



# **Corporation of the Township of Matachewan**

## **Audit Findings Report For the year ended December 31, 2016**

**DATE: June 23, 2017**

# ***Audit Findings Report***

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***CORPORATION OF THE TOWNSHIP OF  
MATACHEWAN***

***FOR THE YEAR ENDED DECEMBER 31, 2016***

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**June 23, 2017**



**Ross Pope LLP**  
*Chartered Professional Accountants*



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**June 23, 2017**

**Corporation of the Township of Matachewan**  
**P.O. Box 177**  
**1 Moyneur Avenue**  
**Matachewan, Ontario**  
**P0K 1M0**

**Attention: Council Members**

Dear Sir / Madam:

We have been engaged to audit the financial statements of Corporation of the Township of Matachewan for the year ending December 31, 2016. Canadian generally accepted auditing standards for audit engagements require that we communicate the following information with you in relation to our audit.

**Evaluation of Internal Controls**

Management is responsible for the design and operation of an effective system of internal control that provides reasonable assurance that the accounting system provides timely, accurate and reliable financial information, and safeguards the assets of the entity.

Through our role as auditors of your financial statements, we possess an understanding of the entity and its environment, including internal control. However, a financial statement audit is not designed to provide assurance on internal control. Professional standards do require us to communicate to Council significant deficiencies and material weaknesses in internal control that have come to our attention in the course of performing the audit.

During the course of our audit, we encountered specific matters that are detailed below:

- We noted that the bank reconciliations had not been done monthly or on a timely basis. They were all done at the end of the year and the transactions that were not done by cheque were not recorded until that time. This is a very basic and important internal control that is needed to ensure that all cash transactions get properly reflected in the municipality's records. The bank is only required to correct errors that you bring to their attention within 30 days of receiving the bank statement. This needs to be done quickly at the end of each month.
- There were certain PIL's related to Hydro paid to you twice during 2014. To correct the taxes receivable sub-ledger which had been out of balance for years, it was necessary to write-off this receivable in the amount of \$29,292. Currently, the financial statements do not record any revenue for this Hydro PIL for 2016. Consequently, we have made an unadjusted entry for this amount and we are still well within the limits of materiality.
- We are also required to mention that management does have the ability to override internal controls. This is common in many smaller organizations and we would mention that we have never seen any evidence of this in during our audits. It is very important that Council closely review various financial reports to ensure the relevant internal controls are operating and effective.
- The Municipality has been withholding certain school board taxes until such time as the taxes are paid to the Municipality by the ratepayer. These amounts are to be sent to the school boards once the taxes are levied. You will not receive any relief for the school board portion of unpaid taxes unless the taxes are written off.

- In a previous year, Council approved a partnership agreement with Énergie Kapuskasing Energy Inc. which resulted in the incorporation of Energie Matachewan Energy Inc.. This corporation is owned 50.1% by the Township of Matachewan and 49.9% by Énergie Kapuskasing Energy Inc. As there was little activity related to the corporation for the year ended December 31, 2016, there was no need to consolidate any transactions in the consolidated financial statements for the year ended December 31, 2016. Once activity commences, it will be necessary to determine reporting requirements with respect to the Municipality's annual consolidated financial statements.
- We were approached by a ratepayer who represented to us that there was some type of fraud taking place at the landfill. We had already had a concern in this respect due to the fact that the revenue from tipping fees had decreased significantly during 2016. Historically, tipping fees were between \$80K and \$100K per year but only \$15,140 of revenue recorded in 2016. A new revenue stream related to recycling was \$3,220 in 2016. If you would like us to investigate this matter further, it would be a separate engagement. Tom Gannon is also a Certified Fraud Examiner and is available to undertake this engagement if you feel it is necessary.
- When we attended to do the field work in June of 2017, you had just submitted your claim for HST for 2016. This would generate cash flow in the amount of \$125,000. This should be submitted as soon as possible each year. Some smaller municipalities file twice a year to facilitate their cash flow.

### **Significant Accounting Principles**

Management is responsible for the appropriate selection and application of accounting policies. Our role is to review the appropriateness and application as part of our audit. The accounting policies used by Corporation of the Township of Matachewan are described in Note 2, Summary of Significant Accounting policies, in the financial statements.

There were no new accounting policies adopted or changes to the application of accounting policies of Corporation of the Township of Matachewan during the year.

The accounting policies used to prepare the consolidated financial statements of the Municipal Corporation of the Township of Matachewan ("the Town") are summarized in Note 2 to the consolidated financial statements.

In 2015, Public Sector Accounting Standard PS 3260 "Liability for contaminated sites" was introduced. This standard did not change the way you are accounting for the liability related to the Landfill Site. We have reviewed the new standard with the CAO - Clerk Treasurer and we do not feel that there are any contaminated sites that you would be required to record the liability for remediation at this time.

The Public Sector Accounting Board recently issued an exposure draft related to Asset Retirement Obligations. It addresses the obligations associated with the retirement of tangible capital assets. We will monitor the progress of this proposed standard and will assist you in adopting the standard when it is issued.

### **Significant Unusual Transactions**

We are not aware of any significant or unusual transactions entered into by Corporation of the Township of Matachewan that you should be informed about.

The Township has formed a Corporation by the name of Energie Matachewan Energy Inc. on November 5, 2013. The Township owns 501 common shares being 50.1% of the total common shares issued. Due to the fact that you control this corporation, you will need to consolidate the financial statements into the Municipal accounts once the company becomes active. You will note additional disclosure in the financial statements this year related to this subsidiary.

## Accounting Estimates

Management is responsible for the accounting estimates included in financial statements. Estimates and the related judgments and assumptions are based on management's knowledge of the business and past experience about current and future events.

Our responsibility as auditors is to obtain sufficient appropriate evidence to provide reasonable assurance that management's accounting estimates are reasonable within the context of the financial statements as a whole. An audit includes performing appropriate procedures to verify the:

- Calculation of accounting estimates;
- Analyzing of key factors such as underlying management assumptions;
- Materiality of estimates individually and in the aggregate in relation to the financial statements as a whole;
- Estimate's sensitivity to variation and deviation from historical patterns;
- Estimate's consistency with the entity's business plans; and
- Other audit evidence.

Certain accounting estimates are particularly sensitive because they involve a significant degree of judgment and may have a range of possible outcomes. The most sensitive accounting estimates in order of significance are as follows:

- Allowance for Uncollectable Taxes - One of the larger estimates involved in the preparation of the municipal financial statements is the allowance for uncollectable taxes. We agree with the estimate provided by the administration.
- Amounts related to Tangible Capital Assets are now and will continue to be the largest estimates related to your financial statements. Administration has made estimates related to estimated useful lives of assets, capitalization thresholds, cost and year of construction. As well, certain assets were reviewed for their current condition and whether or not write downs are required to deal with impairments in their fair values.
- A Landfill Closure and Post Closure Liability should be calculated by the municipality. This is a complex calculation estimating the costs of closing the landfill in future years and monitoring it for an additional thirty years after closing. The estimated useful life of the landfill was estimated by an engineering firm in 2013. You now need to estimate the costs of closure and post closure and the liability can be calculated. It may turn out to be immaterial. We note that you created a Landfill reserve in the amount of \$100,000.
- Management has also represented to us that there are no material Employee Future Benefit Obligations in the Municipality. As such, we have not required you to engage an Actuary to corroborate this representation as it is common in most small Municipalities. You did revise the employee policy to provide for a wage loss replacement plan.
- There is a lot of judgment relating to whether or not a contingent liability should be recorded and if so, at what amount. One of your local commercial rate payers has appealed their assessment to the Assessment Review Board ("ARB"). The decision by the ARB will affect five fiscal periods and could have a material impact on the municipalities financial position. The OPTA "Assessment at Risk Report" has the amount at risk quantified at \$7.8M. The amount will settle for much less than this. Your accounting policy in this respect, is to record the outcome once it becomes quantifiable, which should be in 2017.
- Another contingent liability is the ongoing litigation with a developer. We have corresponded with your lawyer in previous years regarding this matter. Administration has advised us that it is still ongoing. A contingent liability, if any, cannot be quantified at this time.

### **Disagreements with Management**

We are required to communicate any disagreements with management, whether or not resolved, about matters that are individually or in aggregate significant to the Municipality's financial statements or auditor's report. Disagreements may arise over:

- Selection or application of accounting principles;
- Assumptions and related judgments for accounting estimates;
- Financial statement disclosures;
- Scope of the audit; or
- Wording of the auditor's report.

We are pleased to inform you that we had no disagreements with management during the course of our audit.

### **Consultation with Other Accountants (Second Opinions)**

We are not aware of any consultations that have taken place with other accountants.

### **Issues Discussed**

The auditor generally discusses among other matters, the application of accounting principles and auditing standards, and fees, etc. with management during the initial or recurring appointment of the auditor during the normal course of business. There were no major issues discussed during our audit with regards to our retention that were not in the normal course of business.

### **Difficulties Encountered During the Audit**

We encountered no significant difficulties during our audit that should be brought to the attention of Council.

### **Adjusting Journal Entries**

We evaluated management processes and judgments regarding misstatements. We have suggested significant audit adjustments which are attached as Appendix C.

### **Summary of Unadjusted Differences**

We also report on significant unadjusted misstatements of the financial statements that resulted from the audit, and they are attached as Schedule D. These amounts have been discussed with administration and we agree that they are not material to the financial statements taken as a whole.

### **Independence**

We are required to confirm our independence annually with the Municipality. We reported our independence in October 2016 when we issued the 2016 Audit Work Plan. Accordingly, we hereby confirm that there is no change in status and that we are still independent with respect to the Municipality within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of today's date.

**Fraud and Error**

During the course of our audit, we detected no fraudulent acts or suspected fraudulent acts. Also, we did not detect any illegal acts or possibly illegal acts. If any councilors are aware of any fraud or illegal acts, they should advise us now before you approve the financial statements.

**Status of the Audit**

The following matters are still outstanding. We require the signed management representation letter. Our subsequent events review must be completed up to and including the date of our audit opinion which will be the date that Council approves the financial statements. We have already performed an extensive subsequent events review to June 26, 2017 and have found nothing to be reported in the audited financial statements. If Council is aware of any subsequent events that impact the Municipality's 2016 financial statements, please advise us immediately prior to the finalization of the financial statements. We also require Council approval of the draft financial statements.

We still need to prepare review the Ministry's Financial Information Return for 2016. This cannot be started until the financial statement is approved. We understand that Ann Kmyta will prepare this document for 2016. We will complete the Auditor's Questionnaire to accompany the FIR.

**Disclaimer**

This communication is prepared solely for the information of the finance committee and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Yours truly,

*Ross Pope LLP*

Thomas P. Gannon, CPA, CA, CFE

**ROSS POPE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**  
**Licensed Public Accountants**

**Acknowledgement of Council Members:**

We have read and reviewed the above disclosures and understand and agree with the comments therein:

\_\_\_\_\_  
Mrs. Cheryl Drummond, Reeve  
\_\_\_\_\_  
June 26, 2017  
Date signed

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**CORPORATION OF THE TOWNSHIP OF  
MATACHEWAN**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2016 & 2015**

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# **CORPORATION OF THE TOWNSHIP OF MATACHEWAN**

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**YEARS ENDED DECEMBER 31, 2016 & 2015**

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## INDEPENDENT AUDITOR'S REPORT

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To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Township of Matachewan:

We have audited the accompanying consolidated financial statements of the Corporation of the Township of Matachewan, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the Township of Matachewan as at December 31, 2016 and the results of its operations, change in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Ross Pope LLP*

Kirkland Lake, Ontario  
June 26, 2017

**ROSS POPE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**  
**Licensed Public Accountants**

**CORPORATION OF THE TOWNSHIP OF MATACHEWAN**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31**

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| <b>FINANCIAL ASSETS</b>                       |                     |                     |
| Cash  | \$ 1,919,912        | \$ 807,545          |
| Taxes receivable                              | 540,940             | 1,349,496           |
| Accounts receivable                           | 223,907             | 733,034             |
| <b>TOTAL FINANCIAL ASSETS</b>                 | <b>\$ 2,684,759</b> | <b>\$ 2,890,075</b> |
| <b>FINANCIAL LIABILITIES</b>                  |                     |                     |
| Accounts payable and accrued liabilities      | \$ 388,767          | \$ 1,081,290        |
| Deferred revenue                              | 47,306              | 47,306              |
| <b>TOTAL FINANCIAL LIABILITIES</b>            | <b>436,073</b>      | <b>1,128,596</b>    |
| <b>NET FINANCIAL ASSETS</b>                   | <b>2,248,686</b>    | <b>1,761,479</b>    |
| <b>NON-FINANCIAL ASSETS</b>                   |                     |                     |
| Tangible capital assets (Note 2) (Schedule 1) | 7,748,612           | 7,131,420           |
| <b>TOTAL NON-FINANCIAL ASSETS</b>             | <b>7,748,612</b>    | <b>7,131,420</b>    |
| <b>ACCUMULATED SURPLUS (Note 9)</b>           | <b>\$ 9,997,298</b> | <b>\$ 8,892,899</b> |

COMMITMENTS (Note 7)

Approved by:

  
Reeve

  
CAO Clerk Treasurer

## CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## CONSOLIDATED STATEMENT OF OPERATIONS

YEARS ENDED DECEMBER 31

|  | -----2016-----      |                       | 2015                |
|--|---------------------|-----------------------|---------------------|
|  | Actual              | Budget<br>(unaudited) | Actual              |
| <b>REVENUES</b>                                  |                     |                       |                     |
| <b>OPERATING REVENUES</b>                        |                     |                       |                     |
| Municipal taxation                               | \$ 1,861,475        | \$ 1,521,807          | \$ 1,582,224        |
| Water user fees                                  | 101,038             | 103,544               | 110,853             |
| User charges                                     | 37,352              | 137,996               | 105,952             |
| Rents  | 22,824              | 19,789                | 21,383              |
| Provincial grants                                | 315,262             | 301,100               | 301,100             |
| Federal grants                                   | 122,203             | 2,400                 | 7,400               |
| Other grants                                     | -                   | 146,904               | -                   |
| Investment income                                | 7,702               | -                     | 24,181              |
| Penalties and interest on taxes and water bills  | 30,571              | 9,031                 | 26,373              |
| Provincial Offences Act revenues                 | 14,881              | 4,832                 | 4,498               |
| Donations  | 77,255              | 315                   | 13,850              |
| Other  | 2,201               | 68,994                | 65,232              |
|  | <b>2,592,764</b>    | <b>2,316,712</b>      | <b>2,263,046</b>    |
| <b>CAPITAL REVENUES</b>                          |                     |                       |                     |
| Provincial grants                                | 42,250              | 2,074,000             | 1,853,866           |
| Federal grants                                   | 24,869              | 2,187,900             | 23,686              |
|  | <b>67,119</b>       | <b>4,261,900</b>      | <b>1,877,552</b>    |
| <b>TOTAL REVENUES</b>                            | <b>2,659,883</b>    | <b>6,578,612</b>      | <b>4,140,598</b>    |
| <b>EXPENSES</b>                                  |                     |                       |                     |
| <b>CURRENT OPERATIONS</b>                        |                     |                       |                     |
| General government                               | 577,238             | 469,152               | 386,225             |
| Protection to persons and property               | 154,277             | 120,036               | 151,431             |
| Transportation services                          | 262,924             | 278,252               | 214,465             |
| Environmental services                           | 301,895             | 227,155               | 287,886             |
| Health services                                  | 61,503              | 47,864                | 57,995              |
| Social and family services                       | 20,472              | 21,748                | 21,749              |
| Social housing                                   | 24,629              | 22,441                | 22,441              |
| Recreation and cultural services                 | 122,580             | 66,166                | 81,674              |
| Planning and development                         | 29,966              | 73,728                | 35,557              |
| <b>TOTAL EXPENSES</b>                            | <b>1,555,484</b>    | <b>1,326,542</b>      | <b>1,259,423</b>    |
| <b>ANNUAL SURPLUS</b>                            | <b>1,104,399</b>    | <b>5,252,070</b>      | <b>2,881,175</b>    |
| <b>ACCUMULATED SURPLUS, beginning of year</b>    | <b>8,892,899</b>    | <b>8,892,899</b>      | <b>6,011,724</b>    |
| <b>ACCUMULATED SURPLUS, end of year (Note 9)</b> | <b>\$ 9,997,298</b> | <b>\$ 14,144,969</b>  | <b>\$ 8,892,899</b> |

See accompanying notes.

## CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEARS ENDED DECEMBER 31

|  | -----2016-----      |                       | 2015<br>Actual      |
|--|---------------------|-----------------------|---------------------|
|  | Actual              | Budget<br>(unaudited) |                     |
| <b>ANNUAL SURPLUS</b>                          | \$ 1,104,399        | \$ 5,252,070          | \$ 2,881,175        |
| Acquisition of tangible capital assets         | (866,994)           | -                     | (2,959,985)         |
| Amortization of tangible capital assets        | 247,758             | -                     | 220,293             |
| Loss (Gain) on sale of tangible capital assets | 2,044               | -                     | (9,079)             |
| Proceeds on sale of tangible capital assets    | -                   | -                     | 16,269              |
| <b>CHANGE IN NET FINANCIAL ASSETS</b>          | <b>487,207</b>      | <b>5,252,070</b>      | <b>148,673</b>      |
| NET FINANCIAL ASSETS, beginning of year        | 1,761,479           | 1,761,479             | 1,612,806           |
| <b>NET FINANCIAL ASSETS, end of year</b>       | <b>\$ 2,248,686</b> | <b>\$ 7,013,549</b>   | <b>\$ 1,761,479</b> |

See accompanying notes.

## CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31

|  | 2016                | 2015               |
|--|---------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>                          |                     |                    |
| ANNUAL SURPLUS                                       | \$ 1,104,399        | \$ 2,881,175       |
| ITEMS NOT AFFECTING CASH:                            |                     |                    |
| Amortization of tangible capital assets              | 247,758             | 220,293            |
| USES:  |                     |                    |
| Increase in taxes receivable                         | 808,556             | (946,162)          |
| Increase in accounts receivable                      | -                   | (539,598)          |
| Decrease in accounts payable and accrued liabilities | (692,523)           | -                  |
| Decrease in deferred revenue                         | -                   | (990,000)          |
|  | <b>1,468,190</b>    | <b>625,708</b>     |
| <b>SOURCES:</b>                                      |                     |                    |
| Decrease in accounts receivable                      | 509,127             | -                  |
| Increase in accounts payable and accrued liabilities | -                   | 764,568            |
| Gain on sale of tangible capital assets              | 2,044               | (9,079)            |
|  | <b>511,171</b>      | <b>755,489</b>     |
| <b>CASH PROVIDED BY OPERATING ACTIVITIES</b>         | <b>1,979,361</b>    | <b>1,381,197</b>   |
| <b>CAPITAL ACTIVITIES</b>                            |                     |                    |
| Acquisition of tangible capital assets               | (866,994)           | (2,959,985)        |
| Proceeds on sale of tangible capital assets          | -                   | 16,269             |
| <b>CASH APPLIED TO CAPITAL ACTIVITIES</b>            | <b>(866,994)</b>    | <b>(2,943,716)</b> |
| <b>NET CHANGE IN CASH</b>                            | <b>1,112,367</b>    | <b>(1,562,519)</b> |
| CASH, beginning of year                              | 807,545             | 2,370,064          |
| <b>CASH, end of year</b>                             | <b>\$ 1,919,912</b> | <b>\$ 807,545</b>  |

# **CORPORATION OF THE TOWNSHIP OF MATACHEWAN**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2016 & 2015**

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### **1. NATURE OF OPERATIONS**

The Corporation of the Township of Matachewan is a township situated in Northeastern Ontario. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act 2001, Municipal Affairs Act, Provincial Offences Act and other related legislation.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Township are the representations of management and have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada"). The more significant of the accounting policies are summarized below.

#### **(a) BASIS OF CONSOLIDATION**

##### **(i) Consolidated Entities**

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity and include the activities of all committees of Council, municipal enterprises and utilities which are under the control of the Council and the Township as listed below:

##### **Waterworks System**

All interfund assets and liabilities, revenues and expenses have been eliminated in these consolidated financial statements.

##### **(ii) Non-consolidated Entities**

The following local boards, joint local boards, municipal enterprises and utilities are not consolidated:

##### **Timiskaming Health Unit**

##### **District of Timiskaming Social Services Administration Board**

Separate audited financial statements have been prepared for the above boards. Although these are joint local boards they are run autonomously to provide those services mandated by the Province. The Township has no control over their programs or their financing. These joint local boards are not proportionately consolidated. The yearly requisitions of these boards are expensed by the Township in its consolidated financial statements.

##### **Timiskaming Municipal Building Association Chief Building Officer**

The Timiskaming Municipal Building Association Chief Building Officer is a joint cost sharing arrangement for 20 municipalities. The operations of this board are not proportionately consolidated into these consolidated financial statements as they are not considered to be significant to the statements. Building Permit revenues are transferred to this organization.

##### **(iii) School Boards**

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.

# CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2016 & 2015

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (iv) Trust Funds

Trust funds and their related operations administered by the Township are not included in these consolidated financial statements.

#### (b) BASIS OF ACCOUNTING

Revenues and expenses are reported on the accrual basis of accounting which recognizes revenues as they are earned and measurable and expenses as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

#### (i) Taxes Revenues

The authority to levy and collect property taxes is established under the Municipal Act, 2001, the Assessment Act, the Education Act, and other legislation.

The amount of the total annual property tax levy is determined each year through Council's approval of the annual operating and capital budgets. Municipal tax rates are set annually by Council for each property tax class, in accordance with legislation and Council approved policies, in order to raise the revenues required to meet budget requirements. Education tax rates are established each year by the Province of Ontario in order to fund the costs of education on a Province-wide basis.

Property assessments, on which property taxes are based, are established by the Municipal Property Assessment Corporation ("MPAC"), a not-for-profit corporation funded by all municipalities in Ontario. The current value assessment ("CVA") of a property represents the estimated market value of a property as of a fixed date. Assessed values for all properties within the Township are provided to the Township by way of returned assessment rolls in December of each year.

The amount of property tax levied on an individual property is the product of the CVA of the property and the rate for the class, together with any adjustments that reflect Council approved mitigation or other tax policy measures.

Taxation revenues are recorded at the time tax billings are issued. Additional property tax revenue can be added throughout the year, related to new properties that become occupied or that become subject to property tax, after the return of the annual assessment roll used for billing purposes. Property taxes for these supplementary/omitted amounts are then billed according to the approved tax rates for the property class. Taxation revenues in any year may also be reduced as a result of reductions in assessment values resulting from assessment and/or tax appeals. Each year, an amount is identified within the annual operating budget to cover the estimated amount of revenue loss attributable to assessment appeals, tax appeals or other deficiencies in tax revenues (eg. uncollectible amounts, write-offs). Specific adjustments for additional assessments, tax appeals, etc. are recorded in the fiscal year in which they are determined and can be quantified. Properties vesting to the Township are expensed in the year they vest and are not included in inventory.

In Ontario, annual property tax increases for the properties within the commercial, industrial, and multi-residential tax classes have been subject to limitations since 1998. Legislation and regulations have been in place to restrict the maximum allowable year-over-year increase in order to mitigate dramatic tax increases due to changes in assessed values.

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



# CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2016 & 2015

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (ii) Accounts Receivable and User Charges Receivable

Accounts receivable and user charges receivable are reported net of any allowance for doubtful accounts.

#### (iii) Inventories

Inventories of goods and supplies not held for resale by the Township are not viewed as financial assets and have, therefore, been included as expenses in the period they are acquired in the Consolidated Statement of Operations.

#### (iv) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of an asset. Tangible capital assets received as contributions are recorded at their fair market value at the date of receipt and are recorded as revenue in the year of contribution. Certain tangible capital assets for which historical cost information is not available have been recorded at current fair market values discounted by a relevant inflation factor. Certain assets are disclosed at a nominal value as the determination of current fair market value was not available. The Township does not capitalize interest charges as part of the cost of its tangible capital assets.

The costs, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

#### General capital:

|                                      |                 |
|--------------------------------------|-----------------|
| Land                                 | no amortization |
| Land improvements                    | 25 years        |
| Buildings and leasehold improvements | 50 years        |
| Equipment                            | 10 years        |
| Furniture and fixtures               | 10 years        |
| Vehicles                             | 20 years        |
| Signage                              | 10 years        |

#### Infrastructure:

|                          |               |
|--------------------------|---------------|
| Roads, streets & bridges | 7 to 30 years |
| Underground networks     | 50 years      |

A full year of amortization is charged in the year of acquisition and no amortization is charged in the year of disposal. Assets under construction are not amortized until the asset is put into service.

The Township has no capitalization threshold for land and buildings, a capitalization threshold of \$10,000 for infrastructure systems and \$2,500 for all other assets. Individual assets of lesser value are expensed, unless they are pooled, as, collectively, they have significant value, or for operational purposes.

Certain assets which have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made. Intangibles, Crown lands that have not been purchased by the Township, forests, water, and other natural resources are not recognized as tangible capital assets.

# CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2016 & 2015

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Deferred Revenue

Certain amounts are received pursuant to legislation, regulation, or agreement and may only be used in the conduct of certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed.

(vi) Reserves and Reserve Funds

Certain amounts, as approved by Municipal Council, are set aside in reserves and reserve funds for future current and capital purposes. Transfers to and/or from reserves and reserve funds are an adjustment to the respective fund when approved.

(vii) Government Transfers

Government transfers are transfers from senior levels of government that are not the result of an exchange transaction. Government transfers are recognized in the fiscal year during which events giving rise to the transfer occur, provided the transfers are authorized, eligibility criteria and stipulations have been met and reasonable estimates of the amounts can be made.

(viii) Fees and User Charges

Fees and user charges relate mainly to water charges, fees for use of various programming and fees imposed based on specific activities. Revenue is recognized when the activity is performed or when the services are rendered.

(ix) Use of Estimates and Measurement Uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions on such areas as tangible capital assets' historical costs, estimated useful life and related amortization, allowances for uncollectible taxes and receivables and landfill closure and post closure costs. These estimates and assumptions are based on the Township's best information and judgment and may differ significantly based on actual results.

### 3. OPERATIONS OF SCHOOL BOARDS

During 2016, the Township collected and remitted property taxes on the school boards' behalf as follows:

|   | <b>2016</b>       | <b>2015</b> |
|---|-------------------|-------------|
| Amounts collected on behalf of school boards                  | <b>\$ 420,492</b> | \$ 658,194  |
| Payments remitted   | <b>348,040</b>    | 359,413     |
| Amounts owing to school boards (included in accounts payable) | <b>\$ 72,452</b>  | \$ 298,781  |

# CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2016 & 2015

### 4. CONTRIBUTIONS TO NON-CONSOLIDATED JOINT LOCAL BOARDS

Further to Note 2(a)(ii), contributions were made by the Township to the non-consolidated joint local boards as follows:

|   | 2016      | 2015      |
|---|-----------|-----------|
| Timiskaming Health Unit ("THU")   | \$ 14,305 | \$ 14,513 |
| District of Timiskaming Social Services Administration Board ("DTSSAB") | \$ 74,660 | \$ 74,157 |

The Township is contingently liable for its share of any deficits at the end of the year for these boards. Neither board incurred a deficit in 2016 or 2015.

No long-term liabilities have been issued by other municipalities for these boards.

### 5. TRUST FUNDS

Trust funds administered by the Township amounting to \$23,391 (2015 - \$20,849) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations. The trust funds are reported separately on the Township of Matachewan's Trust Funds Statement of Continuity and Trust Funds Balance Sheet.

### 6. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

Landfill closure and post-closure care requirements are outlined in the Certificate of Approval filed with the Ministry of the Environment and Energy. Closure will involve capping of the site with a compacted impermeable clay layer, a layer of topsoil, the re-introduction of a vegetative cover and the construction of surface drainage controls. Post-closure care will involve routine inspections, cap maintenance, groundwater and weir sampling and analysis. In 2013, a study was done by an engineering firm to determine the life expectancy on the Matachewan landfill. At that time the landfill was estimated to last another 96 years. No liability has been recorded to date but Council has internally restricted \$100,000 of the accumulated surplus for landfill capital and closure costs.

### 7. CONTINGENT LIABILITIES AND COMMITMENTS

#### (a) NON-CONSOLIDATED ENTITIES

The Township is contingently liable for the deficits and long term debt of the non-consolidated entities (See Note 4).

#### (b) ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

All permanent, full-time employees of the Township are eligible to be members of the Ontario Municipal Employees Retirement Systems ("OMERS"), a multi-employer pension plan. The plan provides defined pension benefits to employees based on their length of service and rates of pay. As this is a multi-employer pension plan, the contributions by the Township are recognized as an expenditure. No liability for this type of plan is recognized in the Township's financial statements.

# CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2016 & 2015

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### 7. CONTINGENT LIABILITIES AND COMMITMENTS (CONT'D)

#### (c) LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the Township's sick leave benefit plan, 50% of unused sick leave can be accumulated by full-time employees annually to a maximum of 72 days. Employees are entitled to a cash payment of 50% of the accumulated amount when they leave the employment of the Township. This amount has been accrued in the records of the Township.

#### (d) PROPERTY ASSESSMENT APPEAL

A large industrial taxpayer has filed an appeal with the Municipal Property Assessment Corporation (MPAC) to appeal the assessment value of several properties within the Township. If the taxpayer were to win the appeal, the Township could be responsible to repay previously collected property taxes going back to 2011. The amount of taxes to repay could be significant to the Township but no amount can be reasonably estimated at this time. The outcome of the appeal is also unknown.

#### (e) ONTARIO CLEAN WATER AGENCY

In accordance with a service agreement entered into by the Municipality with the Ontario Clean Water Agency, the existing Water Treatment Plant is operated by the Agency. The Municipality is obligated to meet all operating costs and repay the long-term liabilities related to this project.

Included in the Consolidated Statement of Operations are the 2016 charges from the Agency in the amount of \$69,793 (2015 - \$64,347).

#### (f) RECYCLING CONTRACT

The recycling program is operated by the contractor in accordance with a service agreement entered into by the Municipality. The term of the contract commenced on December 1, 2013 and will expire December 31, 2017. Under the terms of the contract, the contractor will collect recyclable materials from 250 households at the tendered price of \$5.05 per household bi-weekly. Should the number of households increase during the term of the contract, the payout will be adjusted accordingly. In the event that the cost of gas increase beyond \$1.50/liter the rate per household will be renegotiated. Profits from the sale of the recycled materials will be shared between the contractor and the Municipality on a 50/50 basis.

#### (g) LITIGATION

The Municipality has been sued for damages in the amount of \$5,000,000. The Municipality has filed a counter claim. It is not possible to evaluate the likelihood and dollar amount of the claim. As such, management has not accrued any liability in these financial statements for this claim.

### 8. FINANCIAL INSTRUMENTS

#### (a) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash, taxes receivable, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of these instruments.

# CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

YEARS ENDED DECEMBER 31, 2016 & 2015

### 8. FINANCIAL INSTRUMENTS (CONT'D)

#### (b) CREDIT RISK

The Township does not have significant exposure to any individual or party due to the fact that municipalities can obtain liens on properties for any unpaid realty taxes. An allowance for doubtful accounts is established based upon factors surrounding the risk related to specific ratepayers, historical trends and other information. The Township has an allowance for doubtful taxes receivable account in the amount of \$10,000 (2015 - \$10,000) as well as an allowance for doubtful accounts receivable in the amount of \$NIL (2015 - \$NIL).

#### (c) INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Township manages exposure through its normal operating and financing activities.

### 9. ACCUMULATED SURPLUS

|                                     | 2016                | 2015                |
|-------------------------------------|---------------------|---------------------|
| Reserves, surpluses and deficits    |                     |                     |
| Working capital reserve             | \$ 678,016          | \$ 190,809          |
| Parkland reserve                    | 750                 | 750                 |
| Waterworks reserve                  | 646,635             | 646,635             |
| Landfill Reserve                    | 100,000             | 100,000             |
| Roads reserve                       | 100,000             | 100,000             |
| Emergency reserve                   | 100,000             | 100,000             |
| Current surplus                     | 623,285             | 623,285             |
| Net financial assets                | 2,248,686           | 1,761,479           |
| Non-financial assets                |                     |                     |
| Invested in tangible capital assets | 7,748,612           | 7,131,420           |
| <b>Accumulated surplus</b>          | <b>\$ 9,997,298</b> | <b>\$ 8,892,899</b> |

Reserves represent an appropriation of surplus for a specific purpose, determined by Council, are non-statutory and subject to change by Council.

#### Non-financial assets

Non-financial assets are not available to discharge existing liabilities. Amounts invested in tangible capital assets are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets (Debt) for the year.

### 10. TEMPORARY LOANS

The Township has arranged a line of credit not to exceed \$1,000,000. The line of credit, authorized by a By-law, bears interest at prime plus .25%. As at December 31, 2016, the balance of the temporary loan is \$NIL (2015 - \$NIL).

## CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

YEAR ENDED DECEMBER 31 2016

|  | General Capital Assets |                   |                                     |            |                        |           | Infrastructure |                            |                      | Totals       |               |              |
|--|------------------------|-------------------|-------------------------------------|------------|------------------------|-----------|----------------|----------------------------|----------------------|--------------|---------------|--------------|
|  | Land                   | Land Improvements | Building and Leasehold Improvements | Equipment  | Furniture and Fixtures | Vehicles  | Signage        | Roads, Streets and Bridges | Underground Networks | Water Tower  | 2016          | 2015         |
| <b>Cost</b>                                      |                        |                   |                                     |            |                        |           |                |                            |                      |              |               |              |
| Opening costs                                    | \$ 184,539             | \$ 109,661        | \$ 1,700,709                        | \$ 505,835 | \$ 112,842             | \$ 47,114 | \$ 31,136      | \$ 2,648,559               | \$ 3,105,457         | \$ 2,448,433 | \$ 10,894,285 | \$ 7,962,302 |
| Additions during the year                        | 51,825                 | 22,559            | 26,117                              | 231,239    | 4,459                  | 34,422    | -              | 454,659                    | 31,037               | 10,677       | 866,994       | 3,015,785    |
| Disposals and write downs                        | -                      | -                 | -                                   | -          | (3,407)                | -         | -              | -                          | -                    | -            | (3,407)       | (83,802)     |
| Closing costs                                    | 236,364                | 132,220           | 1,726,826                           | 737,074    | 113,894                | 81,536    | 31,136         | 3,103,218                  | 3,136,494            | 2,459,110    | 11,757,872    | 10,894,285   |
| <b>Accumulated Amortization</b>                  |                        |                   |                                     |            |                        |           |                |                            |                      |              |               |              |
| Opening accum'd amortization                     | \$ -                   | \$ 11,007         | \$ 550,769                          | \$ 131,545 | \$ 89,070              | \$ 8,672  | \$ 20,130      | \$ 1,992,125               | \$ 910,578           | \$ 48,969    | \$ 3,762,865  | \$ 3,563,384 |
| Amortization                                     | -                      | 5,289             | 35,939                              | 44,643     | 2,016                  | 7,624     | 1,614          | 38,721                     | 13,761               | 98,151       | 247,758       | 220,293      |
| Disposals and write downs                        | -                      | -                 | -                                   | -          | (1,363)                | -         | -              | -                          | -                    | -            | (1,363)       | (20,812)     |
| Closing accum'd amortization                     | -                      | 16,296            | 586,708                             | 176,188    | 89,723                 | 16,296    | 21,744         | 2,030,846                  | 924,339              | 147,120      | 4,009,260     | 3,762,865    |
| <b>Net Book Value of Tangible Capital Assets</b> | \$ 236,364             | \$ 115,924        | \$ 1,140,118                        | \$ 560,886 | \$ 24,171              | \$ 65,240 | \$ 9,392       | \$ 1,072,372               | \$ 2,212,155         | \$ 2,311,990 | \$ 7,748,612  | \$ 7,131,420 |

## CORPORATION OF THE TOWNSHIP OF MATACHEWAN

## CONSOLIDATED SCHEDULE OF EXPENDITURE BY OBJECT

YEAR ENDED DECEMBER 31 2016

|                                    | Salaries and<br>Wages | Materials and<br>Supplies | Contracted<br>Services | Rents and<br>Financial<br>Expenses | External<br>Transfers | Amortization      | 2016                | 2015                |
|------------------------------------|-----------------------|---------------------------|------------------------|------------------------------------|-----------------------|-------------------|---------------------|---------------------|
| General government                 | \$ 238,175            | \$ 304,953                | \$ 19,642              | \$ 4,351                           | \$ 2,791              | \$ 7,326          | \$ 577,238          | \$ 386,225          |
| Protection to persons and property | 11,424                | 45,777                    | 85,863                 | -                                  | -                     | 11,213            | 154,277             | 151,431             |
| Transportation services            | 114,986               | 85,461                    | 469                    | -                                  | -                     | 62,008            | 262,924             | 214,465             |
| Environmental services             | 34,963                | 63,682                    | 82,712                 | -                                  | -                     | 120,538           | 301,895             | 287,886             |
| Health services                    | 4,705                 | 2,418                     | 311                    | -                                  | 46,730                | 7,339             | 61,503              | 57,995              |
| Social and family services         | -                     | -                         | -                      | -                                  | 20,472                | -                 | 20,472              | 21,749              |
| Social housing                     | -                     | -                         | -                      | -                                  | 24,629                | -                 | 24,629              | 22,441              |
| Recreation and cultural services   | 21,955                | 62,873                    | 807                    | -                                  | -                     | 36,945            | 122,580             | 81,674              |
| Planning and development           | -                     | 27,578                    | -                      | -                                  | -                     | 2,388             | 29,966              | 35,557              |
| <b>Total</b>                       | <b>\$ 426,208</b>     | <b>\$ 592,742</b>         | <b>\$ 189,804</b>      | <b>\$ 4,351</b>                    | <b>\$ 94,622</b>      | <b>\$ 247,757</b> | <b>\$ 1,555,484</b> | <b>\$ 1,259,423</b> |

