

Consolidated Financial Statements

**THE CORPORATION OF THE
TOWN OF ESPANOLA**

Year ended December 31, 2017

THE CORPORATION OF THE TOWN OF ESPANOLA

Consolidated Financial Statements

Year ended December 31, 2017

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Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of The Corporation of the Town of the Espanola (the "Town") are the responsibility of the Town's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in note 1 to the consolidated financial statements. The preparation of 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 KPMG LLP, independent external auditors appointed by the Town. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Town's consolidated financial statements.

Mayor

Chief Administrative Officer



KPMG LLP
Claridge Executive Centre
144 Pine Street
Sudbury Ontario P3C 1X3
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Telephone (705) 675-8500
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INDEPENDENT AUDITORS' REPORT

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

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, 2017, the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects the consolidated financial position of The Corporation of the Town of Espanola as at December 31, 2017, and its consolidated results of operations, its change in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

May 8, 2018

THE CORPORATION OF THE TOWN OF ESPANOLA

Consolidated Statement of Financial Position

December 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Financial assets | | |
| Cash | \$ 7,981,342 | \$ 6,693,087 |
| Taxes receivable (note 2) | 626,804 | 433,135 |
| User charges receivable | 530,375 | 510,406 |
| Grants receivable | 276,712 | 704,688 |
| Accounts receivable | 231,880 | 306,337 |
| Other long-term receivables (note 3) | 190,000 | 190,000 |
| Investment in government business enterprises (note 4) | 3,766,562 | 3,654,456 |
| | <u>13,603,675</u> | <u>12,492,109</u> |
| Financial liabilities | | |
| Accounts payable and accrued liabilities | 1,538,893 | 2,109,332 |
| Long-term debt (note 5) | 5,617,405 | 5,806,704 |
| Deferred revenue | 161,852 | 58,680 |
| Deferred revenue - obligatory reserve funds (note 6) | 1,061,370 | 713,745 |
| Employee post-employment benefits (note 7) | 616,917 | 612,571 |
| | <u>8,996,437</u> | <u>9,301,032</u> |
| Net financial assets | 4,607,238 | 3,191,077 |
| Non-financial assets | | |
| Tangible capital assets (note 9) | 47,989,387 | 48,914,980 |
| Prepaid expenses and inventory | 76,943 | 84,878 |
| Land held for resale | 111,246 | 142,746 |
| | <u>48,177,576</u> | <u>49,142,604</u> |
| Contingent liabilities (note 11) | | |
| Subsequent events (notes 4 and 18) | | |
| Accumulated surplus (note 10) | \$ 52,784,814 | \$ 52,333,681 |

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

On behalf of Council:

_____ Mayor

_____ Chief Administrative Officer

THE CORPORATION OF THE TOWN OF ESPANOLA

Consolidated Statement of Operations and Accumulated Surplus

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

| | Budget (note 15) | 2017 | 2016 |
|--|----------------------|----------------------|----------------------|
| Revenues: | | | |
| Taxation: | | | |
| Residential and farm | \$ 5,666,914 | \$ 5,684,182 | \$ 5,598,726 |
| Commercial, industrial and business | 2,875,632 | 2,904,065 | 3,501,787 |
| Other governments and agencies | 158,992 | 178,152 | 176,097 |
| | 8,701,538 | 8,766,399 | 9,276,610 |
| Deduct: | | | |
| Amounts raised on behalf of the school boards | 1,122,800 | 1,128,178 | 1,348,703 |
| | 7,578,738 | 7,638,221 | 7,927,907 |
| Grants and contribution: | | | |
| Government of Canada | 411,606 | 112,132 | 318,717 |
| Province of Ontario | 3,271,233 | 3,172,067 | 5,513,280 |
| Other municipalities | 64,922 | 97,360 | 23,922 |
| | 3,747,761 | 3,381,559 | 5,855,919 |
| User charges: | | | |
| Sewer and water charges | 2,708,000 | 2,731,212 | 2,715,219 |
| Fees, service charges and donations | 1,450,717 | 1,682,633 | 1,600,751 |
| | 4,158,717 | 4,413,845 | 4,315,970 |
| Other: | | | |
| Licenses and permits | 414,200 | 112,128 | 144,062 |
| Investment income | 119,500 | 132,842 | 124,584 |
| Penalties and interest charges | 105,000 | 100,237 | 101,398 |
| Other | 15,200 | 83,569 | 169,369 |
| | 653,900 | 428,776 | 539,413 |
| Total revenues | 16,139,116 | 15,862,401 | 18,639,209 |
| Expenses: | | | |
| General government | 1,630,390 | 1,455,513 | 1,258,164 |
| Protection services | 3,962,438 | 4,139,897 | 3,922,140 |
| Transportation services | 2,290,679 | 2,904,579 | 2,838,507 |
| Environmental services | 3,302,300 | 3,260,166 | 3,349,718 |
| Health services | 911,116 | 894,672 | 964,419 |
| Social and family services | 495,411 | 490,288 | 544,694 |
| Recreational and cultural services | 2,201,915 | 2,240,205 | 2,194,391 |
| Planning and development | 109,475 | 88,108 | 81,123 |
| Total expenses | 14,903,724 | 15,473,428 | 15,153,156 |
| Annual surplus before undernoted item | 1,235,392 | 388,973 | 3,486,053 |
| Income from investment in government business enterprise | - | 62,160 | 96,299 |
| Annual surplus | 1,235,392 | 451,133 | 3,582,352 |
| Accumulated surplus, beginning of year | 52,333,681 | 52,333,681 | 48,751,329 |
| Accumulated surplus, end of year | \$ 53,569,073 | \$ 52,784,814 | \$ 52,333,681 |

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

THE CORPORATION OF THE TOWN OF ESPANOLA

Consolidated Statement of Changes in Net Financial Assets

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

| | 2017 | 2016 |
|--|--------------|--------------|
| Annual surplus | \$ 451,133 | \$ 3,582,352 |
| Acquisition of tangible capital assets | (923,486) | (4,663,724) |
| Amortization of tangible capital assets | 1,855,579 | 1,820,543 |
| Loss (gain) on sale of tangible capital assets | (18,000) | 10,335 |
| Loss on sale of land held for resale | 7,687 | 3,591 |
| Proceeds on sale of tangible capital assets | 18,000 | 153,481 |
| Proceeds on sale of land held for resale | 17,313 | 7,574 |
| Acquisition of land held for resale | - | (6,500) |
| Change in prepaid expenses and inventory | 7,935 | (14,894) |
| Change in net financial assets | 1,416,161 | 892,758 |
| Net financial assets, beginning of year | 3,191,077 | 2,298,319 |
| Net financial assets, end of year | \$ 4,607,238 | \$ 3,191,077 |

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

THE CORPORATION OF THE TOWN OF ESPANOLA

Consolidated Statement of Cash Flows

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

| | 2017 | 2016 |
|---|--------------|--------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual surplus | \$ 451,133 | \$ 3,582,352 |
| Items not involving cash: | | |
| Amortization of tangible capital assets | 1,855,579 | 1,820,543 |
| Loss (gain) on sale of tangible capital assets and land held for resale | (10,313) | 13,926 |
| | 2,296,399 | 5,416,821 |
| Change in non-cash assets and liabilities: | | |
| Accounts receivable | 74,457 | 29,032 |
| Taxes receivable | (193,669) | 46,689 |
| User charges receivable | (19,969) | (83,307) |
| Grants receivable | 427,976 | (672,441) |
| Other long-term receivables | - | 114,000 |
| Accounts payable and accrued liabilities | (570,439) | (27,234) |
| Deferred revenue | 103,172 | (28,884) |
| Deferred revenue - obligatory reserve fund | 347,625 | (274,991) |
| Prepaid expenses and inventory | 7,935 | (14,894) |
| Net change in cash from operating activities | 2,473,487 | 4,504,791 |
| Capital activities: | | |
| Cash used to acquire tangible capital assets | (923,486) | (4,663,724) |
| Cash used to acquire land held for resale | - | (6,500) |
| Proceeds on sale of tangible capital assets and land held for resale | 35,313 | 161,055 |
| Net change in cash from capital activities | (888,173) | (4,509,169) |
| Investing activities: | | |
| Investment in government business enterprise | (112,106) | (96,299) |
| Net change in cash from investing activities | (112,106) | (96,299) |
| Financing activities: | | |
| Repayment of long-term debt | (189,299) | (182,681) |
| Employee post-employment benefits | 4,346 | (8,101) |
| Net change in cash from financing activities | (184,953) | (190,782) |
| Net change in cash | 1,288,255 | (291,459) |
| Cash, beginning of year | 6,693,087 | 6,984,546 |
| Cash, end of year | \$ 7,981,342 | \$ 6,693,087 |

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

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

The Corporation of the Town of Espanola (the "Town") is a single-tier municipal corporation located in Northern Ontario. 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 prepared by management in accordance with Canadian generally accepted accounting principles 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 expenses of the reporting entity 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 expense in the consolidated statement of operations and accumulated surplus:

Sudbury and District Health Unit
Manitoulin-Sudbury District Services Board

iii) Accounting for School Board Transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements. The amounts raised on behalf of school boards are included in the gross taxation revenues and are deducted in the consolidated statement of operations and accumulated surplus in determine the taxation revenue for the Town.

iv) Trust Funds

Trust funds and their related operations administered by the Town are not consolidated, but are reported separately on the Trust Fund's 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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

1. Significant accounting policies (continued):

(b) Basis of accounting:

i) Accrual 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.

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 Systems ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

Vacation entitlements are accrued for as entitlements are earned.

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 of 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 amortized over the estimated average remaining service life of employees (12.5 years).

(c) Tangible capital assets:

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

| Assets | Useful Life - Years |
|--|---------------------|
| Buildings | 40 - 50 |
| Furniture and equipment | 10 - 45 |
| Automotive equipment | 5 - 25 |
| Infrastructure - roads, bridges and culverts | 15 - 70 |
| Water and sewer | 75 |

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

1. Significant accounting policies (continued):

(c) Tangible capital assets (continued):

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.

(d) 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 amount 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. Assessments and related property taxes are subject to appeal by ratepayers. Tax adjustments as a result of supplementary assessments and appeals are estimated based on historical results.

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 reasonable 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 fees and other revenues are recognized when the services are performed or goods are delivered, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and fees are fixed or determinable. Amounts received for future services are deferred until the service is provided.

(e) 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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

1. Significant accounting policies (continued):

(f) 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.

(g) Use of estimates:

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include 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. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

2. Taxes receivable:

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Taxes receivable | \$ 578,327 | \$ 396,893 |
| Interest receivable on outstanding tax balances | 57,274 | 47,615 |
| Allowance for doubtful accounts | (8,797) | (11,373) |
| | <u>\$ 626,804</u> | <u>\$ 433,135</u> |

3. Other long-term receivables:

The Town holds a vendor take back mortgage for the principal sum of \$190,000, which is non-interest bearing and matures in January 2019. The vendor take back mortgage is secured by the mortgaged property.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

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 as follows:

| | 2017 | 2016 |
|---|--------------|--------------|
| Balance, beginning of year | \$ 3,654,456 | \$ 3,558,157 |
| Share of current year net earnings | 62,160 | 96,299 |
| Carrying costs associated with investment | 49,946 | - |
| Balance, end of year | \$ 3,766,562 | \$ 3,654,456 |

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

| | 2017 | 2016 |
|--|---------------|---------------|
| Financial Position | | |
| Current assets | \$ 3,406,922 | \$ 4,568,802 |
| Capital assets | 4,640,045 | 4,153,459 |
| Other assets | 2,761,897 | 2,473,014 |
| Total assets | \$ 10,808,864 | \$ 11,195,275 |
| Current liabilities | \$ 2,829,769 | \$ 3,367,073 |
| Note payable to the Town of Espanola | 1,185,416 | 1,185,416 |
| Other long-term liabilities | 3,573,926 | 3,499,774 |
| Total liabilities | 7,589,111 | 8,052,263 |
| Share capital | 2,281,000 | 2,281,000 |
| Retained earnings | 923,799 | 842,731 |
| Accumulated other comprehensive income | 14,954 | 19,281 |
| Total liabilities and shareholders' equity | \$ 10,808,864 | \$ 11,195,275 |
| Results of operations: | | |
| Revenue | \$ 8,339,490 | \$ 9,314,682 |
| Expenses | (8,258,422) | (9,194,466) |
| Other comprehensive loss | (4,327) | (1,329) |
| Total comprehensive earnings | \$ 76,741 | \$ 118,887 |

The financial information is available for the December 31, 2017 year end.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

4. Investment in government business enterprise (continued):

The Town charges interest at a rate of 4.41% which amounted to interest of \$52,277 in the current year. There no specified repayment terms on the note payable and the interest rate is subject to change each time cost of service rate application is filed with the Ontario Energy Board.

Subsequent to year-end, the Corporation of the Town of Espanola and the Township of Sables-Spanish Rivers accepted a letter of intent from North Bay Hydro Distribution for the purchase of Espanola Regional Hydro. On completion of due diligence, a definitive agreement of purchase and sale is anticipated.

5. Long-term debt:

| | 2017 | 2016 |
|---|--------------|--------------|
| Ontario Infrastructure Projects Corporation (OIPC) debenture, repayable in semi-annual payments of \$198,038 including interest at 3.59% per annum, maturing December 2037 | \$ 5,617,405 | \$ 5,806,704 |

Principal payments on the long-term debt are as follows:

| | | |
|------------|--------------|--|
| 2018 | \$ 196,156 | |
| 2019 | 203,261 | |
| 2020 | 210,623 | |
| 2021 | 218,252 | |
| 2022 | 226,158 | |
| Thereafter | 4,562,955 | |
| | \$ 5,617,405 | |

6. Deferred revenue – obligatory reserve funds:

A requirement of the 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:

| | 2017 | 2016 |
|---|--------------|------------|
| Deferred revenue, beginning of year | \$ 713,745 | \$ 678,102 |
| Contributions received during the year | 331,939 | 348,319 |
| Interest earned on obligatory reserve funds | 15,686 | 6,041 |
| Amounts recognized as revenue during the year | – | (318,717) |
| Deferred revenue, end of year | \$ 1,061,370 | \$ 713,745 |

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

6. Deferred revenue – obligatory reserve funds:

| | 2017 | 2016 |
|--|---------------------|-------------------|
| Deferred revenue – obligatory reserve consists of the following: | | |
| Federal gas tax revenue | \$ 1,005,001 | \$ 657,950 |
| Dedicated gas tax revenue for public transportation | 56,369 | 55,795 |
| | <u>\$ 1,061,370</u> | <u>\$ 713,745</u> |

7. Post-employment benefits:

The Town 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 \$616,917 (2016 – \$612,571) reflects an obligation of \$513,798 plus an unamortized actuarial gain of \$103,119 and the expense for the period ended December 31, 2017 were determined using a discount rate of 3.6% (2016 – 3.6%).

The fair value of accrued benefit obligations were determined by independent actuaries as at December 31, 2017.

Information about Town's benefit plan is as follows:

| | 2017 | 2016 |
|---|-------------------|----------------|
| Accrued benefit obligation at December 31 | \$ 612,571 | 620,672 |
| Expense for the period | 33,485 | 44,989 |
| Less: benefits paid for the period | (29,139) | (53,090) |
| Accrued benefit obligation at December 31 | <u>\$ 616,917</u> | <u>612,571</u> |

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed as follows:

| | |
|----------------------------|--|
| Dental | 4% |
| Extended health care trend | 8% in the first year following valuation: Decreasing over 10 years to 4% per year |

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 Financial Statements

Year ended December 31, 2017

9. Tangible capital assets:

| Cost | Balance at December 31, 2016 | Additions | Disposals | Transfers in (out) | Balance at December 31, 2017 |
|---------------------------|------------------------------------|----------------|-----------------|-----------------------|------------------------------------|
| Land | \$ 4,976,717 | 21,939 | - | - | 4,998,656 |
| Buildings | 16,467,373 | - | - | - | 16,467,373 |
| Roads and bridges | 17,884,553 | - | - | - | 17,884,553 |
| Automotive equipment | 1,796,755 | 188,256 | (18,354) | - | 1,966,657 |
| Furniture and equipment | 11,483,009 | 424,676 | (75,473) | - | 11,832,212 |
| Water and sewer | 25,183,843 | - | - | - | 25,183,843 |
| Assets under construction | 175,083 | 295,115 | - | - | 470,198 |
| Total | \$ 77,967,333 | 929,986 | (93,827) | - | 78,803,492 |

| Accumulated Amortization | Balance at December 31, 2016 | Disposals | Amortization | Balance at December 31, 2017 |
|-----------------------------|------------------------------------|-----------------|------------------|------------------------------------|
| Land | \$ 1,619,688 | - | 84,154 | 1,703,842 |
| Buildings | 6,103,364 | - | 327,064 | 6,430,428 |
| Roads and bridges | 7,434,802 | - | 491,197 | 7,925,999 |
| Automotive equipment | 972,253 | (18,354) | 109,758 | 1,063,657 |
| Furniture and equipment | 7,638,290 | (75,473) | 509,971 | 8,072,788 |
| Water and sewer | 5,283,956 | - | 333,435 | 5,617,391 |
| Assets under construction | - | - | - | - |
| Total | \$ 29,052,353 | (93,827) | 1,855,579 | 30,814,105 |

| | Net book value, December 31, 2016 | Net book value, December 31, 2017 |
|---------------------------|---|---|
| Land | \$ 3,357,029 | 3,294,814 |
| Buildings | 10,364,009 | 10,036,945 |
| Roads and bridges | 10,449,751 | 9,958,554 |
| Automotive equipment | 824,502 | 903,000 |
| Furniture and equipment | 3,844,719 | 3,759,424 |
| Water and sewer | 19,899,887 | 19,566,452 |
| Assets under construction | 175,083 | 470,198 |
| Total | \$ 48,914,980 | 47,989,387 |

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Financial Statements

Year ended December 31, 2017

9. Tangible capital assets (continued):

| Cost | Balance at December 31, 2015 | Additions | Disposals | Transfers in (out) | Balance at December 31, 2016 |
|---------------------------|------------------------------------|------------------|------------------|-----------------------|------------------------------------|
| Land | \$ 4,984,488 | - | (7,771) | - | 4,976,717 |
| Buildings | 16,527,664 | 318,717 | (379,008) | - | 16,467,373 |
| Roads and bridges | 16,299,419 | 1,718,842 | (171,443) | 37,735 | 17,884,553 |
| Automotive equipment | 1,776,182 | 69,397 | (48,824) | - | 1,796,755 |
| Furniture and equipment | 11,301,105 | 266,456 | (84,552) | - | 11,483,009 |
| Water and sewer | 23,110,202 | 2,115,229 | (143,307) | 101,719 | 25,183,843 |
| Assets under construction | 139,454 | 175,083 | - | (139,454) | 175,083 |
| Total | \$ 74,138,514 | 4,663,724 | (834,905) | - | 77,967,333 |

| Accumulated Amortization | Balance at December 31, 2015 | Disposals | Amortization | Balance at December 31, 2016 |
|-----------------------------|------------------------------------|------------------|------------------|------------------------------------|
| Land | \$ 1,535,534 | - | 84,154 | 1,619,688 |
| Buildings | 6,041,381 | (269,598) | 331,581 | 6,103,364 |
| Roads and bridges | 7,185,992 | (171,442) | 420,252 | 7,434,802 |
| Automotive equipment | 903,875 | (48,248) | 116,626 | 972,253 |
| Furniture and equipment | 7,164,063 | (84,552) | 558,779 | 7,638,290 |
| Water and sewer | 5,072,054 | (97,249) | 309,151 | 5,283,956 |
| Assets under construction | - | - | - | - |
| Total | \$ 27,902,899 | (671,089) | 1,820,543 | 29,052,353 |

| | Net book value, December 31, 2015 | Net book value, December 31, 2016 |
|---------------------------|---|---|
| Land | \$ 3,448,954 | 3,357,029 |
| Buildings | 10,486,283 | 10,364,009 |
| Roads and bridges | 9,113,427 | 10,449,751 |
| Automotive equipment | 872,307 | 824,502 |
| Furniture and equipment | 4,137,042 | 3,844,719 |
| Water and sewer | 18,038,148 | 19,899,887 |
| Assets under construction | 139,454 | 175,083 |
| Total | \$ 46,235,615 | 48,914,980 |

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

10. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

| | 2017 | 2016 |
|-----------------------------------|----------------------|----------------------|
| Equity in tangible capital assets | \$ 42,371,982 | \$ 43,108,276 |
| Reserves (Schedule 1) | 6,646,270 | 5,570,949 |
| Government business enterprise | 3,766,562 | 3,654,456 |
| | <u>\$ 52,784,814</u> | <u>\$ 52,333,681</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.

12. Trust funds:

Trust funds administered by the Town amounting to \$253,974 (2016 - \$245,810) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of operations and accumulated surplus.

13. 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 2017 was \$477,496 (2016 - \$467,459) for current service and is included as an expense on the consolidated statement of operations and accumulated surplus.

At December 31, 2017, the OMERS pension plan had total assets of \$105.7 billion (2016 - \$98.7 billion) and an accumulated surplus of \$605 million (2016 - deficit of \$2.3 billion).

14. 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 ten year period ending December 31, 2026, at an annual base rate of \$687,539, plus cost of inflation adjustment, plus adjustment for maintaining insurance and plus an estimate for the total chemical costs.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

14. Commitments (continued):

- b) The Town entered into a waste collection services agreement with Riverside Enterprises for a ten year period which ended May 31, 2014, with a base price of \$122,887 to be amended yearly to reflect the cost of inflation. The Town increased its current payment to reflect the cost of inflation. The Town is currently in negotiations to renew this contract.
- 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 \$73,425 plus 1% adjustment per annum.
- d) The Town has entered into a waste disposal services agreement with H. Dodge Haulage Limited for a ten year period ending December 31, 2021, with a base rate of \$268,108 to be adjusted annually based on the number of residential units presented by the Municipal Property Assessment Corporation.

15. 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 expenses all tangible capital asset acquisitions and does not include a full provision for amortization expense. As a result, the budget figures presented in the consolidated statements of operations and accumulated surplus represent the budget adopted by Council, adjusted as follows:

| | Council Approved Budget Amount |
|----------------------------|-----------------------------------|
| Revenue: | |
| Operating | \$ 14,941,224 |
| Capital | 1,842,722 |
| Less: | |
| Transfers from other funds | (644,830) |
| Total revenue | 16,139,116 |
| Expenses: | |
| Operating | 13,914,829 |
| Capital | 1,842,722 |
| Amortization | 1,026,395 |
| Less: | |
| Transfers to other funds | (316,732) |
| Capital expenditures | (1,563,490) |
| Total expenses | 14,903,724 |
| Budget surplus | \$ 1,235,392 |

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

16. 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 the risk relating to its cash, accounts receivable, taxes receivable, user charges receivable and other long-term receivables.

The Town holds 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 ratepayers, 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 has been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

17. Comparative information:

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

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

18. Subsequent event:

Subsequent to year-end, Council voted to accept a proposal to replace the current policing services with those of the Ontario Provincial Police, effective January 1, 2019.

19. Segmented information:

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 that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

(a) 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.

(b) 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.

(c) Transportation Services:

The transportation department is responsible for the delivery of municipal public works services related to the planning, development and maintenance of roadway systems, winter control and street lighting.

(d) Environmental Services:

In addition to 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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2017

19. Segmented information (continued):

(e) 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.

(f) Recreation and cultural:

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.

(h) Planning and community developmental:

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

THE CORPORATION OF THE TOWN OF ESPANOLA

Note 19 - Segmented Information

Year ended December 31, 2017

| | General Government | Protection Services | Transportation Services | Environmental Services | Health and Social Services | Recreation and Cultural Services | Planning and Development | 2017 Total |
|---|-----------------------|------------------------|----------------------------|---------------------------|----------------------------------|--|--------------------------------|---------------|
| Revenue: | | | | | | | | |
| Grants | \$ 2,845,681 | 190,656 | 14,766 | 168,198 | 12,870 | 52,028 | - | \$ 3,284,199 |
| User charges | 97,501 | 1,177,034 | - | 2,736,327 | 36,881 | 452,661 | 10,801 | 4,511,205 |
| Other | 264,536 | 14,561 | 13,088 | 57,654 | 38,437 | 22,500 | - | 410,776 |
| Gain on disposal | - | - | 18,000 | - | - | - | - | 18,000 |
| | 3,207,718 | 1,382,251 | 45,854 | 2,962,179 | 88,188 | 527,189 | 10,801 | 8,224,180 |
| Expenses: | | | | | | | | |
| Salaries, wages and benefits | 898,523 | 2,984,529 | 1,385,389 | 294,381 | 34,590 | 1,202,690 | 18,766 | 6,818,868 |
| Purchase of goods and materials | 38,711 | 118,187 | 620,415 | 474,579 | 7,038 | 407,954 | 7,697 | 1,674,581 |
| Contracts and services | 500,445 | 674,182 | 268,968 | 1,456,763 | 990 | 346,484 | 31,385 | 3,279,217 |
| Amortization of tangible capital assets | 9,112 | 106,548 | 629,807 | 828,740 | 3,354 | 274,077 | 3,943 | 1,855,581 |
| Rents, financial expenses and other | 6,178 | 42,917 | - | - | - | 1,500 | 251 | 50,846 |
| Interest on long-term debt | - | - | - | 205,703 | - | - | - | 205,703 |
| Other transfers | 2,544 | 213,534 | - | - | 1,338,988 | 7,500 | 18,379 | 1,580,945 |
| Loss on disposal | - | - | - | - | - | - | 7,687 | 7,687 |
| | 1,455,513 | 4,139,897 | 2,904,579 | 3,260,166 | 1,384,960 | 2,240,205 | 88,108 | 15,473,428 |
| Excess (deficiency) of revenue over expenses | 1,752,205 | (2,757,646) | (2,858,725) | (297,987) | (1,296,772) | (1,713,016) | (77,307) | (7,249,248) |
| Funded through: | | | | | | | | |
| Taxation | | | | | | | | 7,638,221 |
| Annual surplus before investment in government business enterprises | | | | | | | | \$ 388,973 |

THE CORPORATION OF THE TOWN OF ESPANOLA

Note 19 - Segmented Information

Year ended December 31, 2017

| | General Government | Protection Services | Transportation Services | Environmental Services | Health and Social Services | Recreation and Cultural Services | Planning and Development | 2016 Total |
|---|-----------------------|------------------------|----------------------------|---------------------------|-------------------------------|--|--------------------------------|---------------|
| Revenue: | | | | | | | | |
| Grants | \$ 2,944,381 | 153,697 | 68,833 | 2,549,909 | - | 139,099 | - | \$ 5,855,919 |
| User charges | 87,187 | 960,186 | 10,179 | 2,777,971 | 33,576 | 425,308 | 21,563 | 4,315,970 |
| Other | 237,671 | 139,467 | - | - | 66,484 | 10,867 | - | 454,489 |
| Gain on disposal | 66,131 | 750 | 18,043 | - | - | - | - | 84,924 |
| | 3,335,370 | 1,254,100 | 97,055 | 5,327,880 | 100,060 | 575,274 | 21,563 | 10,711,302 |
| Expenses: | | | | | | | | |
| Salaries, wages and benefits | 850,997 | 2,910,810 | 1,413,696 | 246,573 | 33,806 | 1,205,562 | 23,440 | 6,684,884 |
| Purchase of goods and materials | 46,852 | 117,638 | 608,518 | 485,579 | 4,430 | 474,141 | 6,818 | 1,743,976 |
| Contracts and services | 324,527 | 401,514 | 216,366 | 1,357,278 | 972 | 233,441 | 46,922 | 2,581,020 |
| Amortization of tangible capital assets | 19,021 | 100,046 | 597,818 | 828,177 | 3,680 | 267,858 | 3,943 | 1,820,543 |
| Rents, financial expenses and other | 6,431 | 46,532 | 2,109 | 120,371 | - | 13,389 | - | 188,832 |
| Interest on long-term debt | - | - | - | 212,890 | - | - | - | 212,890 |
| Other transfers | 10,336 | 345,600 | - | - | 1,466,225 | - | - | 1,822,161 |
| Loss on disposal | - | - | - | 98,850 | - | - | - | 98,850 |
| | 1,258,164 | 3,922,140 | 2,838,507 | 3,349,718 | 1,509,113 | 2,194,391 | 81,123 | 15,153,156 |
| Excess (deficiency) of revenue over expenses | 2,077,206 | (2,668,040) | (2,741,452) | 1,978,162 | (1,409,053) | (1,619,117) | (59,560) | (4,441,854) |
| Funded through: | | | | | | | | |
| Taxation | | | | | | | | 7,927,907 |
| Annual surplus before investment in government business enterprises | | | | | | | | \$ 3,486,053 |

THE CORPORATION OF THE TOWN OF ESPANOLA

Schedule of Continuity Reserve

Year ended December 31, 2017

| | Balance, beginning of Year | Appropriations from: Net assets from Operations | Appropriations to: | | Balance, end of Year |
|---------------------------------|----------------------------------|--|---------------------------------|---|-------------------------|
| | | | Net assets from Operation | Net assets invested in Tangible Capital Assets | |
| Reserves: | | | | | |
| Discretionary reserves: | | | | | |
| Tax rate stabilization | \$ 2,314,040 | 94,968 | - | - | 2,409,008 |
| Operating stabilization: | | | | | |
| Elections | 19,819 | 10,000 | - | - | 29,819 |
| Household hazardous waste | 14,754 | - | - | - | 14,754 |
| Winter maintenance | 42,133 | - | - | - | 42,133 |
| Environmental | 52,969 | - | - | - | 52,969 |
| Planning and zoning | 33,145 | 2,000 | (2,471) | - | 32,674 |
| Revitalization plan | 36,290 | 6,621 | - | (15,439) | 27,472 |
| Recreation Master Plan | 25,000 | - | (25,000) | - | - |
| Uninsured claims | 19,699 | - | - | - | 19,699 |
| Policing Options | - | 21,693 | - | - | 21,693 |
| Asset management | 10,000 | - | - | - | 10,000 |
| Capital stabilization: | | | | | |
| Buildings | 424,802 | 290,750 | (100,000) | (24,751) | 590,801 |
| Vehicles and equipment | 889,914 | 169,645 | (2,501) | (191,971) | 865,087 |
| Roads | 495,523 | 179,232 | - | - | 674,755 |
| Water and sewer | 1,070,549 | 929,521 | - | (268,646) | 1,731,424 |
| GIS | 9,529 | - | (9,529) | - | - |
| Trails | 33,403 | - | - | - | 33,403 |
| Emergency measures | 24,560 | 11,199 | - | - | 35,759 |
| Mandatory reserves: | | | | | |
| Pay equity | 47,182 | - | - | - | 47,182 |
| Parklands | 7,638 | - | - | - | 7,638 |
| | \$ 5,570,949 | 1,715,629 | (139,501) | (500,807) | 6,646,270 |