

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

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

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Tel: 519 941 0681  
Fax: 519 941 8272  
www.bdo.ca

BDO Canada LLP  
77 Broadway  
Orangeville ON L9W 1K1 Canada

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## Independent Auditor's Report

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### To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Shelburne

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

#### Management's Responsibility for the Consolidated Financial Statements

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### Opinion

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

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Orangeville, Ontario  
March 9, 2016

## The Corporation of the Town of Shelburne Consolidated Statement of Financial Position

December 31	2015	2014
<b>Assets and Liabilities</b>		
<b>Financial Assets</b>		
Cash (Note 1)	\$ 10,937,154	\$ 8,515,076
Temporary investments	-	130,024
Taxes receivable	861,262	699,980
Trade and other receivable	1,327,211	969,274
Long-term receivables	13,524	5,115
	<b>13,139,151</b>	<b>10,319,469</b>
<b>Liabilities</b>		
Temporary borrowings (Note 2)	1,229,397	-
Accounts payable and accrued liabilities	1,214,663	674,086
Deferred revenue (Note 3)	5,138,961	4,152,362
Long-term liabilities (Note 4)	3,835,797	4,266,916
Landfill site closure and post-closure liability (Note 5)	319,677	327,914
	<b>11,738,495</b>	<b>9,421,278</b>
<b>Net financial assets</b>	<b>1,400,656</b>	<b>898,191</b>
<b>Non-financial Assets</b>		
Inventory of supplies	63,799	80,205
Prepays	7,235	360
Tangible capital assets (Note 6)	54,243,973	50,490,414
<b>Accumulated surplus (Note 7)</b>	<b>\$ 55,715,663</b>	<b>\$ 51,469,170</b>
<b>Contingent Liabilities (Note 18)</b>		

## The Corporation of the Town of Shelburne Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	2015 Budget (Note 9)	2015 Actual	2014 Actual
<b>Revenue</b>			
Taxation	\$ 5,249,469	\$ 5,539,289	\$ 4,902,138
Fees and user charges	2,935,243	3,309,730	3,015,748
Grants (Note 13)	3,551,430	3,793,771	1,688,975
Other income (Note 11)	319,862	408,410	496,579
Development charges and gas tax revenue recognized (Note 3)	1,287,275	1,289,047	652,249
	<u>13,343,279</u>	<u>14,340,247</u>	<u>10,755,689</u>
<b>Expenses</b>			
General government	1,378,570	1,340,163	1,242,836
Protection services	2,626,515	2,494,370	2,442,618
Transportation services	1,859,489	1,673,488	1,827,134
Environmental services	2,468,199	2,521,301	1,859,194
Health services	53,442	51,923	51,125
Recreation and cultural services	1,732,373	1,596,400	1,439,830
Planning and development	492,807	450,353	428,875
	<u>10,611,395</u>	<u>10,127,998</u>	<u>9,291,612</u>
	2,731,884	4,212,249	1,464,077
<b>Restatement of opening surplus (Note 19)</b>	-	34,244	(6,726)
<b>Annual surplus</b>	2,731,884	4,246,493	1,457,351
<b>Accumulated surplus, beginning of year</b>	51,469,170	51,469,170	50,011,819
<b>Accumulated surplus, end of year</b>	<u>\$ 54,201,054</u>	<u>\$ 55,715,663</u>	<u>\$ 51,469,170</u>

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

**The Corporation of the Town of Shelburne  
Consolidated Statement of Changes in Net Financial Assets**

<b>For the year ended December 31</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
	Budget (Note 9)	Actual	Actual
<b>Annual surplus</b>	\$ 2,731,884	\$ 4,246,493	\$ 1,457,351
Acquisition of tangible capital assets	(9,621,509)	(5,570,402)	(1,437,361)
Amortization of tangible capital assets	1,779,644	1,805,176	1,753,749
Gain on sale of tangible capital assets	-	(3,000)	(1,057)
Proceeds on sale of tangible capital assets	-	14,667	1,057
	<u>(7,841,865)</u>	<u>(3,753,559)</u>	<u>316,388</u>
Change in prepaids	-	(6,875)	46,536
Change in inventory of supplies	-	16,406	(21,969)
	<u>-</u>	<u>9,531</u>	<u>24,567</u>
<b>Increase (decrease) in net financial assets</b>	(5,109,981)	502,465	1,798,306
<b>Net financial assets (liabilities), beginning of the year</b>	<u>898,191</u>	<u>898,191</u>	<u>(900,115)</u>
<b>Net financial assets (liabilities), end of the year</b>	<u>\$ (4,211,790)</u>	<u>\$ 1,400,656</u>	<u>\$ 898,191</u>

## The Corporation of the Town of Shelburne Consolidated Statement of Cash Flows

For the year ended December 31 2015 2014

### Cash provided by (used in)

#### Operating activities

Annual surplus	\$ 4,246,493	\$ 1,457,351
Items not involving cash		
Landfill site closure and post-closure liability	(8,237)	(287,005)
Amortization of tangible capital assets	1,805,176	1,753,749
Deferred revenue recognized	(1,295,430)	(657,135)
Gain on sale of tangible capital assets	(3,000)	(1,057)
Change in inventory of supplies	16,406	(21,969)
Income from contribution of tangible capital assets	-	(170,481)
	4,761,408	2,073,453
Change in non-cash working capital balances		
Increase in taxes receivable	(161,282)	(16,878)
Decrease (increase) in trade and other receivable	(357,937)	21,829
Increase (decrease) in accounts payable and accrued liabilities	540,577	(148,801)
Deferred revenue received	2,282,029	2,986,439
Decrease (increase) in prepaids	(6,875)	46,536
Increase in long-term receivables	(8,409)	(3,295)
	7,049,511	4,959,283

#### Capital transactions

Cash used to acquire tangible capital assets	(5,570,402)	(1,266,880)
Proceeds on sale of tangible capital assets	14,667	1,057
	(5,555,735)	(1,265,823)

#### Financing activities

Net repayments of long-term liabilities	(431,119)	(420,008)
Proceeds from temporary borrowings	1,229,397	-
	798,278	(420,008)

#### Net change in cash and cash equivalents

2,292,054 3,273,452

#### Cash and cash equivalents, beginning of year

8,645,100 5,371,648

#### Cash and cash equivalents, end of year

\$ 10,937,154 \$ 8,645,100

#### Cash and cash equivalents comprised of:

Cash	\$ 10,937,154	\$ 8,515,076
Temporary investments	-	130,024

\$ 10,937,154 \$ 8,645,100

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# The Corporation of the Town of Shelburne

## Summary of Significant Accounting Policies

December 31, 2015

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### Management Responsibility

The consolidated financial statements of The Corporation of the Town of Shelburne are the representations of management. They have been prepared in accordance with accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants as prescribed by the Ontario Ministry of Municipal Affairs and Housing.

### 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.

### 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:

Town of Shelburne Public Library Board  
Town of Shelburne Business Improvement Area  
Centre Dufferin Recreation Complex  
Shelburne and District Fire Department (proportionate -  
50.37%, 2014 - 47.98%)

### 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.



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# The Corporation of the Town of Shelburne

## Summary of Significant Accounting Policies

December 31, 2015

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### Financial Instruments

The organization classifies all of its financial instruments at amortized cost. The maximum exposure to credit risk is the carrying value of the financial instruments. These financial instruments include cash, taxes receivable, trade and other receivable, temporary borrowings, accounts payable and accrued liabilities, and long-term liabilities. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument. Writedowns of financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net realizable value with the writedown being recognized in the statement of operations.

### Cash and Cash Equivalents

The Town considers all short term, highly liquid investments with an original maturity of three months or less to be cash equivalents.

### Inventory of Supplies

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

### 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. Amortization is provided over the estimated useful life of the asset, using the straight-line method. The useful life of the assets is based on estimates made by Council. The following useful lives are used:

Roads and Bridges	10 - 50 years
Land Improvements	15 - 60 years
Water and Sewer Systems	10 - 100 years
Buildings	15 - 100 years
Vehicles	3 - 15 years
Equipment	5 - 50 years

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

### Non-financial Assets

Non-financial assets have useful lives that extend beyond the current year and are not intended for sale in the ordinary course of business.

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## **The Corporation of the Town of Shelburne Summary of Significant Accounting Policies**

**December 31, 2015**

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<b>Deferred Revenue</b>	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.
<b>Revenue Recognition</b>	<p>Fees and user charges are recognized when the related service is provided.</p> <p>Contributions are recognized based on the terms of the grant or the year that the related expenses occur.</p> <p>Other income is recognized when receivable.</p>
<b>Taxation and Related Revenues</b>	<p>Property tax billings are prepared by the Town based on assessment rolls issued by the Municipal Property Assessment Corporation. Tax rates are established annually by Town Council, incorporating amounts to be raised for local services. A normal part of the assessment process is the issue 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.</p> <p>Assessments and the related property taxes are subject to appeal. 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. Taxes receivable are recognized net of allowance for anticipated uncollectable amounts.</p> <p>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.</p>
<b>Government Transfers</b>	Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

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## The Corporation of the Town of Shelburne Summary of Significant Accounting Policies

**December 31, 2015**

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**County and School Boards**

The municipality collects taxation revenue on behalf of the school boards and the County of Dufferin. The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the County of Dufferin are not reflected in these consolidated financial statements.

**Trust Funds**

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

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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### 1. Cash

	2015	2014
Unrestricted cash and cash equivalents	\$ 5,616,686	\$ 4,194,035
Restricted cash and cash equivalents	5,320,468	4,321,041
	<b>\$ 10,937,154</b>	<b>\$ 8,515,076</b>

The Town has internally and externally restricted funds that are segregated and will be used only for specific purposes. The Town's bank and savings accounts are held at one financial institution. All accounts earn interest at the bank's prime rate less 1.7%.

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### 2. Temporary Borrowings

	2015	2014
Ontario Infrastructure and Lands Corporation (OILC), Interim construction financing for water meters and the new well water source. Interest is calculated at OILC's cost of funds plus OILC's prevailing spread with interest payable monthly, with no pre-determined date of repayment. The Town of Shelburne has been approved for financing up to \$5,079,345 of which \$1,071,948 for water meters has been converted into long-term financing in 2013. Repayment terms of principal and interest will be determined upon completion of the new well water source project.	<b>\$ 1,229,397</b>	<b>\$ -</b>

At December 31, 2015, the municipality had undrawn credit capacity under an operating loan facility of approximately \$1,000,000 with interest at the bank's prime rate less 0.75%.

At December 31, 2015, the municipality had a letter of credit totaling \$244,188 in favour of Hydro One Networks Inc.

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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### 3. Deferred Revenue

	2015	2014
Obligatory reserve funds		
Development charges	\$ 5,099,459	\$ 4,130,012
Federal gas tax	27,008	15,967
	5,126,467	4,145,979
Other		
Deferred recreation revenue	12,494	6,383
	\$ 5,138,961	\$ 4,152,362

The net change during the year in the obligatory reserve fund balances is made up as follows:

	Development Charges	Federal Gas Tax	Total
Obligatory reserve fund, beginning of year	\$ 4,130,012	\$ 15,967	\$ 4,145,979
Restricted funds received during the year	2,041,780	169,273	2,211,053
Interest earned	57,942	540	58,482
Expenses recognized during the year	(1,130,275)	(158,772)	(1,289,047)
Obligatory reserve fund, end of year	\$ 5,099,459	\$ 27,008	\$ 5,126,467

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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#### 4. Long-term Liabilities

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

	2015	2014
Long-term capital financing for STP Phase II, Ontario Strategic Infrastructure Financing Authority (OSIFA), 2.67%, payable \$56,751 principal and interest semi-annually, due July 2026.	\$ 1,075,710	\$ 1,158,821
Long-term capital financing for STP Phase III, Ontario Infrastructure Projects Corporation (OIPC), 4.21%, payable \$57,696 principal and interest semi-annually, due December 2030.	1,273,723	1,333,595
Long-term capital financing for Marie and Jane Street, Ontario Infrastructure and Land Corporation (OILC), 2.11%, payable \$131,409 principal and interest semi-annually, due November 2017.	512,058	760,138
Long-term capital financing for new well and water meters, Ontario Infrastructure and Land Corporation (OILC), 3.43%, payable \$37,254 principal and interest semi-annually, due April 2033.	974,306	1,014,362
	<b>\$ 3,835,797</b>	<b>\$ 4,266,916</b>

Principal payments for the next 5 fiscal years and thereafter are estimated as follows:

2016	\$ 442,527
2017	454,304
2018	202,196
2019	209,035
2020	216,116
Thereafter	2,311,619

Interest expense in the amount of \$140,913 (2014 - \$143,886) has been recognized on the consolidated statement of operations and accumulated surplus.

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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### 5. Landfill Site Closure and Post-Closure Liability

Landfill closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, removal of ground water and leachates, and ongoing environmental monitoring, site inspection and maintenance.

The Town of Shelburne has estimated the closure and post-closure liability to be \$319,677 at December 31, 2015 (2014 - \$327,914). The liability was estimated based upon current monitoring costs of \$15,000 (2014 - \$15,000) annually inflated at a rate of 1.27% (2014 - 1.26%) per year and discounted at a rate of 3.43% (2014 - 3.43%) for 27 years (2014 - 28 years).

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**The Corporation of the Town of Shelburne  
Notes to Financial Statements**

**December 31, 2015**

**6. Tangible Capital Assets**

	<b>2015</b>							
	Land	Land Improvements	Buildings	Vehicles	Equipment	Roads and Bridges	Water and Sewer Systems	Total
Cost, beginning of year	\$ 3,775,995	\$ 3,576,008	\$ 21,828,393	\$ 2,381,696	\$ 3,368,349	\$ 12,612,033	\$ 25,327,009	\$ 72,869,483
Additions	-	401,176	738,359	194,751	516,038	527,179	3,192,899	5,570,402
Disposals	-	-	-	(138,213)	(105,616)	-	-	(243,829)
Transfers during the year	-	-	-	(462,361)	462,361	-	-	-
Cost, end of year	<u>3,775,995</u>	<u>3,977,184</u>	<u>22,566,752</u>	<u>1,975,873</u>	<u>4,241,132</u>	<u>13,139,212</u>	<u>28,519,908</u>	<u>78,196,056</u>
Accumulated amortization, beginning of year	-	740,971	7,327,841	1,343,877	2,291,525	4,794,670	5,880,185	22,379,069
Amortization	-	121,304	627,090	166,675	216,894	303,085	370,128	1,805,176
Disposals	-	-	-	(126,546)	(105,616)	-	-	(232,162)
Transfers during the year	-	-	-	(245,522)	245,522	-	-	-
Accumulated amortization, end of year	<u>-</u>	<u>862,275</u>	<u>7,954,931</u>	<u>1,138,484</u>	<u>2,648,325</u>	<u>5,097,755</u>	<u>6,250,313</u>	<u>23,952,083</u>
Net carrying amount, end of year	<u>\$ 3,775,995</u>	<u>\$ 3,114,909</u>	<u>\$ 14,611,821</u>	<u>\$ 837,389</u>	<u>\$ 1,592,807</u>	<u>\$ 8,041,457</u>	<u>\$ 22,269,595</u>	<u>\$ 54,243,973</u>



**The Corporation of the Town of Shelburne  
Notes to Financial Statements**

**December 31, 2015**

**6. Tangible Capital Assets (continued)**

								2014
	Land	Land Improvements	Buildings	Vehicles	Equipment	Roads and Bridges	Water and Sewer Systems	Total
Cost, beginning of year	\$ 3,661,709	\$ 3,313,910	\$ 21,525,489	\$ 2,446,112	\$ 3,185,785	\$ 12,380,006	\$ 24,996,477	\$ 71,509,488
Additions	114,286	262,098	302,904	12,950	182,564	232,027	330,532	1,437,361
Disposals	-	-	-	(77,366)	-	-	-	(77,366)
Cost, end of year	3,775,995	3,576,008	21,828,393	2,381,696	3,368,349	12,612,033	25,327,009	72,869,483
Accumulated amortization, beginning of year	-	684,165	6,704,166	1,231,832	2,112,731	4,457,699	5,512,093	20,702,686
Amortization	-	56,806	623,675	189,411	178,794	336,971	368,092	1,753,749
Disposals	-	-	-	(77,366)	-	-	-	(77,366)
Accumulated amortization, end of year	-	740,971	7,327,841	1,343,877	2,291,525	4,794,670	5,880,185	22,379,069
Net carrying amount, end of year	\$ 3,775,995	\$ 2,835,037	\$ 14,500,552	\$ 1,037,819	\$ 1,076,824	\$ 7,817,363	\$ 19,446,824	\$ 50,490,414

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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### 6. Tangible Capital Assets (continued)

The net book value of tangible capital assets not being amortized because they are under construction (or development or have been removed from service) is \$5,719,663 (2014 - \$1,004,998).

\$Nil (2014 - \$170,481) in contributed land improvement capital assets were recognized as tangible capital asset additions in the consolidated financial statements during the year.

The municipality holds various works of art at the Town Hall gallery. These items are not recorded as assets in the consolidated financial statements.

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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### 7. Accumulated Surplus

Accumulated surplus consists of individual fund surplus (deficit) including reserves as follows:

	2015	2014
Investment in Tangible Capital Assets		
Tangible capital assets purchased	\$ 54,243,973	\$ 50,490,414
Capital assets financed by long-term liabilities, to be funded in future years	<u>(3,835,797)</u>	<u>(4,266,916)</u>
	<u>50,408,176</u>	<u>46,223,498</u>
Incomplete capital projects already financed (to be financed)	(727,446)	36,935
Centre Dufferin Recreation Complex	112,715	120,909
Shelburne Business Improvement Area	18,569	15,883
Shelburne and District Fire Department	37,918	29,822
Unfunded solid waste closure and post-closure costs	<u>(319,677)</u>	<u>(327,914)</u>
	<u>(877,921)</u>	<u>(124,365)</u>
	49,530,255	46,099,133
Reserves and reserve funds (Note 8)	<u>6,185,408</u>	<u>5,370,037</u>
Accumulated surplus	<u>\$ 55,715,663</u>	<u>\$ 51,469,170</u>

During the year, the Town operating surplus of \$276,614 (2014 - \$382,907) was transferred to reserves, as approved by Council.

During the year, the Library operating deficit of \$14,838 (2014 - \$3,570) was financed from reserves, as approved by the Library Board. The Library 2014 opening surplus balance has been reclassified to reserves.

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**The Corporation of the Town of Shelburne  
Notes to Financial Statements**

**December 31, 2015**

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

	<u>2015</u>	<u>2014</u>
<b>Reserves</b>		
Contingencies	\$ 412,573	\$ 362,572
Current purposes	423,871	409,652
Capital purposes	<u>5,128,276</u>	<u>4,409,410</u>
	<u>5,964,720</u>	<u>5,181,634</u>
 <b>Reserve funds</b>		
Current purposes	-	5,102
Capital purposes	<u>220,688</u>	<u>183,301</u>
	<u>220,688</u>	<u>188,403</u>
 <b>Reserves and reserve funds set aside for specific purpose by Council</b>	 <b><u>\$ 6,185,408</u></b>	 <b><u>\$ 5,370,037</u></b>

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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### 9. Budgets

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

	2015 Budget	2015 Actual	2014 Actual
Annual surplus (Page 4)	\$ 2,731,884	\$ 4,246,493	\$ 1,457,351
Amortization	1,779,644	1,805,176	1,753,749
Change in unfunded liabilities	-	(8,237)	(287,005)
Change in other surpluses	-	(2,588)	37,484
	4,511,528	6,040,844	2,961,579
Net transfers (to) from reserves	1,442,705	(815,371)	(1,104,211)
Capital acquisitions less disposals and write-down	(9,621,509)	(5,558,735)	(1,437,361)
Capital projects expended	-	764,381	-
Proceeds from long-term debt	4,075,478	-	-
Debt principal repayments	(431,120)	(431,119)	(420,007)
	(22,918)	-	-
Prior year general surplus	22,918	-	-
General surplus (Note 7)	\$ -	\$ -	\$ -

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

### 10. Financial Instrument Risk Management

#### Credit Risk

The municipality is exposed to credit risk through the possibility of non-collection of its trade and other receivable. The majority of the municipality's receivables are from rate payers and government entities. For trade and other receivable, the municipality measures impairment based on how long the amounts have been outstanding. For amounts outstanding greater than 91 days, an impairment allowance is set up. The amounts outstanding at year end, which is the municipality's maximum exposure to credit risk related to trade and other receivable were as follows:

	0 - 30 days	31 - 90 days	91 to 365 days	1 to 2 years	3 to 10 years
Cash	\$ 10,937,154	\$ -	\$ -	\$ -	-
Trade and other receivable	1,207,044	62,409	57,758	-	-
Long-term receivables	-	-	-	13,524	-
Net amount receivable	<u>\$ 12,144,198</u>	<u>\$ 62,409</u>	<u>\$ 57,758</u>	<u>\$ 13,524</u>	<u>-</u>

#### Liquidity Risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality has a planning and budgeting process in place to help determine the funds required to support the municipality's normal operating requirements on an ongoing basis. The municipality ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. To achieve this aim, it seeks to maintain an available line of credit balance as approved by the appropriate borrowing bylaw to meet, at a minimum, expected requirements for a period of at least 90 days. The following table set out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	0 - 30 days	31 - 90 days	91 to 365 days	1 to 5 years	6 years and later
Temporary borrowings	\$ 1,229,397	\$ -	\$ -	\$ -	-
Accounts payable and accrued liabilities	1,214,663	-	-	-	-
Deferred recreation revenue	12,494	-	-	-	-
Long-term liabilities	-	-	-	1,524,178	2,311,619
Total financial liabilities	<u>\$ 2,456,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,524,178</u>	<u>\$ 2,311,619</u>

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The municipality is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the variable rate of temporary borrowings and the value of fixed rate long-term liabilities.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure risks.

## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

### 11. Other Income

	2015	2015	2014
	Budget	Actual	Actual
Penalties and interest on taxation	\$ 100,000	\$ 108,139	\$ 100,357
Investment income	54,722	90,123	76,857
Rents, concessions and franchises	18,275	33,575	28,850
Donations	41,800	62,839	27,815
Contributed tangible capital assets	-	-	170,481
Gain on sale of assets	3,000	3,000	1,057
Other	102,065	110,734	91,162
	<b>\$ 319,862</b>	<b>\$ 408,410</b>	<b>\$ 496,579</b>

### 12. Government Business Partnerships

The following summarizes the financial position and operations of the government business partnerships which have been reported in these consolidated financial statements using the modified equity method:

#### Shelburne & District Fire Department

Shelburne & District Fire Department is a joint fire board under the shared control of the Town of Shelburne, the Township of Amaranth, the Township of Melancthon, the Town of Mono and the Township of Mulmur. The consolidated financial statements include the municipality's 50.37% (2014 - 47.98%) proportionate interest of the following:

	2015	2014
Financial assets	\$ 523,475	\$ 452,053
Liabilities	10,063	7,861
Net financial assets	513,412	444,192
Non-financial assets	933,912	988,593
Accumulated surplus	<b>\$ 1,447,324</b>	<b>\$ 1,432,785</b>
Revenues	\$ 540,828	\$ 524,710
Expenses	526,289	464,538
Annual surplus	<b>\$ 14,539</b>	<b>\$ 60,172</b>

## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

### 13. Grants

	2015	2015	2014
	Budget	Actual	Actual
<b>Operating</b>			
Province of Ontario			
Ontario Municipal Partnership Fund (OMPF)	\$ 696,100	\$ 696,100	\$ 840,700
Conditional - Roads	-	-	5,367
- Other	160,924	189,127	134,699
	<u>857,024</u>	<u>885,227</u>	<u>980,766</u>
Government of Canada			
Conditional - Other	7,500	16,163	10,997
Other Municipalities			
Conditional - Other	303,664	221,194	196,061
<b>Total operating grants</b>	<u>1,168,188</u>	<u>1,122,584</u>	<u>1,187,824</u>
<b>Tangible Capital Asset</b>			
Province of Ontario			
Conditional - Roads	1,282,641	961,633	-
- Sewer and water	550,301	829,777	230,003
- Other	-	50,000	-
	<u>1,832,942</u>	<u>1,841,410</u>	<u>230,003</u>
Government of Canada			
Conditional - Sewer and water	550,300	829,777	230,003
- Recreation	-	-	41,145
	<u>550,300</u>	<u>829,777</u>	<u>271,148</u>
<b>Total tangible capital asset grants</b>	<u>2,383,242</u>	<u>2,671,187</u>	<u>501,151</u>
<b>Total grants</b>	<u>\$ 3,551,430</u>	<u>\$ 3,793,771</u>	<u>\$ 1,688,975</u>



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# The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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## 14. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 36 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2015 was \$272,651 (2014 - \$256,112) for current service. The contribution rate for 2014 was 9.0% to 15.9% depending on age and level of income (2013 - 9.0% to 15.9%).

OMERS is a multi-employer pension 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 December 31, 2014. At that time the plan reported a \$7.1 billion actuarial deficit (2013 - \$8.6 billion deficit), based on actuarial liabilities of \$76.9 billion (2013 - \$73.0 billion) and actuarial assets of \$69.8 billion (2013 - \$64.4 billion). There has been a severe decline in financial markets. Ongoing adequacy of the current contribution rates will need to be monitored and may lead to increased future funding requirements.

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## 15. Operations of School Boards and the County of Dufferin

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

	<u>2015</u>	<u>2014</u>
School boards	\$ 2,085,593	\$ 1,926,769
County of Dufferin	<u>2,927,538</u>	<u>2,647,406</u>
	<u>\$ 5,013,131</u>	<u>\$ 4,574,175</u>

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## The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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### 16. Trust Funds

The municipality acts as a trustee for a number of third parties administering the assets on their behalf. Assets held in trust are not included on the statement of financial position as assets of the municipality nor have their activities been included in the statement of operations. Amounts held in trust at the year-end are as follows:

	<u>2015</u>	<u>2014</u>
Development in trust	\$ 1,741,996	\$ 1,601,679
Cemetery maintenance and equipment	63,024	61,174
Cemetery perpetual care	288,993	279,669
Prepaid burial fund	11,726	11,758
	<u>\$ 2,105,739</u>	<u>\$ 1,954,280</u>

The development in trust includes construction deposits held by the municipality for developers. The cemetery maintenance and equipment fund and cemetery perpetual care fund includes amounts for the future care and maintenance of the cemetery. The prepaid burial fund includes deposits held by the municipality for burials.

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### 17. Contractual Commitments

The Town of Shelburne has entered into the following contracts:

- a) A five-year contract for the treatment and maintenance of the Shelburne Water Supply and operations and maintenance of the Shelburne Waste Water Treatment, at an approximate cost of \$497,622 per year, beginning January 1, 2015, with the annual cost adjusted by the CPI index and any new costs impacted by new regulations.

The Town of Shelburne has committed to spend approximately \$2,748,000 on capital projects in 2016 and beyond on various roads, and water and sewer capital projects.

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### 18. Contingent Liabilities

The Town has been served with various claims as a result of accidents and other incidents. The Town is not aware of any possible settlements in excess of its liability insurance coverage. The outcomes of these claims are not determinable at this time. Should any liability be determined and not covered by insurance, it will be recognized in the period when determined.

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# The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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## 19. Restatement of Opening Surplus

In the current year, the Town's percentage share of operations of the Shelburne Fire Department increased to 50.37% (2014 - 47.98%). As a result of the increase in percentage, there has been a restatement of opening accumulated surplus of \$34,244 (2014 - (\$6,726)).

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## 20. Segmented Information

The Corporation of the Town of Shelburne is a diversified municipal government institution that provides a wide range of services to its citizens such as police, fire, environmental, planning, community, and water services. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

### **Recreational and Cultural**

This service area provides services meant to improve the health and development of the municipality's citizens. Recreational programs and cultural programs like swimming and skating lessons are provided at the recreation complex. Also, the municipality provides library services to assist with its citizens' informational needs.

### **Environmental**

Environmental services consists of providing waste disposal to citizens.

### **Health**

Health services are comprised of public health services which works to improve the overall health of the population and overcome health inequalities by providing services to individuals and communities. Also, the municipality provides cemetery services including cemetery maintenance and care.

### **Planning and Development**

This department provides a number of services including town planning, maintenance and enforcement of building and construction codes and review of all property development plans through its application process. This department also includes the economic development committee and the downtown business improvement area.

### **Protection**

Protection is comprised of police services, fire protection and bylaw enforcement. The police services works to ensure the safety and protection of the citizens and their property. The fire department is responsible for providing fire suppression services, fire prevention programs, training, and education. The by-law enforcement department works to ensure that citizens and their property are protected by ensuring the Town's bylaws are being adhered to.

### **Transportation**

Transportation is responsible for providing the municipality with road maintenance, winter control services, street light maintenance, parking lots, and equipment maintenance.

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# The Corporation of the Town of Shelburne Notes to Financial Statements

**December 31, 2015**

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## 20. Segmented Information (continued)

### **Sewer and Water**

This service provides the municipality's drinking water. They process and clean sewage and ensure the municipality's water system meets all Provincial standards.

### **General Government**

This item related to the revenues and expenses that relate to the operations of the municipality itself and cannot be directly attributed to a specific segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The revenues and expenses and government business partnerships that are directly attributable to a particular segment are allocated to that segment. Amounts that are directly attributable to a number of segments have been allocated on a reasonable basis as follows:

Taxation, payments in-lieu and penalties and interest	allocated to those segments that are funded by these amounts based on the approved budget for the year.
OMPF Grant	allocated to segments based on the approved budget for the year.

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## The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2015

### 20. Segmented Information (continued)

For the year ended December 31	General Government	Protection Services	Transportation Services	Sewer and Water	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	2015 Total
<b>Revenue</b>									
Taxation	\$ 774,101	\$ 2,320,015	\$ 1,450,677	\$ 32,250	\$ 18,950	\$ 4,000	\$ 587,889	\$ 351,407	\$ 5,539,289
Fees and user charges	51,531	133,101	9,989	2,418,044	37,048	51,965	513,749	94,303	3,309,730
Specific grants	36,161	24,438	961,633	1,734,096	13,633	-	257,249	70,461	3,097,671
OMPF grant	696,100	-	-	-	-	-	-	-	696,100
Other revenue	193,481	38,258	-	370	-	5,542	60,322	110,437	408,410
Obligatory reserve fund revenue recognized	34,433	6,274	439,863	643,744	-	-	164,733	-	1,289,047
	<u>1,785,807</u>	<u>2,522,086</u>	<u>2,862,162</u>	<u>4,828,504</u>	<u>69,631</u>	<u>61,507</u>	<u>1,583,942</u>	<u>626,608</u>	<u>14,340,247</u>
<b>Expenses</b>									
Salaries and benefits	902,498	1,938,746	541,407	190,045	5,585	34,188	716,995	111,139	4,440,603
Interest on debt	-	-	8,796	132,117	-	-	-	-	140,913
Materials and supplies	301,933	366,265	548,442	774,472	3,040	16,893	467,562	87,229	2,565,836
Contracted services	69,111	12,108	99,644	654,126	46,820	-	-	256,385	1,138,194
Other transfers	-	29,770	-	-	-	-	9,833	(4,400)	35,203
Rents and financial expenses	2,073	-	-	-	-	-	-	-	2,073
Amortization	64,548	147,481	475,199	715,096	-	842	402,010	-	1,805,176
	<u>1,340,163</u>	<u>2,494,370</u>	<u>1,673,488</u>	<u>2,465,856</u>	<u>55,445</u>	<u>51,923</u>	<u>1,596,400</u>	<u>450,353</u>	<u>10,127,998</u>
Restatement of opening surplus	-	34,244	-	-	-	-	-	-	34,244
<b>Net surplus (deficit)</b>	<b>\$ 445,644</b>	<b>\$ 61,960</b>	<b>\$ 1,188,674</b>	<b>\$ 2,362,648</b>	<b>\$ 14,186</b>	<b>\$ 9,584</b>	<b>\$ (12,458)</b>	<b>\$ 176,255</b>	<b>\$ 4,246,493</b>

**The Corporation of the Town of Shelburne  
Notes to Financial Statements**

**December 31, 2015**

**20. Segmented Information (continued)**

For the year ended December 31	General Government	Protection Services	Transportation Services	Sewer and Water	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	2014 Total
<b>Revenue</b>									
Taxation	\$ 620,986	\$ 2,174,235	\$ 1,392,503	\$ 32,994	\$ 11,079	\$ 14,200	\$ 441,393	\$ 214,748	\$ 4,902,138
Fees and user charges	44,617	135,903	6,824	2,185,325	15,938	56,158	513,692	57,291	3,015,748
Specific grants	35,352	8,800	5,367	495,747	44,775	-	258,234	-	848,275
OMPF grant	840,700	-	-	-	-	-	-	-	840,700
Other revenue	172,971	27,024	-	8,293	-	3,488	229,870	54,933	496,579
Obligatory reserve fund revenue recognized	54,206	-	267,203	194,559	-	-	136,281	-	652,249
	<u>1,768,832</u>	<u>2,345,962</u>	<u>1,671,897</u>	<u>2,916,918</u>	<u>71,792</u>	<u>73,846</u>	<u>1,579,470</u>	<u>326,972</u>	<u>10,755,689</u>
<b>Expenses</b>									
Salaries and benefits	889,128	1,845,001	599,406	147,570	8,968	38,098	596,156	44,642	4,168,969
Interest on debt	-	-	12,011	131,875	-	-	-	-	143,886
Materials and supplies	253,767	427,139	650,360	464,049	3,420	12,185	448,832	74,874	2,334,626
Contracted services	35,507	3,497	97,430	630,008	(239,758)	-	5,633	313,759	846,076
Other transfers	-	33,897	-	-	-	-	12,963	(4,400)	42,460
Rents and financial expenses	1,846	-	-	-	-	-	-	-	1,846
Amortization	62,588	133,084	467,927	713,062	-	842	376,246	-	1,753,749
	<u>1,242,836</u>	<u>2,442,618</u>	<u>1,827,134</u>	<u>2,086,564</u>	<u>(227,370)</u>	<u>51,125</u>	<u>1,439,830</u>	<u>428,875</u>	<u>9,291,612</u>
Restatement of opening surplus	-	(6,726)	-	-	-	-	-	-	(6,726)
<b>Net surplus (deficit)</b>	<b>\$ 525,996</b>	<b>\$ (103,382)</b>	<b>\$ (155,237)</b>	<b>\$ 830,354</b>	<b>\$ 299,162</b>	<b>\$ 22,721</b>	<b>\$ 139,640</b>	<b>\$ (101,903)</b>	<b>\$ 1,457,351</b>

**The Corporation of the Town of Shelburne  
Trust Funds  
Financial Information  
For the year ended December 31, 2015**



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## Independent Auditor's Report

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### To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Shelburne

We have audited the accompanying financial information of the trust funds of The Corporation of the Town of Shelburne, which comprise the balance sheet as at December 31, 2015 and the statement of continuity of the trust funds for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Information

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on this financial information 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 financial information are free from material misstatement.

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

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 present fairly, in all material respects, the financial position of the trust funds of The Corporation of the Town of Shelburne as at December 31, 2015 and the continuity of the trust funds for the year then ended in accordance with Canadian public sector accounting standards.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Orangeville, Ontario  
March 9, 2016



**The Corporation of The Town of Shelburne  
Trust Funds  
Balance Sheet**

**December 31**

	Development in Trust	Cemetery Maint & Equipment	Cemetery Perpetual Care	Prepaid Burial Fund	2015 Total	2014 Total
<b>Current Assets</b>						
Cash	\$ 1,741,996	\$ 28,083	\$ 214,316	\$ 11,726	\$ 1,996,121	\$ 1,697,860
Investments (Note 2)	-	34,941	74,677	-	109,618	256,420
	<b>\$ 1,741,996</b>	<b>\$ 63,024</b>	<b>\$ 288,993</b>	<b>\$ 11,726</b>	<b>\$ 2,105,739</b>	<b>\$ 1,954,280</b>
<b>Liabilities and Fund Balance</b>						
Fund balance	1,741,996	63,024	288,993	11,726	2,105,739	1,954,280

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

**The Corporation of The Town of Shelburne  
Trust Funds  
Statement of Continuity**

**December 31**

	Development in Trust	Cemetery Maint & Equipment	Cemetery Perpetual Care	Prepaid Burial Fund	2015 Total	2014 Total
<b>Balance, beginning of year</b>	\$ 1,601,679	\$ 61,174	\$ 279,669	\$ 11,758	\$ 1,954,280	\$ 1,479,740
<b>Receipts</b>						
Fees	188,000	-	9,324	-	197,324	480,436
Cemetery maintenance fee	-	1,850	-	-	1,850	2,700
Interest earned	19,168	302	5,190	133	24,793	21,370
	207,168	2,152	14,514	133	223,967	504,506
<b>Expenses</b>						
	66,851	302	5,190	165	72,508	29,966
<b>Balance, end of year</b>	\$ 1,741,996	\$ 63,024	\$ 288,993	\$ 11,726	\$ 2,105,739	\$ 1,954,280

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# The Corporation of the Town of Shelburne Trust Funds Summary of Significant Accounting Policies

**December 31, 2015**

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<b>Management Responsibility</b>	The financial information of the The Corporation of the Town of Shelburne Trust Funds are the representation of management. They have been prepared in accordance with accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants as prescribed by the Ontario Ministry of Municipal Affairs and Housing except that tangible capital assets are expensed in the statement of continuity in the year of acquisition.
<b>Use of Estimates</b>	The preparation of the financial information 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 information, 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.
<b>Basis of Consolidation</b>	These trust funds have not been consolidated with the consolidated financial statements of the municipality.
<b>Accrual Basis of Accounting</b>	Sources of financing 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.
<b>Financial Instruments</b>	<p>The organization classifies all of its financial instruments at amortized cost. The maximum exposure to credit risk is the carrying value of the financial instruments. These financial instruments include cash, due to Town of Shelburne, and investments. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.</p> <p>Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument. Writedowns of financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net realizable value with the writedown being recognized in the statement of operations.</p>

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**The Corporation of the Town of Shelburne  
Trust Funds  
Notes to Financial Statements**

**December 31, 2015**

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**1. Investments**

	<u>2015</u>	<u>2014</u>
Term deposits earning 1.55% (2014 - 1.2% - 1.55%), maturing April 25, 2017 (2014 - March 7, 2015 - April 25, 2017)	<u>\$ 109,618</u>	<u>\$ 256,420</u>

Investments have a market value of \$110,774 (2014 - \$260,145) at the end of the year.

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**2. Financial Instrument Risk Management**

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk arising from its bank balance.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of the fixed income denominated investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure risks.

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