County of Grey

Final Report to Corporate Services Committee

June 10, 2014

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June 10, 2014

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

Dear Committee Members:

We are pleased to present the results of our audit of the consolidated financial statements of the County of Grey for the year ended December 31, 2013. The purpose of our report is to summarize certain aspects of the audit that we believe to be of interest to the Corporate Services Committee and should be read in conjunction with the draft consolidated financial statements and our draft 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 Corporate Services Committee in fulfilling its responsibilities.

This report has been prepared solely for the use of the Corporate Services Committee 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

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

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STATUS OF THE AUDIT

As of the date of this final report, we have substantially completed our audit of the 2013 consolidated financial statements pending the completion of the items highlighted below. These items will need to be completed prior to issuance of our audit report on the consolidated financial statements.

COMPLETION OF AUDIT

- Receipt of signed management representation letter
- Receipt of outstanding legal confirmations
- Subsequent events review through to financial statement approval date

FINANCIAL STATEMENTS

- Approval of consolidated financial statements by the Corporate Services Committee

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the consolidated financial statements are free from material misstatement. The scope of the work performed was substantially the same as that described in our Planning Report to the Corporate Services Committee dated January 9, 2014.

INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to the Corporate Services Committee 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.

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

MATERIALITY

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

For the audit of the County of Grey for the year ended December 31, 2013, final materiality was $2,100,000, based on 2% of average total revenues.

AUDIT FINDINGS

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

Financial Statement Disclosures

Contingencies

- 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
- 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
- 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.
- The County is currently reviewing pay equity issues for employees of the Homes for the Aged. Pay equity settlements, if any, will be reflected in operations in the period in which they become determinable.

Significant Accounting Policies and Estimates

Significant accounting policies have been disclosed in the financial statements.

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.

Change in accounting policy

Effective January 1, 2013, the County was required to adopt on a prospective basis the new accounting standards PS 3410 Government Transfers and PS 3510 Tax Revenue.

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. The prospective application of this change in accounting policy resulted in a decrease of $8,551 in taxes payable, and a decrease of $8,551 in taxation revenue. Management has not adjusted this amount on the financial statements as it was considered trivial. It is not included on the summary of unadjusted differences in Appendix C.

Government transfers

Contracts relating to significant contracts were reviewed to determine compliance with the new requirements of this accounting standard. The prospective application of this change resulted in an increase in government transfers for the year of $31,287 and a decrease in deferred revenue of $31,287.

As transferor there were certain amounts for social services expenditures made prior to year end but relating to the January 2014 benefit period that were not recorded in the operating results of the County. These amounts totaling $88,317 have been included on the summary of unadjusted differences in Appendix C.

ADJUSTED AND UNADJUSTED DIFFERENCES

We have disclosed all significant adjusted and unadjusted differences and disclosure omissions 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 $88,317 are immaterial both individually and in aggregate to the consolidated financial statements taken as a whole. Should the Corporate Services Committee agree with this assessment, we do not propose further adjustments.

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

MANAGEMENT REPRESENTATIONS

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

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

FRAUD DISCUSSION

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

Required Discussion	BDO Response	Question to the Corporate Services Committee
Knowledge of actual, suspected or alleged fraud.	Currently, we are not aware of any actual, suspected or alleged fraud.	Are you aware of any instances of actual, suspected or alleged fraud affecting the County?

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 schedules designed to conceal it.

The scope of the work performed was substantially the same as that described in our Planning Letter to the Corporate Services Committee dated January 9, 2014.

INTERNAL CONTROL MATTERS

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

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

BDO PUBLICATIONS

The County applies Public Sector Accounting Standards. We have included in Appendix E our PSAB Update publication which will provide you with details on recent changes to Public Sector Standards. We are also including our "PSAB at a Glance" publications for the mentioned upcoming sections:

- PS 3450 – Financial Instruments
- PS 3260 – Liability for Contaminated Sites

APPENDIX A
Draft Auditor's Report

The Corporation of the County of Grey
Financial Information
For the year ended December 31, 2013

The Corporation of the County of Grey
Financial Information
For the year ended December 31, 2013

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The Corporation of the County of Grey
Financial Statements
For the year ended December 31, 2013

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The Corporation of the County of Grey

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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, 2013, 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, 2013 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

Owen Sound, Ontario
June 10, 2014

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

December 31	2013	2012
Financial assets		
Cash and temporary investments (Note 1)	**$ 55,140,831**	$ 48,605,810
Trade and other receivables	**2,068,777**	1,536,239
Inventory held for resale	**13,431**	17,150
	57,223,039	50,159,199
Liabilities		
Accounts payable and accrued liabilities	**7,237,053**	6,443,764
Vacation pay, post-employment benefits and WSIB Schedule II liabilities (Note 10)	**6,425,879**	8,115,923
Deferred revenue (Page 28)	**8,768,783**	8,274,906
Net long-term liabilities (Note 2)	**2,471,501**	3,705,816
	24,903,216	26,540,409
Net financial assets	**32,319,823**	23,618,790
Contingencies (Note 12)		
Non-financial assets		
Prepaid expenses	**38,662**	30,576
Tangible capital assets (Note 3)	**172,041,317**	175,166,458
Inventory of supplies	**1,395,605**	1,497,564
	173,475,584	176,694,598
Accumulated surplus (Note 4)	**$ 205,795,407**	$200,313,388

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

For the year ended December 31	2013 Budget (Note 6)	**2013 Actual**	2012 Actual
Revenue			
Taxation	$ 50,997,927	**$ 50,785,540**	$ 50,213,355
Fees and user charges	8,895,414	**9,711,963**	9,654,060
Government transfers (Note 7)	43,517,513	**44,253,383**	40,906,557
Other income (Note 8)	7,354,116	**6,595,205**	7,311,540
Obligatory reserve fund revenue recognized	5,594,880	**4,430,515**	1,015,313
	116,359,850	**115,776,606**	109,100,825
Expenses			
General government	7,092,031	**6,613,452**	6,589,240
Protection services	2,258,452	**2,179,541**	2,249,752
Transportation services	9,168,192	**21,015,860**	21,553,370
Health services	1,670,960	**1,661,023**	1,630,205
Land ambulance	11,000,978	**11,495,019**	11,046,088
Social and family services	27,248,270	**25,517,125**	25,315,887
Social housing	10,780,756	**12,664,293**	11,348,851
Homes for the Aged	24,362,756	**24,866,422**	25,869,536
Recreation and cultural services	1,875,228	**2,268,000**	2,180,814
Planning and development	2,015,935	**2,013,852**	1,750,326
	97,473,558	**110,294,587**	109,534,069
Annual surplus (deficit) (Note 6)	18,886,292	**5,482,019**	(433,244)
Accumulated surplus, beginning of the year	200,313,388	**200,313,388**	200,746,632
Accumulated surplus, end of the year	$219,199,680	**$ 205,795,407**	$200,313,388

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

For the year ended December 31	2013 Budget (Note 6)	**2013 Actual**	2012 Actual
Annual surplus (deficit) (Page 6)	$ 18,886,292	**$ 5,482,019**	$ (433,244)
Acquisition of tangible capital assets	(17,691,087)	**(11,793,825)**	(6,397,035)
Amortization of tangible capital assets	-	**13,832,692**	13,870,896
Loss on disposal of capital assets	-	**945,674**	168,072
Proceeds on disposal of capital assets	-	**140,600**	195,434
	(17,691,087)	**3,125,141**	7,837,367
Change in prepaid expenses	-	**(8,086)**	40,297
Change in inventory of supplies	-	**101,959**	268,415
	-	**93,873**	308,712
Increase in net financial assets	1,195,205	**8,701,033**	7,712,835
Net financial assets, beginning of the year	23,618,790	**23,618,790**	15,905,955
Net financial assets, end of the year	$ 24,813,995	**$32,319,823**	$ 23,618,790

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

For the year ended December 31	2013	2012
Cash provided by (used in)		
Operating activities		
Annual surplus (deficit)	$ 5,482,019	$ (433,244)
Items not involving cash		
Vacation pay, post-employment benefits and WSIB Schedule II liabilities	(1,690,044)	435,026
Amortization	13,832,692	13,870,896
Loss on disposal of capital assets	945,674	168,072
Deferred revenue recognized	(4,901,920)	(1,437,221)
	13,668,421	12,603,529
Changes in non-cash working capital balances		
Trade and other receivables	(532,538)	2,407,172
Inventory held for resale	3,719	339
Prepaid expenses	(8,086)	40,297
Accounts payable and accrued liabilities	793,289	(687,073)
Inventory of supplies	101,959	268,415
Deferred revenue received	5,395,797	4,135,692
	19,422,561	18,768,371
Capital transactions		
Cash used to acquire capital assets	(11,793,825)	(6,397,035)
Proceeds on disposal of capital assets	140,600	195,434
	(11,653,225)	(6,201,601)
Financing activities		
Repayment of long-term liabilities	(1,234,315)	(1,180,842)
Net change in cash and temporary investments	6,535,021	11,385,928
Cash and temporary investments, beginning of the year	48,605,810	37,219,882
Cash and temporary investments, end of the year	$ 55,140,831	$ 48,605,810

December 31, 2013

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

December 31, 2013

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.

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

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 recognised in the statement of operations as the stipulation liabilities are settled.

December 31, 2013

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.

December 31, 2013

1. Cash and Temporary Investments

	2013	2012
Unrestricted cash and bank	**$ 55,140,831**	$ 48,605,810

A cash balance of $37,622,626 is being held in one bank account earning interest at a rate of prime less 1.75%. Cash balances of $3,122,680 and investment deposits of $12,417,965 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. Investment deposits of $1,041,989 are also held at a second financial institution.

Temporary investments included in the balance above consists of:

	2013	2012
Cash	**4,510**	4,465
Bond Fund	**1,013,876**	-
Money Market Fund	**-**	1,013,895
Term Deposits (1.52% to 1.60%, 2012 - 1.63% - 2.00%)	**9,254,564**	9,099,874
Guaranteed Investment Certificates (1.58% to 2.20%, 2012 - 1.65% to 2.05%	**4,156,671**	4,086,106
Membership share	**25**	25
	$ 14,429,646	$ 14,204,365

Temporary investments have a market value of $14,440,338 (2012 - $14,225,781) 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, 2013, the County of Grey had a $6,000,000 unused credit facility.

2. Long-Term Liabilities

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

	2013	2012
Royal Bank of Canada, 2.693%, mortgage payable in blended monthly instalments of $2,330, due 2015	**$ 48,995**	$ 75,295
Ontario Strategic Infrastructure Financing Authority, 4.36%, blended semi-annual payments of $373,345, due 2014	**722,965**	1,415,409
Ontario Strategic Infrastructure Financing Authority, 4.73%, blended semi-annual payments of $307,160, due 2016	**1,699,541**	2,215,112
	$ 2,471,501	$ 3,705,816

Principal payments for the next 3 fiscal years are as follows:

2014	$ 1,291,465
2015	$ 586,841
2016	$ 593,195

Interest of $199,040 (2012 - $255,285) was paid during the year.

December 31

3. Tangible Capital Assets

2013

	Land and Land Improvements	Buildings	Machinery & Equipment	Roads	Traffic Signals	Bridges	Culverts	Vehicles	Total
Cost, beginning of the year	$ 1,912,888	$ 85,118,790	$ 12,188,585	$ 243,112,967	$ 2,080,064	$ 27,960,045	$ 7,985,726	$ 9,425,355	$ 389,784,420
Additions	47,716	1,656,595	775,329	7,483,228	-	143,483	607,732	1,079,742	11,793,825
Disposals	-	(159,007)	(555,927)	(4,882,969)	-	-	-	(1,159,443)	(6,757,346)
Cost, end of the year	1,960,604	86,616,378	12,407,987	245,713,226	2,080,064	28,103,528	8,593,458	9,345,654	394,820,899
Accumulated amortization, beginning of the year	743,176	37,947,446	6,631,803	140,586,479	1,356,782	17,932,302	4,718,504	4,701,470	214,617,962
Amortization	63,218	2,848,678	1,000,366	8,152,790	104,003	499,976	167,649	996,012	13,832,692
Disposals	-	(159,007)	(495,499)	(3,938,529)	-	-	-	(1,078,037)	(5,671,072)
Accumulated amortization, end of the year	806,394	40,637,117	7,136,670	144,800,740	1,460,785	18,432,278	4,886,153	4,619,445	222,779,582
Net carrying amount, end of the year	$ 1,154,210	$ 45,979,261	$ 5,271,317	$ 100,912,486	$ 619,279	$ 9,671,250	$ 3,707,305	$ 4,726,209	$ 172,041,317

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3. Tangible Capital Assets - (continued)

									2012
	Land and Land Improvements	Buildings	Machinery & Equipment	Roads	Traffic Signals	Bridges	Culverts	Vehicles	Total
Cost, beginning of the year	$ 1,894,571	$ 83,160,848	$ 11,726,536	$ 242,105,702	$ 2,080,064	$ 27,960,045	$ 7,985,726	$ 8,717,839	$ 385,631,331
Additions	18,317	1,957,942	987,379	2,547,722	-	-	-	885,675	6,397,035
Disposals	-	-	(525,330)	(1,540,457)	-	-	-	(178,159)	(2,243,946)
Cost, end of the year	1,912,888	85,118,790	12,188,585	243,112,967	2,080,064	27,960,045	7,985,726	9,425,355	389,784,420
Accumulated amortization, beginning of the year	680,952	35,158,924	6,078,862	133,560,552	1,252,779	17,433,219	4,551,868	3,910,350	202,627,506
Amortization	62,224	2,788,522	1,007,567	8,305,170	104,003	499,083	166,636	937,691	13,870,896
Disposals	-	-	(454,626)	(1,279,243)	-	-	-	(146,571)	(1,880,440)
Accumulated amortization, end of the year	743,176	37,947,446	6,631,803	140,586,479	1,356,782	17,932,302	4,718,504	4,701,470	214,617,962
Net carrying amount, end of the year	$ 1,169,712	$ 47,171,344	$ 5,556,782	$ 102,526,488	$ 723,282	$ 10,027,743	$ 3,267,222	$ 4,723,885	$ 175,166,458

3. Tangible Capital Assets - (continued)

The net book value of tangible capital assets not being amortized because they are under construction is $235,088 (2012 - $152,793).

In 2013 $Nil (2012 - $57,220) 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:

	2013	2012
Invested in tangible capital assets		
Tangible capital assets purchased	**$ 172,041,317**	$ 175,166,458
Unfinanced capital assets	**(1,374,289)**	(1,784,920)
Capital assets financed by long-term liabilities and to be funded in future years	**(2,471,501)**	(3,705,816)
Total invested in capital assets	**168,195,527**	169,675,722
Unfunded post-employment benefits	**(5,857,018)**	(7,532,870)
Other surplus	**1,395,605**	1,497,564
	163,734,114	163,640,416
Reserves and reserve funds (Note 5)	**42,061,293**	36,672,972
Accumulated surplus	**$ 205,795,407**	$ 200,313,388

December 31, 2013

5. Reserves and Reserve Funds Set Aside for Specific Purpose by Council

	2013	2012
Reserves		
Working funds	**$ 5,962,726**	$ 2,399,917
Insurance, sick leave and WSIB	**3,299,572**	3,124,381
Current purposes	**13,391,022**	12,418,600
Capital purposes	**19,407,973**	18,730,074
Reserves and reserve funds set aside for specific purpose by Council	**$ 42,061,293**	$ 36,672,972

6. Budgets

Under Canadian Public sector accounting principles, budget amounts are to be reported on the consolidated statement of operations and changes in net financial assets for comparative purposes. The 2013 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 changes in net financial assets. The following is a reconciliation of the budget approved by Council.

	2013 Budget	2013 Actual	2012 Actual
Annual surplus (deficit) (Page 6)	$ 18,886,292	**$ 5,482,019**	$ (433,244)
Transfers to reserves	(5,198,790)	**(10,001,203)**	(9,761,916)
Transfers from reserves	5,237,900	**4,612,882**	2,984,543
Capital acquisitions, disposals and write-down	(17,691,087)	**(10,707,551)**	(6,033,529)
Amortization	-	**13,832,692**	13,870,896
Debt principal repayments	(1,234,315)	**(1,234,315)**	(1,180,842)
Change in unfunded liabilities	-	**(1,675,852)**	409,402
Change in other surplus	-	**101,959**	268,414
	-	**410,631**	123,724
Prior year capital projects funded	-	**(410,631)**	(123,724)
	$ -	**$ -**	$ -

December 31, 2013

7. Government Transfers

	2013 Budget	2013 Actual	2012 Actual
Operating			
Province of Ontario			
Conditional - General Government	$ 720	**$ 1,770**	$ 288,861
- Land Ambulance	5,938,028	**5,980,191**	5,683,191
- Social and Family Services	20,734,053	**21,283,437**	18,774,305
- Social Housing	840,837	**1,035,066**	615,980
- Homes for the Aged	14,557,698	**14,511,201**	14,423,836
- Other	124,654	**73,187**	73,365
	42,195,990	**42,884,852**	39,859,538
Government of Canada			
Conditional - Social Housing	694,830	**694,830**	694,830
- Other	16,240	**50,982**	39,851
	711,070	**745,812**	734,681
Other Municipalities			
Conditional - Transportation Services	240,114	**298,733**	139,759
- Other	90,339	**115,023**	64,933
	330,453	**413,756**	204,692
Total Operating Transfers	43,237,513	**44,044,420**	40,798,911
Capital			
Province of Ontario			
Conditional - Transportation Services	280,000	**-**	-
- Social and Family Services	-	**66,244**	178,429
- Planning and Development	-	**142,719**	-
	280,000	**208,963**	178,429
Government of Canada			
- Other	-	**-**	(70,783)
Other Municipalities			
Total Capital Transfers	280,000	**208,963**	107,646
Total Government Transfers	$ 43,517,513	**$ 44,253,383**	$ 40,906,557

8. Other Income

	2013 Budget	**2013 Actual**	2012 Actual
Provincial Offences Act (POA)	$ 2,834,000	**$ 2,944,429**	$ 2,995,231
Investment income, penalties and interest	488,216	**601,777**	498,527
Licenses, permits and rents	3,773,580	**3,761,306**	3,877,472
Donations	153,320	**170,781**	108,382
Gain (loss) on disposal of assets	87,000	**(945,674)**	(168,072)
Other	18,000	**62,586**	-
	$ 7,354,116	**$ 6,595,205**	$ 7,311,540

9. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 682 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 2013 was $3,198,737 (2012 - $2,790,190). The contribution rate for 2013 was 9.0% to 15.9% depending on age and income level (2012 - 8.3% to 12.8%).

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, 2013. At that time the plan reported an $8.6 billion actuarial deficit (2012 - $9.9 billion actuarial deficit), based on actuarial liabilities of $73.0 billion (2012 - $69.1 billion) and actuarial assets of $64.4 billion (2012 - $59.2 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.

10. Post-Employment Benefits

	2013	2012
WSIB	**$ 2,834,569**	$ 4,563,469
Vacation pay liability	**2,200,234**	2,056,521
Post-employment benefits	**1,354,187**	1,444,852
Other	**36,889**	51,081
	$ 6,425,879	$ 8,115,923

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, 2013 has calculated the liability to be $2,834,569. 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 3.75% and a WSIB administration rate of 35%. The current year recovery is $1,728,900 and prior year expense was $405,253. At December 31, 2013, the County provided $3,045,401 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, 2013.

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 2014 and forwards. For health care premiums, a 7% increase was used for 2014 and a decreasing rate used until 2026 where 4% was used thereafter.

	2013	2012
Retirement benefit expense	**$ 80,648**	$ 7,612
Interest costs	**73,139**	68,621
Total expense for the year	**$ 153,787**	$ 76,233

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, 2013 indicates the following:

Principal payments on debentures during the year	$	587,363
Interest payments on debentures during the year		415,095
Total	$	1,002,458
Debentures outstanding at year end	$	5,569,617

The principal and interest payments are recovered at source from Federal Social Housing funding provided to 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 2013 was $151,226 (2012 - $161,422) 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 $494,300 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 starting in 2014.

(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 $4,722,799 released as of December 31, 2013. If the units remain as affordable housing units for a period of 25 years, no amount will be repayable.

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 the Homes For The Aged. Pay equity settlements, if any, will be reflected in operations in the period in which they become determinable.

December 31, 2013

13. Trust Funds

The trust funds administered by the municipality amounting to $69,263 (2012 - $75,709) 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 Act

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, 2013 were $2,944,429 (2012 - $2,995,231). Net revenues after deduction of operating expenses were $761,986 (2012 - $742,078).

15. Change in Accounting Policy

Effective January 1, 2013, the municipality adopted on a prospective basis the new accounting standards PS3410 Government Transfers and PS3510 Tax Revenue from the Chartered Professional Accountants of Canada Handbook.

Government transfers are recognized when authorized and eligibility criteria have been met unless the transfer contains stipulations that create a liability. If the transfer contains stipulations that create a liability, the related revenue is recognized over the period that the liability is extinguished.

The prospective application of this change in accounting policy resulted in an increase in government transfers for the year of $31,287 and a decrease in deferred revenue of $31,287.

Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. The prospective application of this change in accounting policy resulted in a decrease of $8,551 in taxes payable and a decrease of $8,551 in taxation revenue.

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 Ontario Municipal Partnership Fund grant and 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 Emergency Medical Services Department (Land Ambulance operations).

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

December 31

	Corporate Services	Planning and Community Development	Social Services, Housing and Long-Term Care	Transportation and Public Safety	**2013 Total**
Revenue					
Taxation	$ 9,276,079	$ 3,666,749	$ 16,551,016	$ 21,291,696	$ 50,785,540
Fees and user charges	87,890	465,964	8,758,787	399,322	9,711,963
Specific grants	3,880	358,161	37,611,778	6,279,564	44,253,383
OMPF grant	-	-	-	-	-
Other revenue	3,586,306	37,419	3,863,487	(892,007)	6,595,205
Transfers from obligatory reserve	120,410	237,419	-	4,072,686	4,430,515
	13,074,565	4,765,712	66,785,068	31,151,261	115,776,606
Expenses					
Salaries and benefits	3,595,396	2,144,433	25,000,853	14,533,310	45,273,992
Interest on debt	-	-	193,900	5,140	199,040
Materials and supplies	1,125,164	932,383	5,594,863	5,265,500	12,917,910
Contracted services	2,488,433	628,635	6,220,796	1,464,774	10,802,638
Other transfers	2,736,215	115,384	22,209,785	-	25,061,384
Rents and financial expenses	388,235	30,560	1,100,552	687,584	2,206,931
Amortization	120,137	430,456	2,727,090	10,555,009	13,832,692
	10,453,580	4,281,851	63,047,839	32,511,317	110,294,587
Annual surplus (deficit)	*$ 2,620,985*	*$ 483,861*	*$ 3,737,229*	*$ (1,360,056)*	*$ 5,482,019*

December 31

	Corporate Services	Planning and Community Development	Social Services, Housing and Long-Term Care	Transportation and Public Safety	**2012 Total**
Revenue					
Taxation	$ 8,821,977	$ 3,451,648	$ 16,787,668	$ 21,152,062	$ 50,213,355
Fees and user charges	39,706	484,582	8,630,005	499,767	9,654,060
Specific grants	301,090	158,303	34,708,380	5,738,784	40,906,557
OMPF grant	-	-	-	-	-
Other revenue	3,838,647	53,889	3,821,935	(161,607)	7,552,864
Transfers from obligatory reserve	79,706	69,792	108,837	756,978	1,015,313
	13,081,126	4,218,214	64,056,825	27,985,984	109,342,149
Expenses					
Salaries and benefits	3,262,482	1,975,390	26,047,548	14,682,717	45,968,137
Interest on debt	-	-	248,853	6,432	255,285
Materials and supplies	463,956	905,746	5,037,316	5,354,596	11,761,614
Contracted services	3,472,628	445,834	5,087,927	1,279,454	10,285,843
Other transfers	2,971,089	156,658	22,901,532	-	26,029,279
Rents and financial expenses	352,399	14,495	606,944	630,501	1,604,339
Amortization	126,319	433,018	2,665,799	10,645,760	13,870,896
	10,648,873	3,931,141	62,595,919	32,599,460	109,775,393
Annual surplus (deficit)	*$ 2,432,253*	*$ 287,073*	*$ 1,460,906*	*$ (4,613,476)*	*$ (433,244)*

The Corporation of the County of Grey
Schedule of Deferred Revenue

For the year ended December 31, 2013

	Opening	Contributions Received	Investment Income	Revenue Recognized	Ending
Obligatory Reserve Funds					
Development charges	$ 2,158,814	$ 1,047,801	$ 27,685	$ (900,339)	**$2,333,961**
Federal gas tax	5,219,998	2,834,707	66,752	(3,530,176)	**4,591,281**
	7,378,812	3,882,508	94,437	(4,430,515)	**6,925,242**
Other					
Tourism and Heritage	59,951	38,711	-	(66,420)	**32,242**
Social Services	5,250	21,000	-	(21,000)	**5,250**
Ontario Nursing Strategy Initiatives grant	(35,883)	33,629	-	(8,146)	**(10,400)**
Rockwood Terrace Municipal Infrastructure Investment Initiative	12,444	-	-	(12,444)	**-**
Rent Bank program	13,882	5,565	-	(19,447)	**-**
Housing Allowance program	(1,793)	1,685	-	108	**-**
Affordable housing administration	84,203	84,505	-	(166,404)	**2,304**
Affordable housing	68,000	133,757	-	(177,652)	**24,105**
Investing in Ontario	690,040	-	-	-	**690,040**
Municipal Infrastructure Investment Initiative Capital Program	-	1,100,000	-	-	**1,100,000**
	896,094	1,418,852	-	(471,405)	**1,843,541**
	$ 8,274,906	$ 5,301,360	$ 94,437	$ (4,901,920)	**$8,768,783**

The Corporation of the County of Grey
Trust Funds
Financial Statements
For the year ended December 31, 2013

Tel: 519 376 6110
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1717 2nd Avenue E, Third Floor
PO Box 397
Owen Sound ON N4K 5P7 Canada

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 Trust Fund Receipts and Disbursements (the "statement") for the trust funds for the Homes for the Aged of the County of Grey for the year ended December 31, 2013 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 in the statement for the Homes for the Aged of County of Grey for the year ended December 31, 2013 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 statements are prepared to assist the Homes for the Aged of County of Grey 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 Accountants, Licensed Public Accountants

Owen Sound, Ontario
June 10, 2014

The Corporation of the County of Grey
Trust Funds
Statement of Trust Fund Receipts and Disbursements

For the year ended December 31, 2013

		Grey County Homes for the Aged	
	Total	**Residents' Activities**	**Residents' Trust Accounts**
			(Page 6)
Balance, beginning of the year	**$ 75,709**	$ 16,483	$ 59,226
Receipts			
Residents' net deposits	**72,970**	-	72,970
Expenses			
Residents' net withdrawals	**79,416**	-	79,416
Balance, end of the year	**$ 69,263**	$ 16,483	$ 52,780

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

December 31, 2013

1. Summary of Significant Accounting Policies

Basis of Accounting

The Statement of Trust Fund Receipts and Disbursements (the "statement") of the Corporation of the County of Grey Trust Funds 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.

The Corporation of the County of Grey
Trust Funds
Schedule of Residents' Trust Accounts

For the year ended December 31, 2013

	Total	Rockwood Terrace	Grey Gables	Lee Manor
Balance, beginning of the year	**$ 59,226**	$ 23,392	$ 8,957	$ 26,877
Receipts				
Residents' net deposits	**72,970**	24,077	185	48,708
Expenses				
Residents' net withdrawals	**79,416**	25,850	2,814	50,752
Balance, end of the year	**$ 52,780**	$ 21,619	$ 6,328	$ 24,833

The Corporation of the County of Grey
Other Financial Information
For the year ended December 31, 2013

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Auditor's Comments on Supplementary Financial Information

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

We have audited the consolidated financial statements of the County of Grey, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations and changes in accumulated surplus, changes in net financial assets and cash flows for the year then ended, a summary of significant accounting policies and other explanatory information and have issued our report thereon dated June 10, 2014 which contained an unmodified opinion on those financial statements. The audit was performed to form an opinion on the financial statements as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from the underlying accounting and other records used to prepare the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such supplementary information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

Restriction on Distribution and Use

The supplementary information is prepared to assist the Corporation of the County of Grey to meet the requirements of their funding agencies. As a result, the supplementary information may not be suitable for another purpose. Our report is intended solely for the Corporation of the County of Grey and their funding agencies and should not be distributed to or used by parties other than the Corporation of the County of Grey or their funding agencies.

Chartered Accountants, Licensed Public Accountants

Owen Sound, Ontario
June 10, 2014

Grey Roots - Museum
Statement of Operations
(See Auditor's Comments on Supplementary Financial Information)

For the year ended December 31	2013	2012
Revenue		
Province of Ontario	$ 68,740	$ 69,765
Canada	44,510	12,020
County of Grey	1,183,149	1,144,741
City of Owen Sound	105	-
Donations	14,370	3,128
Donation in kind	8,310	550
Admissions and sales	117,426	125,618
Transfer from County of Grey reserves	141,965	4,574
	1,578,575	1,360,396
Expenditures		
Advertising	101,450	83,049
Cleaning and supplies	13,730	34,578
Donation in kind	8,310	550
Equipment rentals	3,483	3,605
Heat, light and water	105,384	99,657
Insurance	15,194	13,455
Office supplies, postage and telephone	42,827	44,335
Professional	21,818	5,165
Purchases for resale	16,292	14,468
Repairs and maintenance	79,654	74,440
Special events	122,365	111,962
Salaries and benefits	876,274	838,284
Travel and convention fees	18,572	17,306
Vehicle operations and licensing	5,083	2,138
Transfer to County of Grey reserve	44,408	2,065
	1,474,844	1,345,057
Less: Change in unfinanced liabilities	7,126	(2,375)
	1,467,718	1,347,432
Net revenue for the year	$ 110,857	$ 12,964

County of Grey - Provincial Offences Act
Statement of Operations
(See Auditor's Comments on Supplementary Financial Information)

For the year ended December 31	2013	2012
Revenue		
Fines	**$ 2,944,429**	$ 2,995,231
Investment income	**1,386**	1,340
Transcripts	**1,723**	7,706
Cost recoveries	**10**	32
	2,947,548	3,004,309
Expenditures		
Salaries and benefits	**548,490**	527,390
Administrative charges	**338,575**	371,606
Victim fine surcharge	**493,146**	523,324
Dedicated fines	**24,811**	29,736
Prosecution expenses	**245,381**	283,383
Transfers to County of Bruce	**538,004**	526,476
	2,188,407	2,261,915
Change in unfunded liabilities	**2,845**	(316)
	2,185,562	2,262,231
Net revenue before transfer to reserves	**761,986**	742,078
Transfer to reserve	**156,525**	130,594
Net revenue for the year	**$ 605,461**	$ 611,484

APPENDIX B
Independence Update

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Owen Sound ON N4K 5P7 Canada

June 10, 2014

Members of the Corporate Services Committee
County of Grey
595 9th Avenue 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, 2013.

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.

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

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

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

We hereby confirm that we are independent with respect to the County within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 10, 2014.

This letter is intended solely for the use of the Corporate Services Committee, 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

TS:sb

APPENDIX C
Adjusted and Unadjusted Differences

County of Grey
Summary of Unadjusted Misstatements
December 31, 2013

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)
Negative amounts in trade payables	67,078	-	-	67,078	(67,078)	-	-
Ontario Renovates A/R + A/P overstated	103,024	-	-	(53,371)	53,371	-	-
WIP accrued and capitalized for work that relates to 2014	137,532	-	-	(137,532)	137,532	-	-
Bridges not amortized	386,748	-	-	(386,748)	-	386,748	-
Social assistance for Jan 2014 issued in Dec 2013 and not recorded in 2013	88,317	-	-	(88,317)	-	-	88,317
Likely Aggregate Misstatements Before Effect of Previous Year's Errors and Estimates	**782,699**	**-**	**-**	**(598,890)**	**123,825**	**386,748**	**88,317**
Effect of Previous Year's Errors				**-**	**-**	**-**	**-**
Likely Aggregate Misstatements				**(598,890)**	**123,825**	**386,748**	**88,317**

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

Insignificant amount, prefer to leave unadjusted.

APPENDIX D
Representation Letter

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

June 10, 2014

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

Dear Sir/Madam:

This representation letter is provided in connection with your audit of the balance sheets as at December 31, 2013, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year ended of the 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, 2013 and the results of operations and cash flows for the year ended of the County of Grey 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 the Committees of Council throughout the year and to the present date.

9. We have disclosed to you all significant matters contained in the minutes of all meetings and resolutions of the Committees of Council throughout the year and to the present date.

10. All transactions have been recorded in the accounting records and are reflected in the 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. All assets, wherever located, to which the municipality had satisfactory title at the year end, have been fairly stated and recorded in the financial statements. There are no liens or encumbrances on the municipality's assets.

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

Yours truly,

____________________ ____________________

Signature Position

____________________ ____________________

Signature Position

APPENDIX E
BDO Publications

ASSURANCE AND ACCOUNTING

PUBLIC SECTOR ACCOUNTING STANDARDS (PSAS) UPDATE 2013

Introduction

During 2013, the Public Sector Accounting Board (PSAB or the "Board") made a number of revisions to the CPA Canada Public Sector Accounting Handbook (PSA Handbook). These changes will be discussed in this publication.

New and Amended Standards

First-time Adoption of Public Sector Accounting Standards by Government Organizations

Section PS 2125, First-time Adoption of Public Sector Accounting Standards (PSAS) by Government Organizations, applies to government organizations adopting PSAS for the first time. An amendment was made to this Section to clarify the interaction between the retroactive application requirements in this Section and the transitional provisions in new standards. As a result, if a private sector not-for-profit organization (NPO) becomes controlled by the government and has to adopt the PSA Handbook, on adoption it will follow the first-time adoption requirements in Section PS 2125 and it will also have to consider any new standards issued after August 2010 that it is adopting and ensure it follows the transitional provisions of those standards as well. The following standards were issued subsequent to August 2010:

- PS 3410, *Government Transfers* – Issued March 2011;
- PS 3450, *Financial Instruments* – Issued June 2011;
- PS 2601, *Foreign Currency Translation* – Issued June 2011;
- PS 1201, *Financial Statement Presentation* – Issued June 2011; and
- PS 3041, *Portfolio Investments* – Issued March 2012.

Changes Related to Financial Instruments

There was some confusion of the date for which Section PS 3450, Financial Instruments, and Section 2601, Foreign Currency Translation, were applicable for certain entities. To address this, the Board amended these two Sections to clarify that these Sections apply to fiscal years beginning on or after April 1, 2015. For government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the PSA Handbook, these Sections are applicable for fiscal years beginning on or after April 1, 2012.

For example, governments (federal, provincial, local) and all entities not previously following the CPA Canada Handbook – Accounting adopt these standards for fiscal years beginning on or after April 1, 2015, while government not-for-profit organizations (GNPOs) adopted these standards for fiscal years beginning on or after April 1, 2012. For a more detailed look at Section PS 3450 refer to our publication "*A Guide to Accounting for Financial Instruments in the Public Sector*".

Section PS 3450, was also amended to address the accounting for gains, losses, interest and dividends when income attributable to a financial asset is externally restricted in accordance with the criteria in paragraph .11 of Section PS 3100, *Restricted Assets and Revenues*. The amendment requires that when there is an external restriction on a financial asset measured at fair value and the fair value change of that financial asset is also externally restricted, the change in fair value is accounted for as a liability instead of going through the statement of remeasurement gains and losses. The transitional provisions of Section PS 3450 were also amended to address accounting for the adjustments associated with the transition to this Section when income attributable to a financial asset is externally restricted.

Government Transfers

In March 2011, the Board issued Section PS 3410, *Government Transfers*, which replaces the previous Section PS 3410. This new Section applies to all public sector entities following public sector accounting standards. However, GNPOs that choose to apply PSAS with the PS 4200 Series of standards follow the guidance in PS 4210, *Contributions – Revenue Recognition*, to account for amounts received from a government. The new standard was effective for years beginning on or after April 1, 2012 so most public sector entities have had their first experience applying it during the current year.

The highlights of Section PS 3410 are as follows:

Transferor:

- A transferring government or government organization recognizes an expense when the transfer is authorized and the recipients have met any eligibility criteria.

Recipient:

- A recipient government or government organization recognizes the transfer as revenue when the transfer is authorized by the financial statement date by the transferring government or government organization and all eligibility criteria have been met, unless it meets the definition of a liability for the recipient.
- A liability related to the transfer may result from:
    - Receiving a transfer prior to meeting any eligibility criteria;
    - Specific stipulations contained in the transfer agreement; or
    - Unclear stipulations but the recipient creates a liability through its own actions and communications related or unrelated to the terms of the transfer by the financial statement date.

This new standard is complex and requires professional judgment in determining whether a liability exists. As a result, many entities have experienced challenges applying it during the current year.

The Board recently created a Public Sector Accounting Discussion Group to assist the Board regarding issues that arise in the application of the PSA Handbook. The discussions of the group do not constitute official pronouncements or authoritative guidance. At the group's first meeting on September 5, 2013 the group discussed the following issues that are complicating the determination of whether a liability exists under Section PS 3410:

- Whether a liability arises due to stipulations associated with a government transfer that requires the acquisition and use of tangible capital assets;
- Indictors of when the actions and communications of a transfer recipient evidence little or no discretion to avoid a liability; and
- Whether the authority to pay is a requirement to record a transfer liability.

We would encourage readers who are applying Section PS 3410 to read the minutes from this meeting which can be found under the "Standards for Public Sector Entities" section of the Financial Reporting & Assurance Standards Canada website (www.frascanada.ca), for the details of the discussion related to these issues.

For a more detailed look at government transfers please refer to our publications "*A New Government Transfers Standard*" and "*PSAB at a Glance: Section PS 3410 – Government Transfers*".

Tax Revenue

Section PS 3510, Tax Revenue, was issued by the Board in February 2010. The Section establishes standards on how to account for and report tax revenue in government financial statements. This new Section is effective for fiscal years beginning on or after April 1, 2012.

While governments with a March year end have already experienced applying this new Section, municipalities will apply PS 3510 for the first time to their December 31, 2013 annual financial statements. For a more detailed look at the effect of PS 3510 on municipalities please refer to our publications, "*Impact of the New Tax Revenue Standard on Municipalities*" and "*PSAB at a Glance: Section PS 3510 – Tax Revenue*".

Liability for Contaminated Sites

In 2010, the Board issued Section PS 3260, Liability for Contaminated Sites. This standard will be effective for years beginning on or after April 1, 2014, although early adoption is encouraged. While this standard is not yet effective, its complexity requires entities to begin considering the impact of the standard as soon as possible.

The standard explains when environmental obligations meet the definition of a liability; what is considered contamination; when an entity becomes responsible; how environmental liabilities should be measured given the uncertainties; and the disclosure requirements.

A liability for remediation may occur in the following situations:

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

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

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

Determining if contamination exists may take time and as a result, public sector entities should start the process now. The assessment of whether an environmental standard is exceeded may require site assessments and the use of experts. Uncertainty about the existence or non-existence of contamination does not eliminate the need to determine whether a liability exists and should be recognized. Instead, recognition depends on the probability that future site investigations will confirm that contamination that exceeds an environmental standard existed at the financial statement date.

The estimate of a liability includes the costs to bring the site up to current minimum standards for its use prior to contamination. The liability is estimated based on information available at the financial statement date. It represents management's best estimates at the financial statement date of the amount required to remediate contaminated sites (i.e. the amount that a public sector entity would rationally pay to settle or otherwise extinguish the liability at the financial statement date based on the best estimate of expenditures required to complete the remediation). To arrive at the estimate, the entity will have to use its professional judgment supplemented by experience, third party quotes and perhaps independent experts' reports.

For a more detailed look at this standard, please refer to our publication "*Liability for Contaminated Sites.*"

Financial Instruments, Foreign Currency and Financial Statement Presentation

As discussed previously, Sections PS 3450, Financial Instruments, and PS 2601, Foreign Currency Translation, are applicable for fiscal years beginning on or after April 1, 2015, 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, 2016 year ends (for governments with calendar year ends, December 31, 2016 will be the first year end affected). At the same time public sector entities adopt these two Sections, they also adopt new Section PS 1201, Financial Statement Presentation. 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

Exposure Draft – Amendments to the Introduction

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

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

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

Re-Exposure Draft – Related Party Transactions

This Re-exposure Draft proposes the creation of a new standard on related party transactions, as currently PSAS does not contain such a standard.

Under the Re-exposure Draft, related parties are defined as:

- Entities that control or are controlled by a reporting entity;
- Entities subject to common control;
- Entities that have shared control over or that are subject to shared control; and
- Key management personnel and close members of their family.

Under the proposed new standard:

- Related party transactions, excluding contributed goods and services, would be recognized on a gross basis by both the provider and recipient organizations;
- A reporting entity may either disclose contributed goods and services or recognize them as revenue or expense;
- As a general rule, related party transactions would be recorded at the carrying amount. A transaction would be recorded at the exchange amount when it occurs in the normal course of operations or it results in a significant change in future economic benefits or service potential of the recipient;
- Fair value may be an appropriate measure of the exchange amount; and
- Only related party disclosures that are material require disclosure.

This proposed Section would apply to fiscal years beginning on or after April 1, 2016.

Statement of Principles – Restructurings

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

- Amalgamation of entities or operations;
- Annexation or boundary alteration between neighboring local governments;
- Transfers of operations or programs from one entity to another; and
- Shared services arrangements entered into by local governments in a region.

As public sector entities are entering into these types of transactions more often, guidance is needed to ensure these transactions are accounted for on a consistent basis. As a result, the Board issued a Statement of Principles earlier this year proposing a new Section on restructurings.

The Statement of Principles defines a restructuring transaction as a transfer of an integrated set of assets and liabilities, together with related program or operating responsibilities, that does not involve an exchange of significant consideration, which is determined primarily based on the fair value of the individual assets acquired and liabilities assumed. A restructuring transaction is defined separately from an acquisition.

The individual assets and liabilities transferred in a restructuring transaction would be recognized by the restructured entity at their carrying amounts. The difference between the total assets and total liabilities transferred in a restructuring transaction would be recognized differently depending on whether the restructured entity is considered a new entity or an existing entity. If it is considered a new entity, the difference is recognized in opening accumulated surplus or deficit. If it is considered to be an existing entity, the difference is recognized as revenue or an expense. In addition, if it is an existing entity:

- Any costs incurred related to the restructuring would be expensed when incurred;
- The accounting policies and circumstances at the restructuring date would determine the initial classification in the restructured entity's statement of financial position of the individual assets and liabilities transferred in the restructuring;
- The restructured entity's financial position and results of operations prior to restructuring date would not be restated; and
- The proposed standard would encourage but not require disclosure about the restructuring entities or transferred operations prior to restructuring date.

Statement of Principles – Assets, Contingent Assets and Contractual Rights

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

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

The third proposed Section is on contractual rights. Currently the PSA Handbook provides a definition of contractual obligations, but no definition is provided for contractual rights. This proposed Section would define contractual rights as rights to assets and revenue arising from legally enforceable contracts or agreements that will, when the term of those contracts or agreements are met, become assets and revenue in either the same period or different periods. The proposed Section would also require disclosure of contractual rights in an entity's financial statements.

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 is proposed. 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.

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

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

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

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

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

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

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

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

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

As the proposals in the Statement of Principles could have a significant impact on accounting for both private and public sector NPOs we would encourage NPOs to watch this project closely.

Conclusion

As we head closer to the end of the year, now is the time to check with your BDO advisor about how the changes made and the upcoming changes to the standards affect your organization.

PSAB AT A GLANCE

Section PS 3450 – Financial Instruments

March 2014

Section PS 3450 – *Financial Instruments*

Effective Date
Fiscal years beginning on or after April 1, 2016[1]

DEFINITIONS

FINANCIAL INSTRUMENT

- A contract that creates a financial asset for one entity and a financial liability or equity instrument for another entity.

FINANCIAL ASSET[2]

- An asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations.

FINANCIAL LIABILITY

- Any liability that is a contractual obligation:
  - To deliver cash or another financial asset to another entity; or
  - To exchange financial instruments with another entity under conditions that are potentially unfavourable to a government.

EQUITY INSTRUMENT

- Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

DERIVATIVE[3]

- A financial instrument or contract within the scope of this Section that has all three of the following characteristics:
  - It's value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying");
  - It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
  - It is settled at a future date(s).

RECOGNITION

- A financial asset of financial liability is recognized by a government on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument.
- Contracts that contain one or more embedded derivatives must be identified by a government and the guidance in paragraphs PS 3450.A18-.A26 must be followed to determine whether the government is to recognize the embedded derivative.

MEASUREMENT

MEASUREMENT CATEGORIES

- All financial instruments within the scope of PS 3450 must be measured in one of the following two categories:
  - Fair value; or
  - Cost or amortized cost.
- **Fair value**
  - The following must be included in the fair value category:
    - Derivatives; and
    - Portfolio investments in equity instruments that are quoted in an active market.
  - When a government defines and implements a risk management or investment strategy that is used to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the government can choose to include those items that are within the scope of PS 3450 in the fair value category. This is an accounting policy decision.
  - A contract that contains one or more embedded derivative can be designated to be carried at fair value, unless:
    - The cash flows that otherwise would be required by the contract are not significantly modified by the embedded derivative(s); or
    - The application of paragraphs PS 3450.A18-.A26 prohibits separation of the embedded derivative(s).
  - When a government measures financial instruments in the fair value category, the guidance in paragraphs PS 3450.A27-.A40 must be applied.

[1] For those government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook, this Section applies to fiscal years beginning on or after April 1, 2012. Governments and government organizations would also adopt Section PS 2601, *Foreign Currency Translation,* at the same time. Earlier adoption is permitted.
[2] Note: This definition of a financial asset in Section PS 3450, *Financial Instruments,* is not the same as the definition of a financial asset in paragraph .40 of Section PS 1000, *Financial Statement Concepts.* Refer to paragraphs PS 3450.A4-.A9 for more guidance on financial assets.
[3] When derivatives are linked to and must be settled by delivery of unquoted equity instruments they must be measured at cost.

MEASUREMENT CATEGORIES (CONTINUED)

- Remeasurement gains and losses
  - For a financial instrument in the fair value category, a change in fair value must be recognized as a remeasurement gain or loss in the Statement of Remeasurement gains and losses until the financial instrument is derecognized.
  - For a financial instrument in the fair value category that is externally restricted, a change in fair value must be recognized in accordance with the requirements in paragraphs .11-.12 of Section PS 3100, *Restricted Assets and Revenues*[4].
  - At the time when a financial instrument in the fair value category is derecognized, the associated accumulated remeasurement gains and losses are reversed and reclassified to the Statement of Operations.

EFFECTIVE INTEREST METHOD

- Must be used by a government when measuring interest for instruments measured at amortized cost.
- Refer to paragraphs PS 3450.A41-.A45 for more guidance on the effective interest method.

TRANSACTION COSTS

- When an item is in the cost or amortized cost category, transaction costs are added to the carrying value of the item upon initial recognition.
- When an item is the fair value category, transaction costs are expensed upon initial recognition.

IMPAIRMENT OF FINANCIAL ASSETS

- A government must perform an assessment of impairment on financial assets / groups of financial assets at each financial statement date. If any objective evidence of impairment exists as a result of this assessment, a government applies:
  - Section PS 3041, *Portfolio Investments,* in assessing whether any such investments are impaired and to account for any impairment; or
  - Section PS 3050, *Loans Receivable*, in assessing whether any such receivables are impaired and to account for any impairment.
- A government reports impairment losses in its Statement of Operations.

DERECOGNITION OF A FINANCIAL LIABILITY

- A financial liability / part of a financial liability is extinguished when the debtor either:
  - Discharges the liability / part of the liability by paying the creditor; or
  - Is legally released from the primary responsibility for the liability / part of the liability by the creditor or by process of law.
- When debt instruments that have substantially different terms are exchanged between the lender and the existing borrower, the original financial liability must be extinguished and a new financial liability must be recognized.
- When the terms of an existing financial liability / part of an existing financial liability are substantially modified, the original financial liability must be extinguished and a new financial liability must be recognized.
  - Refer to paragraph PS 3450.049 for guidance on determining when the terms are substantially different.
- A revenue or expense must be recognized in the Statement of Operations for the difference between the carrying amount of a financial liability / part of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

[4] See also our publication PSAB AT A GLANCE: Section PS 3100 – *Restricted Assets and Revenues.*

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PRESENTATION

- **Interest, dividends, gains and losses**
  - Interest and dividends related to financial instruments and net settlements on derivative financial instruments attributable to the reporting period are recognized in the Statement of Operations.
  - A gain or loss is recognized in the Statement of Operations upon derecognition of a financial instrument.
  - A gain or loss related to a financial instrument that is externally restricted is recognized as a liability until the financial instrument is used for the purpose specified, in accordance with the requirements of paragraphs .11-.12 of Section PS 3100.
- **Offsetting of a financial asset and a financial liability**
  - May only happen when:
    - The government has a legally enforceable right to set off the recognized amounts; and
    - The government intends to either settle on a net basis, or simultaneously realize the asset and settle the liability.

DISCLOSURE

- A government is required to disclose information that would allow users to assess the impact of financial instruments on its financial position and changes in its financial position. The following disclosures are required.

STATEMENT OF FINANCIAL POSITION

- Carrying amount of each category of financial assets and liabilities are disclosed on the face of the Statement of Financial Position or in the notes.
- The disclosures outlined in paragraphs PS 3450.A51-.A54 are required for any items the government holds at the financial statement date that it has designated to the fair value category.
- Information on financial assets pledged as collateral.
- Details of defaults and breaches of loans payable.

STATEMENT OF REMEASUREMENT GAINS & LOSSES

- Remeasurement gains and losses are reported distinguishing between amounts occurring in the period and amounts derecognized during the period which have been reclassified to the Statement of Operations.
- Remeasurement gains and losses are presented distinguishing between those related to derivatives, portfolio investments in equity instruments quoted in an active market; and financial instruments designated to the fair value category.

OTHER DISCLOSURES

- **Accounting policies**
  - All relevant accounting policies, including the measurement basis used.
- **Derivatives**
  - Explanation of the purpose of the government's use of derivatives and how the derivatives support managing the nature and extent of risks arising from the government's financial instruments in accordance with paragraphs PS 3450.085-.096.
  - For derivatives or items designated in the fair value category, a government must disclose the methods, and when a valuation technique is used, relevant assumptions applied, in determining fair value.

FAIR VALUE HIERARCHY

- All financial instruments measured at fair value must be classified into one of the following levels, which reflect how fair value has been determined:
  - Level 1 – Quoted prices (unadjusted) in active markets for identical assets / liabilities;
  - Level 2 - Inputs other than those in Level 1, that are either directly or indirectly observable for the assets or liability; and
  - Level 3 – Inputs that are not based on observable market data (unobservable inputs).
- A financial instrument that uses inputs from more than one level is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.
- The following disclosures are required for each class of financial instruments measured at fair value that are recognized in the Statement of Financial Position:
  - The level that the fair value measurements are categorized in.
  - Significant transfers of financial instruments between each category and reasons why. Transfers into and out of each level must be disclosed separately.
  - For Level 3 items:
    - A reconciliation between opening and closing balances, including gains / losses, purchases / sales / issues and settlements, and transfers in and out of Level 3 and the reasons why; and
    - If changing one or more inputs to a reasonably possible alternative would result in a significant change in fair value, this fact and the effect of the change must be disclosed.
- When a government uses a valuation technique to determine fair value, and there is a difference between fair value at initial recognition and fair value using the valuation technique the following must be disclosed by class of financial instrument:
  - The accounting policy for reporting that difference in remeasurement gains and losses to reflect a change in factors that market participants would consider in setting a price; and
  - The aggregate difference yet to be reported in remeasurement gains and losses at the beginning and end of the period and a reconciliation of the changes in the balance of this difference.
- Unless a government discloses the quoted market value and the carrying value for portfolio investments in the cost / amortized cost categories, disclosure of fair values is not required for these instruments.

DISCLOSURE (CONTINUED)

- A government is required to disclose information that would allow users to assess the nature and extent of the risks the government is exposed to as a result of its financial instruments at the financial statement date.

QUALITATIVE DISCLOSURE

- The following must be disclosed for each type of financial instrument risk:
  - Exposure to the risk and how it arises;
  - Objectives, policies and processes for managing the risk and methods used to measure the risk; and
  - Any changes in the above from the previous period.

QUANTITATIVE DISCLOSURE

- The following must be disclosed for each type of financial instrument risk:
  - Summary quantitative data about exposure to that risk at the financial statement date based on information provided by key management; and
  - Concentration of risks.

CREDIT RISK

- The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- A government must disclose:
  - Maximum exposure to credit risk without taking into account collateral held or other credit enhancements and their financial effect;
  - A description of collateral held as security and other credit enhancements; and
  - Information on credit quality of financial assets that are neither past due or impaired.

LIQUIDITY RISK

- The risk that a government will encounter difficulty in meeting obligations associated with financial liabilities.
- A government must disclose:
  - A maturity analysis for non-derivative financial liabilities showing the remaining contractual maturities;
  - A maturity analysis for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of cash flows; and
  - A description of how liquidity risk in the above is managed.

MARKET RISK

- The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises three types of risk: currency risk, interest rate risk and other price risk.
- A government must disclose:
  - A sensitivity analysis (including methods and assumptions used) for each type of market risk the government is exposed to, showing impact on operating results (and remeasurement gains and losses when necessary); and
  - Any changes from the prior period, and reasons for the changes, in methods and assumptions used.

OR

  - If a sensitivity analysis is prepared by the government, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis.
    - If this sensitivity analysis is used the following must also be disclosed:
      - Explanation of the methods used (including main parameters and assumptions underlying the data) in preparing the analysis; and
      - Explanation of the objective of the method used and limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.
  - If the sensitivity analysis is unrepresentative of an inherent risk in a financial statement this would be disclosed with the reasons why.

OTHER QUALITATIVE RISK DISCLOSURES

- **Financial assets either past due or impaired**
  - By class of financial asset the following must be disclosed:
    - Analysis of the age of financial assets past due, but not impaired at the financial statement date; and
    - Analysis of financial assets that are individually determined to be impaired at the financial statement date (including factors considered in determining they are impaired).
- **Collateral and other credit enhancements obtained**
  - The following must be disclosed for any financial or non-financial assets that were obtained during the period by taking possession of collateral the government holds as security or calling on other credit enhancements:
    - Nature and carrying amount; and
    - Policies for disposing of such assets or for using them in the government's operations, when they are not readily convertible into cash.

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PSAB AT A GLANCE

Section PS 3260 – Liability for Contaminated Sites

March 2014

Section PS 3260 – *Liability for Contaminated Sites*

Effective Date
Fiscal years beginning on or after April 1, 2014[1]

SCOPE

Does not apply to:

- Costs for acquisition or betterment of tangible capital assets that are within the scope of Section PS 3150, *Tangible Capital Assets,* to the extent that such costs do not exceed the future economic benefits related to the asset or post-remediation fair value of the asset if held for sale (e.g. redevelopment of a contaminated site for use or sale);
- Liabilities associated with the retirement of a long-lived tangible capital asset in productive use that result from its acquisition, construction or development and ongoing use (e.g. operating a nuclear facility);
- Liabilities associated with the disposal or sale of long-lived tangible capital assets (e.g. privatization of water utility); and
- Liabilities for closure and post-closure care of a solid waste landfill site when the site or a phase stops accepting waste as this is specifically dealt with under Section PS 3270, *Solid Waste Landfill Closure and Post-Closure Liability*.

RECOGNITION

- A liability for contaminated sites must be recognized when, as at the financial reporting date:
  - An environmental standard exists;
  - Contamination exceeds the environmental standard;
  - The government:
    - 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.
- An obligation for remediation of contaminated sites cannot be recognized as a liability unless all criteria above are satisfied.

ENVIRONMENTAL STANDARD

- Any guidelines, objectives, criteria or other kinds of limits placed on the presence or discharge of a contaminant into the natural environment.
- It is generally set out in the form of a statute, regulation, by-law, order, permit, contract or agreement.
- It is legally enforceable and binding and compliance is mandatory.
- Breaches may be enforced through prosecution, fines, jail and similar penalties, order or loss of permit.
- Compliance may be enforced through administrative proceedings.
- It may be quantitative or qualitative.
- It may be created by internal government policy or by guidelines developed by external organizations.
- A government evaluates the existence of an environmental standard based on existing or enacted legislation, contract or agreement that is in effect at the financial statement date. Future legislation changes are not taken into account.
- Voluntary compliance may create a liability. The individual circumstances and the criteria in Section PS 3200, *Liabilities*, would be taken into account and professional judgment would be required in determining if a liability existed in such a situation.

CONTAMINATION

- Contamination that exceeds an environmental standard at the financial reporting date is a necessary condition for recognizing a liability for remediation.
  - Assembling and reviewing all available historical and current information about a site / group of sites is necessary in order to determine if contamination exists that exceeds an environmental standard (refer to paragraph PS 3260.15).

[1] Earlier adoption of this Section is encouraged. If application of this Section results in a change in accounting policy, Section PS 2120, *Accounting Changes,* applies.

CONTAMINATION (CONTINUED)

- The need to determine whether a liability exists and would be recognized is not eliminated by uncertainty about the existence or non-existence of contamination.
  - Instead, the probability that future site investigations will confirm that contamination exceeding an environmental standard existed at the financial statement date is what determines whether a liability exists.
  - If the probability is likely and an amount can be reasonably estimated a liability would be recognized.

DIRECT RESPONSIBILITY

- In the following situations a government may be directly responsible for remediation:
  - When its own past activities, even though they may have been consistent with environmental requirements at the time, have caused contamination; and
  - When activities such as mining or exploration occurred on government-owned land or land the government has since acquired, and a responsible party cannot be identified or if identifiable lacks the means to remediate the damage.
- A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability.
  - Under this Section, a legal obligation can result from:
    - Agreements or contracts;
    - Legislation of another government; or
    - A government's own legislation.

ACCEPTING RESPONSIBILITY

- Through its own actions or promises a government may voluntarily assume responsibility for remediation of a contaminated site.
- Most liabilities for remediation arise from legal obligations; however, they can also be the result of constructive or equitable obligations.
  - Refer to paragraph PS 3260.28 for examples of evidence that a government may have a present obligation for remediation separate from legal documents.
- If a government announces its intentions between the financial statement date and completion of the financial statements this does not create a liability for remediation as the condition / situation did not exist at the financial statement date. However, this may create a subsequent event (refer to Section PS 2400, *Subsequent Events*[2]).

FUTURE ECONOMIC BENEFITS

- When contamination exists that exceeds an environmental standard the government may have a liability in spite of whether or not it chooses to perform remediation activities.
- The government may have a present obligation to remediate the contamination now or at some point in the future. The timing of the settlement does not relieve the government of its present obligation to recognize the liability; instead the timing would be taken into account in the measurement of the liability.
- However, if it is not expected that future economic benefits will be given up, it is possible the government would not record the liability.

UNCERTAIN RESPONSIBILITY

- There may be uncertainty as to whether the government may be responsible in a situation where:
  - An environmental standard exists and contamination exceeds the standard; and
  - The government has determined it is not responsible and it does not accept responsibility.
- In this case, the government may have a contingent liability, because contamination that exceeds an environmental standard is an existing condition or situation.
- A future confirming event may be required to determine the government's responsibility. An assessment of the probability this future event will confirm the government's responsibility and professional judgment would be required.
  - If the future event confirming the government's responsibility is:
    - Likely – The government recognizes the liability if the amount can be reasonably estimated.
    - Unlikely – The government does not recognize the liability.
    - Not determinable – The government discloses the existence, nature and extent of the contingent liability.

[2] See also our publication PSAB AT A GLANCE: Section PS 2400 – *Subsequent Events*.

MEASUREMENT

- Costs directly attributable to remediation activities must be included in the estimate of a liability.
  - These costs would include post-remediation operation, maintenance and monitoring costs that are an integral part of the remediation strategy for a contaminated site.
  - The estimate would include costs of assets acquired as part of remediation activities to the extent those assets have no alternative use.
- A liability for remediation must be estimated based on information that is available at the financial statement date.
  - It must be based on existing environmental standards and technology expected to be used in the remediation activities.
  - Professional judgment, management's best estimate at the time, and any previous experience the government has had in a similar situation would be used in estimating the liability.
  - If a reasonable estimate of the amount cannot be made, disclosure in the financial statements of the nature of the liability and its potential effects on the government's financial statements when it becomes measureable may be required.
  - When the estimate is based on a site assessment and a new site assessment is not completed each year, an extrapolation of the previously completed site assessment may be used in estimating the liability. However, when changes have occurred and the effect of the change is significant a new estimate may need to be recognized.
- The measurement technique used by the government must result in the best estimate of the amount required to remediate the contaminated site.
  - The best estimate would be the amount the government would rationally pay to settle or otherwise extinguish the liability at the financial statement date.
  - When the cash flows expected to settle / extinguish the liability occur over extended future periods, a present value technique may be the most appropriate technique.
- At each financial reporting date, the carrying amount of a liability for remediation must be reviewed. Any revision to the amount previously recognized by the government must be accounted for in the period in which the revisions are made.
  - When the estimate of the amount of the liability changes, the change is accounted for in accordance with Section PS 2120, *Accounting Changes.*
  - Until a liability is settled or otherwise extinguished it continues to be recognized in the government's financial statements.
  - When disbursements are made they are deducted from the liability.
- A liability for remediation of contaminated sites must be reduced by any expected net recoveries if the recognition criteria outlined in paragraphs .54-.56 of Section PS 1000, *Financial Statement Concepts*, are met.