

**THE CORPORATION OF
THE TOWN OF ESPANOLA**

Consolidated Financial Statements

Year Ended December 31, 2014

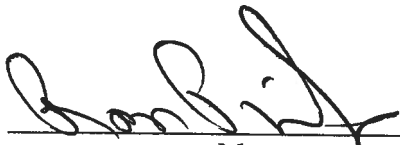
MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Corporation of the Town of Espanola ("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 established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 1 to these consolidated financial statements. The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's judgement, 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 Freelandt Caldwell Reilly LLP, independent external auditors appointed by the Town. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Town's consolidated financial statements.



Mayor



Chief Administrative Officer

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **The Corporation of the Town of Espanola**, which comprise the consolidated statement of financial position as at **December 31, 2014**, and the consolidated statements of operations and changes in accumulated surplus, changes in net assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the Town of Espanola as at December 31, 2014, and the results of its operations, changes in net assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

FREELANDT CALDWELL REILLY LLP

Freelandt Caldwell Reilly LLP

Chartered Professional Accountants
Licensed Public Accountants

Espanola, Ontario
August 11, 2015

THE CORPORATION OF THE TOWN OF ESPANOLA
Consolidated Statement of Financial Position
December 31, 2014 with comparative figures for 2013

	2014 \$	2013 \$
Financial Assets		
Cash	6,062,394	4,547,379
Taxes receivable (note 2)	757,111	1,499,453
User charges receivable	426,199	427,496
Grants receivable	127,696	2,621,042
Accounts receivable	315,395	1,307,098
Other long-term receivables (note 3)	304,000	304,000
Investment in government business enterprises (note 4)	3,185,701	2,732,856
	11,178,496	13,439,324
Financial Liabilities		
Accounts payable and accrued liabilities	2,329,761	7,215,436
Long-term debt (note 5)	7,600,870	8,460,048
Deferred revenue	49,938	35,975
Deferred revenue - obligatory reserve funds (note 6)	363,206	358,755
Employee post employment benefits (note 7)	641,082	568,473
	10,984,857	16,638,687
Net Assets (Debt)	193,639	(3,199,363)
Non-financial Assets (note 8)		
Tangible capital assets (note 9)	45,403,770	46,481,734
Inventory	480	1,584
Prepaid expenses	184,845	79,326
Land held for resale	166,161	166,161
	45,755,256	46,728,805
Accumulated Surplus (note 10)	45,948,895	43,529,442

Contingent liabilities (note 11)

THE CORPORATION OF THE TOWN OF ESPANOLA
Consolidated Statement of Operations and Changes in Accumulated Surplus
December 31, 2014 with comparative figures for 2013

	2014 Budget \$	2014 Actual \$	2013 Actual \$
Revenues			
Taxation			
Residential and farm	5,573,453	5,636,227	5,629,340
Commercial, industrial and business	4,184,356	4,326,257	4,687,930
Other governments and agencies	186,187	193,090	206,745
	9,943,996	10,155,574	10,524,015
Deduct:			
Amounts raised on behalf of the school boards	1,220,140	1,224,293	1,385,992
Tax losses due to reassessments	-	-	1,508,684
	8,723,856	8,931,281	7,629,339
Grants and Contribution			
Government of Canada	310,600	328,733	44,132
Province of Ontario	4,368,700	3,352,004	6,087,027
Other municipalities	-	22,750	22,749
	4,679,300	3,703,487	6,153,908
User Charges			
Sewer and water charges	2,565,100	2,581,766	2,529,141
Fees, service charges and donations	1,651,770	1,596,912	1,638,128
	4,216,870	4,178,678	4,167,269
Other			
Licences and permits	121,200	182,520	19,425
Investment income	62,000	147,503	117,379
Penalties and interest charges	110,000	125,275	122,603
Other	-	84,139	87,786
	293,200	539,437	347,193
Total revenues	17,913,226	17,352,883	18,297,709
Expenditures			
General government	1,500,550	1,638,017	1,307,917
Protection services	3,630,630	3,927,959	3,880,779
Transportation services	2,235,000	2,896,856	2,903,977
Environmental services	2,562,656	3,352,100	3,253,511
Health services	907,650	879,478	944,487
Social and family services	464,175	434,307	449,376
Recreation and cultural services	1,996,742	2,154,517	2,363,003
Planning and development services	181,550	103,041	111,049
Total expenditures	13,478,953	15,386,275	15,214,099
Annual surplus before undernoted item	4,434,273	1,966,608	3,083,610
Income from investment in government business enterprise	-	452,845	436,243
Annual surplus	4,434,273	2,419,453	3,519,853
Accumulated surplus, beginning of year	43,529,442	43,529,442	40,009,589
Accumulated surplus, end of year	47,963,715	45,948,895	43,529,442

The accompanying notes are an integral part of this consolidated financial statement.

THE CORPORATION OF THE TOWN OF ESPANOLA
Consolidated Statement of Changes in Net Assets (Debt)
Year ended December 31, 2014 with comparative figures for 2013

	2014	2014	2013
	Budget	Actual	Actual
	\$	\$	\$
Annual surplus	4,434,273	2,419,453	3,519,853
Acquisition of tangible capital assets	(3,534,500)	(1,031,358)	(359,036)
Amortization of tangible capital assets	-	1,759,649	1,792,226
Loss on disposal of tangible capital assets	-	90,134	24,441
Proceeds on disposal of tangible capital assets	-	259,539	10,796
Change in inventory	-	1,104	(433)
Change in prepaid expenses	-	(105,519)	84,800
Change in net debt	899,773	3,393,002	5,072,647
Net debt, beginning of year	(3,199,363)	(3,199,363)	(8,272,010)
Net assets (debt), end of year	(2,299,590)	193,639	(3,199,363)

The accompanying notes are an integral part of this consolidated financial statement.

THE CORPORATION OF THE TOWN OF ESPANOLA
Consolidated Statement of Cash Flows
Year ended December 31, 2014 with comparative figures for 2013

	2014	2013
	\$	\$
Cash flows from operations		
Annual surplus	2,419,453	3,519,853
Items not involving cash		
Amortization of tangible capital assets	1,759,649	1,792,226
Loss on disposal of tangible capital assets	90,134	24,441
	4,269,236	5,336,520
Changes in non-cash assets and liabilities		
Accounts receivable	991,703	(918,329)
Taxes receivable	742,342	44,769
User charges receivable	1,297	(8,177)
Grants receivable	2,493,346	(1,413,575)
Other long-term receivables	-	57,000
Accounts payable and accrued liabilities	(4,885,675)	(47,443)
Deferred revenue	13,963	(27,595)
Deferred revenue - obligatory reserve fund	4,451	326,586
Inventory	1,104	(433)
Prepaid expenses	(105,519)	84,800
	3,526,248	3,434,123
Capital transactions		
Cash used to acquire tangible capital assets	(1,031,358)	(359,036)
Proceeds on disposal of tangible capital assets	259,539	10,796
	(771,819)	(348,240)
Investing transactions		
Investment in government business enterprise	(452,845)	(436,243)
	(452,845)	(436,243)
Financing transactions		
Repayment of long-term debt	(859,178)	(638,313)
Employee post employment benefits	72,609	(37,235)
	(786,569)	(675,548)
Increase in cash	1,515,015	1,974,092
Cash, beginning of year	4,547,379	2,573,287
Cash, end of year	6,062,394	4,547,379

The accompanying notes are an integral part of this consolidated financial statement.

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

The Corporation of the Town of Espanola (“the Town”) is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act 2001, Provincial Offences Act and other related legislation.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town are the representation of management. The financial statements are prepared in accordance with Canadian public sector accounting standards for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Significant aspects of the accounting policies adopted by the Town are as follows:

a) Reporting Entity

i) Local Boards

These consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the Town and include the activities of all committees of Council and the following local boards which are under the control of Council:

Town of Espanola Police Services Board
Town of Espanola Cemetery Board
Espanola Public Library

ii) Joint Local Boards

These consolidated financial statements reflect contributions to the following joint local boards, which are not under the direct control of council, as expenditures in the consolidated statement of operations:

Sudbury and District Health Unit
Manitoulin-Sudbury District Services Board

The assets, liabilities, revenues and expenditures of these joint local boards have not been proportionately consolidated in these consolidated financial statements.

iii) Accounting for School Board Transactions

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Trust Funds

Trust funds and their related operations administered by the Town are not consolidated, but are reported separately on the Trust Funds financial statements.

v) Investment in Government Business Enterprise

Investment in government business enterprise is accounted for using the modified equity method. Each year the Town's share of income (loss) from the government business enterprise is recognized in the consolidated financial statements and the investment in the government business enterprise is adjusted to reflect the change in equity occurring during the year.

b) Basis of Accounting

i) Accrual Accounting

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures 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.

ii) Inventory

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

iii) Pensions and Employee Benefits

The Town accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

Vacation entitlements are accrued for as entitlements are earned.

Sick leave benefits are accrued when they are vested and subject to pay out when an employee leaves.

Other post-employment benefits are accrued in accordance with the projected benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees. The discount rate used to determine the accrued benefit obligation was determined by reference to the Town's cost of borrowing.

Actuarial gains (losses) on the accrued benefit obligation arise from the difference between actual and expected experiences and from changes in actuarial assumptions used to determine the accrued benefit obligation. These gains (losses) are recognized immediately in the period they arise.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Tangible Capital Assets

Tangible capital assets are recorded at cost. The Town provides for amortization using the straight-line method designed to amortize the cost, less any residual value, of the tangible capital assets over their estimated useful lives. The annual amortization rates are as follows:

	Years
Buildings	40 - 50
Roads, bridges and culverts	15 - 70
Automotive equipment	5 - 25
Furniture and equipment	10 - 45
Water and sewer	75

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 the assets as of the date of transfer.

v) Revenue Recognition

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 Council, incorporating amounts to be raised for local services and amounts the Town is required to collect on behalf of the Province of Ontario in respect of education taxes.

A normal part of the assessment process is the issue of supplementary assessment rolls which provide updated information with respect to changes in property assessments. Once a supplementary assessment roll is received, the Town determines the taxes applicable and renders supplementary tax billings. Supplementary taxation revenues are recorded at the time these bills are issued.

Assessments and related property taxes are subject to appeal by ratepayers. Tax adjustments as a result of appeals are recorded when the result of the appeal is known.

The town is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the accounts in the period the interest and penalties are levied.

Government transfers are recognized in the period that the events giving rise to the transfer have occurred as long as: the transfer is authorized; the eligibility criteria, if any, have been met and the amount can be reasonably estimated. Government transfers received before these criteria have been met are recorded in the accounts as deferred revenue and are recognized as revenue in the period in which all of these criteria are met.

User charges and other revenues are recognized in the period that the goods or services are provided.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

vi) Deferred Revenue – Obligatory Reserve Funds

The Town receives certain contributions under the authority of federal and provincial legislation. These contributions are restricted in their use and, until spent on qualifying projects or expenses, are recorded as deferred revenue.

vii) Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the consolidated financial statements in future periods could be significant. The accounts specifically affected by estimates in these consolidated financial statements are the estimated useful lives of tangible capital assets, estimate of employee post employment benefits obligation and estimated amounts for uncollectible accounts receivable and reassessment of taxes receivable.

viii) Financial Instruments

The Town initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The Town subsequently measures its financial assets and financial liabilities at amortized cost, except for investments in equity securities that are quoted in an active market or financial assets or liabilities designated to the fair value category, which are subsequently measured at fair value. Unrealized changes in fair value are recognized in the consolidated statement of operations.

Financial assets measured at amortized cost include cash, taxes receivable, user charges receivable, grants receivable, account receivables and other long-term receivables.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee post employment benefits and long-term debt.

2. TAXES RECEIVABLE

The components of taxes receivable are as follows:

	2014	2013
	\$	\$
Taxes receivable	748,976	3,020,483
Interest receivable on outstanding tax balances	60,929	46,862
Allowance for doubtful	(52,794)	(59,208)
Allowance for reassessments	-	(1,508,684)
	757,111	1,499,453

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

3. OTHER LONG-TERM RECEIVABLES

The Town holds a vendor take back mortgage for the principal sum of \$304,000, maturing in 2015, with nil interest and secured by the mortgaged property.

4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISE

Investment in government business enterprise reflects the Town's investment in Espanola Regional Hydro Holdings Corporation and its subsidiary companies. The Town holds 81% of the issued common shares of the Corporation.

The carrying value of the investment on a modified equity basis is as follows:

	2014	2013
	\$	\$
Balance, beginning of year	2,732,856	2,296,613
Share of current year net income	452,845	436,243
Balance, end of year	3,185,701	2,732,856

Condensed supplementary financial information on Espanola Regional Hydro Holdings Corporation and its subsidiary companies is as follows:

Financial Position		
Current assets	3,099,427	2,795,722
Capital assets	3,521,677	3,413,332
Other assets	1,956,770	449,864
Total assets	8,577,874	6,658,918
Current liabilities	3,613,570	2,357,179
Note payable to the Town of Espanola	1,185,416	1,185,416
Other long-term liabilities	1,214,586	1,111,089
Total liabilities	6,013,572	4,653,684
Share capital	2,281,000	2,281,000
Accumulated surplus (deficit)	283,302	(275,766)
	2,564,302	2,005,234
Total liabilities and shareholders' equity	8,577,874	6,658,918
Results of Operations		
Revenue	2,024,156	2,054,670
Expenses	(1,465,088)	(1,516,098)
Net Income	559,068	538,572

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

5. LONG-TERM DEBT

	2014	2013
	\$	\$
Toronto Dominion debenture, repayable in monthly payments of \$12,330 including interest at 5.35% per annum, unsecured, matured February 2014	-	24,659
Royal Bank loan, repayable in monthly payments of \$28,054 including interest at 2.41% per annum, unsecured, maturing November 2015	1,435,189	1,726,439
Royal Bank loan, repayable in monthly payments of \$5,645 including interest at 4.01% per annum, unsecured, paid in full December 2014	-	373,136
Ontario Infrastructure Projects Corporation (OIPC) debenture, repayable in semi-annual payments of \$198,038 including interest at 3.59% per annum, maturing December 2037	6,165,681	6,335,814
	7,600,870	8,460,048

Principal payments on the long-term debt over the next five years, assuming renewal of the debt at maturity under similar terms and conditions, are estimated as follows:

2015	481,711
2016	495,539
2017	509,780
2018	524,447
2019	371,404
Thereafter	5,217,989
	7,600,870

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

6. DEFERRED REVENUE – OBLIGATORY RESERVE FUNDS

A requirement of Canadian public sector accounting standards is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as legislation and external agreements restrict how these funds may be used and under certain circumstances these funds may possibly be refunded. The balances in the obligatory reserve funds of the Town are summarized below:

	2014	2013
	\$	\$
Deferred revenue, beginning of year	358,755	32,169
Contributions received during the year	340,890	340,726
Interest earned on obligatory reserve funds	4,451	572
Amounts recognized as revenue during the year	(340,890)	(14,712)
Deferred revenue, end of year	363,206	358,755

Deferred revenue - obligatory reserve consists of the following		
Federal gas tax revenue	330,289	326,214
Dedicated gas tax revenue for public transportation	32,917	32,541
	363,206	358,755

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

7. POST-EMPLOYMENT BENEFITS

The Corporation of the Town of Espanola pays certain benefits on behalf of its retired employees. The Town recognizes these post-employment costs in the period in which the employees rendered the services. The accrued benefit liability in the amount of \$641,802 (2013 - \$568,473) and the expense for the period ended December 31, 2014 were determined using a discount rate of 6 % (2013 - 6%).

Information about The Corporation of the Town of Espanola's benefit plan is as follows:

	\$
Accrued benefit obligation at December 31, 2013	568,473
Expense for the period	102,409
Less: Benefits paid for the period	(29,800)
<u>Accrued benefit obligation at December 31, 2014</u>	<u>641,082</u>

The main assumptions employed for the valuations are as follows:

a) General inflation

Future general inflation levels as measured by changes in the Consumer Price Index ("CPI") were assumed at 3.0%.

b) Interest (discount) rate

The obligation as at December 31, 2014 of the present value of future liabilities and the expense for the period ended December 31, 2014 was determined using an annual discount rate of 6% (2013 - 6%). This corresponds to the assumed CPI rate plus an assumed real rate of return of 3% (2013 - 3%).

c) Benefit costs

Future general benefit costs were assumed to increase at 3% per annum.

d) Turnover rate

Turnover due to termination, resignation or mortality has been estimated at 3% per annum.

8. NON-FINANCIAL ASSETS

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

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

10. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2014	2013
	\$	\$
Net amounts invested in tangible capital assets	37,802,900	38,394,822
Reserves (schedule 1)	4,960,294	2,651,303
Government business enterprise	3,185,701	2,732,856
Operating surplus (deficit)	-	(249,539)
	<u>45,948,895</u>	<u>43,529,442</u>

11. CONTINGENT LIABILITIES

The Town receives transfers from the governments of Canada and Ontario. Some government transfers are subject to audit by the transferring government with adjustments, if any, repayable to the transferring government. Audit adjustments, if any, are recorded in the accounts in the year in which they become known.

The Town has been named a defendant in an outstanding legal claim in the amount of \$5,000,000 for general damages as a result of alleged negligence. However, it is too early in the proceedings to determine the outcome of the claim and management believes the Town has valued defences in place. No amount has been accrued in these consolidated financial statements as a result of this claim.

12. SEGMENTED DISCLOSURE

The Town is a diversified municipal government institution that provides a wide range of services to citizens. Services include water, roads, fire, police, waste management, recreation programs, economic development, land use planning and health and social services. For management reporting purposes, the Government's operations and activities are organized and reported by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

Town services are provided by departments and their activities are reported in these funds. Certain departments have been separately disclosed in the segmented information, along with the services they provide, and are as follows:

General Government

General government consists of: Office of the Mayor, Council expenses, administrative services (including clerks, elections, communications, legal and information technology services, human resources and financial departments). Areas within the general government respond to the needs of external and internal clients by providing high quality, supportive and responsive services. This area supports the operating departments in implementing priorities of Council and provides strategic leadership on issues, relating to governance, strategic planning and service delivery.

12. SEGMENTED DISCLOSURE (continued)

Protection Services

This section consists of: fire, police, animal control, building services, emergency measures and management of Provincial Offences Act. Police services ensure the safety of the lives and property of citizens; preserve peace and order; prevent crimes from occurring, detect offenders and enforce the law.

Fire Services is responsible to provide fire suppression service; fire prevention programs, training and education related to prevention, detection and extinguishment of fires. The building services division processes permit applications and ensure compliance with the Ontario Building Code and with by-laws enacted by Council.

Transportation Services

This area is responsible for management of roadways including traffic and winter control.

Environmental Services

In addition to the management of waterworks, sanitary and storm sewer systems, this area is responsible for waste collection, waste disposal and recycling facilities and programs. This section is responsible for providing clean, potable water meeting all regulatory requirements and responsible for repairing breaks and leaks in the water and sewer system. This section produces quality effluents meeting regulatory requirements and minimizing environment degradation.

Health and Social Services

This section consists of assistance to aged persons, cemetery services as well as the Town's contribution to the Sudbury and District Health Unit and Manitoulin-Sudbury District Services Board.

Recreation and Cultural Services

This section provides public services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure services such as fitness and aquatic programs and provides management of arenas and leisure facilities. This section also contributes to the information needs of the Town's citizens through the provision of library and cultural services and by preserving local history and managing archived data.

Planning and Development

The goal of this section is to offer coordinated development services in order to maximize economic development opportunities, and to ensure that the Town is planned and developed in accordance with the Ontario Planning Act, Provincial policies and good planning principles, so that Espanola is an enjoyable and beautiful community to live, work, play and shop.

Certain allocation methodologies are employed in the preparation of segmented financial information. Taxation, certain government grants and other revenue are apportioned to services based on a percentage of operations.

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

13. TRUST FUND

Trust funds administered by the Town amounting to \$235,289 (2013 - \$225,928) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statements of operations and changes in accumulated surplus.

14. PENSION PLAN

The Town makes contributions to OMERS, which is a multi-employer plan, on behalf of the members of its staff. 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 2014 was \$426,919 (2013 - \$455,275) for current service and is included as an expenditure on the consolidated statement of operations and changes in accumulated surplus.

At December 31, 2014, the OMERS pension plan had total assets of \$94.3 billion (2013 - \$83.1 billion) and an accumulated deficit of \$5.3 billion (2013 - \$8.8 billion).

15. COMMITMENTS

- a) The Town has entered into a management services agreement with the Ontario Clean Water Agency (OCWA) to operate and maintain the Town's water treatment plant and distribution system. The agreement is for a seven year period ending December 31, 2016, at an annual base price of \$491,749, plus cost of inflation adjustment, plus adjustment for maintaining insurance, plus total chemical estimate.
- b) The Town has entered into a waste collection services agreement with Riverside Enterprises for a ten year period ending May 31, 2014, with a base price of \$122,887 to be amended yearly to reflect the cost of inflation. The Town is currently in negotiations to renew this contract. The Town increased its June 2014 payment to reflect the cost of inflation.
- c) The Town has entered into a recycling services agreement with Municipal Waste and Recycling consultants for a 10 year term ending April 30, 2019, at an annual cost of \$72,425 plus 1% per annum.
- d) The Town has entered into a waste disposal services agreement with H. Dodge Haulage Limited for a ten year period ending January 10, 2015, with a base price of \$253,473 to be amended yearly to reflect the cost of inflation.

THE CORPORATION OF THE TOWN OF ESPANOLA
Notes to the Consolidated Financial Statements
Year ended December 31, 2014

16. BUDGET

The budget adopted by Council was not prepared on a basis consistent with that used to report actual results in these consolidated financial statements. The budget was prepared on a modified accrual basis while Canadian public sector accounting standards require the full accrual basis. The budget figures include a transfer of the anticipated annual surplus to reserves. In addition, the budget includes proceeds and repayments of long-term debt, expenses all tangible capital asset acquisitions and does not include a provision for amortization expense. As a result, the budget figures presented in the consolidated statements of operations and changes in accumulated surplus represent the budget adopted by Council, adjusted as follows:

	Council Approved Budget Amount \$
Revenues	
Operating	15,748,330
Capital	3,549,500
Less	
Transfers from other funds	(1,384,604)
Proceeds on debt issue	-
Total revenues	17,913,226
Expenditures	
Operating	14,476,330
Capital	3,549,500
Less	
Debt principal payments	(542,727)
Transfers to other funds	(469,650)
Capital expenditures	(3,534,500)
Total expenditures	13,478,953
Budget surplus	4,434,273

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

18. FINANCIAL INSTRUMENTS

Transactions in financial instruments may result in an entity assuming or transferring, to another party, financial risks. The Town is exposed to the following risks associated with financial instruments and transactions it is a party to:

a) Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Town is exposed to this risk relating to its cash, accounts receivable, taxes receivable, user charges receivable and other long-term receivables.

The Town holds its cash accounts with large reputable financial institutions, from which management believes the risk of loss due to credit risk to be remote.

The Town is exposed to credit risk in accounts receivable which includes rate payers, government and other receivables. The Town measures its exposure to credit risk with respect to accounts receivable based on how long the amounts have been outstanding and management's analysis of accounts.

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

b) Liquidity risk

Liquidity risk is the risk that the Town cannot repay its obligations when they become due to its creditor. The Town is exposed to this risk relating to its accounts payable and accrued liabilities and long-term debt.

The Town reduces its exposure to liquidity risk by monitoring cash activities and expected outflow through extensive budgeting and maintaining enough cash to repay creditors as they become due.

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

c) 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 Town is exposed to this risk mainly in respect of its bank facilities and long-term debt.

The Town has minimal interest rate exposure on its bank facilities and long-term debt, which are at fixed rates.

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

THE CORPORATION OF THE TOWN OF ESPANOLA
Schedule of Continuity of Reserve
Year ended December 31, 2014

Schedule 1

	Appropriations from:		Appropriations to:		Balance, end of year
	Net assets from operations	Net assets invested in tangible capital assets	Net assets from operations	Net assets invested in tangible capital assets	
	\$	\$	\$	\$	\$
RESERVES					
Discretionary Reserves					
Tax Rate Stabilization	416,317	1,872,200	-	-	2,288,517
Operating Stabilization					
Elections	25,304	-	-	(18,485)	6,819
Household Hazardous Waste	19,000	-	-	(4,246)	14,754
Winter Maintenance	-	-	-	-	-
Environmental	92,521	-	-	(23,828)	68,693
Planning and Zoning	13,890	3,560	-	-	17,450
Revitalization Plan	18,741	12,652	-	(3,550)	27,843
Software	67,500	-	-	-	-
Uninsured Claims	7,299	-	-	(67,500)	7,299
Capital Stabilization					
Buildings	135,617	-	15,000	(6,935)	95,182
Vehicles and Equipment	703,195	3,000	-	(208,176)	498,019
Roads	535,251	-	237,538	-	772,789
Water and Sewer	370,240	610,386	-	(67,120)	913,506
GIS	5,900	-	-	-	5,900
Trails	183,403	-	-	-	183,403
Emergency Measures	6,700	3,745	-	-	10,445
Mandatory Reserves					
Pay Equity	42,037	-	-	-	42,037
Parklands	8,388	-	-	(750)	7,638
	2,651,303	2,505,543	252,538	(57,794)	4,960,294

INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of THE CORPORATION OF THE TOWN OF ESPANOLA

Report on the Financial Statements

We have audited the accompanying financial statements of the **Trust Funds of the Corporation of the Town of Espanola**, which comprise the statement of financial position as at **December 31, 2014**, and the statement of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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, these financial statements present fairly, in all material respects, the financial position of the Trust Funds of the Corporation of the Town of Espanola as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

FREELANDT CALDWELL REILLY LLP

Freelandt Caldwell Reilly LLP

Chartered Professional Accountants
Licensed Public Accountants

Espanola, Ontario
August 11, 2015

THE CORPORATION OF THE TOWN OF ESPANOLA

TRUST FUNDS

Statement of Financial Position

December 31, 2014

	Cemetery Care and Maintenance Fund (Note 2)	Monument Fund (Note 3)	Friends of the Library Fund (Note 4)
	\$	\$	\$
Assets			
Cash	143,782	79,183	-
Accounts receivable	1,243	-	11,081
	145,025	79,183	11,081
Liabilities	-	-	-
Net Assets	145,025	79,183	11,081

The accompanying notes are an integral part of this financial statement.

THE CORPORATION OF THE TOWN OF ESPANOLA**TRUST FUNDS****Statement of Operations and Changes in Net Assets****Year ended December 31, 2014**

	Cemetery Care and Maintenance Fund (Note 2) \$	Monument Fund (Note 3) \$	Friends of the Library Fund (Note 4) \$
Net assets, beginning of year	138,023	76,960	10,945
Receipts			
Sales of plots	4,950	-	-
Interest income	2,052	896	136
Monument fees	-	1,350	-
	7,002	2,246	136
Expenditures	-	23	-
Net assets, end of year	145,025	79,183	11,081

The accompanying notes are an integral part of this financial statement.

**THE CORPORATION OF THE TOWN OF ESPANOLA
TRUST FUNDS**

**Notes to the Financial Statements
December 31, 2014**

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The Trust Funds have not been consolidated with the financial statements of the Corporation of the Town of Espanola.

b) Basis of Accounting

The accrual basis of accounting recognizes revenues as they become available and measurable, expenditures 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.

2. CEMETERY CARE AND MAINTENANCE FUND

The Cemetery Care and Maintenance Fund is established pursuant to the Cemeteries Act, Ontario. Receipts from the sale of plots are invested in perpetuity and the income thereafter may be used to maintain and improve the Espanola Cemetery.

3. MONUMENT FUND

The Cemetery Monument Fund is established pursuant to the Cemeteries Act, Ontario. Charges for installation of monuments are invested in perpetuity and the income thereafter may be used to maintain and improve the Espanola Cemetery.

4. FRIENDS OF THE LIBRARY FUND

The Friends of the Library Fund was established for funds given to the library by the fundraising group known as Friends of the Library. The funds are to be used for the purchase of capital assets.

5. CASH FLOWS STATEMENT

A cashflows statement has not been presented because it would not provide any additional information which is not readily apparent in the financial statements.