

Consolidated Financial Statements

**THE CORPORATION OF THE
TOWN OF ESPANOLA**

Year ended December 31, 2018

THE CORPORATION OF THE TOWN OF ESPANOLA

Consolidated Financial Statements

Year ended December 31, 2018

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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.

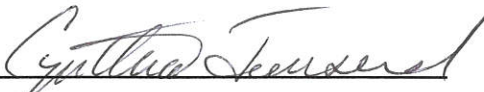
The Town's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely 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



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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of The Corporation of the Town of Espanola (the Corporation), which comprise:

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

(Hereinafter referred to as the "financial statements")

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

Basis for Opinion

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

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

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



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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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



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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

May 14, 2019

THE CORPORATION OF THE TOWN OF ESPANOLA


Consolidated Statement of Financial Position

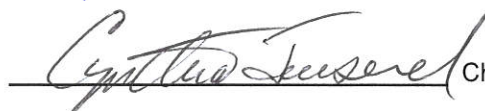
December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets		
Cash	\$ 6,962,556	\$ 7,981,342
Taxes receivable (note 2)	764,985	626,804
User charges receivable	501,904	530,375
Grants receivable	685,306	276,712
Accounts receivable	534,772	421,880
Investment in government business enterprises (note 3)	4,001,219	3,766,562
	<u>13,450,742</u>	<u>13,603,675</u>
Financial liabilities		
Accounts payable and accrued liabilities	3,765,021	1,538,893
Long-term debt (note 4)	5,421,249	5,617,405
Deferred revenue	57,846	161,852
Deferred revenue - obligatory reserve funds (note 5)	1,123,181	1,061,370
Employee post-employment benefits (note 6)	448,393	616,917
	<u>10,815,690</u>	<u>8,996,437</u>
Net financial assets	2,635,052	4,607,238
Non-financial assets		
Tangible capital assets (note 8)	51,796,799	47,989,387
Prepaid expenses	170,703	76,943
Land held for resale	282,246	111,246
	<u>52,249,748</u>	<u>48,177,576</u>
Contingent liabilities (note 10)		
Accumulated surplus (note 9)	\$ 54,884,800	\$ 52,784,814

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, 2018, with comparative information for 2017

	Budget (note 14)	2018	2017
Revenues:			
Taxation:			
Residential and farm	\$ 5,648,075	\$ 5,686,932	\$ 5,691,778
Commercial, industrial and business	2,912,760	2,967,093	3,013,071
Other governments and agencies	60,851	109,213	61,550
	8,621,686	8,763,238	8,766,399
Deduct:			
Amounts raised on behalf of the school boards	1,097,325	1,111,817	1,128,178
	7,524,361	7,651,421	7,638,221
Grants and contribution:			
Government of Canada	826,500	419,035	114,526
Province of Ontario	8,207,788	6,881,383	3,168,688
Other municipalities	3,600	3,573	3,378
	9,037,888	7,303,991	3,286,592
User charges:			
Sewer and water charges	2,762,200	2,763,612	2,736,327
Fees, service charges and donations	1,642,984	1,705,934	1,781,012
	4,405,184	4,469,546	4,517,339
Other:			
Licenses and permits	414,700	456,164	112,128
Investment income	127,000	220,961	132,842
Penalties and interest charges	100,000	124,663	100,237
Other	12,700	31,837	36,604
	654,400	833,625	381,811
Total revenues	21,621,833	20,258,583	15,823,963
Expenses:			
General government	1,541,760	1,520,335	1,452,206
Protection services	6,207,304	6,679,343	4,143,204
Transportation services	2,147,545	2,879,330	2,904,577
Environmental services	3,367,725	3,495,166	3,260,166
Health services	953,852	964,830	878,148
Social and family services	562,005	456,176	468,376
Recreational and cultural services	2,195,620	2,101,447	2,240,205
Planning and development	113,175	115,218	88,108
Total expenses	17,088,986	18,211,845	15,434,990
Annual surplus before undernoted item	4,532,847	2,046,738	388,973
Income from investment in government business enterprise	-	53,248	62,160
Annual surplus	4,532,847	2,099,986	451,133
Accumulated surplus, beginning of year	52,784,814	52,784,814	52,333,681
Accumulated surplus, end of year	\$ 57,317,661	\$ 54,884,800	\$ 52,784,814

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, 2018, with comparative information for 2017

	2018	2017
Annual surplus	\$ 2,099,986	\$ 451,133
Acquisition of tangible capital assets	(5,834,376)	(923,486)
Amortization of tangible capital assets	1,868,968	1,855,579
Loss (gain) on sale of tangible capital assets	120,184	(18,000)
Loss on sale of land held for resale	-	7,687
Proceeds on sale of tangible capital assets	37,812	18,000
Proceeds on sale of land held for resale	-	17,313
Acquisition of land held for resale	(171,000)	-
Change in prepaid expenses and inventory	(93,760)	7,935
Change in net financial assets	(1,972,186)	1,416,161
Net financial assets, beginning of year	4,607,238	3,191,077
Net financial assets, end of year	\$ 2,635,052	\$ 4,607,238

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, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 2,099,986	\$ 451,133
Items not involving cash:		
Amortization of tangible capital assets	1,868,968	1,855,579
Loss (gain) on sale of tangible capital assets and land held for resale	120,184	(10,313)
	4,089,138	2,296,399
Change in non-cash assets and liabilities:		
Decrease (increase) in accounts receivable	(112,892)	74,457
Increase in taxes receivable	(138,181)	(193,669)
Decrease (increase) in user charges receivable	28,471	(19,969)
Decrease (increase) in grants receivable	(408,594)	427,976
Increase (decrease) in accounts payable and accrued liabilities	2,226,128	(570,439)
Increase (decrease) in deferred revenue	(104,006)	103,172
Increase in deferred revenue - obligatory reserve fund	61,811	347,625
Decrease (increase) in prepaid expenses and inventory	(93,760)	7,935
Net change in cash from operating activities	5,548,115	2,473,487
Capital activities:		
Cash used to acquire tangible capital assets	(5,834,376)	(923,486)
Cash used to acquire land held for resale	(171,000)	-
Proceeds on sale of tangible capital assets and land held for resale	37,812	35,313
Net change in cash from capital activities	(5,967,564)	(888,173)
Investing activities:		
Investment in government business enterprise	(234,657)	(112,106)
Net change in cash from investing activities	(234,657)	(112,106)
Financing activities:		
Repayment of long-term debt	(196,156)	(189,299)
Employee post-employment benefits	(168,524)	4,346
Net change in cash from financing activities	(364,680)	(184,953)
Net change in cash	(1,018,786)	1,288,255
Cash, beginning of year	7,981,342	6,693,087
Cash, end of year	\$ 6,962,556	\$ 7,981,342

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, 2018

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, 2018

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) 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 (12.6 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	60 - 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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2018

1. Significant accounting policies (continued):

(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 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 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.

(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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2018

1. Significant accounting policies (continued):

(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:

	2018	2017
Taxes receivable	\$ 710,380	\$ 578,215
Interest receivable on outstanding tax balances	63,290	57,274
Allowance for doubtful accounts	(8,685)	(8,685)
	\$ 764,985	\$ 626,804

3. 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:

	2018	2017
Balance, beginning of year	\$ 3,766,562	\$ 3,654,456
Share of current year net earnings	53,248	62,160
Carrying costs associated with investment	181,409	49,946
Balance, end of year	\$ 4,001,219	\$ 3,766,562

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2018

3. Investment in government business enterprise (continued):

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

	2018	2017
Financial position		
Current assets	\$ 2,892,879	\$ 3,406,922
Capital assets	4,880,215	4,640,045
Other assets	2,657,836	2,761,897
Total assets	\$ 10,430,930	\$ 10,808,864
Current liabilities	\$ 2,196,839	\$ 2,829,769
Note payable to the Town of Espanola	1,185,416	1,185,416
Other long-term liabilities	3,763,184	3,573,926
Total liabilities	7,145,439	7,589,111
Share capital	2,281,000	2,281,000
Retained earnings	1,003,493	923,799
Accumulated other comprehensive income	998	14,954
Total liabilities and shareholders' equity	\$ 10,430,930	\$ 10,808,864
Results of operations:		
Revenue	\$ 8,503,074	\$ 8,339,490
Expenses	(8,423,380)	(8,258,422)
Other comprehensive loss	(13,956)	(4,327)
Total comprehensive earnings	\$ 65,738	\$ 76,741

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.

In 2018, 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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2018

4. Long-term debt:

	2018	2017
Ontario Infrastructure Projects Corporation (OIPC) debenture, repayable in semi-annual payments of \$198,038 including interest at 3.59% per annum, maturing December 2037	\$ 5,421,249	\$ 5,617,405
Principal payments on the long-term debt are as follows:		
2018	\$ 203,261	
2019	210,623	
2020	218,252	
2021	226,158	
2022	234,350	
Thereafter	4,328,605	
	\$ 5,421,249	

5. 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:

	2018	2017
Deferred revenue, beginning of year	\$ 1,061,370	\$ 713,745
Contributions received during the year	341,697	331,939
Interest earned on obligatory reserve funds	20,871	15,686
Amounts recognized as revenue during the year	(300,757)	–
Deferred revenue, end of year	\$ 1,123,181	\$ 1,061,370
Deferred revenue – obligatory reserve consists of the following:		
Federal gas tax revenue	\$ 1,120,217	\$ 1,005,001
Dedicated gas tax revenue for public transportation	2,964	56,369
	\$ 1,123,181	\$ 1,061,370

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2018

6. Employee 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 \$448,393 (2017 – \$616,917) reflects an obligation of \$374,280 plus an unamortized actuarial gain of \$74,113 and the expense for the period ended December 31, 2018 were determined using a discount rate of 3.7% (2017 – 3.6%).

The fair value of accrued benefit obligations were determined by independent actuaries as at December 31, 2018.

Information about Town's benefit plan is as follows:

	2018	2017
Accrued benefit obligation at January 1	\$ 616,917	\$ 612,571
Expense for the period	(130,561)	33,485
Less: benefits paid for the period	(37,963)	(29,139)
Accrued benefit obligation at December 31	\$ 448,393	\$ 616,917

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

7. 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, 2018

8. Tangible capital assets:

Cost	Balance at December 31, 2017	Additions	Disposals	Transfers in (out)	Balance at December 31, 2018
Land	\$ 4,998,656	-	-	-	4,998,656
Buildings	16,467,373	-	-	-	16,467,373
Roads and bridges	17,924,323	2,060,660	(303,274)	-	19,681,709
Automotive equipment	1,966,657	114,416	(310,598)	-	1,770,475
Furniture and equipment	11,792,442	380,152	(78,621)	-	12,093,973
Water and sewer	25,183,843	2,503,473	(186,954)	-	27,500,362
Assets under construction	470,198	1,101,142	-	(325,467)	1,245,873
Total	\$ 78,803,492	6,159,843	(879,447)	(325,467)	83,758,421

Accumulated Amortization	Balance at December 31, 2017	Disposals	Amortization	Balance at December 31, 2018
Land	\$ 1,703,842	-	1,005,286	2,709,128
Buildings	6,430,428	-	-	6,430,428
Roads and bridges	7,971,825	(300,674)	-	7,671,151
Automotive equipment	1,063,657	(238,023)	-	825,634
Furniture and equipment	8,026,962	(72,069)	3,943	7,958,836
Water and sewer	5,617,391	(110,685)	859,739	6,366,445
Assets under construction	-	-	-	-
Total	\$ 30,814,105	(721,451)	1,868,968	31,961,622

	Net book value, December 31, 2017	Net book value, December 31, 2018
Land	\$ 3,294,814	2,289,528
Buildings	10,036,945	10,036,945
Roads and bridges	9,952,498	12,010,558
Automotive equipment	903,000	944,841
Furniture and equipment	3,765,480	4,135,137
Water and sewer	19,566,452	21,133,917
Assets under construction	470,198	1,245,873
Total	\$ 47,989,387	51,796,799

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Financial Statements

Year ended December 31, 2018

8. Tangible capital assets (continued):

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	17,924,323	-	-	-	17,924,323
Automotive equipment	1,796,755	188,256	(18,354)	-	1,966,657
Furniture and equipment	11,443,239	424,676	(75,473)	-	11,792,442
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	7,480,628	-	491,197	7,971,825
Automotive equipment	972,253	(18,354)	109,758	1,063,657
Furniture and equipment	7,592,464	(75,473)	509,971	8,026,962
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	10,443,695	9,952,498
Automotive equipment	824,502	903,000
Furniture and equipment	3,850,775	3,765,480
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 Consolidated financial statements

Year ended December 31, 2018

9. Accumulated surplus:

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

	2018	2017
Equity in tangible capital assets	\$ 46,375,550	\$ 42,371,982
Reserves (Schedule 1)	4,508,031	6,646,270
Government business enterprise	4,001,219	3,766,562
	<u>\$ 54,884,800</u>	<u>\$ 52,784,814</u>

10. 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.

11. Trust funds:

Trust funds administered by the Town amounting to \$267,140 (2017 - \$253,974) 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.

12. 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 2018 was \$463,108 (2017 - \$478,016) for current service and is included as an expense on the consolidated statement of operations and accumulated surplus.

At December 31, 2018, the OMERS pension plan had total assets of \$111.9 billion (2017 - \$105.7 billion) and an accumulated deficit of \$2.8 billion (2017 – surplus of \$605 million).

13. 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, 2018

13. 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.
- e) In 2018 an ongoing contract for policing services was undertaken with the Ontario Provincial Police.

14. 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	\$ 17,167,486
Capital	9,441,690
Less:	
Transfers from other funds	(4,987,343)
Total revenue	21,621,833
Expenses:	
Operating	16,266,541
Capital	9,441,690
Amortization	900,945
Less:	
Transfers to other funds	245,500
Capital expenditures	9,274,690
Total expenses	17,088,986
Budget surplus	\$ 4,532,847

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2018

15. 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.

16. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year's earnings.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2018

17. 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, 2018

17. 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.

(g) 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 17 - Segmented Information

Year ended December 31, 2018

	General Government	Protection Services	Transportation Services	Environmental Services	Health and Social Services	Recreation and Cultural Services	Planning and Development	2018 Total
Revenue:								
Grants	\$ 2,780,181	160,196	2,120,302	2,146,715	-	71,597	25,000	\$ 7,303,991
User charges	127,883	1,018,941	19,289	2,828,705	26,108	433,419	15,201	4,469,548
Other	360,139	454,992	1,893	350	-	3,262	-	820,638
Gain on disposal	-	12,989	-	-	-	-	-	12,989
	3,268,203	1,647,118	2,141,484	4,975,770	26,108	508,278	40,201	12,607,162
Expenses:								
Salaries, wages and benefits	919,405	4,258,247	1,341,647	291,327	35,347	1,178,942	21,636	8,044,551
Purchase of goods and materials	60,920	420,978	676,972	458,541	5,179	405,858	-	2,026,448
Contracts and services	507,711	1,477,936	204,064	1,497,486	391	225,957	89,639	4,003,184
Amortization of tangible capital assets	18,630	75,538	635,780	859,740	2,898	272,439	3,943	1,868,968
Rents, financial expenses and other	10,798	259,914	-	114,403	-	15,501	-	400,616
Interest on long-term debt	-	-	-	199,399	-	-	-	199,399
Other transfers	2,871	152,694	-	-	1,377,191	2,750	-	1,535,506
Loss on disposal	-	36,036	20,867	76,270	-	-	-	133,173
	1,520,335	6,679,343	2,879,330	3,495,166	1,421,006	2,101,447	115,218	18,211,845
Excess (deficiency) of revenue over expenses	1,747,868	(5,032,225)	(737,846)	1,480,604	(1,394,898)	(1,593,169)	(75,017)	(5,604,683)
Funded through:								
Taxation								7,651,421
Annual surplus before investment in government business enterprises							\$	2,046,738

THE CORPORATION OF THE TOWN OF ESPANOLA

Note 17 - Segmented Information (continued)

Year ended December 31, 2018

	General Government	Protection Services	Transportation Services	Environmental Services	Health and Social Services	Recreation and Cultural Services	Planning and Development	2017 Total
Revenue:								
Grants	\$ 2,845,680	190,656	27,636	168,198	-	54,422	-	\$ 3,286,592
User charges	115,295	1,082,979	22,103	2,793,981	23,266	468,914	10,801	4,517,339
Other	246,741	108,618	175	-	-	3,852	-	359,386
Gain on disposal	-	-	22,425	-	-	-	-	22,425
	3,207,716	1,382,253	72,339	2,962,179	23,266	527,188	10,801	8,185,742
Expenses:								
Salaries, wages and benefits	898,523	2,984,529	1,385,389	294,381	34,591	1,202,690	18,765	6,818,868
Purchase of goods and materials	39,374	117,182	619,928	474,579	7,038	407,955	-	1,666,056
Contracts and services	492,389	448,023	269,453	1,338,891	989	334,052	57,713	2,941,510
Amortization of tangible capital assets	9,112	106,549	629,807	828,740	3,354	274,076	3,943	1,855,581
Rents, financial expenses and other	10,264	273,387	-	117,872	-	13,932	-	415,455
Interest on long-term debt	-	-	-	205,703	-	-	-	205,703
Other transfers	2,544	213,534	-	-	1,300,552	7,500	-	1,524,130
Loss on disposal	-	-	-	-	-	-	7,687	7,687
	1,452,206	4,143,204	2,904,577	3,260,166	1,346,524	2,240,205	88,108	15,434,990
Excess (deficiency) of revenue over expenses	1,755,510	(2,760,951)	(2,832,238)	(297,987)	(1,323,258)	(1,713,017)	(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

Schedule of Continuity Reserve

Year ended December 31, 2018

			Appropriations to:		
	Balance, beginning of Year	Appropriations from: Net assets from Operations	Net assets from Operation	Net assets invested in Tangible Capital Assets	Balance, end of Year
Reserves:					
Discretionary reserves:					
Tax rate stabilization	\$ 2,409,008	508,667	(2,326,233)	-	591,442
Operating stabilization:					
Elections	29,819	-	(27,367)	-	2,452
Household hazardous waste	14,754	-	-	-	14,754
Winter maintenance	42,133	-	-	-	42,133
Environmental	52,969	-	-	-	52,969
Planning and zoning	32,674	-	-	-	32,674
Revitalization plan	27,472	5,979	-	-	33,451
Building Services	-	224,163	-	-	224,163
Uninsured claims	19,699	-	-	-	19,699
Policing Options	21,693	-	(21,693)	-	-
Asset management	10,000	-	(10,000)	-	-
Capital stabilization:					
Buildings	590,801	411,997	-	(846,869)	155,929
Vehicles and equipment	865,087	161,443	(8,986)	(8,500)	1,009,044
Roads	674,755	-	-	(84,874)	589,881
Water and sewer	1,731,424	416,389	(5,424)	(533,002)	1,609,387
Trails	33,403	-	-	-	33,403
Emergency measures	35,759	6,071	-	-	41,830
Mandatory reserves:					
Pay equity	47,182	-	-	-	47,182
Parklands	7,638	-	-	-	7,638
	\$ 6,646,270	1,734,709	(2,399,703)	(1,473,245)	4,508,031