

Consolidated Financial Statements

**THE CORPORATION OF THE
TOWN OF ESPANOLA**

And Independent Auditors' Report thereon

Year ended December 31, 2019

THE CORPORATION OF THE TOWN OF ESPANOLA

Consolidated Financial Statements

Year ended December 31, 2019

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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, Residents and Ratepayers of the Corporation of the Town of Espanola

Opinion

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

- the consolidated statement of financial position as at December 31, 2019
- 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 and schedule 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 Entity as at December 31, 2019, 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 responsibility under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.



Responsibility 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 Entity'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 Entity or to cease operations or has no realistic alternative but to do so.

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

Auditor's Responsibilities 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 auditor's 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 risk 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, internal 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 purposes of expressing an opinion on the effectiveness of the Entity'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 the events or conditions that may cast significant doubt on the Entity'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 Entity's 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 represent 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 or business activities 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

June 2, 2020

THE CORPORATION OF THE TOWN OF ESPANOLA

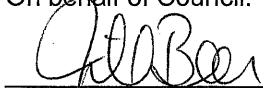
Consolidated Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Financial assets		
Cash	\$ 12,261,370	\$ 6,962,556
Taxes receivable (note 2)	567,435	764,985
User charges receivable	504,189	501,904
Grants receivable	926,027	685,306
Accounts receivable	245,911	534,772
Investment in government business enterprises (note 3)	-	4,001,219
	<u>14,504,932</u>	<u>13,450,742</u>
Financial liabilities		
Accounts payable and accrued liabilities	1,689,705	3,765,021
Long-term debt (note 4)	5,217,989	5,421,249
Deferred revenue	281,527	57,846
Deferred revenue - obligatory reserve funds (note 5)	1,516,057	1,123,181
Employee post-employment benefits (note 6)	432,385	448,393
	<u>9,137,663</u>	<u>10,815,690</u>
Net financial assets	5,367,269	2,635,052
Non-financial assets		
Tangible capital assets (note 8)	53,484,798	51,796,799
Prepaid expenses and inventory	60,032	170,703
Land held for resale	257,246	282,246
	<u>53,802,076</u>	<u>52,249,748</u>
Contingent liabilities (note 10)		
Subsequent event (note 17)		
Accumulated surplus (note 9)	\$ 59,169,345	\$ 54,884,800

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, 2019, with comparative information for 2018

	Budget (note 14)	2019	2018
Revenues:			
Taxation:			
Residential and farm	\$ 5,691,045	\$ 5,733,740	\$ 5,686,932
Commercial, industrial and business	2,946,149	3,037,567	2,967,093
Other governments and agencies	60,778	60,778	109,213
	8,697,972	8,832,085	8,763,238
Deduct:			
Amounts raised on behalf of the school boards	1,065,737	1,074,716	1,111,817
	7,632,235	7,757,369	7,651,421
Grants and contribution:			
Government of Canada	756,300	375,158	419,035
Province of Ontario	7,102,908	3,940,313	6,881,383
Other municipalities	3,600	3,573	3,573
	7,862,808	4,319,044	7,303,991
User charges:			
Sewer and water charges	2,817,400	3,008,750	2,763,612
Fees, service charges and donations	1,628,992	1,436,074	1,706,159
	4,446,392	4,444,824	4,469,771
Other:			
Licenses and permits	149,700	100,983	455,939
Investment income	179,000	219,199	220,961
Penalties and interest charges	110,000	103,118	124,663
Other	13,715	15,879	31,837
	452,415	439,179	833,400
Total revenues	20,393,850	16,960,416	20,258,583
Expenses:			
General government	1,613,960	1,451,825	1,520,335
Protection services	4,034,622	3,481,434	6,679,343
Transportation services	2,187,685	3,130,404	2,879,330
Environmental services	3,758,075	3,262,364	3,495,166
Health services	960,100	955,783	964,830
Social and family services	494,330	492,854	456,176
Recreational and cultural services	2,269,643	2,161,140	2,101,447
Planning and development	217,925	148,586	115,218
Total expenses	15,536,340	15,084,390	18,211,845
Annual surplus before undernoted items	4,857,510	1,876,026	2,046,738
Income from investment in government business enterprise	-	(98,396)	53,248
Gain on sale of investment in government business enterprise	-	2,506,915	-
Annual surplus	4,857,510	4,284,545	2,099,986
Accumulated surplus, beginning of year	54,884,800	54,884,800	52,784,814
Accumulated surplus, end of year	\$ 59,742,310	\$ 59,169,345	\$ 54,884,800

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, 2019, with comparative information for 2018

	2019	2018
Annual surplus	\$ 4,284,545	\$ 2,099,986
Acquisition of tangible capital assets	(3,603,880)	(5,834,376)
Amortization of tangible capital assets	1,889,110	1,868,968
Loss on sale of tangible capital assets	21,770	120,184
Loss on sale of land held for resale	7,695	-
Proceeds on sale of tangible capital assets	5,001	37,812
Proceeds on sale of land held for resale	17,305	-
Acquisition of land held for resale	-	(171,000)
Change in prepaid expenses and inventory	110,671	(93,760)
Change in net financial assets	2,732,217	(1,972,186)
Net financial assets, beginning of year	2,635,052	4,607,238
Net financial assets, end of year	\$ 5,367,269	\$ 2,635,052

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, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 4,284,545	\$ 2,099,986
Items not involving cash:		
Amortization of tangible capital assets	1,889,110	1,868,968
Loss on sale of tangible capital assets and land held for resale	29,465	120,184
Gain on sale of investment in government business enterprise	(2,506,915)	-
	3,696,205	4,089,138
Change in non-cash assets and liabilities:		
Decrease (increase) in accounts receivable	288,861	(112,892)
Decrease (increase) in taxes receivable	197,550	(138,181)
Decrease (increase) in user charges receivable	(2,285)	28,471
Increase in grants receivable	(240,721)	(408,594)
Increase (decrease) in accounts payable and accrued liabilities	(2,075,316)	2,226,128
Increase (decrease) in deferred revenue	223,681	(104,006)
Increase in deferred revenue - obligatory reserve funds	392,876	61,811
Decrease (increase) in prepaid expenses and inventory	110,671	(93,760)
Net change in cash from operating activities	2,591,522	5,548,115
Capital activities:		
Cash used to acquire tangible capital assets	(3,603,880)	(5,834,376)
Cash used to acquire land held for resale	-	(171,000)
Proceeds on sale of tangible capital assets and land held for resale	22,306	37,812
Net change in cash from capital activities	(3,581,574)	(5,967,564)
Investing activities:		
Proceeds on sale of investment in government business enterprise	6,471,519	-
Investment in government business enterprise	36,615	(234,657)
Net change in cash from investing activities	6,508,134	(234,657)
Financing activities:		
Repayment of long-term debt	(203,260)	(196,156)
Employee post-employment benefits	(16,008)	(168,524)
Net change in cash from financing activities	(219,268)	(364,680)
Net change in cash	5,298,814	(1,018,786)
Cash, beginning of year	6,962,556	7,981,342
Cash, end of year	\$ 12,261,370	\$ 6,962,556

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, 2019

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
Espanola Public Library Board
Espanola Economic Development Corporation

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, 2019

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 (11.9 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, 2019

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 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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

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:

	2019	2018
Taxes receivable	\$ 542,058	\$ 710,380
Interest receivable on outstanding tax balances	45,701	63,290
Allowance for doubtful accounts	(20,324)	(8,685)
	<u>\$ 567,435</u>	<u>\$ 764,985</u>

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

3. Investment in government business enterprise:

On October 1, 2019 the Town sold its 81% investment in the Espanola Regional Hydro Holdings Corporation and its subsidiary companies, previously accounted for on a modified equity basis, for \$6,471,519.

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

	2019	2018
Balance, beginning of year	\$ 4,001,219	\$ 3,766,562
Share of current year net earnings	(98,396)	53,248
Carrying costs associated with investment	61,781	181,409
Proceeds on sale of investment	(6,471,519)	—
Gain on sale of investment	2,506,915	—
Balance, end of year	\$ —	\$ 4,001,219

4. Long-term debt:

	2019	2018
Ontario Infrastructure Projects Corporation (OIPC) debenture, repayable in semi-annual payments of \$198,038 including interest at 3.59% per annum, maturing December 2037	\$ 5,217,989	\$ 5,421,249

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

2020	\$ 210,623
2021	218,252
2022	226,158
2023	234,350
2024	242,839
Thereafter	4,085,767
	\$ 5,217,989

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

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:

	2019	2018
Deferred revenue, beginning of year	\$ 1,123,181	\$ 1,061,370
Contributions received during the year	694,983	341,697
Interest earned on obligatory reserve funds	24,193	20,871
Amounts recognized as revenue during the year	(326,300)	(300,757)
Deferred revenue, end of year	\$ 1,516,057	\$ 1,123,181

	2019	2018
Deferred revenue – obligatory reserve consists of the following:		
Federal gas tax revenue	\$ 1,471,896	\$ 1,120,217
Dedicated gas tax revenue for public transportation	44,161	2,964
	\$ 1,516,057	\$ 1,123,181

6. 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 \$432,385 (2018 – \$448,393) reflects an obligation of \$364,503 plus an unamortized actuarial gain of \$67,882 and the expense for the period ended December 31, 2019 was determined using a discount rate of 3.7% (2018 – 3.7%).

The fair value of accrued benefit obligations were determined by independent actuaries as at December 31, 2019.

Information about Town's benefit plan is as follows:

	2019	2018
Accrued benefit obligation at December 31	\$ 448,393	616,917
Expense for the period	21,963	(130,561)
Less: benefits paid for the period	(37,971)	(37,963)
Accrued benefit obligation at December 31	\$ 432,385	448,393

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

6. Post-employment benefits:

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	6% 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, 2019

8. Tangible capital assets:

Cost	Balance at December 31, 2018	Additions	Disposals	Transfers in (out)	Balance at December 31, 2019
Land	\$ 4,998,656	85,478	-	-	5,084,134
Buildings	16,467,373	1,154,604	(84,484)	354,628	17,892,121
Roads and bridges	19,861,603	756,307	-	-	20,617,910
Automotive equipment	1,797,864	794,410	-	-	2,592,274
Furniture and equipment	12,013,634	637,442	(242,088)	483,189	12,892,177
Water and sewer	27,373,418	57,368	-	-	27,430,786
Assets under construction	1,245,872	118,271	-	(837,817)	526,326
Total	\$ 83,758,420	3,603,880	(326,572)	-	87,035,728

Accumulated Amortization	Balance at December 31, 2018	Disposals	Amortization	Balance at December 31, 2019
Land	\$ 1,787,995	-	84,391	1,872,386
Buildings	6,757,492	(82,651)	347,217	7,022,058
Roads and bridges	8,087,773	-	544,378	8,632,151
Automotive equipment	945,994	-	97,139	1,043,133
Furniture and equipment	8,505,285	(217,150)	434,138	8,722,273
Water and sewer	5,877,082	-	381,847	6,258,929
Assets under construction	-	-	-	-
Total	\$ 31,961,621	(299,801)	1,889,110	33,550,930

	Net book value, December 31, 2018	Net book value, December 31, 2019
Land	\$ 3,210,661	3,211,748
Buildings	9,709,881	10,870,063
Roads and bridges	11,773,830	11,985,759
Automotive equipment	851,870	1,549,141
Furniture and equipment	3,508,349	4,169,904
Water and sewer	21,496,336	21,171,857
Assets under construction	1,245,872	526,326
Total	\$ 51,796,799	53,484,798

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Financial Statements

Year ended December 31, 2019

8. Tangible capital assets (continued):

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	17,924,326	1,993,706	(381,896)	325,467	19,861,603
Automotive equipment	1,966,657	101,808	(270,601)	-	1,797,864
Furniture and equipment	11,792,442	261,190	(39,998)	-	12,013,634
Water and sewer	25,183,843	2,376,529	(186,954)	-	27,373,418
Assets under construction	470,198	1,101,141	-	(325,467)	1,245,872
Total	\$ 78,803,495	5,834,374	(879,449)	-	83,758,420

Accumulated Amortization	Balance at December 31, 2017	Disposals	Amortization	Balance at December 31, 2018
Land	\$ 1,703,842	-	84,153	1,787,995
Buildings	6,430,428	-	327,064	6,757,492
Roads and bridges	7,971,825	(372,743)	488,691	8,087,773
Automotive equipment	1,063,657	(216,025)	98,362	945,994
Furniture and equipment	8,026,962	(21,999)	500,322	8,505,285
Water and sewer	5,617,391	(110,685)	370,376	5,877,082
Assets under construction	-	-	-	-
Total	\$ 30,814,105	(721,452)	1,868,968	31,961,621

	Net book value, December 31, 2017	Net book value, December 31, 2018
Land	\$ 3,294,814	3,210,661
Buildings	10,036,945	9,709,881
Roads and bridges	9,952,501	11,773,830
Automotive equipment	903,000	851,870
Furniture and equipment	3,765,480	3,508,349
Water and sewer	19,566,452	21,496,336
Assets under construction	470,198	1,245,872
Total	\$ 47,989,390	51,796,799

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

9. Accumulated surplus:

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

	2019	2018
Equity in tangible capital assets	\$ 48,266,809	\$ 46,375,550
Reserves (Schedule 1)	10,902,536	4,508,031
Government business enterprise	—	4,001,219
	\$ 59,169,345	\$ 54,884,800

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 \$271,034 (2018 - \$267,140) 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 2019 was \$327,383 (2018 - \$463,108) for current service and is included as an expense on the consolidated statement of operations and accumulated surplus.

At December 31, 2019, the OMERS pension plan had total assets of \$122.5 billion (2018 - \$111.9 billion) and an accumulated surplus of \$1.5 billion (2018 - \$2.8 billion deficit).

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, 2019

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 ten year period which ended April 30, 2019, at an annual cost of \$73,425 plus 1% adjustment per annum. The Town is currently in negotiations to renew this contract.
- 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.

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	\$16,228,740
Capital	7,777,965
Less:	
Transfers from other funds	(3,612,855)
Total revenue	20,393,850
Expenses:	
Operating	15,111,320
Capital	7,777,965
Amortization	1,117,420
Less:	
Transfers to other funds	692,400
Capital expenditures	7,777,965
Total expenses	15,536,340
Budget surplus	\$ 4,857,510

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

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 the prior year surplus.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

17. Subsequent events:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Town is not known at this time.

18. 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 Town'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.

THE CORPORATION OF THE TOWN OF ESPANOLA

Notes to Consolidated financial statements

Year ended December 31, 2019

18. Segmented information (continued):

(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.

(e) Health and Social Services:

This section consists of assistance to aged persons, cemetery services as well as the Town's contribution to the Public Health Sudbury and Districts 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 18 - Segmented Information

Year ended December 31, 2019

	General Government	Protection Services	Transportation Services	Environmental Services	Health and Social Services	Recreation and Cultural Services	Planning and Development	2019 Total
Revenue:								
Grants	\$ 3,379,981	54,230	417,929	392,184	-	74,720	\$	4,319,044
User charges	132,007	743,439	23,250	3,080,837	20,956	429,069	15,266	4,444,824
Other	333,000	100,272	-	-	-	907	-	434,179
Gain on disposal	-	5,000	-	-	-	-	-	5,000
	3,844,988	902,941	441,179	3,473,021	20,956	504,696	15,266	9,203,047
Expenses:								
Salaries, wages and benefits	978,064	780,908	1,466,367	240,646	34,894	1,237,224	23,893	4,761,996
Purchase of goods and materials	39,448	90,037	707,017	398,549	5,128	417,501	45	1,657,725
Contracts and services	410,359	2,253,072	271,012	1,419,618	642	264,914	107,333	4,726,950
Amortization of tangible capital assets	10,073	97,019	686,008	874,321	3,188	214,058	4,443	1,889,110
Rents, financial expenses and other	10,654	219,813	-	112,015	-	24,693	5,177	372,352
Interest on long-term debt	-	-	-	192,275	-	-	-	192,275
Other transfers	3,227	38,755	-	-	1,404,785	2,750	-	1,449,517
Loss on disposal	-	1,830	-	24,940	-	-	7,695	34,465
	1,451,825	3,481,434	3,130,404	3,262,364	1,448,637	2,161,140	148,586	15,084,390
Excess (deficiency) of revenue over expenses	2,393,163	(2,578,493)	(2,689,225)	210,657	(1,427,681)	(1,656,444)	(133,320)	(5,881,343)
Funded through:								
Taxation								7,757,369
Annual surplus before investment in government business enterprises							\$	1,876,026

THE CORPORATION OF THE TOWN OF ESPANOLA

Note 18 - Segmented Information

Year ended December 31, 2019

	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	19,514	2,828,705	26,108	433,419	15,201	4,469,771
Other	360,139	454,992	1,668	350	-	3,262	-	820,411
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	4,256,248	1,341,647	291,327	35,347	1,178,942	21,636	8,044,552
Purchase of goods and materials	60,920	420,977	676,971	456,541	5,179	405,858	-	2,026,446
Contracts and services	507,712	1,464,952	204,064	1,497,487	391	224,294	89,639	3,988,539
Amortization of tangible capital assets	18,630	75,538	635,780	859,739	2,898	272,439	3,943	1,868,967
Rents, financial expenses and other	10,797	272,898	-	114,403	-	17,164	-	415,262
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	20,868	76,270	-	-	-	133,174
	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

Schedule of Continuity Reserve

Year ended December 31, 2019

			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	\$ 591,442	278,044	-	-	869,486
Operating stabilization:					
Elections	2,452	10,000	-	-	12,452
Household hazardous waste	14,754	-	-	-	14,754
Winter maintenance	42,133	30,000	-	-	72,133
Environmental	52,969	-	-	-	52,969
Planning and zoning	32,674	-	-	-	32,674
Revitalization plan	33,451	-	-	-	33,451
Building Services	224,163	-	(56,000)	-	168,163
Uninsured claims	19,699	-	-	-	19,699
Cannabis Implementation	-	18,819	-	-	18,819
Municipal Modernization	-	637,400	(10,125)	-	627,275
Capital stabilization:					
Utility proceeds	-	6,409,738	-	-	6,409,738
Buildings	197,966	317,150	(7,982)	(1,398,000)	(890,866)
Vehicles and equipment	1,009,044	54,645	(33,800)	(702,810)	327,079
Roads	589,881	-	-	(50,716)	539,165
Water and sewer	1,609,387	987,847	-	(92,870)	2,504,364
Trails	33,403	-	-	-	33,403
Emergency measures	41,830	3,165	-	-	44,995
Mandatory reserves:					
Parklands	12,783	-	-	-	12,783
	\$ 4,508,031	8,746,808	(107,907)	(2,244,396)	10,902,536