

**The Corporation of the
Town of Hanover
Consolidated Financial Statements
For the year ended December 31, 2015**

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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, 2015, 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, 2015 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 Professional Accountants, Licensed Public Accountants

Hanover, Ontario
May 16, 2016

**The Corporation of the Town of Hanover
Consolidated Statement of Financial Position**

December 31	2015	2014
Financial assets		
Cash (Note 1, page 12)	\$ 3,274,141	\$ 4,410,340
Portfolio investments (Note 2, page 12)	1,000,000	1,000,000
Taxes receivable	326,542	365,394
Water and wastewater charges receivable	410,185	404,202
Government transfers receivable	777,002	614,082
Other receivables	1,604,862	1,108,328
Inventory for resale	15,353	8,451
Loans receivable (Note 3, page 12)	1,135,083	1,181,851
Long-term investments (Note 4, page 13)	2,756,742	2,756,742
	<u>11,299,910</u>	<u>11,849,390</u>
Liabilities		
Temporary borrowings	42,690	36,636
Accounts payable and accrued liabilities	1,080,488	1,362,368
Deferred revenue (Note 5, page 13)	765,515	710,809
Long-term debt (Note 6, page 14)	2,323,053	3,414,528
Landfill site closure and post-closure care liability (Note 7, page 15)	322,135	374,218
Retirement benefit liability (Note 9, page 16)	1,127,606	1,118,140
	<u>5,661,487</u>	<u>7,016,699</u>
Net financial assets	<u>5,638,423</u>	<u>4,832,691</u>
Non-financial assets		
Prepaid expenses	72,087	116,723
Inventory of supplies	103,597	116,693
Assets held for sale	2,018,744	2,039,667
Tangible capital assets (Note 10, page 18)	66,983,923	66,767,789
	<u>69,178,351</u>	<u>69,040,872</u>
Accumulated surplus (Note 11, page 20)	<u>\$ 74,816,774</u>	<u>\$ 73,873,563</u>

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

The Corporation of the Town of Hanover Consolidated Statement of Operations

For the year ended December 31	2015	2015	2014
	Budget	Actual	Actual
Revenue			
Taxation	\$ 5,611,625	\$ 5,631,875	\$ 5,327,280
Government transfers (Note 14, page 23)	4,031,722	4,356,740	4,429,562
Water and wastewater charges	2,960,300	3,032,612	3,007,357
User fees and service charges	1,985,016	2,448,223	1,958,802
Investment income	168,800	229,852	252,165
Donations	245,900	305,374	702,905
Other income (Note 15, page 24)	459,500	482,389	477,932
	15,462,863	16,487,065	16,156,003
Expenses			
General government	1,108,900	1,221,493	1,317,489
Protection services	3,512,875	3,706,863	3,613,839
Transportation services	1,270,400	1,989,333	1,425,550
Transit	352,611	758,282	1,107,203
Environmental services	2,984,861	3,211,209	2,856,066
Health and social services	735,480	719,942	482,793
Recreation and cultural services	3,445,100	3,436,599	3,771,028
Planning and development	641,698	500,133	554,209
	14,051,925	15,543,854	15,128,177
Annual surplus	1,410,938	943,211	1,027,826
Accumulated surplus, beginning of the year	73,873,563	73,873,563	72,845,737
Accumulated surplus, end of the year	\$ 75,284,501	\$ 74,816,774	\$ 73,873,563

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

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

For the year ended December 31	2015	2015	2014
	Budget	Actual	Actual
Annual surplus	\$ 1,410,938	\$ 943,211	\$ 1,027,826
Acquisition of tangible capital assets	(2,822,847)	(2,792,030)	(2,348,646)
Proceeds on disposal of tangible capital assets	15,000	24,851	9,623
Amortization expense	1,807,636	1,930,648	2,020,107
Write down of tangible capital assets on disposal	-	620,397	3,670
	(1,000,211)	(216,134)	(315,246)
Increase in prepaid expenses	-	44,636	(65,801)
Increase in inventory of supplies	-	13,096	(8,854)
Decrease (increase) in assets held for sale	-	20,923	368,428
	-	78,655	293,773
Change in net financial assets	410,727	805,732	1,006,353
Net financial assets, beginning of year	4,832,691	4,832,691	3,826,338
Net financial assets, end of year	\$ 5,243,418	\$ 5,638,423	\$ 4,832,691

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

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

For the year ended December 31	2015	2014
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 943,211	\$ 1,027,826
Items not involving cash		
Amortization and write down of tangible capital assets	2,551,046	2,023,777
Retirement benefit liability	9,467	4,296
Landfill site closure and post-closure care	<u>(52,083)</u>	<u>(27,497)</u>
	3,451,641	3,028,402
Change in balances		
Decrease (increase) in taxes receivable	38,852	(88,265)
Increase in accounts receivable	(665,437)	(1,014,459)
Decrease (increase) in inventory for resale	(6,902)	610
Increase (decrease) in accounts payable	(281,881)	298,435
Increase (decrease) in deferred revenue	54,706	(172,486)
Decrease (increase) in non-financial assets	<u>78,655</u>	<u>293,773</u>
	<u>2,669,634</u>	<u>2,346,010</u>
Capital activities		
Acquisition of tangible capital assets	(2,792,030)	(2,348,646)
Proceeds on disposal of tangible capital assets	<u>24,851</u>	<u>9,623</u>
	<u>(2,767,179)</u>	<u>(2,339,023)</u>
Investing activities		
Purchase of investments	-	(1,000,000)
Decrease in loans receivable	<u>46,768</u>	<u>48,104</u>
	<u>46,768</u>	<u>(951,896)</u>
Financing activities		
Increase in temporary borrowings	6,054	1,424
Additions to long-term liabilities	1,500,000	-
Repayment of long-term liabilities	<u>(2,591,476)</u>	<u>(417,182)</u>
	<u>(1,085,422)</u>	<u>(415,758)</u>
Net change in cash and cash equivalents	(1,136,199)	(1,360,667)
Cash and cash equivalents, beginning of year	<u>4,410,340</u>	<u>5,771,007</u>
Cash and cash equivalents, end of year	<u>\$ 3,274,141</u>	<u>\$ 4,410,340</u>

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

The Corporation of the Town of Hanover

Summary of Significant Accounting Policies

December 31, 2015

Management Responsibility The management of the The Corporation of the Town of Hanover is responsible for the integrity, objectivity and accuracy of the financial information presented in these consolidated financial statements. Management reviews and approves the consolidated financial statements before they are submitted to Council.

Basis of Accounting 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 public sector accounting standards established by the Public Sector Accounting Board of CPA Canada 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	26.1% (2014- 31.7%)
Hanover / Walkerton Landfill Site	50%
Saugeen Municipal Airport	31.2% (2014- 31.2%)

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

December 31, 2015

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, 2015

Portfolio and Long-term Investments	Portfolio and long-term investments are recorded at the lower of cost and market value.																
Inventory	<p>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.</p> <p>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.</p> <p>Inventory of goods held for consumption are recorded as a non-financial asset at the lower of cost and replacement cost.</p>																
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	<p>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:</p> <table><tr><td>Land improvements</td><td>25 to 40 years</td></tr><tr><td>Buildings</td><td>50 to 100 years</td></tr><tr><td>Building components</td><td>10 to 80 years</td></tr><tr><td>Equipment</td><td>5 to 25 years</td></tr><tr><td>Vehicles</td><td>5 to 30 years</td></tr><tr><td>Infrastructure:</td><td></td></tr><tr><td> Road surfaces</td><td>20 to 80 years</td></tr><tr><td> Utility systems</td><td>70 to 100 years</td></tr></table>	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
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, 2015

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.

Liability for Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries. Management is not aware of any contaminated sites.

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, 2015

1. Cash

Cash consists of deposits at a financial institution. 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, 2015, the municipality had undrawn credit capacity under this facility of \$500,000.

Included in cash is \$455,885 (2014 - \$509,016), the use of which is externally restricted by legislation or agreement.

2. Portfolio Investments

	<u>2015</u>	<u>2014</u>
Mutual funds	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Market value	<u>\$ 1,067,050</u>	<u>\$ 1,073,804</u>

3. Loans Receivable

	<u>2015</u>	<u>2014</u>
Note receivable, Westario Power Inc., 4.12% 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	-	16,876
Due from ratepayers, non-interest bearing, repayable in five annual instalments, 2011 to 2015	-	29,892
	<u>\$ 1,135,083</u>	<u>\$ 1,181,851</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, 2015

4. Long-Term Investments

	2015	2014
Westario Power Inc. 1,509 common shares	\$ 2,756,742	\$ 2,756,742

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

	2015	2014
Obligatory Reserve Funds		
Provincial Gasoline Tax Funding	\$ 290,644	\$ 238,918
Federal Gasoline Tax Funding	406,466	445,101
	697,110	684,019
Deferred revenue	68,405	26,790
	\$ 765,515	\$ 710,809

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	\$ 238,918	\$ 498,768	\$ 2,628	\$ (449,670)	\$ 290,644
Federal Gasoline Tax Funding	445,101	216,876	4,816	(260,327)	406,466
Total	\$ 684,019	\$ 715,644	\$ 7,444	\$ (709,997)	\$ 697,110

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

December 31, 2015

6. Long-Term Debt

A portion of 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 related portion of long-term debt.

	2015	2014
Term loan payable, 2.52%, payable \$14,155 principal and interest monthly, due August 2025	\$ 1,455,878	\$ -
Bankers' Acceptance payable, acceptance fees equivalent to 4.63% repayable in monthly instalments of \$14,000 to \$15,000 excluding interest, due August 2015	-	2,297,000
Bankers' Acceptance payable, acceptance fees equivalent to 3.20% repayable in monthly instalments of \$20,000 to \$22,000 excluding interest, due April 2019	850,000	1,093,000
Note payable, 2.35%, payable \$654 principal and interest monthly, due February 2018	17,175	24,528
	\$ 2,323,053	\$ 3,414,528

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

2016	\$	391,147
2017		399,858
2018		402,614
2019		233,285
2020		148,928
Thereafter		747,221

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

December 31, 2015

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 \$4,598,050, with the Town of Hanover's share being \$2,299,025.

At December 31, 2015, the Town of Hanover has recognized a liability of \$322,135. This represents the town's 50% share of the present value of the total estimated costs related to the phase of the landfill that was closed in 2014, plus 3.7% of the total estimated costs related to the expansion phase. The liability is based on a total capacity of 917,000 cubic metres, an inflation rate of 2.40% (2014 - 2.40%) and a discount rate of 3.00% (2014 - 3.00%).

The balance of the town's share of the liability of \$1,976,890 will be accrued as the remaining capacity of 395,733 cubic metres is utilized over the 27 years of estimated remaining life of the landfill.

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 March 2015 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, 2015

8. Pension Plan

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 75 (2014 - 72) 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. The amount contributed to OMERS by the municipality for 2015 was \$464,996 (2014 - \$450,128). The contribution rate for 2015 was 9.0% to 15.8% depending on age and income level (2014 - 9.0% to 15.9%).

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, 2015. At that time, the plan reported an actuarial deficit of \$7.0 billion (2014 - deficit of \$7.1 billion), based on actuarial liabilities of \$81.9 billion (2014 - \$76.9 billion) and actuarial assets of 74.9 billion (2014 - \$69.8 billion). Ongoing adequacy of the current contribution rates will need to be monitored as fluctuations in financial markets may lead to increased future funding requirements.

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>2015</u>	<u>2014</u>
Retirement benefit		
accrued benefit obligation	\$ 1,042,484	\$ 1,024,550
Unamortized actuarial gain (loss)	94,928	106,625
Recoverable amount	<u>(9,806)</u>	<u>(13,035)</u>
Retirement benefit liability	<u>\$ 1,127,606</u>	<u>\$ 1,118,140</u>

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

December 31, 2015

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 2015 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 5.667% annual rate of increase was assumed for 2015, 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:

	<u>2015</u>		<u>2014</u>
Current service cost	\$ 58,409	\$	54,792
Interest cost	43,011		42,365
Amortization of actuarial loss (gain)	<u>(11,674)</u>		<u>(11,673)</u>
Total expense for the year	89,746		85,484
Actuarial reduction of accrued benefit obligation	<u>(80,280)</u>		<u>(81,188)</u>
Change in liability for the year	<u>\$ 9,466</u>	\$	<u>4,296</u>

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

December 31, 2015

10. Tangible Capital Assets

For the year ended December 31, 2015

	Land and Land Improvements	Buildings	Equipment	Vehicles	Infrastructure	2015 Total
Cost, beginning of year	\$ 7,232,500	\$ 34,793,480	\$ 6,492,291	\$ 2,610,094	\$ 39,974,325	\$ 91,102,690
Additions	138,473	951,822	386,726	96,783	1,218,221	2,792,025
Disposals	-	(29,773)	(162,652)	(146,153)	(784,311)	(1,122,889)
Cost, end of year	<u>7,370,973</u>	<u>35,715,529</u>	<u>6,716,365</u>	<u>2,560,724</u>	<u>40,408,235</u>	<u>92,771,826</u>
Accumulated amortization, beginning of year	536,642	8,615,549	3,292,711	1,202,312	10,687,687	24,334,901
Amortization	128,594	680,118	338,597	137,599	645,741	1,930,649
Disposals	-	(10,520)	(153,981)	(59,704)	(253,442)	(477,647)
Accumulated amortization, end of year	<u>665,236</u>	<u>9,285,147</u>	<u>3,477,327</u>	<u>1,280,207</u>	<u>11,079,986</u>	<u>25,787,903</u>
Net carrying amount, end of year	<u>\$ 6,705,737</u>	<u>\$ 26,430,382</u>	<u>\$ 3,239,038</u>	<u>\$ 1,280,517</u>	<u>\$ 29,328,249</u>	<u>\$ 66,983,923</u>

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

December 31, 2015

10. Tangible Capital Assets (continued)

For the year ended December 31, 2014

	Land and Land Improvements	Buildings	Equipment	Vehicles	Infrastructure	2014 Total
Cost, beginning of year	\$ 6,965,434	\$ 34,649,371	\$ 6,427,520	\$ 2,588,385	\$ 38,392,677	\$ 89,023,387
Additions	267,066	151,027	114,255	225,412	1,590,886	2,348,646
Disposals	-	(6,918)	(49,484)	(203,703)	(9,238)	(269,343)
Cost, end of year	<u>7,232,500</u>	<u>34,793,480</u>	<u>6,492,291</u>	<u>2,610,094</u>	<u>39,974,325</u>	<u>91,102,690</u>
Accumulated amortization, beginning of year	410,179	7,931,961	3,007,772	1,176,107	10,044,822	22,570,841
Amortization	126,463	685,516	330,889	228,545	648,694	2,020,107
Disposals	-	(1,928)	(45,950)	(202,340)	(5,829)	(256,047)
Accumulated amortization, end of year	<u>536,642</u>	<u>8,615,549</u>	<u>3,292,711</u>	<u>1,202,312</u>	<u>10,687,687</u>	<u>24,334,901</u>
Net carrying amount, end of year	<u>\$ 6,695,858</u>	<u>\$ 26,177,931</u>	<u>\$ 3,199,580</u>	<u>\$ 1,407,782</u>	<u>\$ 29,286,638</u>	<u>\$ 66,767,789</u>

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

December 31, 2015

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 \$46,042 (2014 - \$1,552,274).

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:

	2015	2014
General surplus (deficit)	\$ 150,851	\$ 110,535
Reserves and reserve funds		
set aside for specific purpose by council (Note 12)	10,061,074	10,543,689
Amounts to be recovered (Note 13)	(3,772,794)	(4,960,564)
Amount invested in land for resale	1,393,720	1,412,114
Amount invested in tangible capital assets	66,983,923	66,767,789
Accumulated surplus	\$ 74,816,774	\$ 73,873,563

The general surplus is comprised of the following:

General area taxation	\$ 65,239	\$ (21,667)
Waterworks system	71,146	136,793
Wastewater system	2,602	(11,628)
Public Library Board	7,565	11,548
Downtown Improvement Area	9,465	498
Saugeen Municipal Airport	(5,900)	(5,900)
Saugeen Mobility and Regional Transit	734	891
	\$ 150,851	\$ 110,535

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

December 31, 2015

12. Reserves and Reserve Funds

	<u>2015</u>	<u>2014</u>
Reserves set aside for specific purpose by council:		
Working funds	\$ 480,338	\$ 480,338
WSIB	129,271	266,069
Current		
General government	135,920	31,494
Health services	7,165	7,495
Planning and development	-	83,389
Westario Power proceeds, set aside in note for future use	380,000	380,000
Other	6,331	6,331
Capital		
General government	-	57,489
Protection services	-	42,062
Transportation	-	419,334
Wastewater	230,511	284,029
Water	351,899	370,353
Waste collection and disposal	58,000	202,697
Health services	14,584	86,553
Hanover Public Library Board	95,921	90,033
Recreation and culture	71,189	1,014,285
Planning and development	86,314	84,839
Other capital purposes	370,519	83,451
	<u>2,417,962</u>	<u>3,990,241</u>
Reserve funds set aside for specific purpose by council:		
Investing in Hanover	146,931	20,224
Water	1,911,193	1,412,440
Wastewater	2,824,540	2,361,117
Planning and development	3,706	2,925
Westario Power proceeds, set aside in shares for future use	2,756,742	2,756,742
	<u>7,643,112</u>	<u>6,553,448</u>
Reserves and reserve funds set aside for specific purpose by council	<u>\$ 10,061,074</u>	<u>\$ 10,543,689</u>

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

December 31, 2015

13. Amounts to be recovered

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

	<u>2015</u>	<u>2014</u>
Long-term debt	\$ 2,323,053	\$ 3,414,528
Retirement benefit liability	1,127,606	1,118,140
Termination benefits payable	-	53,678
Landfill site closure and post-closure care liability	<u>322,135</u>	<u>374,218</u>
	<u>\$ 3,772,794</u>	<u>\$ 4,960,564</u>

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

	<u>2015</u>	<u>2014</u>
New debt issued	\$ 1,500,000	\$ -
Principal payments on long-term debt	(2,591,476)	(417,182)
Termination benefits payable (paid)	(53,678)	(180,425)
Increase in retirement benefit liability	9,467	4,296
Change in landfill site closure and post-closure care liability	<u>(52,083)</u>	<u>(27,497)</u>
Decrease in amounts to be recovered during the year	<u>\$ (1,187,770)</u>	<u>\$ (620,808)</u>

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

December 31, 2015

14. Government Transfers

Government transfer revenue is comprised of the following:

	2015 Budget	2015 Actual	2014 Actual
Operating			
Province of Ontario Municipal Partnership Fund (OMPF)	\$ 1,953,000	\$ 1,953,000	\$ 2,034,300
Ontario Lottery and Gaming Corporation	1,050,000	1,119,115	1,075,575
Province of Ontario conditional grants			
Protection services	42,100	26,117	64,553
Roadways	57,800	57,873	-
Transit	123,192	330,089	539,260
Water and wastewater	-	14,928	24,132
Waste collection	47,000	62,101	57,212
Hanover Public Library Board operating grant	17,300	23,618	15,116
Other	248,230	240,602	70,623
	<u>3,538,622</u>	<u>3,827,443</u>	<u>3,880,771</u>
Government of Canada conditional grants			
Hanover Public Library Board	4,200	12,156	6,483
Other	7,200	8,190	19,815
	<u>11,400</u>	<u>20,346</u>	<u>26,298</u>
Other Municipalities conditional grants			
Protection services	110,800	110,744	112,268
Roadways	29,800	18,299	32,666
	<u>140,600</u>	<u>129,043</u>	<u>144,934</u>
Total operating grants	<u>3,690,622</u>	<u>3,976,832</u>	<u>4,052,003</u>
Tangible Capital Asset Grants			
Province of Ontario conditional grants			
Roadways	341,100	260,327	-
Transit	-	119,581	377,559
	<u>341,100</u>	<u>379,908</u>	<u>377,559</u>
Total tangible capital asset grants	<u>341,100</u>	<u>379,908</u>	<u>377,559</u>
Total government transfer revenue	<u>\$ 4,031,722</u>	<u>\$ 4,356,740</u>	<u>\$ 4,429,562</u>

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

December 31, 2015

14. Government Transfers (continued)

Included in expenses are government transfers for the following:

	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
Conservation authority	\$ 111,500	\$ 111,534	\$ 110,207
Transit	-	334,737	626,044
Other	183,330	183,726	180,031
	<u>\$ 294,830</u>	<u>\$ 629,997</u>	<u>\$ 916,282</u>

15. Other Income

	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
Penalties and interest on taxation	\$ 60,000	\$ 70,629	\$ 63,136
Rents	354,600	366,671	364,523
Other	44,900	45,089	50,273
	<u>\$ 459,500</u>	<u>\$ 482,389</u>	<u>\$ 477,932</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, 2015

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, cemetery and the Youth Activity and Technology Centre.

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, 2015

16. Segmented Information (continued)

For the year ended December 31, 2015

	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	2015 Total
Revenue										
Taxation	\$ 405,194	\$ 2,232,578	\$ 922,951	\$ -	\$ 150,268	\$ 194,733	\$ 513,600	\$ 948,593	\$ 263,958	\$ 5,631,875
Government transfers										
- OMPF & OLG	291,492	1,000,085	726,239	-	52,480	94,295	-	654,436	253,088	3,072,115
- other	20,400	136,861	786,170	14,928	67,830	197,732	35,774	13,203	11,727	1,284,625
Fees and user charges	189,786	270,216	510,304	3,032,612	318,608	174,646	27,898	791,970	164,795	5,480,835
Investment income	180,498	-	-	44,414	2,157	-	1,608	-	1,175	229,852
Donations and other revenue	178,721	2,550	10,016	-	-	336,957	12,241	247,278	-	787,763
	<u>1,266,091</u>	<u>3,642,290</u>	<u>2,955,680</u>	<u>3,091,954</u>	<u>591,343</u>	<u>998,363</u>	<u>591,121</u>	<u>2,655,480</u>	<u>694,743</u>	<u>16,487,065</u>
Expenses										
Salaries and benefits	777,638	2,771,081	580,001	664,803	42,981	292,056	354,093	1,482,143	75,980	7,040,776
Interest on debt	-	-	-	-	-	30,895	-	73,248	-	104,143
Materials and supplies	191,618	572,882	725,054	1,350,214	252,079	272,622	187,349	819,955	410,633	4,782,406
Contracted services	-	113,709	17,914	41,668	237,131	3,725	-	21,339	-	435,486
Government transfers	119,980	111,534	374,604	-	-	11,225	-	-	12,654	629,997
Amortization and Loss on Disposal	132,255	137,659	1,050,042	540,734	81,599	109,419	39,796	458,676	866	2,551,046
Total expenses	<u>1,221,491</u>	<u>3,706,865</u>	<u>2,747,615</u>	<u>2,597,419</u>	<u>613,790</u>	<u>719,942</u>	<u>581,238</u>	<u>2,855,361</u>	<u>500,133</u>	<u>15,543,854</u>
Annual surplus (deficit)	<u>\$ 44,600</u>	<u>\$ (64,575)</u>	<u>\$ 208,065</u>	<u>\$ 494,535</u>	<u>\$ (22,447)</u>	<u>\$ 278,421</u>	<u>\$ 9,883</u>	<u>\$ (199,881)</u>	<u>\$ 194,610</u>	<u>\$ 943,211</u>

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

December 31, 2015

16. Segmented Information (continued)

For the year ended December 31, 2014

	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	2014 Total
Revenue										
Taxation	\$ 379,690	\$ 2,046,201	\$ 1,100,519	\$ -	\$ 150,209	\$ 181,451	\$ 523,500	\$ 877,385	\$ 68,325	\$ 5,327,280
Government transfers										
- OMPF & OLG	223,259	1,203,176	647,111	-	88,323	106,694	-	823,727	17,585	3,109,875
- other	20,397	176,821	949,484	24,132	63,166	32,702	21,599	28,345	3,041	1,319,687
Fees and user charges	72,997	197,006	112,044	3,007,357	262,793	87,232	27,780	985,382	213,568	4,966,159
Investment income	189,282	-	-	57,453	3,007	-	-	1,032	1,391	252,165
Donations and other revenue	212,707	2,000	439,974	-	-	247,434	18,911	259,591	220	1,180,837
	<u>1,098,332</u>	<u>3,625,204</u>	<u>3,249,132</u>	<u>3,088,942</u>	<u>567,498</u>	<u>655,513</u>	<u>591,790</u>	<u>2,975,462</u>	<u>304,130</u>	<u>16,156,003</u>
Expenses										
Salaries and benefits	814,598	2,745,770	631,910	659,684	42,630	206,637	369,283	1,494,680	55,824	7,021,016
Interest on debt	-	-	-	-	-	38,446	-	110,073	-	148,519
Materials and supplies	249,973	507,908	620,054	1,084,308	201,528	141,813	162,395	1,088,926	455,222	4,512,127
Contracted services	-	114,113	84,870	41,168	246,995	2,812	-	16,498	-	506,456
Government transfers	136,089	110,207	626,044	-	-	1,642	-	-	42,300	916,282
Amortization and Loss on Disposal	116,825	135,840	569,875	506,084	73,669	91,443	39,428	489,746	867	2,023,777
Total expenses	<u>1,317,485</u>	<u>3,613,838</u>	<u>2,532,753</u>	<u>2,291,244</u>	<u>564,822</u>	<u>482,793</u>	<u>571,106</u>	<u>3,199,923</u>	<u>554,213</u>	<u>15,128,177</u>
Annual surplus (deficit)	\$ (219,153)	\$ 11,366	\$ 716,379	\$ 797,698	\$ 2,676	\$ 172,720	\$ 20,684	\$ (224,461)	\$ (250,083)	\$ 1,027,826

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

December 31, 2015

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	Hanover / Walkerton Landfill Site
Financial Assets		
Cash and temporary investments	\$ 4,657	\$ 213,073
Accounts receivable	235,657	22,260
	240,314	235,333
Liabilities		
Temporary borrowings	163,562	-
Accounts payable	105,927	79,012
Other liabilities	-	691,179
	269,489	770,191
Net financial assets (net debt)	(29,175)	(534,858)
Non-financial assets	596,074	4,686,572
Accumulated Surplus	\$ 566,899	\$ 4,151,714
Accumulated Surplus		
General surplus	\$ 2,812	\$ -
Reserves and reserve funds	-	116,000
Amounts to be recovered in future years	-	(650,858)
Invested in tangible capital assets	564,087	4,686,572
	\$ 566,899	\$ 4,151,714
Revenues		
Contributions from Town of Hanover	\$ 139,978	\$ 280,591
Other government contributions	836,692	292,050
Other	395,873	362,377
Expenses	(1,477,922)	(798,287)
Annual surplus (deficit)	\$ (105,379)	\$ 136,731

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

December 31, 2015

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 the Hanover / Walkerton Landfill Site operates a landfill site.

The transactions of the Saugeen Municipal Airport for the year ended 31st December, 2015 have not been consolidated in the Town of Hanover's consolidated financial statements because they are not available and are not material to the Town of Hanover.

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:

	2015 Budget	2015 Actual	2014 Actual
Annual surplus	\$ 1,410,938	\$ 943,211	\$ 1,027,826
Acquisition of tangible capital assets	(2,822,847)	(2,792,030)	(2,348,646)
Proceeds on disposal of tangible capital assets	15,000	24,851	9,623
Amortization and write downs	1,807,636	2,551,045	2,023,777
Acquisition of assets held for sale	-	18,394	223,836
Proceeds from issue of long-term debt	1,500,000	1,500,000	-
Debt principal repayments	(2,622,400)	(2,591,476)	(417,182)
	(711,673)	(346,005)	519,234
Transfers from (to) reserves	641,805	528,448	(195,051)
Change in unfunded liabilities	-	34,326	(203,627)
	(69,868)	216,769	120,556
Reserve funds annual surplus	-	(45,833)	(61,044)
General surplus (deficit), beginning of year	115,543	(20,085)	(79,597)
General surplus (deficit), end of year	\$ 45,675	\$ 150,851	\$ (20,085)

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

December 31, 2015

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:

	<u>2015</u>	<u>2014</u>
School boards	\$ 2,675,847	\$ 2,694,274
County of Grey	<u>2,635,023</u>	<u>2,707,939</u>
	<u>\$ 5,310,870</u>	<u>\$ 5,402,213</u>

20. Trust Funds

The trust funds administered by the municipality amounting to \$588,526 (2014 - \$574,930) 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, 2015, the trust fund balances are as follows:

	<u>2015</u>	<u>2014</u>
Cemetery Pre-need Assurance Fund	\$ 172,840	\$ 170,420
Cemetery Care and Maintenance Funds	<u>415,686</u>	<u>404,510</u>
	<u>\$ 588,526</u>	<u>\$ 574,930</u>
