,384 (2012 - \$972,745), the use of which is externally restricted by legislation or agreement.

3. Loans Receivable

	2013	2012
Note receivable, Westario Power Inc., 5.47% interest only payable quarterly	\$ 1,135,083	\$ 1,135,083
Due from Brockton residents, non-interest bearing, repayable in five annual instalments, 2011 to 2015	33,752	57,396
Due from ratepayers, non-interest bearing, repayable in five annual instalments, 2011 to 2015	61,120	91,680
	<u>\$ 1,229,955</u>	<u>\$ 1,284,159</u>

The note receivable from Westario Power Inc. is due on demand in accordance with the terms set out in the shareholders' agreement. The Town of Hanover is a shareholder of the corporation.

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

4. Long-Term Investments

	2013	2012
Westario Power Inc. 1,509 common shares	<u>\$ 2,756,742</u>	<u>\$ 2,756,742</u>

The municipality owns 15.09% of the outstanding shares of Westario Power Inc., a private company incorporated under the laws of the Province of Ontario. The fair value of these shares is not practicable to determine in the absence of published market quotations.

5. Deferred Revenue

	2013	2012
Obligatory Reserve Funds		
Provincial Gasoline Tax Funding	\$ 622,459	\$ 854,858
Federal Gasoline Tax Funding	<u>218,307</u>	<u>40,495</u>
	840,766	895,353
Deferred revenue	<u>42,529</u>	<u>70,372</u>
	<u>\$ 883,295</u>	<u>\$ 965,725</u>

The net change during the year in the obligatory reserve fund balances is made up of the following:

	Balance beginning of year	Restricted funds received	Interest earned	Revenue recognized	Balance end of year
Provincial Gasoline Tax Funding	\$ 854,858	\$ 346,667	\$ 10,363	\$ (589,429)	\$ 622,459
Federal Gasoline Tax Funding	40,495	219,234	1,624	(43,046)	218,307
Total	<u>\$ 895,353</u>	<u>\$ 565,901</u>	<u>\$ 11,987</u>	<u>\$ (632,475)</u>	<u>\$ 840,766</u>

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

6. Long-Term Debt

The balance of long-term debt reported on the consolidated statement of financial position is owed to a financial institution and is party to an interest rate swap derivative, which swaps the variable rate inherent in the debt for a fixed rate. The derivative matures simultaneously with the long-term debt.

	<u>2013</u>	<u>2012</u>
Bankers' Acceptance payable, acceptance fees equivalent to 4.63% repayable in monthly instalments of \$13,000 to \$15,000 excluding interest, due August 2015	\$ 2,469,000	\$ 2,636,000
Bankers' Acceptance payable, acceptance fees equivalent to 3.20% repayable in monthly instalments of \$19,000 to \$22,000 excluding interest, due April 2019	1,331,000	1,563,000
Note payable, 2.35%, payable \$654 principal and interest monthly, due February 2018	<u>31,710</u>	-
	<u>\$ 3,831,710</u>	<u>\$ 4,199,000</u>

Principal payments required on the long-term debt are as follows:

2014	\$ 417,182
2015	2,547,353
2016	256,528
2017	261,706
2018	260,941
Thereafter	88,000

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

7. Landfill Site Closure and Post-Closure Care Liability

The Hanover/Walkerton Landfill Site closure and post-closure care requirements are defined in accordance with industry standards and include final covering and landscaping of the landfill, removal of ground water and leachates, and ongoing environmental monitoring, site inspection and maintenance. These costs will be incurred when the Hanover/Walkerton Landfill Site stops accepting waste, with the post-closure care expected to continue for an additional 25 years. The total future closure and post-closure care costs are estimated to be \$9,663,623, with the Town of Hanover's share being \$4,831,812.

At December 31, 2013, the Town of Hanover has recognized a liability of \$401,715. This represents the town's 50% share of the present value of the total estimated costs related to the existing phase of the landfill, which will be closed in 2014. The liability is based on a total capacity of 506,000 cubic metres and a discount rate of 2.94%.

The landfill site also contains an unopened expansion phase with a capacity of 411,000 cubic metres for which no liability has been accrued. This phase commenced operations in January 2014.

The balance of the town's share of the liability of \$4,430,097 will be accrued as the remaining capacity of 411,000 cubic metres is utilized.

Management's estimate for the site closure and post-closure care liability is subject to measurement uncertainty. The estimate is based on assumptions, contained in the engineer's closure report dated April 1994 and updated by an engineer's letter of April 2014, for the passage of time, actual use of the landfill site, and costs. Actual results could differ significantly from those estimates because of the uncertainty related to future cost estimates, and future use of the landfill site.

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

8. Pension Plan

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 74 (2012 - 75) members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefits to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. Depending on retirement age, the contribution rates for 2013 were 9.0% or 9.3% (2012 - 8.3% or 9.4%) on earnings up to the CPP earnings limit, and 14.6% or 15.9% (2012 - 12.8% or 13.9%) thereafter. The amount contributed to OMERS by the municipality for 2013 was \$453,966 (2012 - \$433,409).

OMERS is a multi-employer plan, therefore, any pension plan surplus or deficit is the joint responsibility of the 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 as at December 31, 2013. At that time, the plan reported an actuarial deficit of \$8.6 billion (2012 - deficit of \$9.9 billion), based on actuarial liabilities of \$73.0 billion (2012 - \$69.1 billion) and actuarial assets of \$64.4 billion (2012 - \$59.2 billion). To address the funding deficit, contribution rates for employees and employers were increased in 2012 and 2013, and future benefit reduction options are being explored by OMERS.

9. Retirement Benefit Liability

The municipality provides retirement benefits other than pensions to substantially all of its full-time employees. The plan provides extended health and life insurance benefits to age 65. Certain employees may take a retirement lump sum payout in lieu of the benefit continuation. The plan is unfunded and requires no contribution from employees.

The retirement benefit liability at December 31 is determined as follows:

	<u>2013</u>	<u>2012</u>
Retirement benefit		
accrued benefit obligation	\$ 1,011,459	\$ 1,367,280
Unamortized actuarial gain (loss)	118,321	(308,484)
Recoverable amount	<u>(15,936)</u>	<u>(42,690)</u>
Retirement benefit liability	<u>\$ 1,113,844</u>	<u>\$ 1,016,106</u>

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

9. Retirement Benefit Liability (continued)

The above amounts were determined by actuarial valuation using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared at December 31, 2012. The accrued benefit obligation shown for 2013 is based on an extrapolation of that 2012 valuation. There is a net unamortized actuarial gain to be amortized on a straight-line basis over the expected average remaining service life of the related employee groups (12 years).

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical premium inflation rates, wage increases, employee turnover, and mortality rates. The assumptions used reflect management's best estimates, but are subject to measurement uncertainty. Actual results could differ significantly from those estimated because of the uncertainty related to future events and conditions. The liability was determined using a discount rate of 4.25%, along with a compensation increase rate of 2% to 3%. For extended health care costs, a 6.0% annual rate of increase was assumed for 2014, decreasing to an ultimate annual rate of increase of 4.0% in 2020. For dental costs, a 4.0% annual rate of increase was assumed.

The total expense related to post-employment benefits other than pensions, includes the following components:

	2013	2012
Plan amendment costs	\$ -	\$ 58,338
Current service cost	111,900	62,684
Interest cost	40,595	51,410
Amortization of actuarial loss (gain)	(11,673)	(9,426)
Total expense for the year	140,822	163,006
Actuarial reduction of accrued benefit obligation	(43,084)	(85,417)
Change in liability for the year	<u>\$ 97,738</u>	<u>\$ 77,589</u>

The Corporation of the Town of Hanover
Notes to Consolidated Financial Statements

December 31, 2013

10. Tangible Capital Assets

For the year ended December 31, 2013

	Land and Land Improvements	Buildings	Equipment	Vehicles	Infrastructure	2013 Total
Cost, beginning of year	\$ 6,061,232	\$ 34,553,996	\$ 6,515,956	\$ 2,464,183	\$ 36,939,389	\$ 86,534,756
Additions	904,202	113,737	296,577	223,846	1,573,736	3,112,098
Disposals	-	(18,362)	(385,013)	(99,644)	(120,448)	(623,467)
Cost, end of year	<u>6,965,434</u>	<u>34,649,371</u>	<u>6,427,520</u>	<u>2,588,385</u>	<u>38,392,677</u>	<u>89,023,387</u>
Accumulated amortization, beginning of year	356,793	7,255,135	2,935,374	1,053,516	9,437,726	21,038,544
Amortization	53,386	681,545	327,204	201,729	647,865	1,911,729
Disposals	-	(4,719)	(254,806)	(79,138)	(40,769)	(379,432)
Accumulated amortization, end of year	<u>410,179</u>	<u>7,931,961</u>	<u>3,007,772</u>	<u>1,176,107</u>	<u>10,044,822</u>	<u>22,570,841</u>
Net carrying amount, end of year	<u>\$ 6,555,255</u>	<u>\$ 26,717,410</u>	<u>\$ 3,419,748</u>	<u>\$ 1,412,278</u>	<u>\$ 28,347,855</u>	<u>\$ 66,452,546</u>

The Corporation of the Town of Hanover
Notes to Consolidated Financial Statements

December 31, 2013

10. Tangible Capital Assets (continued)

For the year ended December 31, 2012

	Land and Land Improvements	Buildings	Equipment	Vehicles	Infrastructure	2012 Total
Cost, beginning of year	\$ 5,713,222	\$ 34,492,059	\$ 6,421,585	\$ 2,220,102	\$ 35,689,711	\$ 84,536,679
Additions	348,010	118,593	310,269	298,059	1,438,808	2,513,739
Disposals	-	(56,656)	(215,898)	(53,978)	(189,130)	(515,662)
Cost, end of year	6,061,232	34,553,996	6,515,956	2,464,183	36,939,389	86,534,756
 Accumulated amortization, beginning of year	 304,216	 6,602,990	 2,743,555	 911,921	 8,907,745	 19,470,427
Amortization	52,577	677,032	346,042	184,056	613,119	1,872,826
Disposals	-	(24,887)	(154,223)	(42,461)	(83,138)	(304,709)
Accumulated amortization, end of year	356,793	7,255,135	2,935,374	1,053,516	9,437,726	21,038,544
 Net carrying amount, end of year	 \$ 5,704,439	 \$ 27,298,861	 \$ 3,580,582	 \$ 1,410,667	 \$ 27,501,663	 \$ 65,496,212

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

10. Tangible Capital Assets (continued)

The carrying value of tangible capital assets not being amortized because they are under construction, development, or have been removed from service is \$2,409,281 (2012 - \$1,400,771).

Certain land assets have been recorded at nominal values. The land is available to be used to provide future services.

11. Accumulated Surplus

The accumulated surplus reported on the consolidated statement of financial position is comprised of the following:

	<u>2013</u>	<u>2012</u>
General surplus (deficit)	\$ (79,597)	\$ 6,678
Reserves and reserve funds		
set aside for specific purpose by council (Note 12)	10,287,594	10,912,764
Amounts to be recovered (Note 13)	(5,581,372)	(5,823,921)
Amount invested in land for resale	1,766,566	1,779,885
Amount invested in tangible capital assets	<u>66,452,546</u>	<u>65,496,212</u>
Accumulated surplus	<u>\$ 72,845,737</u>	<u>\$ 72,371,618</u>

The general surplus is comprised of the following:

General area taxation	\$ (154,149)	\$ 54,038
Waterworks system	(4,618)	(22,585)
Wastewater system	34,520	(3,560)
Public Library Board	28,257	9,071
Downtown Improvement Area	(445)	4,085
Hanover / Walkerton Landfill Site	-	(49,607)
Saugeen Municipal Airport	15,785	14,025
Saugeen Mobility and Regional Transit	<u>1,053</u>	<u>1,211</u>
	<u>\$ (79,597)</u>	<u>\$ 6,678</u>

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

12. Reserves and Reserve Funds

	2013	2012
Reserves set aside for specific purpose by council:		
Working funds	\$ 480,338	\$ 480,338
Insurance and WSIB	316,747	327,473
Current		
General government	2,726	19,582
Protection services	19,700	36,700
Health services	7,735	8,140
Planning and development	130,000	100,000
Westario Power proceeds, set aside in note for future use	665,520	665,520
Other	11,326	11,170
Capital		
General government	57,600	47,600
Protection services	46,795	50,670
Transportation	257,101	258,758
Wastewater	314,683	330,900
Water	322,965	370,814
Waste collection and disposal	207,647	-
Health services	72,566	32,866
Recreation and culture	987,525	971,132
Planning and development	86,804	94,548
Other capital purposes	118,223	141,873
	4,106,001	3,948,084
Reserve funds set aside for specific purpose by council:		
Investing in Hanover	327,264	308,582
Water	1,294,446	1,735,711
Wastewater	1,800,256	2,161,791
Planning and development	2,885	1,854
Westario Power proceeds, set aside in shares for future use	2,756,742	2,756,742
	6,181,593	6,964,680
Reserves and reserve funds set aside for specific purpose by council	\$ 10,287,594	\$ 10,912,764

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

13. Amounts to be recovered

The balance of the amounts to be recovered is comprised of the following:

	<u>2013</u>	<u>2012</u>
Long-term debt	\$ 3,831,710	\$ 4,199,000
Retirement benefit liability	1,113,844	1,016,106
Termination benefits payable	234,103	608,815
Landfill site closure and post-closure care liability	<u>401,715</u>	<u>-</u>
	<u>\$ 5,581,372</u>	<u>\$ 5,823,921</u>

The net change during the year in the amounts to be recovered is made up of the following:

	<u>2013</u>	<u>2012</u>
New debt issued	\$ 39,687	\$ -
Principal payments on long-term debt	(406,977)	(388,000)
Termination benefits payable (paid)	(374,712)	608,815
Increase in retirement benefit liability	97,738	121,764
Change in landfill site closure and post-closure care liability	<u>401,715</u>	<u>-</u>
Increase (decrease) in amounts to be recovered during the year	<u>\$ (242,549)</u>	<u>\$ 342,579</u>

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

14. Government Transfers

Government transfer revenue is comprised of the following:

	2013 Budget	2013 Actual	2012 Actual
Operating			
Province of Ontario Municipal Partnership Fund (OMPF)	\$ 2,086,400	\$ 2,128,200	\$ 2,116,000
Ontario Lottery and Gaming Corporation	1,050,000	1,039,562	1,133,631
Province of Ontario conditional grants			
Protection services	91,200	95,415	113,375
Transit	188,032	253,169	231,291
Waste collection	61,000	61,515	57,712
Hanover Public Library Board operating grant	26,600	28,059	27,560
Other	58,468	37,393	12,761
	<u>3,561,700</u>	<u>3,643,313</u>	<u>3,692,330</u>
Government of Canada conditional grants			
Hanover Public Library Board	2,800	7,787	15,925
Other Municipalities conditional grants			
Protection services	93,000	91,195	401,302
Roadways	12,000	17,834	4,890
Waste disposal	-	-	53,475
	<u>105,000</u>	<u>109,029</u>	<u>459,667</u>
Total operating grants	<u>3,669,500</u>	<u>3,760,129</u>	<u>4,167,922</u>
Tangible Capital Asset Grants			
Province of Ontario conditional grants			
Roadways	230,000	43,046	522,090
Transit	-	336,260	-
Total tangible capital asset grants	<u>230,000</u>	<u>379,306</u>	<u>522,090</u>
Total government transfer revenue	<u>\$ 3,899,500</u>	<u>\$ 4,139,435</u>	<u>\$ 4,690,012</u>

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

14. Government Transfers (continued)

Included in expenses are government transfers for the following:

	2013 Budget	2013 Actual	2012 Actual
Conservation authority	\$ 114,700	\$ 114,687	\$ 110,537
Transit	-	368,650	132,680
Other	149,313	144,818	166,059
	<u>\$ 264,013</u>	<u>\$ 628,155</u>	<u>\$ 409,276</u>

15. Other Income

	2013	2012
Penalties and interest on taxation	\$ 53,939	\$ 49,953
Rents	281,477	255,890
Other	63,771	58,784
	<u>\$ 399,187</u>	<u>\$ 364,627</u>

16. Segmented Information

The Corporation of the Town of Hanover is a diversified municipal government organization that provides a wide range of services to its citizens such as police, fire, roadways, water, and recreation and cultural services. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities that they encompass are as follows:

General Government

This segment relates to the revenues and expenses that relate to the operations of the municipality itself and unallocated items that cannot be directly attributed to any specific segment. General administration, council activities and maintenance of municipal buildings are included in the functions of general government.

Protection Services

Protection is comprised of police services, fire protection, emergency plan, building inspections, and animal control.

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

16. Segmented Information (continued)

Transportation Services

Transportation is comprised of the municipality's roadways, storm sewers, sidewalks, street lighting, and winter control. It also includes the municipality's proportionate share of the operations of specialty transportation services and an airport, both services that are shared with surrounding municipalities.

Water and Wastewater Services

This segment treats and distributes the municipality's drinking water and ensures that it meets all provincial standards. It also includes the collection and treatment of wastewater.

Environmental Services

Environmental services consist of providing waste and recycling collection and the town's share of the operation of the Hanover / Walkerton joint landfill site.

Health Services

Health services are comprised of support to the medical clinic operations and cemetery.

Recreation and Cultural Services

This segment maintains parks and facilities and provides programs meant to improve the health and development of the municipality's citizens. Recreation programs such as skating and swimming lessons are provided at the arena and aquatic centre. The municipality also provides library services to assist with its citizens' informational needs, and a theatre to provide cultural programs.

Planning and Development

This segment provides services including residential and commercial planning, review of property development plans, and economic development services for the municipality.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers are measured on the basis of exchange amount. Amounts that are directly attributable to a number of segments have been allocated on a reasonable basis as follows:

Taxation	- allocated to those segments that are funded through taxation based on their net expenditure for the year
Unconditional grants from OMPF & OLG	- allocated to those segments that are funded through unallocated revenues based on their net expenditure for the year

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

16. Segmented Information (continued)

For the year ended December 31, 2013

	General Government	Protection Services	Transportation Services	Water and Wastewater	Environmental Services	Health and Social Services	Hanover Public Library Board	Recreation and Cultural Services	Planning and Development	2013 Total
Revenue										
Taxation	\$ 418,649	\$ 1,973,245	\$ 859,052	\$ -	\$ 79,532	\$ 210,710	\$ 509,100	\$ 766,936	\$ 205,154	\$ 5,022,378
Government transfers										
- OMPF & OLG	266,030	1,253,892	545,882	-	50,538	133,895	-	810,853	106,672	3,167,762
- other	22,590	186,610	650,309	-	65,680	3,335	35,846	7,303	-	971,673
Fees and user charges	86,513	173,921	101,623	2,876,692	304,610	68,744	27,611	914,983	57,332	4,612,029
Investment income	181,517	-	-	48,570	1,957	-	950	-	1,498	234,492
Donations and other revenue	161,753	8,500	-	-	-	238,233	16,859	146,401	139	571,885
	<u>1,137,052</u>	<u>3,596,168</u>	<u>2,156,866</u>	<u>2,925,262</u>	<u>502,317</u>	<u>654,917</u>	<u>590,366</u>	<u>2,646,476</u>	<u>370,795</u>	<u>14,580,219</u>
Expenses										
Salaries and benefits	862,476	2,663,235	543,158	615,120	41,560	173,798	378,309	1,444,138	43,987	6,765,781
Interest on debt	-	-	-	-	-	46,023	-	117,955	-	163,978
Materials and supplies	232,610	429,503	584,409	892,957	370,066	134,992	165,237	819,036	303,767	3,932,577
Contracted services	-	110,711	44,529	27,647	236,672	2,850	-	44,030	-	466,439
Government transfers	100,383	114,687	368,650	-	-	3,335	-	-	41,100	628,155
Amortization expense	108,682	212,357	595,958	569,211	561	93,771	39,669	528,239	722	2,149,170
Total expenses	<u>1,304,151</u>	<u>3,530,493</u>	<u>2,136,704</u>	<u>2,104,935</u>	<u>648,859</u>	<u>454,769</u>	<u>583,215</u>	<u>2,953,398</u>	<u>389,576</u>	<u>14,106,100</u>
Annual surplus (deficit)	\$ (167,099)	\$ 65,675	\$ 20,162	\$ 820,327	\$ (146,542)	\$ 200,148	\$ 7,151	\$ (306,922)	\$ (18,781)	\$ 474,119

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

16. Segmented Information (continued)

For the year ended December 31, 2012

	General Government	Protection Services	Transportation Services	Water and Wastewater	Environmental Services	Health and Social Services	Hanover Public Library Board	Recreation and Cultural Services	Planning and Development	2012 Total
Revenue										
Taxation	\$ 438,174	\$ 1,903,671	\$ 805,218	\$ -	\$ 57,420	\$ 210,783	\$ 499,100	\$ 802,667	\$ 188,081	\$ 4,905,114
Government transfers										
- OMPF & OLG	292,475	1,270,671	537,470	-	38,327	140,695	-	868,909	101,084	3,249,631
- other	-	514,678	758,271	-	115,551	-	43,485	4,059	-	1,436,044
Fees and user charges	59,290	134,960	163,868	3,026,047	266,229	65,662	20,685	881,895	88,495	4,707,131
Investment income	208,620	-	-	42,006	5,143	-	1,249	-	1,434	258,452
Donations and other revenue	147,080	-	-	-	-	217,853	16,495	155,165	172	536,765
	<u>1,145,639</u>	<u>3,823,980</u>	<u>2,264,827</u>	<u>3,068,053</u>	<u>482,670</u>	<u>634,993</u>	<u>581,014</u>	<u>2,712,695</u>	<u>379,266</u>	<u>15,093,137</u>
Expenses										
Salaries and benefits	877,811	3,808,514	479,190	612,144	39,852	165,867	363,322	1,429,775	6,307	7,782,782
Interest on debt	-	-	-	-	-	53,332	-	125,464	-	178,796
Materials and supplies	196,782	487,689	508,339	1,126,926	120,686	129,431	174,989	771,962	350,383	3,867,187
Contracted services	-	38,284	34,255	27,750	232,405	3,570	-	50,335	-	386,599
Government transfers	125,026	110,537	132,680	-	-	-	-	-	-	368,243
Amortization expense	94,884	168,864	585,740	546,475	561	123,003	42,719	508,860	-	2,071,106
Total expenses	<u>1,294,503</u>	<u>4,613,888</u>	<u>1,740,204</u>	<u>2,313,295</u>	<u>393,504</u>	<u>475,203</u>	<u>581,030</u>	<u>2,886,396</u>	<u>356,690</u>	<u>14,654,713</u>
Annual surplus (deficit)	<u>\$ (148,864)</u>	<u>\$ (789,908)</u>	<u>\$ 524,623</u>	<u>\$ 754,758</u>	<u>\$ 89,166</u>	<u>\$ 159,790</u>	<u>\$ (16)</u>	<u>\$ (173,701)</u>	<u>\$ 22,576</u>	<u>\$ 438,424</u>

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

17. Government Partnerships

The following summarizes the financial position and operations of the municipal joint boards. The Town of Hanover's pro-rata share of these amounts have been reported in the financial statements using the proportionate consolidation method:

	Saugeen Mobility and Regional Transit	Saugeen Municipal Airport	Hanover / Walkerton Landfill Site
Financial Assets			
Cash and temporary investments	\$ 23,452	\$ 90,063	\$ 492,714
Accounts receivable	117,279	25,325	42,795
Other financial assets	-	17,091	-
	<u>140,731</u>	<u>132,479</u>	<u>535,509</u>
Liabilities			
Temporary borrowings	94,008	-	-
Accounts payable	81,847	27,001	120,215
Other liabilities	-	18,556	808,055
	<u>175,855</u>	<u>45,557</u>	<u>928,270</u>
Net financial assets (net debt)	(35,124)	86,922	(392,761)
Non-financial assets	<u>535,855</u>	<u>755,743</u>	<u>4,463,667</u>
Accumulated Surplus	<u>\$ 500,731</u>	<u>\$ 842,665</u>	<u>\$ 4,070,906</u>
Accumulated Surplus			
General surplus	\$ 2,812	\$ 50,609	\$ -
Reserves and reserve funds	-	36,313	415,294
Amounts to be recovered in future years	-	-	(808,055)
Invested in tangible capital assets	497,919	755,743	4,463,667
	<u>\$ 500,731</u>	<u>\$ 842,665</u>	<u>\$ 4,070,906</u>
Revenues			
Contributions from Town of Hanover	\$ 140,462	\$ 38,320	\$ 1,014,663
Other government contributions	823,967	84,539	1,022,992
Other	187,451	50,853	326,243
Expenses	<u>(962,709)</u>	<u>(213,236)</u>	<u>(901,165)</u>
Annual surplus (deficit)	<u>\$ 189,171</u>	<u>\$ (39,524)</u>	<u>\$ 1,462,733</u>

The Corporation of the Town of Hanover

Notes to Consolidated Financial Statements

December 31, 2013

17. Government Partnerships (cont'd)

Saugeen Mobility and Regional Transit (S.M.A.R.T.) operates a specialty transit service; Saugeen Municipal Airport operates a municipal airport; and Hanover / Walkerton Landfill Site operates a landfill site.

18. Budget Amounts

Under Canadian public sector accounting standards, budget amounts are to be reported on the consolidated statements of operations and change in net debt for comparative purposes. The budget amounts for The Corporation of the Town of Hanover are as approved by council and have been restated to conform to the basis of presentation of the revenues and expenses on the consolidated statements of operations and change in net debt.

The following is a reconciliation of the budget approved by council:

	2013 Budget	2013 Actual	2012 Actual
Annual surplus	\$ 1,546,048	\$ 474,119	\$ 438,424
Acquisition of tangible capital assets	(5,038,562)	(3,112,098)	(2,513,739)
Proceeds on disposal of tangible capital assets	-	6,594	12,675
Amortization and write downs	1,854,817	2,149,170	2,071,107
Acquisition of assets held for sale	-	13,319	(1,779,888)
Proceeds from issue of long-term debt	-	39,687	-
Debt principal repayments	(399,000)	(406,977)	(388,000)
	(2,036,697)	(836,186)	(2,159,421)
Transfers from (to) reserves	2,499,275	678,344	483,977
Change in unfunded liabilities	(370,300)	124,741	730,579
	92,278	(33,101)	(944,865)
Reserve funds annual surplus	-	(53,174)	(56,603)
General surplus (deficit), beginning of year	(54,821)	6,678	1,008,146
General surplus (deficit), end of year	\$ 37,457	\$ (79,597)	\$ 6,678

The Corporation of the Town of Hanover Notes to Consolidated Financial Statements

December 31, 2013

19. Operations of School Boards and the County of Grey

During the year, the following taxation revenue was raised and remitted to the school boards and the County of Grey:

	2013	2012
School boards	\$ 2,733,340	\$ 2,702,955
County of Grey	2,710,782	2,677,180
	<u>\$ 5,444,122</u>	<u>\$ 5,380,135</u>

20. Trust Funds

The trust funds administered by the municipality amounting to \$561,326 (2012 - \$544,241) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of financial activities. At December 31, 2013, the trust fund balances are as follows:

	2013	2012
Cemetery Pre-need Assurance Fund	\$ 167,625	\$ 161,848
Cemetery Care and Maintenance Funds	393,701	382,393
	<u>\$ 561,326</u>	<u>\$ 544,241</u>

21. Contingencies

The Town of Hanover owns property that has undergone a preliminary site review. The site review identified potential environmental issues which may require future remediation. The cost of this clean up has not been accrued in these financial statements as the amount, if any, cannot be estimated at this time.
