
THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER
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Independent auditor's report

To the Members of Council, Inhabitants and Ratepayers of
The Corporation of the Village of South River

Opinion

We have audited the consolidated financial statements of The Corporation of the Village of South River ("the Village"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Village in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the 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.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Village's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Village to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Village and the organizations it controls to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

North Bay, Canada
June 10, 2019

Chartered Professional Accountants
Licensed Public Accountants

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	2018	2017
FINANCIAL ASSETS		
Cash and cash equivalents <i>(Note 4)</i>	\$ 641,514	\$ 335,630
Taxes receivable <i>(Note 5)</i>	241,476	194,343
Accounts receivable	133,936	143,567
Long-term receivable <i>(Note 6)</i>	150,000	200,000
Investment in South River Power Generation Corporation <i>(Note 7)</i>	1,109,256	957,697
Inventories held for resale	62,984	1,273
	2,339,166	1,832,510
LIABILITIES		
Accounts payable and accrued liabilities	281,272	260,569
Accrued interest on long-term debt	1,626	1,296
Deferred revenue-general <i>(Note 8)</i>	20,532	14,072
Deferred revenue-obligatory reserve funds <i>(Note 9)</i>	93,935	75,313
Municipal debt <i>(Note 10)</i>	970,957	801,342
Tangible capital lease liability <i>(Note 11)</i>	17,407	33,475
Employee benefits payable <i>(Note 12)</i>	27,930	25,400
	1,413,659	1,211,467
NET FINANCIAL ASSETS	925,507	621,043
NON-FINANCIAL ASSETS		
Tangible capital assets - net <i>(Note 15)</i>	8,648,691	8,746,823
Inventories of supplies	10,550	15,927
Prepaid expenses	26,822	24,117
	8,686,063	8,786,867
ACCUMULATED SURPLUS <i>(Note 16)</i>	\$ 9,611,570	\$ 9,407,910

Contingencies *(see Notes 2, 7 and 14)*

Contractual obligations *(see Note 13)*

APPROVED ON BEHALF OF COUNCIL:

_____ Mayor

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER
CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget 2018 <i>(see Note 19)</i>	Actual 2018	Actual 2017
REVENUE			
Property taxes	\$ 1,030,367	\$ 1,032,555	\$ 996,354
User charges	483,083	492,802	478,712
Government transfers	894,231	888,695	736,379
Change in accumulated surplus of South River Power Generation Corporation <i>(Note 7)</i>	134,057	151,559	373,053
Other	217,558	205,237	220,364
TOTAL REVENUE	2,759,296	2,770,848	2,804,862
EXPENSES			
General government	430,905	395,856	391,374
Protection to persons and property	433,672	426,314	407,615
Transportation services	442,101	392,701	412,392
Environmental services	543,258	559,042	570,666
Health services	186,673	187,881	184,242
Social and family services	54,154	54,154	53,248
Recreation and cultural services	380,749	386,882	377,754
Planning and development	146,040	164,358	133,296
TOTAL EXPENSES	2,617,552	2,567,188	2,530,587
ANNUAL SURPLUS <i>(Note 16)</i>	141,744	203,660	274,275
ACCUMULATED SURPLUS, BEGINNING OF YEAR	9,407,910	9,407,910	9,133,635
ACCUMULATED SURPLUS, END OF YEAR	\$ 9,549,654	\$ 9,611,570	\$ 9,407,910

The accompanying notes are an integral part of these financial statements

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget 2018 <i>(see Note 19)</i>	Actual 2018	Actual 2017
Annual surplus	\$ 141,744	\$ 203,660	\$ 274,275
Acquisition of tangible capital assets	(501,482)	(431,423)	(143,443)
Contributed tangible capital assets	-	-	(8,643)
Amortization of tangible capital assets	437,876	437,889	431,247
Loss on disposal of tangible capital assets	-	27,852	12,011
Proceeds from disposal of tangible capital assets	88,000	63,814	1,500
Change in supplies inventories	-	5,377	(4,064)
Change in prepaid expenses	-	(2,705)	3,194
Increase in net financial assets	166,138	304,464	566,077
Net financial assets, beginning of year	621,043	621,043	54,966
Net financial assets, end of year	\$ 787,181	\$ 925,507	\$ 621,043

The accompanying notes are an integral part of these financial statements

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Operating transactions		
Annual surplus	\$ 203,660	\$ 274,275
Non-cash charges to operations:		
Amortization	437,889	431,247
Loss on disposal of tangible capital assets	27,852	12,011
Change in employee benefits payable	2,530	1,562
	671,931	719,095
Changes in non-cash items:		
Taxes receivable	(47,133)	(48,524)
Accounts receivable	9,631	68,722
Long-term receivable	50,000	50,000
Inventories held for resale	(61,711)	(127)
Accounts payable and accrued liabilities	20,703	(11,265)
Accrued interest on long-term debt	330	585
Deferred revenue-general	6,460	417
Deferred revenue-obligatory reserve funds	18,622	37,200
Inventories of supplies	5,377	(4,064)
Prepaid expenses	(2,705)	3,194
	(426)	96,138
Cash provided by operating transactions	671,505	815,233
Capital transactions		
Acquisition of tangible capital assets	(431,423)	(143,443)
Contributed tangible capital assets	-	(8,643)
Proceeds from disposal of tangible capital assets	63,814	1,500
Cash applied to capital transactions	(367,609)	(150,586)
Investing transactions		
Change in investment in South River Power Generation Corporation	(151,559)	(373,053)
Cash applied to investing transactions	(151,559)	(373,053)
Financing transactions		
Decrease in temporary borrowing	-	(450,000)
Proceeds from municipal debt	238,344	350,000
Debt principal repayments	(68,729)	(58,514)
Tangible capital lease repayments	(16,068)	(18,031)
Cash provided by (applied to) financing transactions	153,547	(176,545)
Net change in cash and cash equivalents	305,884	115,049
Cash and cash equivalents, beginning of year	335,630	220,581
Cash and cash equivalents, end of year	\$ 641,514	\$ 335,630
Cash flow supplementary information:		
Cash paid for interest	\$ 29,109	\$ 26,111

The accompanying notes are an integral part of these financial statements

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

Management Responsibility

The consolidated financial statements of the Corporation of the Village of South River (the "Municipality") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of significant accounting policies is provided in Note 1. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

Management maintains a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are 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.

1. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

These consolidated statements reflect the assets, liabilities, revenue, expenses and accumulated surplus of the reporting entity. The reporting entity is comprised of all committees of Council and the boards, joint boards and municipal enterprises for which Council is politically accountable as follows:

(i) Consolidated and proportionally consolidated entities

The following local board is consolidated:

Cemetery

The following joint boards, committees and enterprises are proportionally consolidated:

Fire
 Building
 Medical Centre
 Arena and Community Centre
 Library
 Ambulance building
 Economic development

Inter-organizational transactions and balances between these organizations are eliminated.

(ii) Modified equity accounting

Government business enterprises are accounted for by the modified equity method. Under this method the business enterprises' accounting principles are not adjusted to conform with those of the Municipality and inter-organizational transactions and balances are not eliminated. The following government business enterprise is included in these financial statements: South River Power Generation Corporation.

(iii) Non-consolidated entities

The following joint boards are not consolidated:

North Bay Parry Sound District Health Unit
 District of Parry Sound Social Services Administration Board
 District of Parry Sound (East) Home for the Aged

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

- (iv) Accounting for school board transactions
The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements.
 - (v) Trust funds
Trust funds administered by the Municipality are not included in these consolidated financial statements, but are reported separately on the trust funds financial statements.
- (b) Basis of Accounting
- (i) Accrual basis of accounting
Revenue and expenses are reported on the accrual basis of accounting. Revenue is recognized in the year in which it is earned 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) Cash and cash equivalents
Cash and cash equivalents include cash on hand, balances with financial institutions and short-term deposits with original maturities of three months or less.
 - (iii) Non-financial assets
Non-financial assets are not available to discharge existing liabilities but are held for use in the provision of municipal services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.
- (a) Tangible capital assets
Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Tangible capital assets received as donations are recorded at their fair value at the date of receipt, and that fair value is also recorded as revenue. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:
- Land improvements - 20 years
 - Buildings - 10 to 50 years
 - Machinery, equipment and furniture - 5 to 20 years
 - Vehicles - 8 to 25 years
 - Roads - 10 to 75 years
 - Bridges - 60 years
 - Water plants and networks - 30 to 50 years
- One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.
- Works of art and historical treasures owned by the Municipality are not included in the tangible capital assets reported in these financial statements. The Municipality owns an historical train station as well as a number of paintings and other pieces of artwork that are prominently displayed in municipal buildings.
- Interest related to the acquisition of capital assets is not capitalized, but is expensed in the year incurred.

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

- (b) Inventories of supplies
Inventories held for consumption are recorded at the lower of cost and replacement cost.

- (iv) Reserves and reserve funds
Certain amounts, as approved by Council, are set aside in reserves and reserve funds for future operating and capital purposes. Balances related to these funds are included in the accumulated surplus of the Consolidated Statement of Financial Position.

- (v) Government transfers
Government transfers are recognized in the financial statements as revenue when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the Consolidated Statement of Operations as the stipulation liabilities are settled.

- (vi) Deferred revenue
Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the Consolidated Statement of Financial Position. The revenue is reported on the Consolidated Statement of Operations in the year in which it is used for the specified purpose.

- (vii) Taxation and related revenue
Tax rates are established annually by Council, incorporating amounts to be raised for local services and amounts the Municipality is required to collect on behalf of the Province of Ontario in respect of education taxes. Property tax billings are prepared by the Municipality based on assessment rolls, supplementary assessment rolls and other assessment adjustments issued by the Municipal Property Assessment Corporation ("MPAC"). Taxation revenue is initially recorded at the time assessment information is received from MPAC and is subsequently adjusted based on management's best estimate of the amount of tax revenue resulting from assessment adjustments that have not yet been received from MPAC. The Municipality is entitled to collect interest and penalties on overdue taxes. This revenue is recorded in the period the interest and penalties are levied.

- (viii) Pensions and employee benefits
The Municipality accounts for its participation in the Ontario Municipal Employee Retirement System (OMERS), a multi-employer public sector pension fund, as a defined contribution plan. Obligations for sick leave and employee retirement gratuities under employee benefits payable are accrued as the employees render the services necessary to earn the benefits.

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

(ix) Use of estimates

The preparation of 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 date of the financial statements, and the reported amounts of revenue and expenses during the period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Municipality may undertake in the future. Significant accounting estimates include valuation allowances for taxes and accounts receivable, employee benefits payable, estimated useful lives of tangible capital assets and supplementary taxes. Actual results could differ from these estimates.

2. CONTRIBUTIONS TO UNCONSOLIDATED JOINT BOARDS

Further to Note 1(a)(iii), the following contributions were made by the Municipality to these boards:

	2018	2017
District of Parry Sound Social Services Administration Board	\$ 30,513	\$ 30,266
North Bay Parry Sound District Health Unit	32,883	32,383
District of Parry Sound (East) Home for the Aged	21,141	20,482
	\$ 84,537	\$ 83,131

The Municipality is contingently liable for its share, if any, of the accumulated deficits as at the end of the year for these boards. The Municipality's share of the accumulated surpluses (or deficits) of these boards has not been determined at this time.

The Municipality is also contingently liable for its share, if any, of the long-term liabilities issued by other municipalities for these boards. The Municipality's share of these long-term liabilities has not been determined at this time.

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

3. TRANSACTIONS ON BEHALF OF OTHERS

- (a) During the year, \$173,129 of taxation was levied on behalf of school boards (2017 \$173,746).
- (b) Trust funds administered by the Municipality totalling \$170,843 (2017 \$168,843) are not included in these consolidated financial statements, as they are being held in trust for the benefit of others. Trusts under administration include:
- (i) Fire Department Fund
This trust fund was established in 2010 for the purposes of purchasing fire equipment. These funds are invested and earnings derived therefrom are applied to the cost of capital expenditures for the South River-Machar Volunteer Fire Department. The balance of the trust is \$100,000 (2017 \$100,000).
- (ii) Care and Maintenance
This trust fund is funded by the sale of cemetery interment rights and markers. These funds are invested and earnings derived therefrom are used to perform maintenance at the Municipality's cemetery. The balance of the trust is \$70,843 (2017 \$68,843).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of:

	2018		2017	
Unrestricted cash	\$	547,579	\$	260,317
Restricted cash		93,935		75,313
	\$	641,514	\$	335,630

Federal and Provincial legislation restricts how restricted cash related to obligatory reserve funds, reported in Note 9, may be used.

5. TAXES RECEIVABLE

Taxes receivable are comprised of the following:

	2018		2017	
Taxes receivable	\$	241,476	\$	224,343
Valuation allowance		-		(30,000)
	\$	241,476	\$	194,343

6. LONG-TERM RECEIVABLE

In 2007 the Municipality advanced \$450,000 to the South River Power Generation Corporation, a wholly owned government business enterprise. The loan is non-interest bearing with no specified terms of payment. \$50,000 was repaid in 2018 (2017 \$50,000).

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

7. INVESTMENT IN SOUTH RIVER POWER GENERATION CORPORATION

South River Power Generation Corporation is a wholly owned government business enterprise of the Municipality that is engaged in the business of generating hydroelectric power from its plant in South River, Ontario. Condensed financial information in respect to South River Power Generation Corporation is provided below.

	2018	2017
Statement of Financial Position		
Financial assets	\$ 722,257	\$ 705,181
Liabilities		
Payables and accruals	81,176	86,451
Term loan	3,196,351	3,365,928
Derivative	130,573	158,127
Due to shareholder	150,000	200,000
Future income tax liability	413,275	371,940
	<u>3,971,375</u>	<u>4,182,446</u>
Net debt	(3,249,118)	(3,477,265)
Non-financial assets		
Tangible capital assets	4,348,003	4,424,846
Prepaid expenses	10,371	10,116
	<u>4,358,374</u>	<u>4,434,962</u>
Accumulated surplus is comprised of		
Accumulated operating surplus	1,239,829	1,115,824
Accumulated remeasurement losses	(130,573)	(158,127)
	\$ 1,109,256	\$ 957,697
Statement of Operations		
Revenue	\$ 586,783	\$ 722,331
Expenses	421,443	423,853
Future payments in lieu of income taxes	41,335	74,620
Annual surplus	\$ 124,005	\$ 223,858
Statement of Remeasurement Gains and Losses		
Accumulated remeasurement losses, beginning of year	\$ (158,127)	\$ (307,322)
Unrealized gain on fair value of derivative	27,554	149,195
Accumulated remeasurement losses, end of year	\$ (130,573)	\$ (158,127)
Total change in surplus	\$ 151,559	\$ 373,053

The South River Power Generation Corporation has a \$3,196,351 (2017 \$3,365,928) term loan with a chartered bank, bearing interest at 4.73% per annum. The loan has been guaranteed by the Municipality.

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

8. DEFERRED REVENUE-GENERAL

The South River-Machar Medical Centre has an ongoing Rural and Northern Physicians Group Agreement with the Ministry of Health and Long-term Care. Payments received under this agreement are recognized in revenue as the related expenditures are incurred.

Details of the deferred revenue reported on the Consolidated Statement of Financial Position are as follows:

	2018	2017
Balance, beginning of year:		
Rural and Northern Physicians Group Agreement	\$ 11,087	\$ 10,552
Other	2,985	3,103
	14,072	13,655
Received and receivable during the year:		
Rural and Northern Physicians Group Agreement	89,006	89,358
Other funding	19,975	3,465
	108,981	92,823
Recognized in revenue during the year	(102,521)	(92,406)
Balance, end of year	\$ 20,532	\$ 14,072
Rural and Northern Physicians Group Agreement	\$ 13,349	\$ 11,087
Other deferred revenue	7,183	2,985
Balance, end of year	\$ 20,532	\$ 14,072

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

9. DEFERRED REVENUE-OBLIGATORY RESERVE FUNDS

The Municipality receives payments in lieu of parkland under the Planning Act, building permit revenue under the Building Code Act and federal gas tax and provincial Main Street revitalization funding under agreements with the Association of Municipalities of Ontario. Legislation restricts how these funds may be used, and under certain circumstances, how these funds may be refunded.

In the case of payments in lieu of parkland, revenue recognition occurs when the Municipality has approved eligible expenditures for park and other public recreation purposes. Building permit revenue is recognized when applicable building expenditures are incurred. Gas tax and Main Street revitalization revenue recognition occurs when the Municipality has approved the expenditures for eligible operating expenditures and capital works.

Details of the deferred revenue-obligatory reserve funds reported on the Consolidated Statement of Financial Position are as follows:

	2018	2017
Balance, beginning of year:		
Recreational land (the Planning Act)	\$ 274	\$ 273
Building Code Act	1,544	4,060
Federal Gas Tax	73,495	33,780
	<u>75,313</u>	<u>38,113</u>
Received during the year:		
Building Code Act	1,580	-
Federal Gas Tax	66,823	64,915
Main Street Revitalization	38,631	-
Interest earned	2,452	750
	<u>109,486</u>	<u>65,665</u>
Recognized in revenue during the year	<u>(90,864)</u>	<u>(28,465)</u>
Balance, end of year	\$ 93,935	\$ 75,313
Recreational land (the Planning Act)	\$ 302	\$ 274
Building Code Act	3,124	1,544
Federal Gas Tax	68,129	73,495
Main Street Revitalization	22,380	-
Balance, end of year	\$ 93,935	\$ 75,313

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

10. MUNICIPAL DEBT

(a) The balance of the municipal debt reported on the Consolidated Statement of Financial Position is made up of the following:

	2018	2017
Kawartha Credit Union, open term loan amortized over 20 years, repayable in monthly payments of \$1,365 including interest calculated at Credit Union Central prime	\$ 68,769	\$ 82,266
50% share of South River-Machar Fire Department debt -		
Ontario Infrastructure and Lands Corporation debenture, due April 2031, repayable in semi-annual payments of \$10,045 including interest calculated at 2.84%, secured by future Provincial funding	105,075	111,989
TD Commercial Banking term loan, due February 2028, repayable in monthly payments of \$4,601 including interest calculated at 2.99%	219,323	-
Ontario Infrastructure and Lands Corporation debenture, due October 2031, repayable in monthly payments of \$1,896 including interest calculated at 2.57%, secured by future Provincial funding	248,496	264,636
TD Commercial Banking term loan, due May 2037, repayable in monthly payments of \$1,946 including interest calculated at 3.03%	329,294	342,451
	\$ 970,957	\$ 801,342

(b) Future estimated principal and interest payments on the municipal debt are as follows:

	Principal	Interest
2019	\$ 72,490	\$ 27,649
2020	74,705	25,434
2021	77,076	23,063
2022	79,479	20,660
2023	75,310	18,222
2024 onwards	591,897	87,814
	\$ 970,957	\$ 202,842

(c) Total charges for the year for municipal debt which are reported in the financial statements are as follows:

	2018	2017
Principal payments	\$ 68,729	\$ 58,514
Interest	29,439	20,858
	\$ 98,168	\$ 79,372

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2018

11. TANGIBLE CAPITAL LEASES

The Municipality leases public works equipment, which is accounted for on the Consolidated Statement of Financial Position at the present value of future minimum lease payments, with an implicit interest rate of 0.0%. Future minimum lease payments are as follows:

	2018	2017
2018	\$ -	\$ 16,068
2019	16,068	16,068
2020	1,339	1,339
Total minimum lease payments	17,407	33,475
Less amount representing interest	-	-
Present value of future minimum capital lease payments	\$ 17,407	\$ 33,475

Interest of NIL (2017 \$82) relating to capital lease obligations has been reported on the Consolidated Statement of Operations.

12. EMPLOYEE BENEFITS PAYABLE

- (a) Under the sick leave benefits plan, unused sick leave can accumulate to a prescribed maximum and qualifying employees may become entitled to a cash payment when they leave the Municipality's employment. The sick leave benefit liability estimates the use of accumulated sick leave prior to retirement, as well as any lump-sum payments upon retirement, and assumes that both the appropriate discount rate and future salary and wage levels will increase by 2% per annum. The liability for these accumulated days amounted to \$27,701 (2017 \$25,350) at the end of the year.
- (b) Under the retirement gratuity policy of the Joint Building Committee, qualifying employees are entitled to a payout, upon retirement, based on length of service and rate of pay. The retirement gratuity liability estimates the lump-sum payments upon retirement, and assumes that both the appropriate discount rate and future salary and wage levels will increase by 2% per annum. The Municipality's share of the retirement gratuity is estimated at \$229 (2017 \$50) at the end of the year.

13. CONTRACTUAL OBLIGATIONS

In 2016, the Municipality entered into an agreement with the Ontario Clean Water Agency (OCWA) for the provision of management, operation and maintenance services related to the municipal water treatment facilities. The agreement is effective for an initial term of ten years, commencing January 1, 2016. The annual price for year one of the agreement is \$164,571, increasing annually thereafter by an inflationary adjustment of a minimum of 1%.

In conjunction with the Township of Machar, in 2017 the municipality entered into an agreement with the Hockey Opportunity Camp/Eagle Crest Outdoor Centre for the management and operation of a summer day camp program for a four-year term, commencing 2018 at an initial cost of \$31,244, increasing annually thereafter by 3%. Each municipality is responsible for 50% of the total contracted amount.

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

14. CONTINGENCIES

The Municipality is involved from time to time in litigation, which arises in the normal course of business. With respect to outstanding claims, the Municipality believes that insurance coverage is adequate and that no material exposure exists on the eventual settlement of such litigation in all but one claim. Therefore, no provision has been made in the accompanying financial statements. For one claim, a portion of the claim is not covered by insurance and since the likelihood and extent of loss, if any, is not yet determinable, no provision has been made in the accompanying financial statements.

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

15. TANGIBLE CAPITAL ASSETS

The tangible capital assets of the Municipality by major asset class are outlined below.

2018								
	Land and Land Improvements	Buildings and Leasehold Improvements	Machinery and Equipment	Vehicles	Roads and Bridges	Water Plants and Networks	Assets Under Construction	TOTAL
COST								
Balance, beginning of year	\$ 1,300,318	\$ 4,233,956	\$ 1,224,472	\$ 514,673	\$ 2,662,561	\$ 5,737,533	\$ 5,200	\$ 15,678,713
Additions and betterments	27,723	17,174	30,899	240,218	-	115,409	-	431,423
Disposals and writedowns	(70,955)	(9,541)	(16,194)	(84,918)	-	(22,462)	-	(204,070)
Transfer between classes	-	-	-	-	-	5,200	(5,200)	-
BALANCE, END OF YEAR	1,257,086	4,241,589	1,239,177	669,973	2,662,561	5,835,680	-	15,906,066
ACCUMULATED AMORTIZATION								
Balance, beginning of year	326,394	908,834	563,650	186,339	1,916,074	3,030,599	-	6,931,890
Annual amortization	22,413	86,716	78,191	27,230	61,636	161,703	-	437,889
Amortization disposals	(9,453)	(4,139)	(16,195)	(78,125)	-	(4,492)	-	(112,404)
BALANCE, END OF YEAR	339,354	991,411	625,646	135,444	1,977,710	3,187,810	-	7,257,375
TANGIBLE CAPITAL ASSETS-NET	\$ 917,732	\$ 3,250,178	\$ 613,531	\$ 534,529	\$ 684,851	\$ 2,647,870	\$ -	\$ 8,648,691
2017								
	Land and Land Improvements	Buildings and Leasehold Improvements	Machinery and Equipment	Vehicles	Roads and Bridges	Water Plants and Networks	Assets Under Construction	TOTAL
COST								
Balance, beginning of year	\$ 1,288,314	\$ 4,205,069	\$ 1,292,119	\$ 513,700	\$ 2,662,561	\$ 5,687,089	\$ -	\$ 15,648,852
Additions and betterments	13,691	22,446	40,588	-	-	61,518	5,200	143,443
Contributed assets	-	7,670	-	973	-	-	-	8,643
Disposals and writedowns	(1,687)	(1,229)	(108,235)	-	-	(11,074)	-	(122,225)
BALANCE, END OF YEAR	1,300,318	4,233,956	1,224,472	514,673	2,662,561	5,737,533	5,200	15,678,713
ACCUMULATED AMORTIZATION								
Balance, beginning of year	306,705	823,554	584,796	162,217	1,854,438	2,877,647	-	6,609,357
Annual amortization	21,376	86,263	78,623	24,122	61,636	159,227	-	431,247
Amortization disposals	(1,687)	(983)	(99,769)	-	-	(6,275)	-	(108,714)
BALANCE, END OF YEAR	326,394	908,834	563,650	186,339	1,916,074	3,030,599	-	6,931,890
TANGIBLE CAPITAL ASSETS-NET	\$ 973,924	\$ 3,325,122	\$ 660,822	\$ 328,334	\$ 746,487	\$ 2,706,934	\$ 5,200	\$ 8,746,823

Included in tangible capital assets are leased tangible capital assets with a cost of \$88,710 (2017 \$88,710) and accumulated amortization of \$20,699 (2017 \$14,785).

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

16. ACCUMULATED SURPLUS

The 2018 continuity of accumulated surplus reported on the Consolidated Statement of Financial Position is as follows:

	Balance Beginning of Year	Annual Surplus (Deficit)	Balance End of Year
RESERVES AND RESERVE FUNDS			
General municipal	\$ 326,528	\$ 158,400	\$ 484,928
Sick leave	7,566	-	7,566
Election	3,000	(3,000)	-
Fire	16,782	9,577	26,359
Roads	66,707	2,692	69,399
Train Station	2,845	-	2,845
Cemetery	8,000	500	8,500
Medical Centre	60,034	6,839	66,873
Ambulance	22,428	3,319	25,747
Arena	2,662	-	2,662
Library	2,990	(1,490)	1,500
	519,542	176,837	696,379
OTHER			
Consolidated tangible capital assets	8,746,823	(98,132)	8,648,691
General operating surplus (deficit) -			
Municipality	22,649	94,629	117,278
Water	(37,396)	33,526	(3,870)
Medical Centre	25,971	4,488	30,459
Helipad	7,294	472	7,766
Cemetery	16,365	1,748	18,113
Library	4,952	(854)	4,098
Central Almaguin Economic Development Association	4,230	(4,536)	(306)
Accumulated surplus of South River Power Generation Corporation	957,697	151,559	1,109,256
Unfunded liabilities -			
Municipal debt	(801,342)	(169,615)	(970,957)
Tangible capital lease	(33,475)	16,068	(17,407)
Employee benefits	(25,400)	(2,530)	(27,930)
	\$ 9,407,910	\$ 203,660	\$ 9,611,570

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

17. SEGMENT DISCLOSURES AND EXPENSES BY OBJECT

The Municipality and its Boards and Committees provide a wide range of services to its citizens. The schedule of segment disclosure provides a breakdown of the annual surplus (deficit) reported on the Consolidated Statement of Operations by major reporting segment. The segments correspond to the major functional categories used in the Municipality's Financial Information Return, which include the following activities:

General Government

This segment includes Council, Clerk's Department, and Treasury. 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.

Protection to Persons and Property

This segment includes fire, police, building inspection, conservation authority, emergency measures and bylaw enforcement. Police services are provided by the Ontario Provincial Police under contract.

Transportation Services

Transportation services include roadway systems and winter control.

Environmental Services

This segment includes waterworks and solid waste management.

Health Services

This segment includes the medical centre, cemetery, ambulance, helipad and payments to the district health unit.

Social and Family Services

This segment consists primarily of payments made to the district social services administration board and home for the aged for the provision of social services such as childcare, social housing, general assistance and assistance to the elderly.

Recreation and Culture

This segment includes parks, recreation programs, recreation facilities, library services and cultural services.

Planning and Development

This segment includes activities related to planning, zoning and economic development.

Unallocated Amounts

Items are recorded as unallocated amounts when there is no reasonable basis for allocating them to a segment. Major items included in this category are property taxation and related penalty and interest charges, and the municipality's annual Ontario Municipal Partnership Fund unconditional grant.

In the preparation of segmented financial information, some allocation of expenses is made. This generally includes charges of machinery and administrative time to specific segments.

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

17. SEGMENT DISCLOSURES AND EXPENSES BY OBJECT (continued)

FOR THE YEAR ENDED DECEMBER 31, 2018

	General Government	Protection to Persons and Property	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Unallocated Amounts	Consolidated
REVENUE										
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,032,555	\$ 1,032,555
User charges	2,996	13,479	19,201	304,740	-	-	148,312	4,074	-	492,802
Government transfers -										
Canada	-	-	-	74,196	-	-	1,000	12,792	-	87,988
Ontario	-	7,206	6,168	50,000	90,245	-	12,062	4,260	612,100	782,041
Other municipalities	-	18,390	-	-	-	-	276	-	-	18,666
Change in accumulated surplus of South River Power Generation Corporation	-	-	-	-	-	-	-	-	151,559	151,559
Loss on disposal of capital assets	(2,426)	(7,456)	-	(17,970)	-	-	-	-	-	(27,852)
Other	40,249	13,643	234	6,191	45,833	-	26,413	47,245	53,281	233,089
TOTAL REVENUE	40,819	45,262	25,603	417,157	136,078	-	188,063	68,371	1,849,495	2,770,848
EXPENSES										
Salaries, wages and benefits	295,887	96,773	182,231	41,590	50,122	-	177,455	31,502	-	875,560
Long-term debt charges (interest)	2,887	9,770	-	-	-	-	-	16,782	-	29,439
Materials	27,977	55,008	101,896	51,569	21,746	-	136,914	15,556	-	410,666
Contracted services	69,753	225,088	10,748	281,685	40,680	-	21,140	33,998	-	683,092
Rents and financial expenses	1,124	2,602	300	-	31,198	-	3,328	4,953	-	43,505
External transfers	-	-	-	-	32,883	54,154	-	-	-	87,037
Interfunctional adjustments	(20,824)	3,724	(14,051)	20,140	938	-	9,626	447	-	-
Amortization	19,052	33,349	111,577	164,058	10,314	-	38,419	61,120	-	437,889
TOTAL EXPENSES	395,856	426,314	392,701	559,042	187,881	54,154	386,882	164,358	-	2,567,188
ANNUAL SURPLUS (DEFICIT)	\$ (355,037)	\$ (381,052)	\$ (367,098)	\$ (141,885)	\$ (51,803)	\$ (54,154)	\$ (198,819)	\$ (95,987)	\$ 1,849,495	\$ 203,660

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

17. SEGMENT DISCLOSURES AND EXPENSES BY OBJECT (continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

	General Government	Protection to Persons and Property	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Unallocated Amounts	Consolidated
REVENUE										
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 996,354	\$ 996,354
User charges	2,940	6,908	21,926	293,393	1,000	-	150,787	1,758	-	478,712
Government transfers -										
Canada	-	15	1,631	25,949	-	-	673	1,260	-	29,528
Ontario	-	10,757	-	50,000	92,323	-	6,722	-	527,200	687,002
Other municipalities	-	19,003	-	-	-	-	-	846	-	19,849
Change in accumulated surplus of South River Power Generation Corporation	-	-	-	-	-	-	-	-	373,053	373,053
Loss on disposal of capital assets	-	-	-	(4,799)	-	-	(246)	(6,966)	-	(12,011)
Other	40,882	12,105	150	6,567	42,652	-	33,390	45,330	51,299	232,375
TOTAL REVENUE	43,822	48,788	23,707	371,110	135,975	-	191,326	42,228	1,947,906	2,804,862
EXPENSES										
Salaries, wages and benefits	284,234	90,132	189,060	35,060	49,454	-	168,541	22,515	-	838,996
Long-term debt charges (interest)	3,741	3,284	196	-	-	-	-	13,719	-	20,940
Materials	42,243	46,507	115,106	62,848	22,220	-	139,834	12,210	-	440,968
Contracted services	60,034	228,851	9,456	295,366	38,578	-	17,241	10,015	-	659,541
Rents and financial expenses	2,009	2,514	300	-	30,586	-	4,354	5,823	-	45,586
External transfers	-	2,508	-	-	32,383	53,248	-	5,170	-	93,309
Interfunctional adjustments	(20,698)	4,597	(12,473)	15,812	787	-	9,962	2,013	-	-
Amortization	19,811	29,222	110,747	161,580	10,234	-	37,822	61,831	-	431,247
TOTAL EXPENSES	391,374	407,615	412,392	570,666	184,242	53,248	377,754	133,296	-	2,530,587
ANNUAL SURPLUS (DEFICIT)	\$ (347,552)	\$ (358,827)	\$ (388,685)	\$ (199,556)	\$ (48,267)	\$ (53,248)	\$ (186,428)	\$ (91,068)	\$ 1,947,906	\$ 274,275

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year Ended December 31, 2018

18. RELATED PARTY TRANSACTIONS

During the normal course of operations, the Municipality sold administrative services of \$14,456 (2017 \$14,380) and operating and maintenance services of \$16,318 (2017 \$18,087) to South River Power Generation Corporation, a wholly owned government business enterprise. All related party transactions are recorded at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value.

At the end of the year, \$34,576 (2017 \$36,574) was due to the Municipality by South River Power Generation Corporation related to payables and accruals. This is included in accounts receivable on the Consolidated Statement of Financial Position.

19. BUDGET FIGURES

The budget adopted for the current year was prepared on a modified accrual basis and has been restated to conform with the accounting and reporting standards applicable to the actual results. A reconciliation of the adopted and reported budgets is presented below.

	Budget
ADOPTED BUDGET:	
Decrease in general municipal operating surplus	\$ (22,649)
Decrease in water deficit	26,685
Increase in municipal reserves and reserve funds	183,584
Increase in South River Power Generation surplus	134,057
Decrease in board and joint board general operating surplus and reserves	(1,637)
ADJUSTMENTS:	
Proceeds from disposal of capital assets	(88,000)
Acquisition of tangible capital assets	501,482
Amortization of tangible capital assets	(437,876)
Increase in municipal debt	(153,902)
ANNUAL SURPLUS	\$ 141,744

THE CORPORATION OF THE VILLAGE OF SOUTH RIVER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2018

20. PENSION AGREEMENTS

The Municipality makes contributions to the Ontario Municipal Employee Retirement Fund (OMERS), which is a multi-employer plan, on behalf of certain 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. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2018. The results of this valuation disclosed total actuarial liabilities of \$100,081 million with respect to benefits accrued for service with actuarial assets at that date of \$95,890 million indicating an actuarial deficit of \$4,191 million. Because OMERS is a multi-employer plan, any Plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Municipality does not recognize any share of the Plan surplus or deficit.

The amount contributed to OMERS for 2018 was \$52,219 (2017 \$50,205) for current service and is included as an expense on the Consolidated Statement of Operations.