

Consolidated Financial Statements of

**THE CORPORATION OF THE
TOWN OF LAKESHORE**

And Independent Auditors' Report thereon

Year ended December 31, 2018

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Financial Statements

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Town of Lakeshore

Opinion

We have audited the financial statements of the Corporation of the Town of Lakeshore (the Town), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and the notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”)

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Town as at December 31, 2018, and its results of operations and its changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibility under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Town in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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



Responsibility of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Town's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Town or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Town's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Town's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to the events or conditions that may cast significant doubt on the Town's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Town's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Windsor, Canada

August 14, 2019

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets		
Cash and temporary investments	\$ 56,625,592	\$ 51,732,018
Taxes receivable	3,305,324	3,530,007
Trade and other receivables	5,264,583	2,053,727
Water receivables and unbilled revenue	3,008,765	2,529,971
Drainage receivables	3,611,373	2,825,172
Drainage recoverable from others	885,444	1,119,268
Inventory held for resale	32,636	29,588
Investments (note 2)	512,866	509,351
	<u>\$ 73,246,583</u>	<u>\$ 64,329,102</u>
Financial liabilities		
Short-term loans (note 4)	\$ 1,510,000	\$ 1,705,001
Accounts payable and accrued liabilities	7,406,199	8,245,046
Deposits	1,934,576	2,605,739
Deferred revenue (note 5)	12,105,379	11,765,039
Accrued interest on long-term liabilities	206,884	228,473
Net long-term liabilities (note 6)	32,231,259	35,062,194
Post-employment benefits (note 8)	1,400,842	1,268,186
Accumulated vested sick leave (note 9)	26,273	33,420
Landfill closure cost liability (note 10)	656,445	681,547
	<u>57,477,857</u>	<u>61,594,645</u>
Net debt	15,768,726	2,734,457
Non-financial assets		
Tangible capital assets (Schedule 1)	333,348,070	330,010,214
Inventories of supplies	245,298	132,374
Prepaid expenses	107,861	123,909
	<u>333,701,229</u>	<u>330,266,497</u>
Contractual obligations, commitments and contingencies (notes 13 and 16)		
Accumulated surplus (Schedule 4)	<u>\$ 349,469,955</u>	<u>\$ 333,000,954</u>

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2018, with comparative information for 2017

	2018 Budget	2018 Actual	2017 Actual
Revenue:			
Taxation	\$ 30,415,169	\$ 31,249,181	\$ 29,103,950
User charges:			
Wastewater	4,891,524	5,410,346	5,100,337
Water	8,183,272	9,046,126	8,874,120
Recreation	2,718,580	3,079,039	2,958,668
Other	847,090	1,362,685	3,340,393
Government transfers	1,852,980	4,063,781	1,928,541
Other (note 11)	1,497,300	2,603,194	2,400,949
Deferred revenue earned (Schedule 2)	492,540	2,760,816	(1,290,318)
	<u>50,898,455</u>	<u>59,575,168</u>	<u>52,416,640</u>
Expenses (note 14):			
General government	4,241,182	1,843,099	1,710,782
Protection to persons and property	7,927,673	8,815,435	8,686,981
Transportation services	6,655,038	9,534,159	9,268,124
Environmental services	10,517,181	15,913,843	15,330,483
Recreation and cultural services	7,106,774	9,281,339	8,982,990
Planning and development	1,262,244	1,355,548	1,185,879
	<u>37,710,092</u>	<u>46,743,423</u>	<u>45,165,239</u>
Net revenue	13,188,363	12,831,745	7,251,401
Other:			
Grants and revenues (expenses) related to capital:			
Gain (loss) on sale of capital assets	-	121,158	34,170
Deferred revenue earned (Schedule 2)	-	3,389,478	2,076,786
Government transfers	-	-	58,404
Contribution from developers	-	126,620	3,686,627
Other	-	-	-
Capitalization of assets previously expensed	-	-	-
	-	<u>3,637,256</u>	<u>5,855,987</u>
Annual surplus	13,188,363	16,469,001	13,107,388
Accumulated surplus, beginning of year	333,000,954	333,000,954	319,893,566
Accumulated surplus, end of year	<u>\$ 346,189,317</u>	<u>\$ 349,469,955</u>	<u>\$ 333,000,954</u>

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Statement of Change in Net Debt

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Annual surplus	\$ 16,469,001	\$ 13,107,388
Amortization of tangible capital assets	10,129,569	10,102,733
Acquisition of tangible capital assets	(13,491,745)	(12,146,640)
Gain on sale of tangible capital assets	(121,158)	(34,164)
Proceeds on sale of tangible capital assets	145,478	58,144
	<u>13,131,145</u>	<u>11,087,461</u>
Acquisition of inventories	(245,298)	(132,374)
Acquisition of prepaid expenses	(107,861)	(123,909)
Consumption of inventories	132,374	183,889
Consumption of prepaid expenses	123,909	134,224
	<u>13,034,269</u>	<u>11,149,291</u>
Change in net debt	13,034,269	11,149,291
Net debt, beginning of year	2,734,457	(8,414,834)
Net debt, end of year	<u>\$ 15,768,726</u>	<u>\$ 2,734,457</u>

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 16,469,001	\$ 13,107,388
Items not involving cash:		
Amortization of tangible capital assets	10,129,569	10,102,733
Gain on sale of tangible capital assets	(121,158)	(34,164)
Change in non-cash operating working capital:		
Taxes, trade and water receivables	(3,464,967)	(254,971)
Prepaid expenses	16,048	10,315
Inventories	(115,972)	45,102
Drain receivables and debt recoverable from others	(552,377)	(504,096)
Accounts payable, accrued liabilities and deposits	(1,510,010)	1,535,221
Deferred revenue	340,340	6,031,833
Unfunded liabilities - interest, benefits, landfill	78,818	(152,826)
	21,269,292	29,886,535
Investing:		
Increase (decrease) in investments	(3,515)	(79,743)
Capital:		
Acquisition of tangible capital assets	(13,491,745)	(12,146,640)
Proceeds on disposal of tangible capital assets	145,478	58,144
	(13,346,267)	(12,088,496)
Financing:		
Debenture principal repayments	(2,830,935)	(2,748,475)
Increase in cash and cash equivalents	5,092,090	15,049,564
Cash and cash equivalents, beginning of year	50,106,760	35,057,196
Cash and cash equivalents, end of year	\$ 55,198,850	\$ 50,106,760
Supplemental cash flow information:		
Cash and temporary investments	\$ 56,625,592	\$ 51,732,018
Short term capital loan	(1,510,000)	(1,705,001)
Cash and cash equivalents, end of year	\$ 55,115,592	\$ 50,027,017

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies:

(a) Management responsibility:

The consolidated financial statements of The Corporation of the Town of Lakeshore ("Town") are the representations of management, prepared in accordance with accounting principles for local government as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada.

(b) Basis of accounting:

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.

(c) Basis of consolidation:

The consolidated financial statements reflect financial assets, liabilities, operating revenues and expenses, reserves, reserve funds, and changes in investment in tangible capital assets of the Town.

The Town's proportionate share in the Union Water Supply System is accounted for on a proportionate consolidation basis, consistent with the Canadian public sector accounting standard's treatment for government units.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(d) Taxes receivable and related revenues:

Property tax billings are prepared by the Town based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by Town Council, incorporating amounts to be raised for local services and amounts the Town is required to collect on behalf of the Province of Ontario in respect to education taxes and the County of Essex in respect of upper tier taxes. A normal part of the assessment process is the issuance of supplementary assessment rolls, which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the Town determines the taxes applicable and renders supplementary tax billings. Taxation revenues are recorded at the time tax billings are issued. Assessment and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded based upon management's estimate of the outcome taking into consideration historical trends. The Town is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are levied. Tax revenue is recorded net of reductions. Taxes receivable are reported net of any expense or allowance for doubtful accounts.

(e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They generally have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the annual surplus, provides the change in net debt for the year.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Land improvements	20 – 50 years
Buildings	40 – 50 years
Machinery and equipment	10 – 30 years
Vehicles	8 – 20 years
Water and waste plants and networks:	
Underground networks	40 – 100 years
Treatment plants and water storage towers	70 – 75 years
Processing equipment	10 – 60 years
Transportation:	
Roads	10 – 20 years
Bridges and structures	50 – 75 years
Sidewalks	30 years
Storm sewers	25 – 100 years
Trails and walking paths	15 years
Pooled assets	5 – 25 years

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use, at which time it is capitalized.

The Town has a capitalization threshold of \$10,000 – \$25,000, depending on the asset so that individual tangible capital assets of lesser value are expensed, unless they are pooled because, collectively, they have significant value, or for operational reasons. Examples of pools are computers, bunker gear and other fire equipment, generators, road signs and street lights.

(ii) Contribution of tangible capital assets:

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

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(iii) Inventories:

Inventories held for consumption are recorded at the lower of cost or replacement cost.

(f) Investments:

Investments are recorded at cost. When there is a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

(g) 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.

(h) Deferred revenue:

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.

(i) County and school boards:

The Town collects taxation revenue on behalf of the school boards and the County of Essex. The taxation, other revenues, expenses, assets, and liabilities with respect to the operations of the school boards and the County of Essex are not reflected in these consolidated financial statements. Amounts due from/to the County of Essex and the school boards are included in trade and other receivables/accounts payable and accrued liabilities on the consolidated statement of financial position.

(j) Employee future benefits:

The Town has adopted the accrual method for employee future benefits as required by the Chartered Professional Accountants Canada. The cost of future benefits earned by employees is determined using the projected benefit method prorated on service and assumption with respect to mortality and termination rates, retirement age and expected inflation rates with respect to employee benefit costs.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(k) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenues and expenses during the period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, certain accrued liabilities and liabilities related to employee future benefits, the liability for post closure costs and the carrying value of tangible capital assets. Actual results could differ from these estimates.

(l) Segment disclosure

The Town adopted PSAB Standard 2700 for Segment Disclosures. A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The Town has provided definitions of the segments used and presented financial information in segmented format in Note 17.

(m) Future accounting changes:

Effective for fiscal periods beginning on or after April 1, 2017 all governments will be required to adopt PSAB Section 3320 - Contingent Assets, which defines and establishes disclosure standards for contingent assets, and PSAB Section 3380 – Contractual Rights, which defines contractual rights to future assets and revenue and establishes disclosure requirements.

Effective for fiscal periods beginning on or after April 1, 2019 all governments will be required to adopt PSAB Section 3450, Financial Instruments and Section 2601, Foreign Currency Translation. Section 3450, provides guidance on how to account for financial instruments including derivatives. Section 2601, provides guidance on how to account for and report transactions that are denominated in foreign currency in government financial statements.

Management is currently in the process of evaluating the potential impact of adopting this standards.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

2. Investments:

	2018	2017
Own debentures	\$ 512,866	\$ 509,351
	\$ 512,866	\$ 509,351

3. Equity in the Union Water Systems Board of Management:

The equity in the Union Water System Board of Management is made up as follows:

	2018	2017
Cash and investments	\$ 591,968	\$ 579,113
Accounts receivable	39,981	29,211
Accounts payable	(14,038)	(35,879)
	617,911	572,445
Long-term debt	(404,918)	(433,331)
Tangible capital assets	1,280,331	1,265,158
	1,493,324	1,404,272
Reserves	260,080	61,744
Reserve funds	357,831	510,701
	617,911	572,445
Tangible Capital Assets - net book value:		
Water – land, land improvements, buildings and equipment	737,588	720,361
Water – linear	531,089	542,699
Water – assets under construction	11,654	2,097
	\$ 1,280,331	\$ 1,265,157

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

3. Equity in the Union Water Systems Board of Management (continued):

Included in the consolidated statement of operations and accumulated surplus is the Union Water System's share of:

	2018	2017
Amortization expense	\$ 39,100	\$ 37,597
Interest on long-term debt	44,460	47,259

The equity interest of each municipality shall be determined according to their proportional water consumption from the system, with the equity share being updated every four years per the Ownership Agreement. Lakeshore's equity in the System was reset to 3.15% effective January 1, 2017 with the next equity share reset to be effected January 1, 2021. The order also provides for the establishment of a Board of Management to govern the system.

4. Short term loans:

The balance of \$1,510,000 (2017 – \$1,705,001) is for drainage construction, which carries an interest rate at prime minus 0.25% from TD Canada Trust. This loan is unsecured and due upon demand.

5. Deferred revenue:

	2018	2017
Obligatory reserve funds:		
Development Charges Act and Agreements	\$ 8,159,344	\$ 8,136,085
Parking and trees	128,393	122,942
Parkland dedication	956,683	1,273,768
Federal gas tax	1,247,987	1,155,334
Building code	1,612,972	1,076,910
	\$ 12,105,379	\$ 11,765,039

The net change during the year in the deferred revenue balances is detailed in the Schedule 2 - Deferred Revenue.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

6. Long-term liabilities:

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

	2018	2017
Total debentures payable	\$ 31,826,341	\$ 34,628,863
Share of Union Water System obligations	404,918	433,331
	<u>\$32,231,259</u>	<u>\$ 35,062,194</u>

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

2019	\$ 2,519,675
2020	2,569,411
2021	2,579,301
2022	2,581,376
2023	2,574,486
Thereafter	19,407,010

Principal repayments on long-term debt will be funded as follows:

	2018	2017
Taxation	\$ 13,223,225	\$ 14,014,370
User rates:		
Water	11,388,653	12,429,502
Wastewater	6,733,937	7,499,054
Benefitting landowners	885,444	1,119,268
	<u>\$ 32,231,259</u>	<u>\$35,062,194</u>

Interest rates range from 1.609% to 6.0%. Total interest charges included in reporting on the consolidated statement of operations and accumulated surplus is \$1,209,776 (2017 - \$1,298,146). Of this amount, \$310,682 (2017 - \$336,460) was paid from wastewater rates, \$405,011 (2017 - \$439,635) from water rates, \$449,057 (2017 - \$471,525) from tax rates and \$45,026 (2017 - \$50,526) from benefitting landowners.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

7. Pension agreement:

The Town makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan on behalf of members of its staff. The plan provides defined pension benefits to employees based upon their length of credited service and rates of pay. However, as OMERS does not segregate its pension assets and liabilities information by individual employer, there is not sufficient information to enable the Town to account for the plan as a defined benefit plan. The amount contributed to OMERS for 2018 was \$762,502 (2017 - \$722,547).

8. Post-employment benefits

Employees who meet the criteria of having a minimum of 10 years of service and are a minimum age of 55 can retire, with the Town paying for dental and health benefits to the age of 65. The following assumptions were applied in estimating post-employment benefit liability:

- (a) a discount factor of 5.0% (2017 – 5.0%)
- (b) an annual increase of 5.0% (2017 – 5.0%) for health and dental benefits
- (c) an employee will retire when they meet the criteria for a full pension from OMERS
- (d) for those that will not meet the OMERS criteria, assume that they will retire at the age of 65
- (e) all employees will stay until retirement

There are currently 11 (2017 – 14) former employees who are receiving these benefits.

The liability based on the above assumptions at the year-end date is \$1,400,842 (2017 - \$1,268,186).

9. Liability for vested sick leave benefits:

Under the sick leave benefit plan, unused sick leave as at January 1, 2000 to a maximum of 100 days may be paid out at 50% when an employee leaves the Town's employment.

Days may be used while waiting for short term disability, to top up short term disability to 100% of their normal wages, and to top up long term disability to 90% of their normal wages.

Subsequent to January 1, 2000, 7 sick days per year are granted to all full-time employees, and if unused, may be paid out or accumulated to a maximum of 30 days. At the year end, the liability for the accumulated days amounted to \$52,546 (2017 - \$66,840) and is included in accounts payable.

The liability for these accumulated days, to the extent that they have vested and payment could be taken in cash by an employee upon termination, amounted to \$26,273 (2017 - \$33,420).

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

10. Landfill closure cost liability:

Essex County Landfill #3 was closed in 1997 and requires care consisting of hauling and treating leachate for an estimated period of 35 to 40 years. This landfill is the joint responsibility of the Town of Lakeshore, Town of Tecumseh and City of Windsor. The site is administered by the Essex-Windsor Solid Waste Authority. The liability was calculated assuming a 4% (2017- 4%) discount rate and 2% (2017 - 2%) rate of inflation using current annual contributions. Payments are made on a bi-monthly basis. The liability calculated using the above assumptions amounted to \$656,445 at (2017 - \$681,547).

11. Other income:

	2018	2017
Penalties and interest on taxation	\$ 604,106	\$ 546,240
Investment income	882,844	463,451
Permits and licenses	1,116,244	1,391,258
	<u>\$ 2,603,194</u>	<u>\$ 2,400,949</u>

12. Operations of School Boards and the County of Essex:

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

	2018	2017
School boards	\$ 13,168,161	\$ 12,884,162
County of Essex	23,887,231	21,978,795
	<u>\$ 37,055,392</u>	<u>\$ 34,862,957</u>

13. Contractual obligation – Ontario Clean Water Agency:

In accordance with a service agreement entered into by the Town with the Ontario Clean Water Agency, the primary sewage system is operated by the Agency. The Town is obligated to meet all operating costs and repay the long term liabilities related to these projects.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

14. Expenses by object:

The consolidated statement of operations and accumulated surplus presents the consolidated expenses by function. The following is a summary of those same expenses by object:

	2018	2017
Salaries, wages and benefits	\$ 12,761,816	\$ 12,040,105
Interest on long-term debt	1,188,108	1,298,146
Materials and supplies	10,829,345	10,088,480
Contracted services	10,992,433	10,737,352
Rents and financial expenses	92,965	102,230
External transfers	749,187	796,193
Amortization	10,129,569	10,102,733
Total current expenses	\$ 46,743,423	\$ 45,165,239

15. Budget amounts:

The operating budget approved by Town Council for 2018 is reflected on the consolidated statement of operations and accumulated surplus. The budgets established for capital investment in tangible capital assets are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year's actual expenditure amounts. As well, the Town does not budget activity within reserves and reserve funds, with the exception being those transactions, which affect either operations or capital investments. Budget figures have been reclassified for the purposes of these consolidated financial statements to comply with PSAB reporting requirements.

16. Contingencies:

During the normal course of operations, the Town may be subject to various legal actions. The settlement of these actions, if any, is not expected to have a material effect on the consolidated financial statements of the Town.

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Notes to Financial Statements (continued)

Year ended December 31, 2018

17. Segmented information:

The Town of Lakeshore is a diverse lower tier municipal government that provides a wide range of services to its citizens. The Town's operations and activities are organized functionally based on services provided and their activities are summarized by reportable segment in these statements.

For each reportable segment, the Town has reported expenses that represent both amounts that are directly attributable and amounts that are allocated on a reasonable basis. Revenues have not been presented by segment based on their nature and instead are shown by object as shown in Schedule 5.

The Town's reportable segments and their associated activities are as follows:

- (i) General government provides functions of general governance and corporate management comprised of tax levy revenue, council, council services, finance and administration activities.
- (ii) Protection services: are comprised of Police, Fire and Protective Inspection activities including building, by-law enforcement and animal control.
- (iii) Transportation services: includes Roads and related Asset Management and responsibility for road maintenance, hard-top and loose-top maintenance, road patrol, salt, sanding, snow removal, street lighting and administration of facilities.
- (iv) Environmental services: are comprised of water, sanitary and storm sewers, solid waste collection, disposal and recycling.
- (v) Recreation and cultural services: Recreational and cultural services are comprised of parks cultural activities and recreation facilities and responsibility for providing and facilitating the development and maintenance of high quality parks, recreation and cultural services.
- (vi) Planning and development: includes Planning, Agricultural Drainage and Engineering, responsible for administration of land use plans and policies for sustainable development of the Town.

The accounting policies used in these segments are consistent with those followed in preparation of the consolidated financial statements as disclosed in Note 1.

THE CORPORATION OF THE TOWN OF LAKESHORE

Schedule of Tangible Capital Assets

Schedule 1

Year ended December 31, 2018, with comparative information for 2017

	General					Infrastructure						Total	Union Water
	Land	Land Improvements	Buildings	Equipment	Vehicles	Plants and Facilities	Roads	Underground	Bridges	Assets Under Construction			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
Cost:													
Beginning of year	6,890,108	11,608,581	67,032,119	25,544,462	8,048,802	75,486,968	114,828,265	152,586,333	6,461,921	4,548,666	473,036,225	1,983,431	
Additions	-	1,900,968	16,484	419,187	280,014	39,436	950,885	2,159,912	307,839	9,291,767	15,366,492	-	
Disposals	-	(4,638)	-	(86,390)	(382,067)	-	(70,371)	(91,991)	-	(2,001,367)	(2,636,824)	-	
Donations and transfers	-	-	-	-	-	-	126,620	-	-	-	126,620	-	
Balance, end of year	6,890,108	13,504,911	67,048,603	25,877,259	7,946,749	75,526,404	115,835,399	154,654,254	6,769,760	11,839,066	485,892,513	1,983,431	
Accumulated Amortization:													
Beginning of year	-	1,991,829	7,299,576	11,001,646	4,246,629	11,569,468	69,570,850	34,287,137	3,058,875	-	143,026,010	718,274	
Amortization - 2018	-	281,525	1,362,903	986,666	503,687	1,058,175	4,184,235	1,656,893	95,485	-	10,129,569	-	
Accumulated amortization on disposals	-	(4,638)	-	(77,591)	(382,067)	-	(70,371)	(76,469)	-	-	(611,136)	-	
Balance, end of year	-	2,268,716	8,662,479	11,910,721	4,368,249	12,627,643	73,684,714	35,867,561	3,154,360	-	152,544,443	718,274	
Net book value of tangible capital assets	6,890,108	11,236,195	58,386,124	13,966,538	3,578,500	62,898,761	42,150,685	118,786,693	3,615,400	11,839,066	333,348,070	1,265,157	

THE CORPORATION OF THE TOWN OF LAKESHORE

Schedule of Tangible Capital Assets

Schedule 1

Year ended December 31, 2018, with comparative information for 2017

	General	Fire	Recreation	Roads	Water	Wastewater	Assets under construction	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	
Cost:									
Beginning of year	3,704,587	6,382,844	81,463,783	166,573,193	126,318,829	84,044,323	4,548,666	473,036,225	-
Additions	61,220	36,906	741,241	2,669,428	2,410,249	155,681	9,291,767	15,366,492	-
Disposals	(43,872)	(11,583)	(66,744)	(336,534)	(176,724)	-	(2,001,367)	(2,636,824)	-
Donations and transfers	-	-	-	126,620	-	-	-	126,620	-
Balance, end of year	3,721,935	6,408,167	82,138,280	169,032,707	128,552,354	84,200,004	11,839,066	485,892,513	-
Accumulated Amortization:									
Beginning of year	1,200,591	3,788,233	9,958,469	84,150,804	24,828,932	19,098,981	-	143,026,010	-
Amortization - 2018	109,640	301,455	1,906,725	4,966,810	1,647,564	1,197,375	-	10,129,569	-
Accumulated amortization on disposals	(43,872)	(10,204)	(61,230)	(334,629)	(161,201)	-	-	(611,136)	-
Balance, end of year	1,266,359	4,079,484	11,803,964	88,782,985	26,315,295	20,296,356	-	152,544,443	-
Net book value of tangible capital assets	2,455,576	2,328,683	70,334,316	80,249,722	102,237,059	63,903,648	11,839,066	333,348,070	

THE CORPORATION OF THE TOWN OF LAKESHORE

Schedule of Deferred Revenue

Year ended December 31, 2018, with comparative figures for 2017

	Balance, Dec 31, 2017	Interest Earned	Contributions Received	Revenue Earned - Capital	Revenue Earned - Operating	Other Disbursements	Balance, December 31, 2018
Parkland	1,273,768	26,802	258,360	602,247	-		956,683
Development Charges	7,952,183	184,334	4,123,368	-	4,568,254		7,691,631
Building Code	1,076,910	29,073	-	-	(506,989)		1,612,972
Federal Gas Tax	1,155,334	19,855	1,760,517	1,687,719	-		1,247,987
Trees	98,553	2,526	77,200	-	50,575		127,704
Provincial Grants	183,902	8,151	-	1,075,364	(1,351,024)		467,713
Parking	24,389	448	-	24,148			689
	<u>11,765,039</u>	<u>271,189</u>	<u>6,219,445</u>	<u>3,389,478</u>	<u>2,760,816</u>	<u>-</u>	<u>12,105,379</u>

THE CORPORATION OF THE TOWN OF LAKESHORE

Schedule of Reserves and Reserve Funds

Schedule 3

Year ended December 31, 2018, with comparative information for 2017

	Balance, December 31, 2017	Interest earned	Contributions received	Transfer to capital from (to)	Transfer from (to) operations	Balance, December 31, 2018
Reserve Funds						
Water	\$ 6,106,520	135,270	-	(1,919,916)	4,574,090	8,895,964
Union water system	510,701	6,855	-	-	(159,725)	357,831
Wastewater	4,093,044	66,631	-	(1,754,064)	181,795	2,587,406
Future employee benefits	675,974	12,408	-	-	-	688,382
ELK sale proceeds	790,771	23,613	-	(724,647)	320,625	410,362
	12,177,010	244,777	-	(4,398,627)	4,916,785	12,939,945
Reserves						
Working capital	1,710,305	-	-	-	-	1,710,305
Contingencies	1,045,590	-	-	-	109,101	1,154,691
Accumulated sick leave	55,000	-	-	-	-	55,000
Water operating	1,061,541	-	-	-	-	1,061,541
Union water system	61,744	-	-	-	198,336	260,080
Roads	6,605,560	-	-	(3,316,417)	6,209,742	9,498,885
Acquisition of capital assets	8,682,645	-	-	(916,984)	3,922,255	11,687,916
Future operating expenses	4,692,007	-	-	(18,984)	1,043,875	5,716,898
	23,914,392	-	-	(4,252,385)	11,483,309	31,145,316
	\$ 36,091,402	244,777	-	(8,651,012)	16,400,094	44,085,261

THE CORPORATION OF THE TOWN OF LAKESHORE

Consolidated Schedule of Accumulated Surplus

Schedule 4

December 31, 2018, with comparative information for 2017

	2018	2017
Reserves and Reserve Funds:		
Reserve Funds (Schedule 3)	12,939,945	12,177,010
Reserves (Schedule 3)	31,145,316	23,914,392
	<u>44,085,261</u>	<u>36,091,402</u>
Surpluses:		
Tangible capital assets	302,388,922	296,399,175
General revenue fund	2,942,402	2,329,399
General reduction of user charges	2,731,359	843,485
Benefitting landowners related to special charges and special areas	(387,545)	(450,881)
Unfunded:		
Post employment liabilities and sick leave	(1,427,115)	(1,301,606)
Landfill closure cost liability	(656,445)	(681,547)
Accrued interest on long-term debt	(206,884)	(228,473)
	<u>305,384,694</u>	<u>296,909,552</u>
Accumulated Surplus	<u>349,469,955</u>	<u>333,000,954</u>

THE CORPORATION OF THE TOWN OF LAKESHORE

Schedule of Segmented Disclosure

Schedule 5

For the year ended December 31, 2018

	General Government	Protective Services	Transportation Services	Environmental Services	Recreation	Planning & Development	Total
Revenue							
Property taxes	31,249,181	-	-	-	-	-	31,249,181
Government transfers	579,100	304,995	1,303,720	1,696,240	77,662	102,064	4,063,781
User fees and sale of goods	805,193	135,451	73,106	14,456,472	3,224,143	203,831	18,898,196
Investment income	882,844	-	-	-	-	-	882,844
Gain or (Loss) on sale of tangible capital assets	-	-	121,158	-	-	-	121,158
Donated assets	-	-	126,620	-	-	-	126,620
Deferred revenue earned	-	(506,989)	3,337,591	2,281,272	689,414	349,006	6,150,294
Fines and penalties	604,105	-	-	-	-	-	604,105
Other revenues	-	-	-	-	-	1,116,245	1,116,245
	<u>34,120,423</u>	<u>(66,543)</u>	<u>4,962,195</u>	<u>18,433,984</u>	<u>3,991,219</u>	<u>1,771,146</u>	<u>63,212,424</u>
Expenses							
Salaries, wages and employee benefits	2,601,198	2,065,687	1,296,062	2,553,027	3,306,703	939,139	12,761,816
Interest on long-term debt	-	-	3,955	700,631	440,859	42,663	1,188,108
Materials	1,003,115	679,339	2,872,893	3,364,603	2,734,747	174,648	10,829,345
Contracted services	368,566	4,767,269	537,052	4,853,403	356,845	109,298	10,992,433
Rents and financial expenses	36,266	6,302	-	-	50,397	-	92,965
External transfers	-	429,514	-	318,673	1,000	-	749,187
Amortization	85,588	315,300	4,478,677	3,332,686	1,917,318	-	10,129,569
Inter-functional adjustments	(2,251,634)	552,024	345,520	790,820	473,470	89,800	-
	<u>1,843,099</u>	<u>8,815,435</u>	<u>9,534,159</u>	<u>15,913,843</u>	<u>9,281,339</u>	<u>1,355,548</u>	<u>46,743,423</u>
Annual surplus (deficit)	<u>32,277,324</u>	<u>(8,881,978)</u>	<u>(4,571,964)</u>	<u>2,520,141</u>	<u>(5,290,120)</u>	<u>415,598</u>	<u>16,469,001</u>