

Audited Consolidated Financial Statements and
Other Financial Information of

**CORPORATION OF THE TOWN OF
PRESCOTT**

Year ended December 31, 2017

Audited Consolidated Financial Statements and Other Financial Information of

CORPORATION OF THE TOWN OF PRESCOTT

Year ended December 31, 2017

CORPORATION OF THE TOWN OF PRESCOTT

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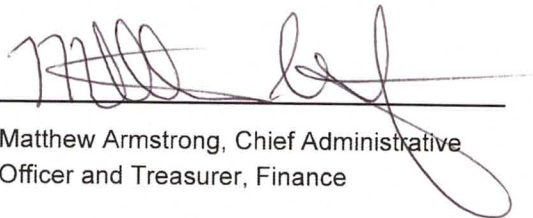
Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of the Corporation of the Town of Prescott (the "Town") are the responsibility of the Town's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards. A summary of the significant accounting policies is contained in note 1 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Town's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

Council meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the Town. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Town's consolidated financial statements.



Matthew Armstrong, Chief Administrative
Officer and Treasurer, Finance



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INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of the Corporation of the Town of Prescott, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of operations and accumulated municipal equity, change in net debt and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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 consolidated financial position of the Corporation of the Town of Prescott as at December 31, 2017, and its consolidated results of operations and accumulated municipal equity, its consolidated change in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The consolidated financial statements of the Corporation of the Town of Prescott as at and for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated statements on September 5, 2017.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

August 27, 2018

CORPORATION OF THE TOWN OF PRESCOTT

Consolidated Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Financial assets:		
Cash and short-term deposits	\$ 3,936,116	\$ 4,471,670
Taxes receivable	866,909	879,852
User charges receivable	899,731	869,253
Accounts receivable	1,407,853	1,183,198
Inventory	25,256	23,624
Investment in Rideau St. Lawrence Holdings Inc. (note 4)	1,911,406	1,859,885
	<u>9,047,271</u>	<u>9,287,482</u>
Liabilities and deferred revenue:		
Accounts payable and accrued liabilities	2,209,357	2,143,013
Employee future benefit obligations (note 5)	58,173	58,173
Deferred revenue (note 6)	377,984	101,146
Long-term liabilities (note 7)	9,271,002	8,807,114
Total liabilities	<u>11,916,516</u>	<u>11,109,446</u>
Net debt	(2,869,245)	(1,821,964)
Non-financial assets:		
Tangible capital assets (note 14)	56,328,226	54,889,631
Inventories	5,517	5,390
Prepaid expenses	160,913	144,973
Total non-financial assets	<u>56,494,656</u>	<u>55,039,994</u>
Contingent liabilities (note 12)		
Commitments (note 13)		
Subsequent event (note 17)		
Accumulated municipal equity (note 8)	<u>\$ 53,625,411</u>	<u>\$ 53,218,030</u>

The accompanying notes are an integral part of these consolidated financial statements.

CORPORATION OF THE TOWN OF PRESCOTT

Consolidated Statement of Operations and Accumulated Municipal Equity

Year ended December 31, 2017, with comparative information for 2016

	Budget 2017 (note 16)	Actual 2017	Actual 2016
Revenue:			
Property taxation	\$ 5,188,250	\$ 5,249,159	\$ 5,087,091
Taxation from other governments	334,500	350,344	324,146
User charges	3,280,290	3,139,190	3,283,693
Government grants	1,960,907	1,945,464	1,867,330
Licenses and permits	67,525	54,118	53,482
Investment income	110,740	30,963	32,118
Penalties and interest on taxes	157,600	122,165	86,613
Provincial offenses	29,730	35,607	38,698
Other	337,995	980,964	355,217
Net equity increase in investment in Rideau St. Lawrence Holdings Inc. (note 4)	65,000	105,865	51,908
Total revenue	11,532,537	12,013,839	11,180,296
Expenses (note 15):			
General government	1,325,475	1,455,945	1,509,551
Protection to persons and property	2,050,618	2,044,149	2,260,361
Transportation services	1,869,662	1,988,746	1,656,021
Environmental services	3,116,007	3,007,152	2,830,389
Health services	310,311	334,236	313,691
Social and family services	833,800	827,094	862,367
Recreation and culture services	1,758,629	1,886,192	1,338,386
Planning and development	466,976	561,662	333,035
Total expenses	11,731,478	12,105,176	11,103,801
Annual operating surplus (deficit)	(198,941)	(91,337)	76,495
Other:			
Grants and transfers related to capital:			
Deferred revenue earned (note 6)	–	–	260,494
Government transfers	930,000	427,778	1,699,151
Other	–	70,940	367,229
	930,000	498,718	2,326,874
Annual surplus	731,059	407,381	2,403,369
Accumulated municipal equity, beginning of year	50,814,661	53,218,030	50,814,661
Accumulated municipal equity, end of year (note 8)	51,545,720	\$ 53,625,411	\$ 53,218,030

The accompanying notes are an integral part of these consolidated financial statements.

CORPORATION OF THE TOWN OF PRESCOTT

Consolidated Statement of Change in Net Debt

Year ended December 31, 2017, with comparative information for 2016

	Budget	2017	2016
Annual surplus	\$ 731,059	\$ 407,381	\$ 2,403,369
Acquisition of tangible capital assets	(4,583,000)	(3,071,390)	(4,043,348)
Amortization of tangible capital assets	1,585,924	1,629,795	1,505,253
Net proceeds of disposition of tangible capital assets	—	3,000	12,000
Acquisition of prepaid expenses	—	(15,940)	(11,144)
Change in inventories of supplies	—	(127)	6,610
Change in net debt	(2,266,017)	(1,047,281)	(127,260)
Net debt, beginning of year	(1,821,964)	(1,821,964)	(1,694,704)
Net debt, end of year	\$ (4,087,981)	\$ (2,869,245)	\$ (1,821,964)

The accompanying notes are an integral part of these consolidated financial statements.

CORPORATION OF THE TOWN OF PRESCOTT

Consolidated Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Operating activities:		
Annual surplus	\$ 407,381	\$ 2,403,369
Item not involving cash:		
Amortization of tangible capital assets	1,629,795	1,505,253
Change in non-cash operating working capital:		
Decrease in taxes receivable	12,943	6,798
Decrease (increase) in user charges receivable	(30,478)	41,256
Increase in accounts receivable	(224,655)	(627,921)
Increase in inventories	(1,632)	(3,513)
Increase in accounts payable and accrued liabilities	66,344	335,689
Decrease in other current liabilities	-	(43,068)
Increase in deferred revenue	276,838	35,614
Increase in prepaid expenses	(15,940)	(11,144)
Decrease (increase) in inventory not for resale	(127)	6,610
	83,293	(259,679)
Net change in cash from operations	2,120,469	3,648,943
Capital activities:		
Acquisition of tangible capital assets	(3,071,390)	(4,043,348)
Net proceeds of disposal of capital assets	3,000	12,000
	(3,068,390)	(4,031,348)
Investing activities:		
Decrease (increase) in investment in Rideau St. Lawrence Holdings Inc.	(51,521)	3,339
Financing activities:		
Debt principal repayments	(1,088,701)	(744,578)
Proceeds from long-term debt	1,552,589	171,306
	463,888	(573,272)
Decrease in cash and short-term deposits	(535,554)	(952,338)
Cash and short-term deposits, beginning of year	4,471,670	5,424,008
Cash and short-term deposits, end of year	\$ 3,936,116	\$ 4,471,670

The accompanying notes are an integral part of these consolidated financial statements.

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements

Year ended December 31, 2017

The Corporation of the Town of Prescott (the “Town”) was incorporated in 1834 and assumed its responsibilities as a police village. The Town operates as a single tier government in the United Counties of Leeds and Grenville, in the Province of Ontario, Canada and provides municipal services such as police, fire, public works, planning, parks and recreation, library and other general government operations.

1. Significant accounting policies:

The consolidated financial statements of the Corporation of the Town of Prescott (the “Town”) are the representation of management prepared in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Town are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

These consolidated financial statements reflect the assets, liabilities, revenue and expenses, reserves, reserve funds and changes in investment in tangible capital assets of the Town. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Town and which are owned or controlled by the Town. Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

These consolidated financial statements include:

Public Library Board
Business Improvement Area Committee
Museum Board
Cemetery Board

(ii) Investment in Rideau St. Lawrence Holdings Inc.:

The investment in Rideau St. Lawrence Holdings Inc. (“RSL”) is accounted for on a modified equity basis, consistent with Canadian public sector accounting standards. Under the modified equity basis, the business enterprises accounting principles are not adjusted to conform to those of the Town and inter-organizational transactions and balance are not eliminated. The Town recognizes its equity interest in the annual income or loss of RSL in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Any dividends the Town may receive from RSL will be reflected as reductions in the investment asset account.

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(iii) Accounting for School Board transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in the municipal fund balances of these consolidated financial statements.

(b) Basis of accounting:

(i) The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based on receipt of goods and services and/or the creation of a legal obligation to pay.

(ii) Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They 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 excess of revenue over expenses, provides the change in net financial assets for the year.

(c) Tangible capital assets:

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

Asset	Useful Life - Years
Land improvements	40
Buildings	15 to 60
Machinery and equipment	5 to 20
Vehicles	5 to 20
Linear assets:	
Roads	15 to 40
Bridges	15 to 40
Sidewalks	10 to 15
Water distribution	80
Wastewater collection	80
Storm sewer collection	80

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(c) Tangible capital assets (continued):

Amortization is charged in the year following the year of acquisition. Assets under construction are not amortized until the asset is available for productive use, at which time they are capitalized.

The Town has a capitalization threshold of \$10,000 for vehicles and equipment and \$10,000 to \$50,000 for linear assets and buildings so that individual capital assets of lesser value are expensed, unless they are pooled because, collectively, they have significant value, or for operations reasons.

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. Similarly, transfers of assets to third parties are recorded as an expense equal to the net book value of other asset as of the date of transfer.

When tangible capital assets are disposed of, either by way of a sale, destruction or loss, or abandonment of the asset, the asset's net book value, historical cost less accumulated amortization, is written off. Any resulting gain or loss, equal to the proceeds on disposal less the asset's net book value, is reported on the consolidated statement of operations in the year of disposal.

When conditions indicate that a tangible capital asset no longer contributes to the Town's ability to provide services or the value of the future economic benefits associated with the tangible capital asset are less than its net book value, and the decline is expected to be permanent, the cost and accumulated amortization of the asset are reduced to reflect the revised estimate of the value of the asset's remaining service potential. The resulting net adjustment is reported as an expense on the consolidated statement of operations.

(d) Leases:

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

(e) Inventories and prepaid expenses:

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

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(f) Pension and employee benefits:

The Town accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan. The OMERS plan specifies the retirement benefits to be received by employees based on length of service and pay rates.

Employee benefits include vacation entitlement and sick leave benefits. Vacation entitlements are accrued as entitlements are earned. Sick leave benefits are accrued in accordance with the Town's policy.

(g) Cash and short-term deposits:

The Town considers cash and short-term deposits to be highly liquid investments with original maturities of three months or less.

(h) Government transfers:

Government transfers are recognized as revenue in the consolidated financial statements when the transfer is authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made except when and to the extent that stipulations by the transferor give rise to an obligation that meets the definition of a liability. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

(i) Deferred revenue:

The Town receives contributions pursuant to legislation, regulations or agreement that may only be used for certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed.

(j) Deferred revenue - obligatory reserve funds:

The Town receives restricted contributions under the authority of provincial legislation and Municipal by-laws. These funds by their nature are restricted in their use, and until applied to applicable expenses, are recorded as deferred revenue. Amounts applied to qualifying costs are recorded as revenue in the fiscal period that they are expended.

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(k) Investments:

Investments are recorded at cost plus accrued interest. If the market value of investments become lower than cost and the decline in value is considered to be other than temporary, the investments are written down to market value.

Investment income earned on available current funds and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balance.

(l) Liability for contaminated sites:

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all the following criteria are met:

- (i) an environmental standard exists;
- (ii) contamination exceeds the environmental standard;
- (iii) the Town:
 - is directly responsible; or
 - accepts responsibility;
- (iv) it is expected that future economic benefit will be given up; and
- (v) a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

(m) Property taxation:

The Town recognizes property tax revenue using the approved tax rate and the anticipated assessment. Taxes receivable and tax revenue are recognized when they meet the definition of an asset, the tax is authorized and the taxable event has occurred. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the consolidated statement of operations and accumulated municipal equity.

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(n) 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 amounts of revenue and expenses during the period. Actual results could differ from these estimates.

2. Operations of school boards:

During 2017, the Town collected and made property tax transfers including payments in lieu of property taxes, to the School Boards as follows:

	2017	2016
Property taxes	\$ 1,291,353	\$ 1,272,741
Amounts requisitioned and paid	\$ 1,291,353	\$ 1,272,741

3. Bank indebtedness:

The Town's financial agreement with its bank provides for an operating credit facility of up to \$1,000,000 to finance expenses, pending receipt of property taxes and other income. Interest on funds drawn is charged at the Bank of Montreal's prime rate. As at December 31, 2017, there was \$Nil (2016 - \$Nil) drawn on the facility.

4. Investment in Rideau St. Lawrence Holdings Inc.:

Rideau St. Lawrence Holdings Inc. ("RSL"), a government business enterprise, is accounted for on the modified equity basis by the Town for its proportionate share of ownership. The Town owns approximately 34.53% (2016 - 34.53%) of RSL. The principal business of RSL is to distribute electric power to four communities including the Town.

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

4. Investment in Rideau St. Lawrence Holdings Inc. (continued):

The following tables present condensed supplementary financial information for the Town's investment in RSL for the year ended December 31.

	2017	2016
Financial Position		
Current assets	\$ 1,460,615	\$ 1,842,816
Capital assets	2,673,744	2,447,898
Net regulatory assets	64,197	110,855
	4,198,556	4,401,569
Current liabilities	1,952,063	2,066,224
Long-term debt	335,087	475,460
	2,287,150	2,541,684
Net assets	\$ 1,911,406	\$ 1,859,885
Share capital	\$ 1,184,486	\$ 1,184,486
Accumulated earnings	725,015	674,397
Accumulate other comprehensive income	1,905	1,002
Investment in Government Business Enterprises	\$ 1,911,406	\$ 1,859,885
	2017	2016
Results of Operations		
Revenue	\$ 5,618,394	\$ 6,069,460
Correction of prior year net assets share	61,969	-
Operating expenses	(5,574,498)	(6,017,552)
Net earnings	105,865	51,908
Dividends paid during the year	(55,247)	(55,247)
	50,618	(3,339)
Accumulated earnings, beginning of year	674,397	677,736
Accumulated earnings, end of year	\$ 725,015	\$ 674,397

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

5. Employee future benefit obligations:

The Town provides life insurance premiums to employees who were previously employed by Prescott Public Utilities Commission. Beginning in 2006, the accrued benefit obligation has been recognized using a present value approach with a discount rate of 3%.

At December 31, 2017 the Town's accrued benefit liability for life insurance benefits is estimated at \$58,173 (2016 - \$58,173).

6. Deferred revenue:

A requirement of the CPA Canada Public Sector Accounting Handbook is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial and municipal legislation restricts how these funds may be used. The balance in the obligatory reserve fund of the Town are:

	2017	2016
Balance, beginning of year	\$ 101,146	\$ 65,532
Revenue:		
Contributions from developers	11,732	35,614
Gas tax revenue	265,106	260,494
	276,838	296,108
Utilization:		
Transfers for capital	–	(260,494)
Balance, end of year	\$ 377,984	\$ 101,146

Analyzed as follows:

	2017	2016
Development charges	\$ 112,878	\$ 101,146
Gas tax	265,106	–
Balance, end of year	\$ 377,984	\$ 101,146

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

7. Long-term liabilities:

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

	2017	2016
Fixed rate bank loan with maturity date in 2021 and interest rate of 2.6%	\$ 1,035,691	\$ 1,704,597
Ontario Project Infrastructure Corporation with maturity dates between 2023 and 2047 and interest rates between 3.260% and 5.606%	7,992,128	6,931,211
Royal Bank of Canada, maturity 2023, 0% interest	243,183	171,306
	<u>\$ 9,271,002</u>	<u>\$ 8,807,114</u>

- (b) Principal payments are due as follows:

	Principal	Interest	Total
2018	\$ 788,026	\$ 383,521	\$ 1,171,547
2019	816,707	354,840	1,171,547
2020	846,588	324,959	1,171,547
2021	626,323	295,998	922,321
2022	566,951	271,994	3,513,309
2023 and thereafter	5,626,407	2,032,673	4,984,716
	<u>\$ 9,271,002</u>	<u>\$ 3,663,985</u>	<u>\$ 12,934,987</u>

- (c) Interest expense on long term liabilities in 2017 amounted to \$391,020 (2016 - \$387,210).
- (d) These payments are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

8. Municipal equity:

	2017	2016
Investment in tangible capital assets:		
Tangible capital assets	\$ 56,328,226	\$ 54,889,631
Long-term liabilities	(9,271,002)	(8,807,114)
	47,057,224	46,082,517
Unexpended Capital Financing (Unfinanced Capital) Projects:		
Road infrastructure	(617,253)	(588,309)
Industrial park	(287,568)	(322,568)
Waterfront park	–	(1,448,837)
Fire hall	(2,199,578)	(473,566)
Public works addition	(237,114)	(168,954)
Streetlights	(617,065)	(617,065)
Reserves set aside for specific purposes by Council:		
For operating expenses:		
Working capital	880,000	880,000
Business improvement	42,267	32,559
Elections	15,200	10,100
	937,467	922,659
For operating expenses:		
Fiscal policy	419,412	741,845
General government	6,686	52,464
Protection services	864,390	766,850
Public works	–	192,681
Health services	14,878	7,078
Recreation and cultural	314,207	293,365
Library	36,661	25,351
Museum	42,012	21,012
Cemetery	8,638	16,736
Planning and development	162,707	131,800
Water and sewer	5,808,301	5,723,086
	7,677,892	7,972,268
Total reserves	8,615,359	8,894,927
Investment in Government Business Enterprises (note 4)	1,911,406	1,859,885
Total accumulated municipal equity	\$ 53,625,411	\$ 53,218,030

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

9. Pension contributions:

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 31 members of its staff. 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 December 31, 2017. At that time, the plan reported a \$5.4 billion actuarial deficit (2016 - \$5.7 billion actuarial deficit).

The 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.

The amount contributed to OMERS for current service in 2017 was \$186,856 (2016 - \$148,774) and is included as an expense on the Consolidated Statement of Operations and Accumulated Municipal Equity.

10. Trust funds:

Trust funds administered by the Town amounting to \$111,298 (2016 - \$106,172) are presented in a separate financial statement of trust fund balances and operations. As such balances are held in trust by the Town for the benefit of others, they are not presented as part of the Town's financial position or financial activities.

11. Provincial Offences Administration (POA):

The United Counties of Leeds and Grenville has assumed the administration of the Provincial Offences office for all County of Leeds and Grenville resident municipalities. The transfer of administration from the Ministry of the Attorney General to the Town was a result of the Provincial Offences Act (POA) 1997, which provides the framework for the transfer of responsibility and administration of POA courts.

The POA is a procedural law for administering and prosecuting provincial offences, including those committed under the Highway Traffic Act, Compulsory Automobile Insurance Act, Trespass to Property Act, Liquor License Act, Municipal Bylaws and minor federal offences. The POA governs all aspects of legal process from serving notice to a defendant, to conducting trials, including sentencing and appeals.

The Town's share of net revenues arising from operation of the POA office has been consolidated with these financial statements. The revenue of the court office consists of fines levied under Parts I and 111 (including delay penalties) for POA charges filed in the County court.

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

11. Provincial Offences Administration (POA) (continued):

If fines are paid at other court offices, the receipt is recorded in the Integrated Courts Operation Network System ("ICON") operated by the Province of Ontario. Revenue is recognized when receipt of funds is recorded by the provincial ICON system regardless of the location where payment is made.

The Corporation of the Town of Prescott shares net POA revenues based on weighted assessment.

12. Contingent liabilities:

- (a) The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2017, management believes that the Town has valid defences and appropriate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable; therefore no amount has been accrued in the consolidated financial statements.
- (b) In 1997, the Town assumed ownership of property that was identified as being contaminated. Phase I and Phase II environmental assessments have been carried out with a conclusion that the land was contaminated beyond a minimally acceptable level. A further assessment was carried out, including soil sampling, which revealed that the contamination did not present an immediate risk to human health or the environment. Based upon existing environmental regulations, the Town would be required to remediate this land subject to future development. The cost of such remediation is unknown. As at December 31, 2017, the Town has no plans to develop this land. Due to the uncertainty surrounding the timing and nature of the remediation, no liability has been recognized in the Towns' consolidated financial statements.
- (c) The Town is contingently liable under a letter of credit issued by its bankers in regard to the requirement from the Town's agreement with the Canadian Actors' Equity Association. The aggregate borrowing is up to \$46,500.

As at December 31, 2017, there is no amount outstanding under the facility.

13. Commitments:

- (a) The Town has entered into an agreement with Ontario Clean Water Agency to manage the water treatment plant and the sewage treatment plant. The contract provides for a management fee for each plant plus the operating and capital costs of the two plants. The management fee is adjusted for inflation on an annual basis. These contracts end November 2018. Payments for the water treatment plant were \$328,214 (2016 - \$266,521). Payments for the sewage treatment plant were \$508,057 (2016 - \$438,385).

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

13. Commitments (continued):

- (b) The Town has negotiated a long term contract with the Ontario Provincial Police for the provision of policing services. The contract ends December 2019. Annual charges are determined based on the level of service and are reconciled to actual costs in the following year. During the year, the contract costs were \$1,415,421 (2016 - \$1,621,908).
- (c) The Town has negotiated a contract for waste collection with Limerick Environmental which expires February 2019. Fees are based on the residential household count and are adjusted annually for inflation. During the year, the contract costs were \$92,488 (2016 -\$89,614).
- (d) The Town has negotiated a contract for waste disposal with Lafleche Environmental Inc. which expires May 2020. The annual costs are based on tonnage and adjusted annually for inflation. During the year, the contract costs were \$39,322 (2016 -\$37,634).
- (e) The Town has negotiated a contract for the collection and disposal of recycled materials, with Limerick Environmental, which expires February 2019. Fees are based on population count and area adjusted annually for inflation. During the year, the contract costs were \$70,490 (2016 -\$69,400).
- (f) The Town has committed funding to the Eastern Ontario Wardens Caucus Broadband Project in the amount of \$13,981 per year for the period 2015 to 2023.
- (g) The estimated commitment to complete construction-in-progress and major equipment purchases at December 31, 2017 is approximately \$2,902,395 (2016 - \$404,621).

14. Tangible capital assets:

Cost	Balance at December 31, 2016	Transfers and additions	Transfers, disposals and adjustments	Balance at December 31, 2017
Land	\$ 939,030	\$ -	\$ (3,000)	\$ 936,030
Land improvements	3,285,011	-	-	3,285,011
Buildings	35,513,478	381,916	-	35,895,394
Machinery and equipment	3,340,095	251,104	-	3,591,199
Vehicles	2,247,915	149,889	-	2,397,804
Linear assets	15,875,620	3,064,514	-	18,940,134
Sewer infrastructure	6,382,931	-	-	6,382,931
Water infrastructure	5,660,634	-	-	5,660,634
Construction-in-progress	3,352,539	2,588,808	(3,364,841)	2,576,506
Total	\$ 76,597,253	\$ 6,436,231	\$ (3,367,841)	\$ 79,665,643

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

14. Tangible capital assets (continued):

Accumulated amortization	Balance at December 31, 2016	Amortization expense	Transfers, disposals and adjustments	Balance at December 31, 2017
Land improvements	\$ 15,809	\$ 84,081	\$ -	\$ 99,890
Buildings	9,396,448	687,960	-	10,084,408
Machinery and equipment	1,445,120	246,759	-	1,691,879
Vehicles	1,269,510	120,012	-	1,389,522
Linear assets	5,780,923	311,637	-	6,092,560
Sewer infrastructure	1,902,231	94,809	-	1,997,040
Water infrastructure	1,897,581	84,537	-	1,982,118
Total	\$ 21,707,622	\$ 1,629,795	\$ -	\$ 23,337,417

	Net book value December 31, 2016	Net book value December 31, 2017
Land	\$ 939,030	\$ 936,030
Land improvements	3,269,202	3,185,121
Buildings	26,117,030	25,810,986
Machinery and equipment	1,894,975	1,899,320
Vehicles	978,405	1,008,282
Linear assets	10,094,697	12,847,574
Sewer infrastructure	4,480,700	4,385,891
Water infrastructure	3,763,053	3,678,516
Construction-in-progress	3,352,539	2,576,506
Total	\$ 54,889,631	\$ 56,328,226

15. Segmented information:

The Town is a diversified municipal government that provides a wide range of services to its citizens. The services are provided by departments and their activities are reported in the consolidated statement of financial activities.

Departments have been separately disclosed in the segmented information, along with the service they provide, and are set out in the schedule below.

For each reported segment, expenditures represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information.

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

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

15. Segmented information (continued):

	General Government	Environmental Services	Protection to Persons and Property	Health Services	Social and Family Services	Transportation Services	Recreation and Cultural Services	Planning & Development	Total
Revenue									
Taxation									
Taxation comm and indust	\$ 1,426,828	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	29,000	\$ 1,455,828
Taxation other governments	350,344	-	-	-	-	-	-	-	350,344
Taxation residential	3,793,331	-	-	-	-	-	-	-	3,793,331
User charges									
Environmental	-	2,697,390	-	-	-	-	-	-	2,697,390
Marina	-	-	-	-	-	-	162,306	-	162,306
Other	3,925	-	39,961	-	6,300	3,648	7,092	3,710	64,636
Recreation and culture	-	-	-	-	-	-	214,858	-	214,858
Government transfers	1,551,100	30,034	39,688	-	140,792	122,321	24,486	37,043	1,945,464
Investment income	30,963	-	-	-	-	-	-	-	30,963
Licenses and permits	18,237	-	32,381	-	-	3,500	-	-	54,118
Net income Rideau St. Lawrence	105,865	-	-	-	-	-	-	-	105,865
Other	23,374	723,320	4,421	43,098	-	15,120	121,634	49,997	980,964
Penalties and interest on taxes	122,165	-	-	-	-	-	-	-	122,165
Provincial offenses	-	-	35,607	-	-	-	-	-	35,607
Other									
Capital deferred revenue	-	-	-	-	-	-	-	-	-
Capital government transfers	-	123,417	-	-	-	304,361	-	-	427,778
Capital other	-	-	-	-	-	-	-	70,940	70,940
Total revenue	7,426,132	3,574,161	152,058	43,098	147,092	448,950	530,376	190,690	12,512,557
Expenses									
Salaries and wages	610,634	264,581	248,019	-	84,046	659,724	799,425	255,071	2,921,500
Operating materials and services	758,097	1,824,251	1,678,890	260,714	568,367	838,245	854,184	306,591	7,089,339
External transfers to other	-	-	-	73,522	-	-	-	-	73,522
Debenture interest	-	174,936	15,060	-	78,751	122,272	-	-	391,020
Amortization	87,214	743,384	102,180	-	95,929	368,505	232,583	-	1,629,795
Total expenses	1,455,945	3,007,152	2,044,149	334,236	827,094	1,988,746	1,886,192	561,662	12,105,176
Excess of revenue over expenses									
(expenses over revenue) before taxation	\$ 5,970,187	\$ 567,009	\$ (1,892,091)	\$ (291,138)	\$ (680,002)	\$ (1,539,796)	\$ (1,355,816)	\$ (370,972)	\$ 407,381

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

16. Budget figures:

Budget figures reported on the Consolidated Statement of Operations are based on the 2017 municipal and other local board operating budgets as approved by Council on March 6, 2017.

Approved budget figures also include council approved budget estimates for Public Sector Accounting Board (PSAB) reporting requirements. The chart below reconciles the approved Town operating budgets and PSAB budget estimates to the total consolidated budget figures as reported on the Consolidated Statement of Operations.

	Budget 2017
Operational budget	
Revenue:	
Cash budget approved by Council	\$ 11,974,911
Less: Transfer from reserves	(298,000)
Less: Library funding consolidation	(144,374)
	<u>\$ 11,532,537</u>
Expenses:	
Cash budget approved by Council	\$ 11,974,911
Less: Transfers to reserves	(840,548)
Less: Library funding upon consolidation	(144,374)
Less: Principal payments	(776,585)
Less: Capitalization fire vehicle	(52,850)
Add: Amortization expense	1,585,924
Less: Capitalization of books budget	(15,000)
	<u>\$ 11,731,478</u>
	<u>Budget 2017</u>
Capital budget	
Revenue – Government Transfers	
Revenue budget passed by Council	\$ 1,450,000
Less: Items pertaining to 2018 Linda Street and Place	(520,000)
Revenue applicable to 2017	<u>\$ 930,000</u>

CORPORATION OF THE TOWN OF PRESCOTT

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

16. Budget figures (continued):

	Budget 2017
Capital Purchases	
Government transfers budget passed by Council	\$ 8,433,000
Less: Items pertaining to 2018	
Linda Street and Place	(1,350,000)
Fire Hall	(2,500,000)
Purchases applicable to 2017	\$ 4,583,000

17. Subsequent event:

In January 2018, the Town received \$1,808,857 from the Ontario Infrastructure and Lands Corporation to finance a capital project. In August 2018, the Town received \$1,887,527 from the Corporation to finance the same project.

CORPORATION OF THE TOWN OF PRESCOTT

Schedule A: Business Improvement Area Committee

Statement of Revenue and Expenses and Surplus (Deficit)

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Taxation	\$ 29,000	\$ 29,000
Grants	—	(97)
User charges	—	5,234
	<u>29,000</u>	<u>34,137</u>
Expenses:		
Contracted services	6,895	6,279
Advertising and promotion	4,519	10,510
Downtown	4,622	—
Supplies	305	629
Special events	2,951	6,363
	<u>19,292</u>	<u>23,781</u>
Excess of revenue over expenses	9,708	10,356
Surplus, beginning of year	32,659	22,303
Surplus, end of year	<u>\$ 42,367</u>	<u>\$ 32,659</u>