



County of Grey

Report to Members of the Corporate Services Committee

May 24, 2016



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May 24, 2016

Members of the Corporate Services Committee
County of Grey
595 9th Ave East
Owen Sound, Ontario
N4K 3E3

Dear Sir/Madam:

We are pleased to present the results of our audit of the draft consolidated financial statements of the County of Grey for the year ended December 31, 2015. The purpose of our report is to summarize certain aspects of the audit that we believe to be of interest to Council and should be read in conjunction with the draft consolidated financial statements and our audit report which is included as Appendix A.

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

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

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

Yours truly,

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

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

TS:sb



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EXECUTIVE SUMMARY

Status of Audit	<p>As of the date of this report, we have substantially completed our audit of the 2015 financial statements pending the completion of the items highlighted below. These items will need to be completed prior to issuance of our final audit report on the financial statements:</p> <ul style="list-style-type: none">• Approval of financial statements by Corporate Services Committee• Receipt of the signed management representation letter dated as of the final report date• Subsequent events review through to financial statement approval date
Purpose of the Audit	<p>Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement. The conclusion of our audit is set out in our auditor's report in Appendix A.</p> <p>A detailed description of our audit results has been included on page 5.</p>
Audit Risks	<p>Our overall audit strategy, including risks identified relating to the County of Grey and our planned procedures to address those risks, were outlined in our planning letter dated December 10, 2015. There were no changes to our planned audit procedures, and there were no additional procedures added to our audit plan.</p>
Independence	<p>At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to Council at least annually, all relationships between BDO Canada LLP and its related entities and the County and its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence with respect to the audit of the County.</p> <p>Our annual letter confirming our independence is provided in Appendix B. We know of no circumstances that would cause us to amend our previous communication to you in our planning letter.</p>
Materiality	<p>Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.</p> <p>For the audit of the County of Grey for the year ended December 31, 2015, final materiality was \$2,300,000, based on 2% of average total revenues.</p>



AUDIT FINDINGS

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

Significant financial statement disclosures

Significant financial statement disclosures include:

Accumulated Surplus

A breakdown of the County's accumulated surplus is included in Note 4. This includes the amount invested in capital assets, unfunded liabilities, reserves and also the other surplus amount which is required to be carried forward to the next year's budget.

Contingencies/Litigation Proceedings

We have discussed with the County's management and they have indicated that there are claims outstanding against the County. We have also communicated with the County's legal counsel and insurance company. These claims are disclosed in Note 12.

Commitments

Significant commitments as part of the Provincial Local Services Realignment Program are disclosed in Note 11. In addition, the County's commitment to complete and fund multiple external capital projects are disclosed in Note 11.

Significant accounting policies, estimates and judgments

Management is responsible for determining the County of Grey's significant accounting policies. Significant accounting policies have been disclosed in the financial statements. The choice between accounting policy alternatives can have a significant effect on the financial position and results of the County. The application of those policies often involves significant estimates and judgments by management. Based on the audit work that we have performed, it is our opinion that the estimates are in accordance with the requirements of Canadian public sector accounting policies and have been consistently applied.

Significant accounting estimates include:

Post-employment benefits

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



WSIB future benefit and commitment

As the County is an employer included under Schedule 2 of the Workplace Safety and Insurance Act, it self-ensures the entire risk of its own WSIB claims and it's individually liable for reimbursing the WSIB for all costs relating to its workers WSIB claims. In order to help estimate the liability for WSIB future benefits, the County engaged the services of an actuary.

Taxation revenue estimate

In accordance with PS 3510, amounts have been estimated for taxable events that have occurred but have not yet been assessed. The estimate was based on correspondence with lower tier municipalities. Management has not adjusted this amount on the financial statements as it was considered trivial.

Liability for Contaminated Sites

Effective January 1, 2015, the County adopted, on a prospective basis, the new accounting standard for PS 3260 Liability for Contaminated Sites. Management compiled a list of all properties owned by the County or where the County has accepted responsibility for the property and assessed whether each property was contaminated. Management is not aware of any contaminated sites. Therefore, no liability has been accrued in the financial statements.

ADJUSTED AND UNADJUSTED DIFFERENCES

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

Management has determined that the unadjusted differences of \$152,975 are immaterial both individually and in aggregate to the consolidated financial statements taken as a whole. Should Council agree with this assessment, we do not propose further adjustments.

For purposes of our discussion, a summary of unadjusted differences and disclosure omissions has been presented in Appendix C along with the representation letter.

MANAGEMENT REPRESENTATIONS

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

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



INTERNAL CONTROL MATTERS

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

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

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

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

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

FRAUD DISCUSSION

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

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

AUDITORS’ RESPONSIBILITIES FOR DETECTING FRAUD

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

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

The scope of the work performed was substantially the same as that described in our Planning Letter to Council dated December 10, 2015.



BDO PUBLICATIONS

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

- Public Sector Accounting Standards (PSAS) Update 2015



APPENDIX A
Draft Financial Report

**The Corporation of the
County of Grey
Financial Information
For the year ended December 31, 2015**

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The Corporation of the County of Grey
Financial Information
For the year ended December 31, 2015

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The Corporation of the County of Grey

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County of Grey
Financial Statements
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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 County of Grey

We have audited the accompanying consolidated financial statements of the Corporation of the County of Grey, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the County of Grey as at December 31, 2015 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules on pages 27 and 28 of the Corporation of the County of Grey's financial statements.

Chartered Professional Accountants, Licensed Public Accountants

Owen Sound, Ontario
May 24, 2016

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**The Corporation of the County of Grey
Consolidated Statement of Financial Position**

December 31	2015	2014
Financial assets		
Cash and temporary investments (Note 1)	\$ 58,928,067	\$ 57,663,636
Trade and other receivables	3,659,837	2,348,622
Inventory held for resale	11,539	12,564
	<u>62,599,443</u>	<u>60,024,822</u>
Liabilities		
Accounts payable and accrued liabilities	10,768,924	6,106,804
Vacation pay, post-employment benefits and WSIB Schedule II liabilities (Note 10)	6,201,179	6,420,519
Deferred revenue (Page 26)	6,114,239	7,734,823
Net long-term liabilities (Note 2)	2,993,195	1,981,277
	<u>26,077,537</u>	<u>22,243,423</u>
Net financial assets	<u>36,521,906</u>	<u>37,781,399</u>
Non-financial assets		
Prepaid expenses	35,064	26,192
Tangible capital assets (Note 3)	172,294,241	168,828,886
Inventory of supplies	1,405,741	1,424,698
	<u>173,735,046</u>	<u>170,279,776</u>
Accumulated surplus (Note 4)	<u>\$ 210,256,952</u>	<u>\$ 208,061,175</u>

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

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

<u>For the year ended December 31</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>
	Budget (Note 6)	Actual	Actual
Revenue			
Taxation	\$ 51,497,559	\$ 51,377,416	\$ 52,283,016
Fees and user charges	9,724,242	12,467,632	9,634,477
Government transfers (Note 7)	49,216,199	49,391,046	43,897,859
Other income (Note 8)	7,276,757	6,629,090	6,458,324
Obligatory reserve fund revenue recognized	1,263,084	3,983,932	5,120,826
	<u>118,977,841</u>	<u>123,849,116</u>	<u>117,394,502</u>
Expenses			
General government	10,293,186	11,915,208	7,852,499
Provincial offences	2,033,841	2,007,910	1,901,575
Transportation services	9,856,842	20,453,563	21,541,623
Health unit	1,965,283	1,787,027	1,930,803
Paramedic services	12,045,471	12,888,442	12,111,263
Social services	27,724,875	28,525,347	26,288,716
Social housing	10,758,941	12,199,517	12,318,306
Long-term care	25,714,098	27,379,737	26,912,959
Grey Roots	1,964,765	2,321,693	2,300,430
Planning and development	2,446,084	2,174,895	1,970,560
	<u>104,803,386</u>	<u>121,653,339</u>	<u>115,128,734</u>
Annual surplus (Note 6)	14,174,455	2,195,777	2,265,768
Accumulated surplus, beginning of the year	208,061,175	208,061,175	205,795,407
Accumulated surplus, end of the year	\$222,235,630	\$ 210,256,952	\$208,061,175

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

**The Corporation of the County of Grey
Consolidated Statement of Changes in Net Financial Assets**

<u>For the year ended December 31</u>	2015 Budget (Note 6)	2015 Actual	2014 Actual
Annual surplus (Page 5)	\$ 14,174,455	\$ 2,195,777	\$ 2,265,768
Acquisition of tangible capital assets	(23,225,301)	(17,682,650)	(11,811,503)
Amortization of tangible capital assets	-	13,443,194	13,707,040
Loss on disposal of capital assets	-	572,092	419,704
Proceeds on disposal of capital assets	-	202,009	897,190
	<u>(23,225,301)</u>	<u>(3,465,355)</u>	<u>3,212,431</u>
Change in prepaid expenses	-	(8,872)	12,470
Change in inventory of supplies	-	18,957	(29,093)
	-	10,085	(16,623)
Increase (decrease) in net financial assets	(9,050,846)	(1,259,493)	5,461,576
Net financial assets, beginning of the year	<u>37,781,399</u>	<u>37,781,399</u>	<u>32,319,823</u>
Net financial assets, end of the year	<u>\$ 28,730,553</u>	<u>\$ 36,521,906</u>	<u>\$ 37,781,399</u>

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

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

For the year ended December 31	2015	2014
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 2,195,777	\$ 2,265,768
Items not involving cash		
Vacation pay, post-employment benefits and WSIB Schedule II liabilities	(219,340)	(5,360)
Net long-term commitment recognized	1,600,000	800,000
Amortization	13,443,194	13,707,040
Loss on disposal of capital assets	572,092	419,704
Deferred revenue recognized	(7,647,975)	(5,549,334)
	<u>9,943,748</u>	<u>11,637,818</u>
Changes in non-cash working capital balances		
Trade and other receivables	(1,311,215)	(279,845)
Inventory held for resale	1,025	867
Prepaid expenses	(8,872)	12,470
Accounts payable and accrued liabilities	4,662,120	(1,130,249)
Inventory of supplies	18,957	(29,093)
Deferred revenue received	6,027,391	4,515,374
	<u>19,333,154</u>	<u>14,727,342</u>
Capital transactions		
Cash used to acquire capital assets	(17,682,650)	(11,811,503)
Proceeds on disposal of capital assets	202,009	897,190
	<u>(17,480,641)</u>	<u>(10,914,313)</u>
Financing activities		
Repayment of long-term liabilities	(588,082)	(1,290,224)
	<u>(588,082)</u>	<u>(1,290,224)</u>
Net change in cash and temporary investments	1,264,431	2,522,805
Cash and temporary investments, beginning of the year	<u>57,663,636</u>	<u>55,140,831</u>
Cash and temporary investments, end of the year	\$ 58,928,067	\$ 57,663,636

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

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

December 31, 2015

Management Responsibility

The management of the Corporation of the County of Grey is responsible for the integrity, objectivity and accuracy of the financial information presented in these consolidated financial statements. The Corporate Services Committee 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 County of Grey have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ministry of Municipal Affairs and Housing.

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

Use of Estimates

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

Basis of Consolidation

The consolidated statements reflect the assets, liabilities, revenues and expenses of all municipal organizations, committees, and boards which are owned or controlled by Council. All interfund assets and liabilities and revenues and expenses have been eliminated on consolidation.

The following boards and municipal enterprises owned or controlled by Council have been consolidated:

Grey County and Owen Sound Housing Corporation

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

December 31, 2015

Cash and Cash Equivalents Cash and cash equivalents include all cash balances and short-term highly liquid investments that are readily convertible into cash.

Temporary Investments Temporary investments are recorded at the lower of cost and market value.

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

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

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

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

Land improvements	20 years
Buildings	20 to 50 years
Machinery and equipment	3 to 25 years
Roads	7 to 40 years
Traffic signals	20 years
Bridges	15 to 50 years
Culverts	30 to 50 years
Vehicles	5 to 15 years

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

Intangible Assets Intangible assets, art and historic treasures, are not recognized in these financial statements.

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

December 31, 2015

Post-Employment Benefits

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

The County is an employer under Schedule 2 of the Workplace Safety and Insurance Act (WSIB). As such, it self-insures the entire risk of its own WSIB claims and is individually liable for reimbursing WSIB for all costs relating to workers' WSIB claims. The cost of the claims are determined using management's best estimates and are expensed as incidents occur. The County of Grey, in order to reduce this risk as a Schedule 2 employer, has purchased Occupational Accident and Excess Indemnity Insurance to assist with work related death or permanent impairments.

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

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 has not identified any contaminated sites for which a liability needs to be recognized.

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

December 31, 2015

Revenue Recognition

Revenues are recognized as follows:

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

Provincial Subsidies

Subsidies from the Province of Ontario are subject to review of year-end settlement forms and adjustments by the Province. Adjustments to funding, if any, are recorded in the year in which they occur.

Trust Funds

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

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

1. Cash and Temporary Investments

	2015	2014
Unrestricted	\$ 58,928,067	\$ 57,663,636

A cash balance of \$22,298,796 is being held in one bank account earning interest at a rate of prime less 1.75%. Cash balances of \$4,459,068 and investment deposits of \$19,709,861 are also held at the same financial institution. The Canadian Deposit Insurance Corporation insures up to a maximum of \$100,000 per depositor per financial institution. Deposits of \$12,235,388 are also held at other financial institutions.

Temporary investments included in the balance above consists of:

	2015	2014
Cash	\$ 4,578	\$ 4,549
Bond Fund	4,138,379	1,044,589
Term Deposits 1.44% to 1.62% (2014 - 1.52% to 1.60%)	19,709,861	22,557,670
Guaranteed Investment Certificates 1.90% to 2.20% (2014 - 1.58% to 2.20%)	8,097,009	8,096,209
Membership share	25	25
	\$ 31,949,852	\$ 31,703,042

Temporary investments have a market value of \$31,978,009 (2014 - \$31,858,824) at the end of the year.

The County of Grey has a demand operating facility agreement with a financial institution at prime less 0.5%. At December 31, 2015, the County of Grey had a \$6,000,000 unused credit facility.

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

2. Long-Term Liabilities

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

	2015	2014
Georgian College Marine Emergency Duties Training and Research Centre, payable in equal instalments over the next nine years	\$ 1,800,000	\$ -
Grey Bruce Health Services, payable in equal instalments over the next four years	600,000	800,000
Ontario Strategic Infrastructure Financing Authority, 4.73%, blended semi-annual payments of \$307,160, due 2016	593,195	1,159,296
Royal Bank of Canada, 2.693%, mortgage payable in blended monthly instalments of \$2,330, due 2015	-	21,981
	\$ 2,993,195	\$ 1,981,277

Principal payments for the next five fiscal years are as follows:

2016	\$	993,195
2017	\$	400,000
2018	\$	400,000
2019	\$	200,000
2020	\$	200,000
Thereafter	\$	800,000
		\$ 2,993,195

Interest of \$48,451 (2014 - \$98,749) was paid during the year on long-term liabilities.

The Corporation of the County of Grey
Notes to Financial Statements

December 31

3. Tangible Capital Assets

	2015						
	Land and Land Improvements	Buildings	Machinery & Equipment	Roads	Bridges and Culverts	Vehicles	Total
Cost, beginning of the year	\$ 2,162,052	\$ 88,377,233	\$ 11,990,397	\$ 247,581,089	\$ 36,800,423	\$ 8,764,666	\$ 395,675,860
Additions	114,776	2,986,117	645,811	12,675,786	499,537	760,623	17,682,650
Disposals	(9,330)	(214,719)	(644,199)	(3,892,359)	(77,099)	(260,354)	(5,098,060)
Cost, end of the year	2,267,498	91,148,631	11,992,009	256,364,516	37,222,861	9,264,935	408,260,450
Accumulated amortization, beginning of the year	870,308	43,506,336	7,282,171	146,590,571	23,958,306	4,639,282	226,846,974
Amortization	65,526	2,816,176	791,029	8,119,490	690,815	960,158	13,443,194
Disposals	(9,330)	(153,273)	(497,899)	(3,350,563)	(77,099)	(235,795)	(4,323,959)
Accumulated amortization, end of the year	926,504	46,169,239	7,575,301	151,359,498	24,572,022	5,363,645	235,966,209
Net carrying amount, end of the year	\$ 1,340,994	\$ 44,979,392	\$ 4,416,708	\$ 105,005,018	\$ 12,650,839	\$ 3,901,290	\$ 172,294,241

The Corporation of the County of Grey
Notes to Financial Statements

December 31

3. Tangible Capital Assets - (continued)

								2014
	Land and Land Improvements	Buildings	Machinery & Equipment	Roads	Bridges and Culverts	Vehicles	Total	
Cost, beginning of the year	\$ 1,960,604	\$ 86,616,378	\$ 12,407,987	\$ 247,793,290	\$ 36,696,986	\$ 9,345,654	\$ 394,820,899	
Additions	201,448	1,760,855	704,211	8,010,958	534,671	599,360	11,811,503	
Disposals	-	-	(1,121,801)	(8,223,159)	(431,234)	(1,180,348)	(10,956,542)	
Cost, end of the year	2,162,052	88,377,233	11,990,397	247,581,089	36,800,423	8,764,666	395,675,860	
Accumulated amortization, beginning of the year	806,394	40,637,117	7,136,670	146,261,525	23,318,431	4,619,445	222,779,582	
Amortization	63,914	2,869,219	854,216	8,206,395	684,361	1,028,935	13,707,040	
Disposals	-	-	(708,715)	(7,877,349)	(44,486)	(1,009,098)	(9,639,648)	
Accumulated amortization, end of the year	870,308	43,506,336	7,282,171	146,590,571	23,958,306	4,639,282	226,846,974	
Net carrying amount, end of the year	\$ 1,291,744	\$ 44,870,897	\$ 4,708,226	\$ 100,990,518	\$ 12,842,117	\$ 4,125,384	\$ 168,828,886	

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

3. Tangible Capital Assets - (continued)

The net book value of tangible capital assets not being amortized because they are under construction is \$1,642,397 (2014 - \$285,821).

In 2015, \$Nil (2014 - \$Nil) in contributed capital assets were recognized in the financial statements during the year.

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

The County of Grey has recorded land, machinery and equipment assets at nominal amounts when historical or replacement cost was not available.

No interest was capitalized to tangible capital assets during the current year or previous year.

4. Accumulated Surplus

Accumulated surplus consists of individual fund surplus and reserves as follows:

	2015	2014
Invested in tangible capital assets		
Tangible capital assets purchased	\$ 172,294,241	\$ 168,828,886
Unfinanced capital assets	(853,565)	(946,048)
Capital assets financed by long-term liabilities and to be funded in future years	(593,195)	(1,181,277)
Total invested in capital assets	170,847,481	166,701,561
Unfunded post-employment benefits	(5,615,745)	(5,825,886)
Unfunded commitment to Grey Bruce Health Services	(600,000)	(800,000)
Unfunded commitment to Georgian College	(1,800,000)	-
Other surplus	1,405,741	1,424,698
	164,237,477	161,500,373
Reserves (Note 5)	46,019,475	46,560,802
Accumulated surplus	\$ 210,256,952	\$ 208,061,175

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

5. Reserves Set Aside for Specific Purpose by Council

	2015	2014
Working funds	\$ 1,930,799	\$ 1,930,799
Insurance, sick leave and WSIB	3,461,496	3,359,760
Current purposes	8,526,130	8,212,613
Capital purposes	32,101,050	33,057,630
	\$ 46,019,475	\$ 46,560,802

6. Budgets

Under Canadian Public sector accounting principles, budget amounts are to be reported on the consolidated statement of operations and accumulated surplus and changes in net financial assets for comparative purposes. The 2015 budget amounts for the Corporation of the County of Grey approved by Council have been reclassified to conform to the presentation of the consolidated statements of operations and accumulated surplus and changes in net financial assets. The following is a reconciliation of the budget approved by Council.

	2015 Budget	2015 Actual	2014 Actual
Annual surplus (Page 5)	\$ 14,174,455	\$ 2,195,777	\$ 2,265,768
Transfers to reserves	(4,948,341)	(8,968,964)	(7,754,744)
Transfers from reserves	14,592,958	9,510,291	3,255,235
Capital acquisitions, disposals and write-down	(23,225,301)	(16,908,549)	(10,494,609)
Amortization	-	13,443,194	13,707,040
Debt principal repayments	(593,771)	(588,082)	(1,290,224)
Change in unfunded liabilities	-	(210,141)	(31,132)
Change in long-term commitments	-	1,600,000	800,000
Change in other surplus	-	18,957	(29,093)
	-	92,483	428,241
Prior year capital projects funded	-	(92,483)	(428,241)
	\$ -	\$ -	\$ -

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

7. Government Transfers

	2015	2015	2014
	Budget	Actual	Actual
Operating			
Province of Ontario			
Paramedic services	\$ 6,657,145	\$ 6,835,140	\$ 6,370,765
Social services	21,759,847	21,868,201	20,510,985
Social Housing	908,600	698,369	768,972
Long-term care	14,683,324	15,333,150	15,019,781
Other	159,483	144,270	197,273
	<u>44,168,399</u>	<u>44,879,130</u>	<u>42,867,776</u>
Government of Canada			
Social Housing	688,062	681,506	692,955
Other	16,240	23,255	19,925
	<u>704,302</u>	<u>704,761</u>	<u>712,880</u>
Other Municipalities			
Transportation Services	100,000	203,558	219,573
Other	223,943	79,713	97,630
	<u>323,943</u>	<u>283,271</u>	<u>317,203</u>
Total Operating Transfers	<u>45,196,644</u>	<u>45,867,162</u>	<u>43,897,859</u>
Capital			
Province of Ontario			
Transportation Services	2,944,555	2,906,279	-
Other Municipalities			
Transportation Services	1,075,000	617,603	-
Total Capital Transfers	<u>4,019,555</u>	<u>3,523,884</u>	<u>-</u>
Total Government Transfers	<u>\$ 49,216,199</u>	<u>\$ 49,391,046</u>	<u>\$ 43,897,859</u>

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

8. Other Income

	2015	2015	2014
	Budget	Actual	Actual
Provincial Offences (POA)	\$ 2,315,000	\$ 2,474,738	\$ 2,313,049
Investment income, penalties and interest	745,288	775,989	713,260
Licenses, permits and rents	3,769,054	3,756,881	3,745,909
Donations	247,800	133,394	100,810
Gain (loss) on disposal of assets	176,200	(572,092)	(419,704)
Other	23,415	60,180	5,000
	<u>\$ 7,276,757</u>	<u>\$ 6,629,090</u>	<u>\$ 6,458,324</u>

9. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 691 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The amount contributed to OMERS by the County for 2015 was \$3,365,154 (2014 - \$3,346,004). The contribution rate for 2015 was 9.0% to 14.6% depending on age and income level (2014 - 9.0% to 15.9%).

OMERS is a multi-employer plan, therefore, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the municipality does not recognize any share of the OMERS pension surplus or deficit. The last available report for the OMERS plan was on December 31, 2015. At that time the plan reported a \$7.0 billion actuarial deficit (2014 - \$7.1 billion actuarial deficit), 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.

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

10. Post-Employment Benefits

	2015	2014
WSIB	\$ 2,439,289	\$ 2,699,671
Vacation pay liability	2,214,182	2,237,308
Post-employment benefits	1,494,245	1,420,876
Other	53,463	62,664
	\$ 6,201,179	\$ 6,420,519

- a) The County is a Schedule II employer under the Workplace Safety and Insurance Act. As a Schedule II employer the County assumes liability for any award made under the Act.

An actuarial valuation performed at December 31, 2015 has calculated the liability to be \$2,439,289. The actuarial valuation was based on a number of assumptions such as, discount rates and WSIB payment rates. The assumptions used reflect management's best estimates. The WSIB benefit liability was determined using a discount rate of 2.65% and a WSIB administration rate of 35%. The current year recovery is \$260,382 and prior year recovery was \$134,898. At December 31, 2015, the County provided \$3,139,046 in a reserve to offset this liability.

- b) The vacation year for an employee begins either on their "start date" anniversary or the date defined by the applicable union contract. The vacation liability includes all carry-forward amounts from the previous vacation year and vacation earned from the vacation year start date to December 31, 2015.
- c) The County pays certain life insurance, health and dental benefits on behalf of its retired employees. The County recognizes these post-retirement costs in the period in which the employees render the services.

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

The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 4%. For dental, travel and vision premiums, a 4% annual rate of increase was assumed for 2015 and forward. For health care premiums, a 7.0% increase was used for 2015 and a decreasing rate used until 2026 where 4% was used thereafter.

	2015	2014
Retirement benefit expense	\$ 83,495	\$ 81,366
Interest costs	57,159	54,111
	\$ 140,654	\$ 135,477

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

11. Contractual Commitments

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

Information received from OHC as at December 31, 2015 indicates the following:

Principal payments on debentures during the year	\$	679,709
Interest payments on debentures during the year		322,751
		1,002,460
Total	\$	1,002,460
Debentures outstanding at year-end	\$	4,257,729

The principal and interest payments are recovered at source from Federal Social Housing funding provided from the Province and the balance is flowed to or recovered from the Consolidated Municipal Services Manager (County of Grey). The net amount recovered from the County of Grey in 2015 was \$108,102 (2014 - \$145,071) and is recorded on the statement of operations as a transfer to the Province.

- (b) The County of Grey has approved a capital grant of land and money in the amount of \$1,000,000 to the Centre Grey Health Services Foundation for the Centre Grey General Hospital Building Fund. The amount of money to be paid will be determined by deducting the value of the lands and will be paid in ten equal instalments contingent upon the approval of funding for completion of the Centre Grey Hospital by the Province of Ontario. Payments will be processed once construction begins. The County has transferred \$690,230 to reserves towards this commitment.
- (c) The County of Grey has approved a capital grant of money in the amount of \$1,000,000 to the Grey Bruce Health Services for the The Hospital Campaign. The money will be paid in five equal annual instalments, with the first two instalment payments paid in 2014 and 2015. The remaining has been included in liabilities.
- (d) The County of Grey has been allocated funding for Affordable Housing projects under the Canada-Ontario Affordable Housing Program and Delivering Opportunities for Ontario Renters Program. These funds are being used to create new housing units within the County. A total of \$8,616,349 has been committed to developers in order to complete these units with \$4,909,075 released as of December 31, 2015. If the units remain as affordable housing units for a period of 25 years, no amount will be repayable.
- (e) The County of Grey has approved a capital grant in the amount of \$2,000,000 to Georgian College to support the development of the Marine Emergency Duties Training and Research Centre. The amount will be paid in ten equal instalments. The full amount has been accrued and \$200,000 has been paid out to date.

The Corporation of the County of Grey
Notes to Financial Statements

December 31, 2015

12. Contingencies

- (a) The County of Grey along with the County of Bruce, the Province of Ontario, the Dominion of Canada and several lower tier municipalities have been named as defendants in a land claim action filed by the Chippewas of Saugeen and Nawash, for damages alleged to total \$92,000,000,000. No breakdown as to each municipality's relative share of the \$92,000,000,000 has been provided. The likelihood of the success of this action is undeterminable at the present time.
- (b) The County has been served with various claims as a result of motor vehicle accidents and other incidents. The County has been made aware of a Statement of Claim that exceeds the County of Grey's excess liability policy. The outcomes of these claims are not determinable at this time.
- (c) The County insured errors and omissions and public liability insurance coverage through the Ontario Municipal Insurance Exchange (OMEX) up until December 31, 2008. OMEX is a separate pooling of the public liability insurance risks of its municipal members. All members are subject to assessment for losses, if any, experienced for the years in which they were members.
- (d) The County is currently reviewing pay equity issues for employees of long-term care operations. Pay equity settlements, if any, will be reflected in operations in the period in which they become determinable.

13. Trust Funds

The trust funds administered by the municipality amounting to \$66,365 (2014 - \$65,284) have not been included in the consolidated statement of financial position nor have the operations been included in the consolidated statement of operations and accumulated surplus.

14. Provincial Offences

Revenue is recognized on a cash basis for fines levied during the year. The gross revenues collected for the County of Grey for the year ended December 31, 2015 were \$2,474,738 (2014 - \$2,313,049). Net revenues after deduction of operating expenses were \$573,966 (2014 - \$509,767).

15. Comparative Figures

The comparative amounts presented in the financial statements have been reclassified to conform to the current year's presentation.

The Corporation of the County of Grey Notes to Financial Statements

December 31, 2015

16. Segmented Information

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

Corporate Services

The Corporate Services Committee is responsible to oversee the budgets of Council, Corporate Administration, Emergency Management, Assessment, Provincial Offences, County Property and the Grey Bruce Health Unit. In addition, this committee is also responsible for the administration of the taxation budget, which includes supplementary tax and tax write-offs, as well as the Federal Gas Tax funding.

Planning and Community Development

The Planning and Community Development Committee is responsible for Planning (including civic addressing), Heritage, Agriculture, Forestry, Trails, Tourism and Economic Development mandates.

Social Services, Housing and Long-Term Care

The Social Services Committee oversees the Social Services, Housing and Long-Term Care departments. Social Services includes Social Assistance, Administration, Ontario Works and Child Care. Housing covers operational and capital budgets for Grey County Housing, subsidies provided to Non-Profit Housing Providers and the Affordable Housing Programs. The Long-Term Care component refers to the three Long-Term Care facilities (Grey Gables - Markdale, Rockwood Terrace - Durham and Lee Manor - Owen Sound) that are owned and operated by the County of Grey.

Transportation and Public Safety

The Committee oversees the Transportation Services Department (responsible for providing a safe transportation network of 877 kilometers of County roads and 189 culverts and bridges) and the Paramedic Services Department.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The Corporation of the County of Grey
Notes to Financial Statements

December 31

	Corporate Services	Planning and Community Development	Social Services, Housing and Long- Term Care	Transportation and Public Safety	2015 Total
Revenue					
Taxation	\$ 8,730,538	\$ 4,017,148	\$ 16,554,273	\$ 22,075,457	\$ 51,377,416
Fees and user charges	34,748	646,120	10,055,086	1,731,678	12,467,632
Specific grants	9,681	214,496	38,602,226	10,564,643	49,391,046
Other revenue	3,259,589	82,760	3,773,883	(487,142)	6,629,090
Transfers from obligatory reserve	79,706	233,319	-	3,670,907	3,983,932
	<u>12,114,262</u>	<u>5,193,843</u>	<u>68,985,468</u>	<u>37,555,543</u>	<u>123,849,116</u>
Expenses					
Salaries and benefits	4,045,581	2,404,940	28,027,437	15,225,029	49,702,987
Interest on debt	-	-	83,290	2,458	85,748
Materials and supplies	1,124,169	1,030,897	5,354,155	4,216,267	11,725,488
Contracted services	2,606,625	573,239	5,563,125	2,238,288	10,981,277
Other transfers	7,453,545	148,439	25,645,381	568,542	33,815,907
Rents and financial expenses	378,766	30,584	730,274	759,114	1,898,738
Amortization	101,459	308,489	2,700,939	10,332,307	13,443,194
	<u>15,710,145</u>	<u>4,496,588</u>	<u>68,104,601</u>	<u>33,342,005</u>	<u>121,653,339</u>
Annual surplus (deficit)	\$ (3,595,883)	\$ 697,255	\$ 880,867	\$ 4,213,538	\$ 2,195,777

The Corporation of the County of Grey
Notes to Financial Statements

December 31

	Corporate Services	Planning and Community Development	Social Services, Housing and Long- Term Care	Transportation and Public Safety	2014 Total
Revenue					
Taxation	\$ 8,048,753	\$ 3,805,305	\$ 18,690,973	\$ 21,737,985	\$ 52,283,016
Fees and user charges	142,460	465,346	8,738,121	288,550	9,634,477
Specific grants	2,915	180,455	37,015,876	6,698,613	43,897,859
Other revenue	3,051,505	64,113	3,740,943	(398,237)	6,458,326
Transfers from obligatory reserve	79,706	62,120	-	4,979,000	5,120,826
	11,325,339	4,577,339	68,185,913	33,305,911	117,394,502
Expenses					
Salaries and benefits	3,845,536	2,342,831	27,226,961	14,862,673	48,278,001
Interest on debt	-	-	136,447	3,815	140,262
Materials and supplies	908,471	913,660	5,517,347	4,863,123	12,202,601
Contracted services	2,721,056	512,919	5,270,224	2,652,596	11,156,795
Other transfers	3,527,834	119,956	23,890,324	4,236	27,542,350
Rents and financial expenses	579,110	27,499	746,939	748,137	2,101,685
Amortization	102,870	354,125	2,731,739	10,518,306	13,707,040
	11,684,877	4,270,990	65,519,981	33,652,886	115,128,734
Annual surplus (deficit)	\$ (359,538)	\$ 306,349	\$ 2,665,932	\$ (346,975)	\$ 2,265,768

The Corporation of the County of Grey
Schedule of Deferred Revenue

For the year ended December 31, 2015

	Opening	Contributions Received	Investment Income	Revenue Recognized	Ending
Obligatory Reserve Funds					
Development charges	\$ 3,295,811	\$ 1,475,642	\$ 35,044	\$(1,221,440)	\$3,585,057
Federal gas tax	2,404,319	2,680,345	26,500	(2,762,492)	2,348,672
	<u>5,700,130</u>	<u>4,155,987</u>	<u>61,544</u>	<u>(3,983,932)</u>	<u>5,933,729</u>
Other					
Tourism and Heritage	34,791	-	-	(34,791)	-
Social Services	5,250	21,000	-	(21,000)	5,250
Ontario Nursing Strategy	-	-	-	-	-
Initiatives grant	98,594	33,697	-	(118,537)	13,754
Housing Allowance program	-	314,040	-	(274,748)	39,292
Aggregate Fund	-	54,709	-	-	54,709
Affordable housing administration	2,248	155,019	-	(150,788)	6,479
Affordable housing	24,105	88,455	-	(89,860)	22,700
Investing in Ontario	690,040	-	-	(690,040)	-
Municipal Infrastructure Investment Initiative	991,725	900,000	-	(1,891,725)	-
Capital Program	187,940	242,940	-	(392,554)	38,326
Miscellaneous	-	-	-	-	-
	<u>2,034,693</u>	<u>1,809,860</u>	<u>-</u>	<u>(3,664,043)</u>	<u>180,510</u>
	<u>\$ 7,734,823</u>	<u>\$ 5,965,847</u>	<u>\$ 61,544</u>	<u>\$(7,647,975)</u>	<u>\$6,114,239</u>

Grey Roots - Museum
Statement of Operations
(Unaudited)

<u>For the year ended December 31</u>	<u>2015</u>	<u>2014</u>
Revenue		
Province of Ontario	\$ 65,934	\$ 65,994
Canada	17,631	14,359
County of Grey	1,388,066	1,308,515
City of Owen Sound	272	-
Donations	4,107	5,094
Donation in kind	50,357	11,155
Admissions and sales	142,763	115,093
Transfer from County of Grey reserves	-	51,160
	<u>1,669,130</u>	<u>1,571,370</u>
Expenditures		
Advertising	73,337	79,575
Cleaning and supplies	8,520	32,677
Donation in kind	50,357	11,155
Equipment rentals	1,882	8,786
Heat, light and water	1,401	91,347
Insurance	-	16,846
Office supplies, postage and telephone	259,425	62,685
Professional	7,638	11,750
Purchases for resale	11,364	18,309
Repairs and maintenance	18,619	100,937
Special events	100,339	110,686
Salaries and benefits	990,524	1,023,900
Travel and convention fees	19,058	18,219
Vehicle operations and licensing	2,545	3,296
Transfer to County of Grey reserve	120,578	-
	<u>1,665,587</u>	<u>1,590,168</u>
Less: Change in unfinanced liabilities	<u>(3,676)</u>	<u>2,346</u>
	<u>1,669,263</u>	<u>1,587,822</u>
Net revenue for the year	\$ (133)	\$ (16,452)

County of Grey - Provincial Offences
Statement of Operations
(Unaudited)

For the year ended December 31	2015	2014
Revenue		
Fines	\$ 2,474,738	\$ 2,313,049
Province of Ontario	1,120	1,120
Investment income	978	1,052
Transcripts	4,601	3,530
Cost recoveries	176	84
	<u>2,481,613</u>	<u>2,318,835</u>
Expenditures		
Salaries and benefits	454,914	500,697
Administrative charges	320,445	301,750
Victim fine surcharge	417,175	384,550
Dedicated fines	34,617	22,865
Prosecution expenses	279,300	263,057
Transfers to County of Bruce	384,562	344,183
	<u>1,891,013</u>	<u>1,817,102</u>
Change in unfunded liabilities	(16,634)	8,034
	<u>1,907,647</u>	<u>1,809,068</u>
Net revenue before transfer to reserves	573,966	509,767
Transfer to (from) reserve	134,243	(91,242)
Net revenue for the year	<u>\$ 439,723</u>	<u>\$ 601,009</u>

The Corporation of the
County of Grey
Trust Funds
Financial Statements
For the year ended December 31, 2015

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The Corporation of the County of Grey
Trust Funds
Financial Statements
For the year ended December 31, 2015

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The Corporation of the County of Grey Trust Funds

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Independent Auditor's Report

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

We have audited the accompanying Statement of Financial Position as at December 31, 2015 and the Trust Fund Receipts and Disbursements (the "statement") for the trust funds for the long-term care operations of the County of Grey for the year ended December 31, 2015 and a summary of significant accounting policies and other explanatory information. The statement has been prepared by management based on Section 241 of Ontario Regulation 79/10 made under the Long-Term Care Homes Act, 2007.

Management's Responsibility for the Financial Information

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information for the trust funds for the long-term care operations of the County of Grey for the year ended December 31, 2015 is prepared, in all material respects, in accordance with Section 241 of Ontario Regulation 79/10.

Basis of Accounting and Restrictions on Distribution and Use

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

Chartered Professional Accountants, Licensed Public Accountants

Owen Sound, Ontario
May 24, 2016

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The Corporation of the County of Grey
Long-term Care - Trust Funds
Statement of Financial Position

December 31, 2015

Assets	Total	Rockwood Terrace	Grey Gables	Lee Manor	Residents' Activities
Cash and investments	\$ 66,365	\$ 23,684	\$ 6,616	19,582	16,483
Fund balance	\$ 66,365	\$ 23,684	\$ 6,616	\$ 19,582	\$ 16,483

Long-term Care - Trust Funds
Statement of Trust Fund Receipts and Disbursements

For the year ended December 31, 2015

	Total	Rockwood Terrace	Grey Gables	Lee Manor	Residents' Activities
Balance, beginning of the year	\$ 65,284	\$ 20,080	\$ 5,891	\$ 22,830	\$ 16,483
Receipts					
Residents' net deposits	88,340	45,447	10,258	32,635	-
Expenses					
Residents' net withdrawals	87,259	41,843	9,533	35,883	-
Balance, end of the year	\$ 66,365	\$ 23,684	\$ 6,616	\$ 19,582	\$ 16,483

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

The Corporation of the County of Grey
Long-term Care - Trust Funds
Notes to Financial Statements

December 31, 2015

1. Summary of Significant Accounting Policies

Basis of Accounting

The financial information for the trust funds of the long-term care operations of the Corporation of the County of Grey is the representation of management. It has been prepared in accordance with Section 241 of Ontario Regulation 79/10 as prescribed by the Long-Term Care Homes Act, 2007.

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

Basis of Consolidation

These trust funds have not been consolidated with the financial statements of the Corporation of the County of Grey.

DRAFT



APPENDIX B Independence Update



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

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

May 24, 2016

Members of the Corporate Services Committee
County of Grey
595 9th Ave East
Owen Sound, Ontario
N4K 3E3

Dear Sir/Madam:

We have been engaged to audit the consolidated financial statements of the County of Grey for the year ended December 31, 2015.

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

We are aware of the following relationships between the County and us that, in our professional judgment, may reasonably be thought to bear on our independence. The following relationships represent matters that have occurred from December 10, 2015 to May 24, 2016.

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

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

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

We hereby confirm that we are independent with respect to the County within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario as of May 24, 2016.



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

Yours truly,

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

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

TS:sb



APPENDIX C Representation Letter

County of Grey
595 - 9th Avenue East
Owen Sound Ontario N4K 3E3

May 24, 2016

BDO Canada LLP
Chartered Professional Accountants
1717 2nd Avenue East, 3rd Floor
P.O. Box 397
Owen Sound, Ontario N4K 5P7

Dear Sir/Madam:

This representation letter is provided in connection with your audit of the statements of financial position as at December 31, 2015, and the statements of operations and accumulated surplus, net financial assets and cash flows for the year then ended of County of Grey for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position as at December 31, 2015 and the results of operations and cash flows for those dates in accordance with Canadian public sector accounting standards.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated January 9, 2014, for the preparation of the financial statements in accordance with Canadian public sector accounting standards; in particular the financial statements are fairly presented in accordance therewith.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards.
4. All events subsequent to the date of the financial statements and for which Canadian public sector accounting standards require adjustment or disclosure have been adjusted or disclosed.
5. The financial statements of the municipality use appropriate accounting policies that have been properly disclosed and consistently applied.

Information Provided

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

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

Fraud and Error

15. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.
16. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
17. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
18. We have reviewed and approved all journal entries recommended by the auditors during the audit.

19. The effects of unadjusted misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A list of the uncorrected misstatements is attached to the representation letter.

Existence, Completeness and Valuation of Specific Financial Statement Balances

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

General Representations

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

- 30. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- 31. We confirm that operating segments are appropriately identified and disclosed in accordance with Canadian public sector accounting standards.
- 32. No significant matters, other than those disclosed in the financial statements, have arisen that would require a restatement of the comparative financial statements.
- 33. We have made the following additional significant representations to you during the course of your audit which we understand that you have relied upon:

Management confirms that to the best of our knowledge and belief, we have:

- Evaluated all land owned by the municipality or where the municipality has accepted responsibility for the land as to whether there are sites in the Scope of PS 3260 Liability for Contaminated Sites.
- Made available to you all financial records and related data relevant to the assessment of the liability for contaminated sites.
- Appropriately set up, accounted for and disclosed all liabilities for contaminated sites.

Yours truly,

Signature

Position

Signature

Position

County of Grey
Summary of Unadjusted Misstatements
December 31, 2015

Description of the Misstatement	Identified Misstatement	Projected Misstatement	Estimates	Proposed Adjustments			
				Assets Dr(Cr)	Liabilities Dr(Cr)	Opening Fund Balance Dr(Cr)	Income Dr(Cr)
Timing error of amounts capitalized before project completed.	407,595	-	-	(407,595)	407,595	-	-
Lower Tier tax estimate not recorded	-	-	152,975	152,975	-	-	(152,975)
Likely Aggregate Misstatements Before Effect of Previous Year's Errors and Estimates	407,595	-	152,975	(254,620)	407,595	-	(152,975)
Effect of Previous Year's Errors				-	-	-	-
Likely Aggregate Misstatements				(254,620)	407,595	-	(152,975)

Details of why no adjustment has been made to the financial statements for the above items:

Timing differences will resolve in current year.



APPENDIX D
BDO Publications

ASSURANCE AND ACCOUNTING

PUBLIC SECTOR ACCOUNTING STANDARDS (PSAS) UPDATE 2015

Introduction

During 2015, the Public Sector Accounting Board (PSAB or the "Board") made several changes to the CPA Canada Public Sector Accounting Handbook (PSA Handbook) including the issuance of six new Handbook Sections. The Board also undertook new projects and advanced the progress of existing projects that propose future changes to the PSA Handbook. These current and proposed changes will be discussed in this publication.

Standards Effective April 1, 2014

Liability for Contaminated Sites

Section PS 3260, *Liability for Contaminated Sites*, became effective for years beginning on or after April 1, 2014. That means entities with December 31, 2015 year ends will be applying it for the first time to their upcoming year end financial statements. This standard provides guidance on what is considered contamination, when an entity becomes responsible for contamination, when environmental obligations meet the definition of a liability, how environmental liabilities should be measured given the uncertainties and the disclosures required for the financial statements. Previous PSAS Update publications have discussed this standard so it will not be covered again here in detail. However, for a comprehensive look at the requirements of this standard and how to apply it, please refer to our publication "[Contaminated Sites — A Practical Approach to Section PS 3260.](#)"

Standards Effective January 1, 2017

Amendments to the Introduction

The PSA Handbook was originally written primarily to address the financial reporting needs of governments in Canada. However, now that government organizations who previously followed Part V of the CPA Handbook — Accounting have adopted the PSA Handbook, their needs must be considered as well. To address this, the Board began a project to update terminology in the PSA Handbook to clarify standards and guidance that is applicable to public sector entities. As part of this project, the Board amended the Introduction to Public Sector Accounting Standards to clarify the applicability of the PSA Handbook for various public sector entities.

The main amendments to this Section are:

- The introduction of the term "public sector entity", which is defined as a government, government component, government organization or government partnership.
- The introduction of the term "government component", which is defined as an integral part of a government, such as a department, ministry or fund. It is not a separate entity with the power to contract in its own name and that can sue and be sued.
- The definition of a government organization has been amended to state that it is any organization controlled by a government that is a separate entity with the power to contract in its own name and that can sue and be sued.
- Definitions for each type of government organization and government partnership are now included in this Section. Previously these definitions were scattered throughout various Sections of the PSA Handbook.

- The definition of each type of government organization has been amended to clarify that they are separate legal entities that have the power to contract in their own name and that can sue and be sued.
- The definition of a government partnership has also been amended to clarify that it is not a government organization.
- Guidance has been added to explain what GAAP is to be followed by government components and government partnerships as this guidance was not previously provided in the PSA Handbook:
 - Government components follow the guidance for governments in the PSA Handbook.
 - Government partnerships between two or more public sector entities normally follow the standards for governments in the PSA Handbook. However, when these standards do not meet the needs of the users of their financial statements, the government partnership considers following International Financial Reporting Standards (IFRS) in Part I of the CPA Canada Handbook.
 - Government business partnerships between two or more public sector entities follow IFRS.
 - Government partnerships or government business partnerships with one or more private sector partners follow the GAAP that their partners determine is most appropriate for the partnership.

Since the amendments to this Section introduced a definition of government components as well as guidance on what GAAP government partnerships and government business partnerships should be following, this may result in some government components, government partnerships and government business partnerships needing to adopt a different GAAP from what they are currently following. As a result, specific guidance on effective dates and transition has been provided:

- Government components and government partnerships that adopt the PSA Handbook should do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted. The adoption of these standards should be accounted for by retroactive application with restatement of prior periods in accordance with Section PS 2125, *First-time Adoption*.
- Government partnerships and government business partnerships that determine standards applicable to publicly accountable enterprises (i.e. International Financial Reporting Standards) are most appropriate for their partnership should do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted.

Government components, government partnerships and government business partnerships that expect to change their basis of accounting should disclose this fact in their financial statements in the periods preceding the period the change becomes effective.

Standards Effective April 1, 2017

Related Party Disclosures

During 2015, the Board issued two new Sections PS 2200, *Related Party Disclosures*, and PS 3420, *Inter-entity Transactions*. Prior the issuance of these two Sections the PSA Handbook did not include a standard dealing with related party transactions. The reason two standards were developed instead of only one is because related party transactions can occur with individuals and entities both inside and outside of a government's reporting entity. However, the Board believes that generally issues of recognition and measurement would not arise for related party transactions that are not part of the same government reporting entity. These types of related party transactions would be recognized at the exchange amount according to their substance and the individual accounting standards applied for reporting purposes. Disclosures about these related party transactions would be sufficient for users to understand the effect of those transactions on an entity's financial position and changes in financial position. So these types of transactions are excluded from new Section PS 3420, which provides recognition and measurement guidance for related party transactions that occur between entities within the government's reporting entity. New Section PS 2200 then provides guidance on disclosure requirements for related party transactions.

Section PS 2200 defines a related party and a related party transaction as follows:

Related party - A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

Related party transaction - A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

The standard does not require disclosure of key management personnel compensation arrangements, expense allowances or other similar payments routinely paid in exchange for services rendered. Additionally the standard does not require disclosure of all related party transactions. Instead, disclosure is generally only required when:

- A transaction occurs between related parties at a value different from that which would have been arrived at if the parties were unrelated; and
- Transactions and events between related parties have or could have a material financial effect on the financial statements.

Determining which items to disclose is based on an assessment of the terms and conditions underlying the transactions, the financial materiality of the transactions, relevance of the information to the decisions of users, and the need for the information to enable users' understanding of the financial statements and for making comparisons to other entities. When it is determined that information about related party transactions needs to be disclosed in the financial statements, the disclosure would include the following, aggregating items that are similar in nature:

- Information about the nature of the relationship with related parties involved in related party transactions;
- The types of related party transactions that have been recognized;
- The amounts of the transactions recognized classified by financial statement category;
- The basis of measurement used;
- The amount of outstanding balances and the terms and conditions attached to them;
- Contractual obligations with related parties, separate from other contractual obligations;
- Contingent liabilities involving related parties, separate from other contingent liabilities; and
- The types of related party transactions that have occurred for which no amount has been recognized.

Section PS 2200 is effective for fiscal years beginning on or after April 1, 2017, but earlier adoption is permitted. This Section must be applied prospectively.

Inter-entity Transactions

As previously mentioned, related Section PS 3420 provides guidance on how to account for and report transactions between public sector entities that comprise a government's reporting entity from the perspective of both the provider and the recipient.

Under this Section, the transfer of assets or liabilities is recognized by both the provider and the recipient. The provider removes the assets or liabilities from its financial statements and any difference between the net proceeds received and the carrying amounts transferred is accounted for as a revenue or expense in the statement of operations. The recipient recognizes assets or liabilities in its financial statements when the items satisfy the definition and recognition criteria for an asset and liability in Section PS 1000, *Financial Statement Concepts*.

When there is a policy of cost allocation and recovery for the provision of goods and services, the provider reports all revenues and expenses on a gross basis and the recipient reports expenses on a gross basis.

When there is no policy for allocating costs, the recipient may choose to recognize these costs when they would otherwise have been purchased and a reasonable estimate of the amount involved can be made. In this case, the recipient recognizes these items as revenues and expenses.

Under Section PS 3420 transactions are measured at the carrying amount, other than in the following situations:

Situation	Then Measured At:
Transactions are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length	Exchange amount
Assets or liabilities are transferred for nominal or no consideration	Provider – measures at the carrying amount Recipient – measures at the carrying amount or fair value
Transactions are allocated costs and recoveries	Exchange amount
Transactions are unallocated costs	The carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice

Inter-entity transactions are disclosed in accordance with the requirements of Section PS 2200.

Section PS 3420 is effective for fiscal years beginning on or after April 1, 2017, but earlier adoption is permitted. If application of Section PS 3420 results in a change of accounting policy Section PS 2120, *Accounting Changes*, applies. Per paragraph PS 2120.13, when a change in an accounting policy is made to conform to a new Public Sector Accounting Standard the new standard may be applied retroactively or prospectively.

Assets

Section PS 3210, *Assets*, was issued during 2015 and provides additional guidance on the definition of assets. Assets are defined as economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

This new Section provides additional guidance on what is meant by economic resources, control, past transactions or events, and future economic benefits. This guidance will be helpful in determining whether an item meets the definition of an asset. It may also result in public sector entities reassessing whether items meet the definition of an asset upon adoption of this Section.

Section PS 3210 requires public sector entities to disclose major categories of assets that are not recognized in their financial statements (i.e. intangibles, crown lands, heritage assets, etc.).

This Section is effective for fiscal years beginning on or after April 1, 2017, but earlier adoption is permitted.

Contingent Assets

During 2015, Section PS 3320, *Contingent Assets*, was issued in the PSA Handbook. Prior to this the PSA Handbook included a definition of contingent liabilities, but did not include a definition of contingent assets. This new Section provides a definition of contingent assets as:

Possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

Section PS 3320 requires disclosure of contingent assets in the financial statements when the occurrence of a confirming future event is likely.

This new Section may result in public sector entities performing a reassessment of items that meet the definition of a contingent asset and additional information being disclosed upon adoption of this Section.

Section PS 3320 is effective for fiscal years beginning on or after April 1, 2017, but earlier adoption is permitted.

Contractual Rights

Before Section 3380, *Contractual Rights*, was issued in 2015 the PSA Handbook included a definition of contractual obligations, but did not define contractual rights. This new Section provides a definition of contractual rights as:

Rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.

This Section also requires that information about a public sector entity's contractual rights be disclosed in the financial statements. This disclosure would include a description about the nature, extent and timing of the contractual rights. Since an entity may have many contractual rights, professional judgment will be required in determining what to disclose. Factors to consider include, but are not limited to, contractual rights to revenue that is abnormal in relation to the financial position or usual business operations of the entity and contractual rights that will govern the level of a certain type of revenue for a considerable period into the future.

This Section is effective for fiscal years beginning on or after April 1, 2017, but earlier adoption is permitted.

Standards Effective April 1, 2018

Restructurings

Section PS 3430, *Restructuring Transactions*, was issued in 2015. This new Section provides guidance on accounting for restructuring transactions. Previously, no such guidance existed in the PSA Handbook. As public sector entities are entering into these types of transactions more often, guidance was needed to ensure these transactions are accounted for on a consistent basis.

Restructuring activities include, but are not limited to:

- Amalgamations of entities or operations within the government reporting entity;
- The amalgamation of local governments;
- Annexation or boundary alteration between neighbouring local governments;
- Transfers of operations or programs from one entity to another; and
- Shared service arrangements entered into by local governments in a region.

Section PS 3430 provides a definition of a restructuring transaction as:

A transfer of an integrated set of assets and / or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and liabilities transferred.

The key characteristics of restructuring transactions are:

- Their non-purchase nature;
- Transfers of an integrated set of assets and/or liabilities that are not random or unrelated; and
- Transfers of program or operating responsibilities related to the assets and liabilities transferred.

The key distinction between a restructuring transaction and an acquisition is that a restructuring transaction's non-purchase nature is reflected by the absence of consideration that is primarily based on the fair value of the individual assets and liabilities transferred.

Under Section PS 3430 the individual assets and liabilities transferred in a restructuring transaction would be derecognized by the transferor and recognized by the recipient at their carrying amounts with applicable adjustments. The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors, and transferred to all recipients in a restructuring transaction would be recognized as revenue or as an expense. In addition:

- Any costs incurred related to the restructuring would be expensed when incurred;
- The accounting policies and circumstances of the recipient at the restructuring date would determine the initial classification of the individual assets and liabilities received in the restructuring transaction;
- The net effect of a restructuring transaction is presented as a separate revenue or expense item in the statement of operations;
- Financial position and results of operations prior to the restructuring date would not be restated; and
- A transferor and a recipient need to disclose sufficient information to enable financial statement users to assess the nature and financial effects of a restructuring transaction on their financial position and operations. Disclosure of information about the transferred assets, liabilities and related operations prior to restructuring date is encouraged but not required.

This Section only applies to new restructuring transactions that occur in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.

Standards Effective April 1, 2019

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

During 2015, the Board delayed the effective date for Sections PS 3450, *Financial Instruments*, and PS 2601, *Foreign Currency Translation*. These Sections are now applicable for fiscal years beginning on or after April 1, 2019, for public sector entities that did not previously apply the CPA Canada Handbook – Accounting prior to adopting the PSA Handbook. Therefore, public sector entities that meet this criteria, such as governments, will apply these Sections for the first time for their March 31, 2020 year ends (for governments with calendar year ends, December 31, 2020 will be the first year end affected). At the same time public sector entities adopt these two Sections, they must also adopt Section PS 1201, *Financial Statement Presentation*, Section PS 3041, *Portfolio Investments*, and the effective interest method outlined in paragraph .25 of Section PS 3050, *Loans Receivable*. For more details on these standards please refer to our publication "[A Guide to Accounting for Financial Instruments in the Public Sector](#)".

Projects on the Go

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

Statement of Principles — Revenue

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

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

The proposed standard would define exchange transactions as transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity arising directly from a payment or promise of consideration by a payor.

A performance obligation is defined as an enforceable promise to provide goods or services to a payor as a result of exchange transactions.

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

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

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

As a result of responses received on this Statement of Principles the Board is currently undertaking further research on these issues and the project timeline has been extended. An Exposure Draft is expected to be issued in the third quarter of 2016.

Statement of Principles — Retirement Obligations

The PSA Handbook does not include a standard on retirement obligations, and as a result there are currently inconsistencies in how public sector entities account for these obligations. In August of 2014, the Board issued a Statement of Principles which proposes exposing a new Section on retirement obligations associated with tangible capital assets controlled by a public sector entity.

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

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

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

The Board is currently deliberating comments received on the Statement of Principles and an Exposure Draft is expected to be issued in the second quarter of 2016.

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

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

During 2015, the AcSB approved the creation of a "Not-for-profit Organizations Advisory Committee" to assist with its standards improvements initiatives, as well as to provide input on other standard-setting matters of interest to private sector NPOs. In addition, the AcSB approved three projects relating to private sector NPO standards.

During 2015, PSAB approved an Exposure Draft proposing withdrawal of Section PS 4260, *Disclosure of Related Party Transactions by Not-for-Profit Organizations*, and amendments to the transitional provisions in Section PS 2200, *Related Party Disclosures*, for NPOs applying the PSA Handbook including the PS 4200 series of Sections. PSAB also discussed a project plan to improve standards for not-for-profit organizations.

As these projects could have a significant impact on accounting for public sector NPOs we would encourage NPOs to watch them closely. The latest information on these projects can be found on the Financial Reporting and Assurance Standards Canada (FRAS Canada) website or by clicking [here](#).

Exposure Draft — Financial Instruments

The Board released an Exposure Draft in October 2014 that proposed clarifications to the scope and added some new guidance and transitional provisions to Section PS 3450, *Financial Instruments*. The amendments to Section PS 3450 were originally expected to be released in the Handbook in the fall of 2015; however, due to the implementation date for Section PS 3450 being delayed to April 1, 2019 the Board has deferred consideration of the amendments proposed in the Exposure Draft until a later date.

Post Implementation Review — Government Transfers

The Board undertook a post-implementation review of Section PS 3410, *Government Transfers*, in November 2014. The purpose of this review is to help the Board assess any implementation challenges encountered by stakeholders in applying Section PS 3410 and the nature, extent and cause of any ongoing issues. This is the first post-implementation review undertaken by PSAB. Such reviews consider whether the standard has been implemented and achieved the intended objectives. The Board is currently reviewing the comments received from respondents and plans to release a Feedback Statement in the first quarter of 2016 with the results of their findings.

Project — Employment Benefits

The Board has approved a new project on Employee Benefits. This project was identified as the top priority in PSAB's 2014 Project Priority Survey. The project will review existing Sections PS 3250, *Retirement Benefits*, and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*. Since these Sections were originally issued many years ago, new types of pension plans have been introduced and there have been changes in the related accounting concepts. The first part of this project will involve looking at issues such as deferral of experience gains and losses, discount rate, shared risk plans, multi-employer defined benefit plans and vested sick leave benefits. Other improvements to existing guidance will also be considered. The next stage will involve determining how to account for new types of pension plans. The Board plans to issue a new comprehensive Handbook Section on employment benefits that will replace the two existing Sections. Currently the Board is putting together a task force of volunteers to undertake this project and it is expected that an Invitation to Comment will be issued in the second quarter of 2016.

Public Sector Accounting Discussion Group

In 2013, the Board established the Public Sector Accounting Discussion Group (PSADG) as a regular public forum at which issues arising on the application of the PSA Handbook can be discussed. The group meets three times a year and consists of members that include preparers, auditors and users of government and government organization financial reports. The group's purpose is to assist the Board regarding issues arising on the application of the PSA Handbook and to gather information to advise the Board on priorities and possible agenda items for its consideration. While the group does not issue any authoritative guidance or interpretations, as only the Board has the ability to do so, the group's meeting summaries provide meaningful insights on the application of the standards that can be used as a resource. These meeting summaries are available on the FRAS Canada website or by clicking [here](#). During 2015, the PSADG discussed topics including:

- Presentation of budget information;
- Shared risk retirement benefit arrangements;
- Statements of recommended practice;
- Standard setting in the public interests;
- The term net debt;
- Remediation obligations;
- Gas tax agreements;
- Contractual obligations;
- Acquisition and development of software associated with cloud computing; and
- Vacation paid in the year of retirement.

We would encourage public sector entities to keep up to date on topics discussed at these meetings.

Conclusion

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

The information in this publication is current as of October 15, 2015.

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