AUDIT COMMITTEE AGENDA

Monday, August 10, 2026, 3:00 pm
Council Chambers | Civic Centre
341 10th Street
Hanover, ON N4N 1P5

ZOOM MEETING PUBLIC ACCESS WEBSITE
https://us02web.zoom.us/j/82897796009

Pages

Corporation of the Town of Hanover

2025 Audit Findings

Report to Council

December 31, 2025

Kevin Tremble, CPA, CA
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August 10, 2026

Members of Council of Corporation of the Town of Hanover

Dear Council:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of Corporation of the Town of Hanover and its subsidiaries (the "Municipality") as at December 31, 2025 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of Council.

We have completed our audit of the consolidated financial statements of the Municipality which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Independent Auditor's Report will provide an unmodified opinion to the members of the Municipality. A draft copy of our proposed Independent Auditor's Report is attached at the end of this report.

This report is intended solely for the information and use of Council and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

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SIGNED

Signature	Title	Date

Table of Contents

Introduction

As auditors, we report to the members on the results of our examination of the consolidated financial statements of Corporation of the Town of Hanover (the "Municipality") as at and for the year ended December 31, 2025. The purpose of this Audit Findings Report is to assist you, as members of Council, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. A summary of required communications with those charged with governance, as outlined by Canadian Auditing Standards (CAS), is included in Appendix B.

We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

Engagement Status

We have completed our audit of the consolidated financial statements of the Municipality and are prepared to sign our Independent Auditor's Report subsequent to completion of the following procedures:

- Receipt of the signed management representation letter;
- Discussion of subsequent events with Council;
- Discussion of fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual or suspected fraud;
- Discussion of laws and regulations, including any instances of actual or suspected non-compliance;
- Council's review and approval of the consolidated financial statements.

Independent Auditor's Report

We expect to have the above procedures completed and to release our Independent Auditor's Report on August 10, 2026.

Unless unforeseen complications arise, our Independent Auditor's Report will provide an unmodified opinion to the members of the Municipality. A draft copy of our proposed Independent Auditor's Report has been included with this report.

Significant Audit, Accounting and Reporting Matters

Audit and Reporting Matters

The following significant matters arose during the course of audit that we wish to bring to your attention.

Area	Comments
Changes from Audit Service Plan	There were no deviations from the Audit Service Plan previously presented to you. Please refer to Appendix C for the significant areas and our audit responses.
Difficulties Encountered	No significant limitations were placed on the scope or timing of our audit.
Identified or Suspected Fraud	Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud. While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.
Identified or Suspected Non-Compliance with Laws And Regulations	Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the consolidated financial statements.
Matters Arising in Connection With Related Parties	No significant matters arose during the course of our audit in connection with related parties of the Municipality.
Significant Deficiencies in Internal Control	Our audit process focuses on understanding the controls utilized in management's reporting systems, including for estimates, to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing. It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls. We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to Council on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist. While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, we have detected significant deficiencies in internal controls, which are included in Appendix B to this

Area	Comments
	report
Going Concern	Nothing has come to our attention that would suggest a significant doubt on the ability of the Municipality to continue as a going concern.
Matters Arising from Discussions With Management	We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the Municipality. There were no significant matters discussed, or subject to correspondence, with management that in our judgment need be brought to your attention.
Significant Differences	A few significant adjustments were proposed to management with respect to the December 31, 2025 consolidated financial statements. A summary of significant differences has been included as Appendix D to this report.
Final Materiality	Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Municipality, and is affected by our assessment of materiality and audit risk. Final materiality used for our audit was $1,000,000 for December 31, 2025 and $690,000 for December 31, 2024.

Auditor’s Views of Significant Accounting Practices

The application of Canadian public sector accounting standards allows and requires the Municipality to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your Municipality’s accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Area	Comments
Accounting Policies	The accounting policies used by the Municipality are appropriate and have been consistently applied.
Financial Statement Disclosures	The disclosures made in the notes to the consolidated financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the consolidated financial statements.

Other Matters

Management Representations

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit. This letter, provided by management, has been included as additional material to this report.

Auditor Independence

We confirm to Council that we are independent of the Municipality. Our letter to Council discussing our independence is included as part of the additional materials attached to this report.

Appendix A - MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the consolidated financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Where possible, reliance was placed on the controls within these systems to reduce the extent of our testing of transactions and year-end balances. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Obtained an understanding of the Municipality and its environment, the applicable financial reporting framework and the Municipality's system of internal control (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall consolidated financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees; and

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements;
- Not directly related to items that are material to the consolidated financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to management judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements.

Appendix B - Communication Requirements

Required Communication with Those Charged with Governance

Recognizing the importance of effective two-way communication in an audit of financial statements, we wish to highlight the following areas of required communication between our audit team and those charged with governance.

Required Communication	Reference
AUDIT SERVICE PLAN	
• How the firm's system of quality management supports the consistent performance of quality audit engagements.	CSQM 1.34(e)
• Our responsibilities in relation to the financial statement audit, including forming and expressing an opinion on the financial statements.	CAS 260.14
• An overview of the planned scope and timing of the audit, including communication of significant risks identified by the audit team.	CAS 260.15
• With respect to group audit considerations:	CAS 600.57(a)
• An overview of the work to be performed at the components of the group and the nature of the group auditor's planned involvement in the work to be performed by component auditors.	
INQUIRY IN THE COURSE OF THE AUDIT	
• How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and the controls that management has established to mitigate these risks.	CAS 240.21
• Knowledge of any actual, suspected or alleged fraud affecting the Municipality.	CAS 240.22
• Whether the Municipality is in compliance with laws and regulations.	CAS 250.15
• Whether any subsequent events have occurred which might affect the financial statements.	CAS 560.7(b)
AUDIT FINDINGS AND FINALIZATION	
• Any modification to our audit plan and strategy.	CAS 260.A26
• Fraud or suspected fraud identified through the audit process.	CAS 240.40 - .42, CAS 600.57(d)

Appendix B - Communication Requirements (continued from previous page)

Required Communication	Reference
• Matters involving non-compliance with laws and regulations identified through the audit process, unless prohibited by law or regulation.	CAS 250.23
• Our views about significant qualitative aspects of the Municipality's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	CAS 260.16(a), CAS 260 Appendix 2
• When applicable, an explanation of why we consider a significant accounting practice that is acceptable under the applicable financial reporting framework, not to be most appropriate in the particular circumstances of your Municipality.	
• Significant difficulties, if any, encountered during the audit.	CAS 260.16(b)
• Significant matters arising during the audit that were discussed or subject to correspondence, with management and the associated written representations requested of management.	CAS 260.16(c)
• Circumstances that affect the form and content of the auditor's report. This includes:	CAS 260.16(d)
• Modifications to our opinion(s), if any.	CAS 705.30
• The wording of an expected Emphasis of Matter or Other Matter paragraph.	CAS 706.12
• If an uncorrected material misstatement of other information exists.	CAS 720.17 - .18
• Any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process.	CAS 260.16(e)
• A statement of our compliance with relevant ethical requirements regarding independence, including disclosure of:	CAS 260.C17, .A32
• All relationships or matters that in the auditor's professional judgment, may reasonably be thought to bear on independence, and	
• The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.	
• Significant deficiencies in internal control identified during the audit.	CAS 265.9
• Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report.	CAS 450.12 - .13
• Significant matters arising during the audit in connection with the Municipality's related parties.	CAS 550.27

Appendix B - Communication Requirements (continued from previous page)

Required Communication	Reference
• Events or conditions that may cast significant doubt on the Municipality’s ability to continue as a going concern.	CAS 570.25
• With respect to group audit considerations: • Instances where the group auditor’s review of the work of a component auditor gave rise to a concern about the quality of that component auditor’s work, and how the group auditor addressed the concern. • Any limitations on the scope of the group audit.	CAS 600.57(b)

This list is not exhaustive. In addition to the communication requirements discussed above, other requirements exist which are contingent on specific circumstances arising in the course of an audit. The audit team applies professional judgment in determining areas of additional communication with those charged with governance outside of the requirements identified above.

Appendix C - Significant Risk Areas and Responses

Significant Risk Areas and Responses

Significant Risk Area	Response and Conclusion
Management override of controls Presumed risk of material misstatement due to fraud as per CAS 240, as well as potential for inappropriate or unauthorized journal entries being made.	MNP developed criterial for unusual journal entries, determined the population of unusual journal entries and obtained corroborating evidence of these journal entries from management as to why the journal entries were made. No inappropriate journal entries were noted. No management override of controls noted in the period.
Budget Allocation Significant risk that management may manage purchases to match budget. The Organization may defer costs to a later period, accrue costs early to use up unused budget amounts, capitalize items that should be expensed, or allocate costs to a different category.	MNP designed specific tests to examine purchases and transactions around year-end to ensure all expenses were recorded in the proper period and to the appropriate expense classificaiton. Tangible capital asset additions were tested to ensure they should not have been expensed. MNP compared current year results to budget and prior year figures. No exceptions or unusual findings were noted in this testing.
Calculation of employee future benefits liability The liability is large and involves significant assumptions and estimates.	MNP obtained and utilized the actuarual valuation report prepared by NFP Canada.
Government transfers receivable Cut off risk - Risk that grant revenue is recorded in the wrong period.	MNP performed subsequent receipts testing by reviewing all cash receipts after year end greater than 20% of performance materiality, ensured the revenue and cash receipt were recorded to the proper year, ensured there were no subsequent events identified that need disclosure, examined grant agreements and ensured deferrals were appropriate given the grant terms.

Appendix C - Significant Risk Areas and Responses (continued from previous page)

Significant Risk Area	Response and Conclusion
	For significant grants and subsidies, MNP prepared a continuity schedule of revenue and related accounts receivable and accruals: - confirmed cash payments with appropriate government agency or to cash receipt - agreed to ministry approvals - examined correspondence with ministry - reviewed prior years' ministry audits - ensured expenditures per claim forms are reasonable in comparison to expenditures recorded in the general ledger. No exceptions or unusual findings were noted in this testing.
Deferred revenue and restricted contributions Restricted grant funding - Where the organization is in receipt of restricted forms of income, there may be additional disclosure requirements required in the financial statements. There is also a risk that the Entity does not appropriately defer the income where grant conditions have not been met.	MNP performed subsequent receipts testing by reviewing all cash receipts after year end greater than 20% of performance materiality, ensured the revenue and cash receipt were recorded to the proper year, ensured there were no subsequent events identified that need disclosure, examined grant agreements and ensured deferrals were appropriate given the grant terms. For significant grants and subsidies, MNP prepared a continuity schedule of revenue and related accounts receivable and accruals: - confirmed cash payments with appropriate government agency or to cash receipt - agreed to ministry approvals - examined correspondence with ministry - reviewed prior years' ministry audits - ensured expenditures per claim forms are reasonable in comparison to expenditures recorded in the general ledger. No exceptions or unusual findings were noted in this testing.

Appendix C - Significant Risk Areas and Responses (continued from previous page)

Significant Risk Area	Response and Conclusion
Asset Retirement Obligations Due to the complexity and degree of estimation required to determine the future obligations and provision for Asset Retirement Obligations (and related rehabilitation costs), there is a risk that management's assumptions are not appropriate and do not take into account the full range of factors (such as lease obligations, environmental requirements, contractual obligations as well as legal/regulatory requirements).	In initial year of adoption, MNP: - tested a sample of the liability and agreed to source documentation. In subsequent years, MNP: - agreed opening balances to prior year - inquired with client about any abatement or reduction in ARO liabilities during the year - selected a sample of changes to ARO during the year and agreed to source documentation - assessed the assumptions used in the determination of the liability for reasonability No exceptions or unusual findings were noted in this testing.
EFT Payments EFT's can be processed by single person - Jennifer processes EFT's and reconciles bank.	MNP tested a sample of invoices ensuring they had been approved by department heads, and performed analytical work on appropriate expense accounts. No exceptions or unusual findings were noted in this testing.
Key employees managing payroll Key employees managing payroll. There is the potential for key personnel to manipulate payroll.	MNP ensured that remuneration to key management employees was authorized by Council and agreed to payroll records.

Appendix D - Summary of Significant Differences

Significant Adjusted Differences

Differences Noted	Items Affected	Balance Sheet	Earnings
To split TCA WIP between asset classifications		$ -	$ -
To adjust for the elimination of RTSF grant funding, which was previously recorded as a flow-through through the Town of Hanover, but should be directly recorded by SMART with no Town of Hanover pickup of revenues or expenses.		$ -	$ -
To remove vehicle from listing - client did not make entry to capital assets in prior years - need entry for continuity to work		$ -	$ -
Entry to balance financial statements		$ 256,209	$ (256,209)
Close out net revenues for the year		$ 76,998	$ -
To reverse fair market value adjustments to investments		$ -	$ -

Appendix D - Summary of Significant Differences (continued from previous page)

Differences Noted	Items Affected	Balance Sheet	Earnings
To record PBC entry - for addition of wading pool.		$ -	$ -
To record PBC entry - TCA and amortization of wading pool		$ -	$ -
To record PBC entry - WIP adjustment		$ -	$ -
To record PBC entry - WIP adjustment		$ -	$ -
To record PBC entry - double entry adjustment		$ -	$ -
To record PBC entry for reversal of the SplashPad funding capital.		$ -	$ -
To record PBC entry relating to Federal Gas Tax		$ -	$ -
To record 2025 surplus allocation (PBC)		$ -	$ -
Total Adjusted Differences (Income Effect)			**$ (256,209)**

Significant Unadjusted Differences

Differences Noted	Items affected	Balance Sheet	Earnings

Appendix D - Summary of Significant Differences (continued from previous page)

To record the impact of inflation on the ARO.		$ (49,663)	$ 49,663
To record wsib credit recorded in AP		$ -	$ -
To clear the prepaid expense and accrued liability that is from the Jan 2 payroll period however paid Dec 31		$ -	$ -
Uncorrected opening differences		$ -	$ -
Total Unadjusted Differences (Income Effect)			**$ 49,663**

Canadian generally accepted auditing standards require that we request of management and Council that identified unadjusted differences be corrected. We have made this request of management, however based on both quantitative and qualitative considerations management has decided not to correct those identified differences that remain unadjusted. They have represented to us that in their judgment the unadjusted differences are, both individually and in the aggregate, not material to the consolidated financial statements.

We concur with management's representation that the unadjusted differences are not material to the consolidated financial statements and, accordingly, these unadjusted differences have no effect on our Independent Auditor’s Report.

Draft Independent Auditor's Report

(See Attached)

Independent Auditor's Report

To the Members of Council of Corporation of the Town of Hanover:

Opinion

We have audited the consolidated financial statements of Corporation of the Town of Hanover and its subsidiaries (the "Municipality"), which comprise the consolidated statement of financial position as at December 31, 2025, 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 consolidated financial position of the Municipality as at December 31, 2025, and the results of its consolidated operations, changes in its net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Municipality 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 the 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 Municipality's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Municipality or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Municipality'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 Municipality'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 Municipality'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 Municipality 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Municipality as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes 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.

Hanover, Ontario

Chartered Professional Accountants

Licensed Public Accountants

Management Representations

(See Attached)

Corporation of the Town of Hanover
341 10th Street
Hanover, ON N4N 1P5

August 10, 2026

MNP LLP
485 10th Street
Hanover, Ontario N4N 1R2

To Whom It May Concern:

In connection with your audit of the consolidated financial statements of Corporation of the Town of Hanover (the "Municipality") as at December 31, 2025 and for the year then ended, we hereby confirm to the best of our knowledge and belief, the following representations made to you during the course of your audit.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards. Accordingly, the audit included an examination of the accounting system, controls and related data, and tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances, for the purpose of expressing an opinion on the consolidated financial statements. We also understand that such an audit is not designed to identify, nor can it necessarily be expected to disclose, misstatements, non-compliance with laws and regulations, fraud or other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the consolidated financial statements would influence the decision of a reasonable person relying on the consolidated financial statements.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 8, 2025, for the preparation and fair presentation of the Municipality's consolidated financial statements and comparatives in accordance with Canadian public sector accounting standards. We believe these consolidated financial statements and comparatives are complete and present fairly, in all material respects, the financial position of the Municipality as at December 31, 2025, and the results of its operations and its cash flows, in accordance with Canadian public sector accounting standards.

2. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements, and are reported in the appropriate period.

3. We acknowledge that we are responsible for the accounting policies followed in the preparation of the Municipality's consolidated financial statements. Significant accounting policies, and any related changes to significant accounting policies, are disclosed in the consolidated financial statements. The selection of accounting policies is appropriate in accordance with the requirements of Canadian public sector accounting standards, and are applied consistently throughout the consolidated financial statements.

4. All significant judgments made in making the accounting estimates have taken into account all relevant information of which we are aware.

5. The selection and application of the methods, assumptions and data used in making the accounting estimates are consistent and appropriate.

6. The assumptions relevant to accounting estimates and disclosures appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

7. Disclosures related to accounting estimates, including disclosures describing estimation uncertainty, are complete and are reasonable in the context of Canadian public sector accounting standards.

8. Appropriate specialized skills or expertise have been applied in making the accounting estimates.

9. No subsequent event requires adjustment to the accounting estimates and related disclosures included in the consolidated financial statements.

10. We are aware of and concur with the contents and results of the attached journal entries prepared by you, and accept responsibility for the consolidated financial statement effects of the entries.

11. We believe the effects of those uncorrected consolidated financial statement differences aggregated by you during the audit are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. A summary of these differences has been attached as Appendix A to this written representation.

12. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards.

13. All events or transactions that have occurred subsequent to the statement of financial position and for which Canadian public sector accounting standards require adjustment or disclosure have been adjusted or disclosed appropriately in the consolidated financial statements.

14. All plans or intentions that may affect the carrying value or classification of assets and liabilities are appropriately reflected in the consolidated financial statements in accordance with Canadian public sector accounting standards.

15. All liabilities, both known and contingent, requiring recognition or disclosure in the consolidated financial statements in accordance with the requirements of Canadian public sector accounting standards have been adjusted or disclosed as appropriate.

16. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

17. All assets, wherever located, to which the Municipality had satisfactory title at the year-end, have been fairly stated and recorded in the consolidated financial statements. The assets are free from hypothecation, liens and encumbrances, except as noted in the consolidated financial statements. We have disclosed the nature and carrying amounts of any assets pledged as collateral. All assets of uncertain value, and restrictions imposed on assets, are appropriately reported in the consolidated financial statements.

18. All aspects of laws, regulations or contractual agreements, including non-compliance, are appropriately reflected in the consolidated financial statements.

19. All restricted cash has been appropriately designated and separated from operating funds.

20. All cash accounts have been appropriately recorded in the consolidated financial statements and all terms and associated conditions have been disclosed to you in full. We have provided you with the most current banking agreements.

21. Investments in marketable securities are appropriately recorded in the consolidated financial statements in accordance with the requirements of Canadian public sector accounting standards. All events or circumstances giving rise to impairments are reflected in the consolidated financial statements.

22. Accounts and contributions receivable are correctly described in the records and represent valid claims as at December 31, 2025. An appropriate allowance has been made for losses from uncollectible accounts and for costs or expenses that may be incurred with respect to sales made or services rendered.

23. Inventory is correctly recorded in the consolidated financial statements in accordance with the requirements of Canadian public sector accounting standards. All required provisions for slow-moving, obsolete, and unsaleable stock have been recorded. Inventory does not include any goods on consignment to others or goods invoiced to customers.

24. All charges to tangible capital assets represent capital expenditures. No expenditures of a capital nature were charged to operations of the Municipality. Depreciation of tangible capital assets has been recorded according to our best estimates of their useful lives. All events or circumstances giving rise to impairments are appropriately reflected in the consolidated financial statements.

25. Government transfers have been recognized when the transfer is authorized, and all eligibility criteria have been met.

26. All long-term debt has been appropriately recorded in the consolidated financial statements. All payments and accrued interest have been accounted for. The current portion of long-term debt is appropriately classified. All terms and conditions have been fully disclosed in the consolidated financial statements. We have provided you with the most current debt and financing agreements.

27. Employee future benefits have been appropriately recorded in the consolidated financial statements according to the requirements of Canadian public sector accounting standards. All actuarial assumptions and valuations have been disclosed to you in full and are appropriate.

28. Revenue has been recognized only where sales have been made and items delivered, or services rendered, and the amounts have been collected or are collectible. Revenues do not include any amounts arising from consignment sales or from any other transaction from which the Municipality is not entitled to the proceeds.

29. Revenue from exchange transactions has been recognized when, or as, the Municipality satisfies a performance obligation by providing the promised goods or services to a payor in accordance with the requirements of Public Sector Accounting Standards.

30. Revenue from non-exchange transactions has been recognized, at its net realizable value, when the Municipality has the authority to claim or retain an inflow of economic resources and identifies a past transaction or event that gives rise to an asset in accordance with the requirements of Public Sector Accounting Standards.

31. We have identified all financial instruments, including derivatives, and hedging relationships. These have been appropriately recorded and disclosed in the consolidated financial statements in accordance with the requirements of Canadian public sector accounting standards.

32. We have identified all known or potential contaminated sites and the costs associated with the remediation of these sites have been appropriately accounted for and disclosed in the financial statements in accordance with Canadian public sector accounting standards.

Information Provided

1. We have responded fully to all inquiries made to us and have made available to you:

   - A complete record of all financial records that are relevant to the preparation and presentation of the consolidated financial statements, and related data and minutes of the meetings of the Council held throughout the year to the present date as well as summaries of recent meetings for which minutes have not yet been prepared;
   - Additional information that you have requested from us for the purpose of your audit;
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. We acknowledge management's responsibility for the design, implementation and operation of controls that have been designed to prevent and detect fraud.

3. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.

4. Where the impact of any frauds or suspected frauds, and non-compliance or possible non-compliance with laws and regulations, has a material effect on the consolidated financial statements, we have disclosed to you all known significant facts relating thereto, including circumstances involving management, employees having significant roles over controls, and others. We have made known to you any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators and others. The effects of such events, if any, are properly presented in the consolidated financial statements.

5. We have disclosed to you all deficiencies in the design or operation of internal controls over financial reporting of which we are aware.

6. We have disclosed to you all aspects of laws, regulations or contractual agreements that may affect the consolidated financial statements, including non-compliance.

7. We have disclosed to you the identities of all related parties to the Municipality and all related party relationships and transactions of which we are aware.

8. The use of the going concern basis of accounting is appropriate and the Municipality will be able to realize the

carrying value of its assets and discharge its liabilities in the normal course of business. We have provided you with appropriate and complete information about identified events or conditions that may cast significant doubt on the Municipality's ability to continue as a going concern, our plans for future action and the feasibility of these plans.

9. We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

10. The previous year's representation letter dated August 11, 2025 is still applicable to the prior year's consolidated financial statements and comparatives, and no matters have arisen that require restatement of those consolidated financial statements and comparatives.

11. There are no discussions with your firm's personnel regarding employment with the Municipality.

Professional Services

1. We acknowledge the engagement letter dated December 8, 2025, which states the terms of reference regarding your professional services.

2. We are not aware of any reason why MNP LLP would not be considered independent for purposes of the Municipality's audit.

Sincerely,

Corporation of the Town of Hanover

____________________________ ____________________
Signature Title

Appendix A - Summary of Differences

Description of Differences	Proposed Adjustments DR (CR)				
	Earnings		Balance Sheet		
	Identified	Likely Aggregate (Net of Tax)	Assets	Liabilities	[Equity]
To split TCA WIP between asset classifications	$ -	$ -	$ -	$ -	$ -
To adjust for the elimination of RTSF grant funding, which was previously recorded as a flow-through through the Town of Hanover, but should be directly recorded by SMART with no Town of Hanover pickup of revenues or expenses.	$ -	$ -	$ -	$ -	$ -
To remove vehicle from listing - client did not make entry to capital assets in prior years - need entry for continuity to work	$ -	$ -	$ -	$ -	$ -
Entry to balance financial statements	$ (256,209)	$ (256,209)	$ (298,596)	$ -	$ 298,596
Close out net revenues for the year	$ -	$ -	$ -	$ -	$ -
To reverse fair market value adjustments to investments	$ -	$ -	$ -	$ -	$ -
To record PBC entry - for addition of wading pool.	$ -	$ -	$ -	$ -	$ -
To record PBC entry - TCA and amortization of wading pool	$ -	$ -	$ 17,453	$ -	$ (17,453)

Appendix A - Summary of Differences *(continued from previous page)*

Description of Differences	Proposed Adjustments DR (CR)				
	Earnings		Balance Sheet		
	Identified	Likely Aggregate (Net of Tax)	Assets	Liabilities	[Equity]
To record PBC entry - WIP adjustment	$ -	$ -	$ (263,035)	$ -	$ 263,035
To record PBC entry - WIP adjustment	$ -	$ -	$ 378,142	$ -	$ (378,142)
To record PBC entry - double entry adjustment	$ -	$ -	$ (3,811,659)	$ -	$ 3,811,659
To record PBC entry for reversal of the SplashPad funding capital.	$ -	$ -	$ -	$ -	$ -
To record PBC entry relating to Federal Gas Tax	$ -	$ -	$ -	$ 240,153	$ (240,153)
To record 2025 surplus allocation (PBC)	$ -	$ -	$ -	$ -	$ -
To record the impact of inflation on the ARO.	$ 49,663	$ 49,663	$ -	$ (177,368)	$ 177,368
To record wsib credit recorded in AP	$ -	$ -	$ 77,104	$ (77,104)	$ -
To clear the prepaid expense and accrued liability that is from the Jan 2 payroll period however paid Dec 31	$ -	$ -	$ (238,343)	$ 238,343	$ -
Total	$ (206,546)	$ (206,546)	$ (4,138,934)	$ 224,024	$ 3,914,910
Differences corrected by management	$ (256,209)	$ (256,209)	$ (3,977,694)	$ 240,153	$ 3,737,541
Total differences net of corrections	$ 49,663	$ 49,663	$ (161,239)	$ (16,129)	$ 177,368

Appendix A - Summary of Differences *(continued from previous page)*

Description of Differences	Proposed Adjustments DR (CR)				
	Earnings		Balance Sheet		
	Identified	Likely Aggregate (Net of Tax)	Assets	Liabilities	[Equity]
Uncorrected opening differences	$ -	$ -	$ -	$ -	$ -
Current period differences	$ 49,663	$ 49,663	$ (161,239)	$ (16,129)	$ 177,368
Final overall materiality	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000
Excess (shortfall)	**$ 950,337**	**$ 950,337**	**$ 838,761**	**$ 983,871**	**$ 822,632**

Independence Communication

(See Attached)

August 10, 2026

Council
Corporation of the Town of Hanover
341 10th Street
Hanover, ON N4N 1P5

Dear Sirs/Mesdames:

We have been engaged to audit the consolidated financial statements of Corporation of the Town of Hanover (the "Municipality") as at December 31, 2025 and for the year then ended.

The purpose of this letter is to communicate with you regarding all relationships between the Municipality and MNP LLP and/or its affiliates (collectively, "MNP") that, in our professional judgement, may reasonably be thought to bear on our independence. In determining which relationships to report, we consider the relevant rules and related interpretations prescribed by the appropriate professional accounting body and applicable legislation, covering such matters as:

(a) Holding a financial interest, either directly or indirectly, in a client;
(b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client or a related entity;
(c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
(d) Economic dependence on a client; and
(e) Provision of non-assurance services in addition to the audit engagement.

We are aware of the following relationships between the Municipality and MNP that, in our professional judgment, may reasonably be thought to bear on our independence. The following relationships represent matters that have occurred from January 1, 2025 to August 10, 2026.

We will provide assistance in the preparation of the financial statements, including adjusting journal entries. Tehse services will create a self review threat to our independence since we subsequently perform an audit engagement on the financial statements.

We, therefore, require the following safeguards be put in place related to the above:
- Management creates the source data for all the accounting entries
- Management develops any underlying assumptions required with respect to the accounting treatment and measurement of the entries.
- Management reviews and approves all journal entries prepared by us, as well as changes to financial statement presentation and disclosure.
- Someone other than the preparer reviews the proposed journal entries and financial statements.

We hereby confirm that MNP is independent with respect to the Municipality within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario as of August 10, 2026.

This report is intended solely for the use of Council, management and others within the Municipality and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you at our meeting on August 10, 2026. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Sincerely,

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

encls.

MNP

August 10, 2026

Corporation of the Town of Hanover
341 10th Street
Hanover, Ontario
N4N 1P5

Attention: Mayor Sue Paterson, Council Members

Dear Mayor Paterson, Council Members:

Re: 2025 Audited Financial Statements

We are pleased to report to you regarding 2025 year-end financial results. Enclosed is the year-end package of financial statements for your review as well as other important documents that we will review with you prior to the Council meeting. We will be meeting with you on the afternoon of August 10, 2026. After that, a summary of the financial statements will be presented during the public Council meeting. Kevin Tremble will attend both meetings and make the presentations.

Auditor's Report

Subject to completion of our remaining procedures, we expect to issue an unmodified auditor's report on the 2025 consolidated financial statements.

Financial Highlights

The financial statements are "consolidated", which means that they include the Town's share of the boards that are controlled by Council (Police, Library and DIA) as well as the boards that are jointly controlled by the Town with one or more other municipalities (Landfill, S.M.A.R.T. and S.M.A.).

The ***Statement of Financial Position*** is on page 6 of the package. This statement illustrates the financial position of the Town as at December 31, 2025 and identifies Financial Assets and Liabilities separate from Non-Financial Assets as you can see from the statement.

The amounts referred to below are rounded for ease of reporting to you.

The Town has financial assets of $24.65 million (M) at December 31, 2025, about $50k more than the prior year. There are several fluctuations year-over-years to note.

- Cash is down $3.63M in 2025 mainly due to the operating bank account decreasing by $4.2M and this being offset slightly by the consolidated reserve fund bank increasing by $0.6M.
- Portfolio investments are up by $336k due to $336k of reinvested OneFund income.

- Tax collections continue to be very good, with taxes receivable (which include current and prior years along with penalty and interest) representing about 7% of the Town's portion of taxes levied. Taxes receivable are up $115K from 2024.
- Government transfers (grants) receivable are up $2.1M from 2024. This will fluctuate based on grants approved and received around December 31st each year.
- Other receivables have increased by $1.2M from 2024.
  - A significant portion of the increase in receivables relates to amounts due from the County of Grey at year-end.

The Town's liabilities increased by $1.5M, to $18.2.M.

- Accounts payable are down $0.15M. This depends on the timing of payments and capital projects on-going at the end of the year. In the current year, much of this is related to miscellaneous holdbacks specifically for the Landmark – 7th Ave Water Tower.
- Temporary borrowings have decreased $5.8M, mostly comprised of a $5.8M temporary loan that was taken on to finance the Firehall Construction in 2024.
- Long-term debt increased by $6.7M due to two new loans obtained during the year, partially offset by repayments on existing debt. The new loans relate to the Fire Hall project, totaling $5.36M, and the Trail Bridges project, totaling $1.47M.
- Deferred revenue has increased by $540K caused by an increase in unspent provincial gas tax funds received in the year compared to 2024 and an additional $360k from HEWSF Milestone 2 overpayment.
- Asset retirement obligation has increased by $75K due to accretion of the liabilities. A new actuary report should be considered for 2026.

That leaves the Town with Net Financial Assets of $6.43M compared to $7.92M last year, a decrease of $1.49M. The decrease in net financial assets in primarily caused by significant capital additions of $17.6M. Financial resources were converted into long-term infrastructure assets.

During the year, the Town acquired $17.6M of tangible capital assets. After accounting for $3.1M of amortization and asset disposals, the net carrying value of tangible capital assets increased by $14.3M to $115.6M. TCA represents the Town's investment in infrastructure (roads, buildings, services, etc.).

The Statement of Financial Position reflects an Accumulated Surplus for the Town of $124.6M, an increase of $12.8M over the prior year. Approximately $115.6M of the Town's accumulated surplus represents its investment in tangible capital assets such as roads, water and wastewater infrastructure, buildings, parks and equipment.

The ***Consolidated Statement of Operations*** is on page 7. Revenue totaled $35.8M vs. $26.1M last year. Revenue includes taxation, user fees, investment and other income, and government transfers recognized during the year.

Taxation revenues are up $773K (8%), government transfers went up by $2.9M (40%). User fees have increased by $1.98M compared to prior year. This includes County contribution for road work of $1.3M that did not occur in the prior year.

2025 expenses total $22.9M, about $1.67M more than the prior year. Several areas have experienced year-over-year changes. General government has increased by 67k, almost entirely made up of regular salaries. Protection services are up $494K, mostly driven by regular and part time salary increases and future/lieu vacation. Transportation is up by $1.59M as a result of the current year having $1.3M cost of roads (cost shared with County). Transit is down by $473K which is a result of transfer to SMART Transit Corp decreasing by $514k. Environmental services are up $72K. Health and social services decreased $156k. Recreation and cultural services are up $30K. Planning and development are up $43K.

2025 expenses were largely in line with the budget for 2025. Overall expenses were approximately $2.0M, or 9.5%, above budget. Most of the variance relates to transportation services, which were $1.57M above budget due primarily to cost-shared road work with the County.

That leaves the Town with an annual surplus of $12.8M. The annual surplus is higher than was budgeted of $10.5M. It is important to note that the annual surplus is not equivalent to available cash. The surplus includes contributions of infrastructure assets, grant funding received for capital purposes, and amortization adjustments required under public sector accounting standards. Although the Town reported an annual surplus of $12.8M, cash decreased by $3.6M because the Town invested heavily in capital infrastructure during the year, including approximately $17.6M of asset acquisitions.

The 2025 annual surplus increases the Town's accumulated surplus to $124.6M, as noted on page 7 of the financial statements. Note 12 to the financial statements breaks out the consolidated accumulated surplus. The unrestricted consolidated surplus is approximately $3,000, indicating that substantially all resources have either been invested in capital assets, are required to recover liabilities, or have been set aside in reserves and reserve funds.

Included in the appendix to this letter are several charts for your information. They show the Town's revenue by source and its expenses by segment and by object, with comparative amounts for the prior year.

The ***Consolidated Statement of Change in Net Financial Assets*** on page 8 illustrates the change in net financial assets for the year. It begins with the annual surplus and adjusts for transactions related to your tangible capital assets and other non-financial assets. The Town has a net financial asset position of $6.4M.

Page 10 is the ***Consolidated Statement of Cash Flows***. The statement indicates that operating activities of the Town generated $13.4M in cash flow during the year, that capital activities (purchasing capital assets) required cash of $17.6M, and financing activities, including new borrowings and debt repayments, provided net cash of approximately $914K.

Pages 10 to 13 are the ***Summary of Significant Accounting Policies***. There are no new accounting policies in 2025.

Pages 14 to 34 are the ***Notes to Consolidated Financial Statements***. To highlight a few of the notes:

Note 7 on page 16 provides details on the Town's long-term debts. Long-term debt includes the Federation of Canadian Municipalities loan for the Firehall Construction Project worth $5.36M, which is replacing the temporary borrowing in 2024. There is also a loan in long-term debts for Trail Bridges loan as well for $1.47M.

Note 8 on page 17 outlines details about the asset retirement obligation liability. The only change in this area was recognizing approximately $86,000 of accretion expense, partly offset by approximately $10,000 of obligations settled during the year.

Notes 9 & 10 on pages 18 & 19 provide information on the employee future benefits provided by the Town to its employees. Note 9 discloses the amount contributed by the Town in 2025 to the OMERS pension plan and indicates that the OMERS plan has an actuarial deficit of $1.3 billion at

December 31, 2025. This deficit does not represent an obligation of the Town beyond its ongoing required pension contributions.
Note 10 discloses additional information with respect to the Town's obligation to pay a retirement benefit or continuation of health benefits to age 65 for eligible employees.

Note 11 (page 20) provides details on the tangible capital assets of the Town. At December 31, 2025, there was approximately $11M of construction in progress. The Water Tower replacement being a large portion of this.

Note 12 discloses additional information regarding the Town's accumulated surplus/(deficit). The *consolidated* general surplus was $3K for 2025. This relates to the Saugeen Municipal Airport, Launch Pad, & General Area Taxation.

Note 13 lists the reserves and discretionary reserve funds of the Town. They total $20.2M in 2025 vs. $20.5M in 2024. These reserves and reserve funds have been set aside for specific operating and capital purposes. Some are subject to restrictions, while the use or reallocation of others remains at Council's discretion.

Note 24 describes the boundary adjustment with the Municipality of West Grey, which became effective on May 1, 2026.

Closing remarks

A review of the financial statements shows that the Town's surplus has increased and reserve funds has decreased in the year. The Town has net financial assets of $6.4M, reserves and reserve funds of $20.2M, an annual surplus for 2025 of $12.84M, and an accumulated surplus at December 31, 2025 of $124.6M.

We would like to thank Jelena and the rest of the town staff for their co-operation during the audit. Your staff is excellent to work with, and we greatly appreciate their efforts.

If you have any questions prior to, during, or following the meeting, please do not hesitate to ask.

Yours truly,

Kevin Tremble, CPA, CA
Partner through a corporation
MNP LLP
Chartered Professional Accountants, Licensed Public Accountants

c.c. Sherri Walden, Jelena Savic

Appendix

Town of Hanover
2025 Statistical Analysis

Figure 1 Revenue by Source

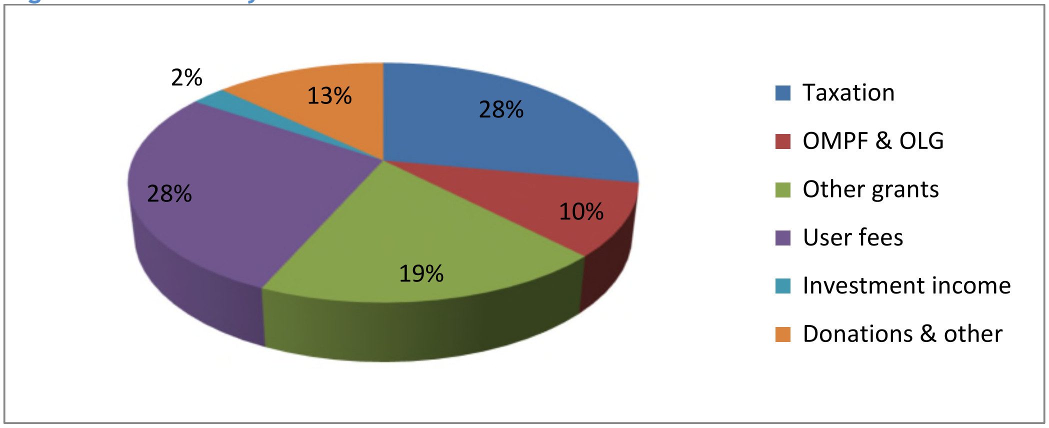


Figure 2 Expenses by Segment

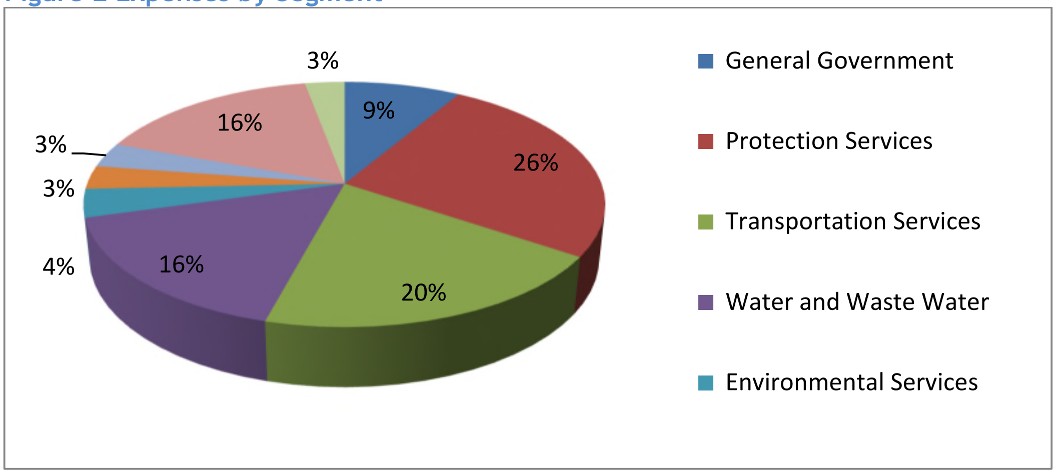
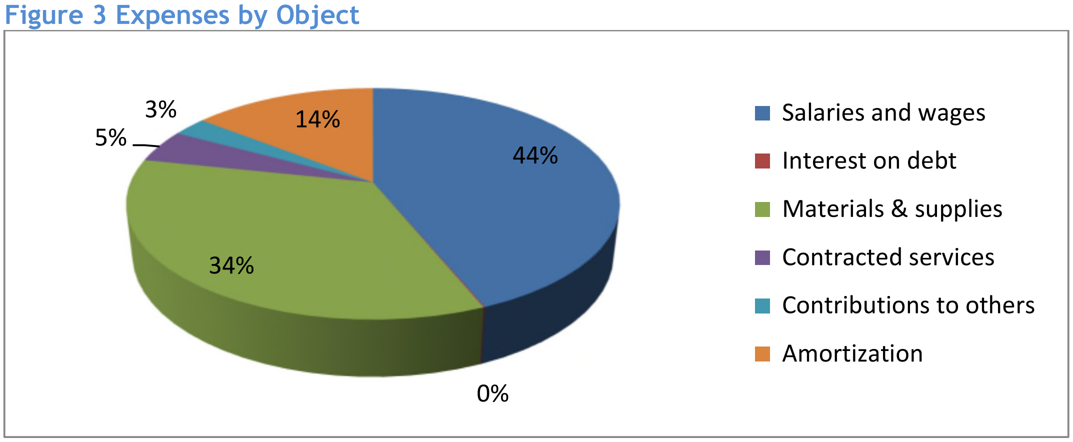


Figure 3 Expenses by Object



Town of Hanover
2024 Statistical Analysis

Figure 1 Revenue by Source

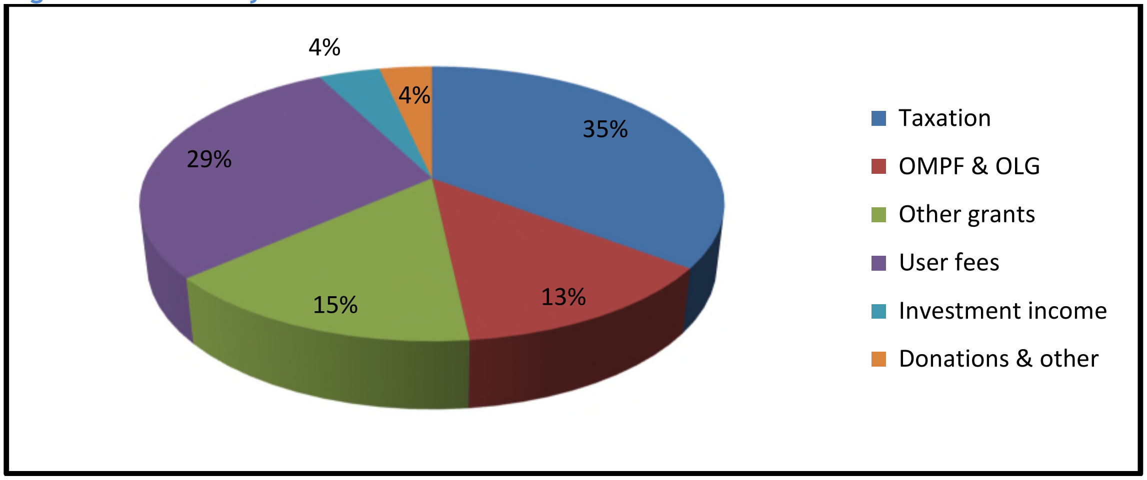


Figure 2 Expenses by Segment

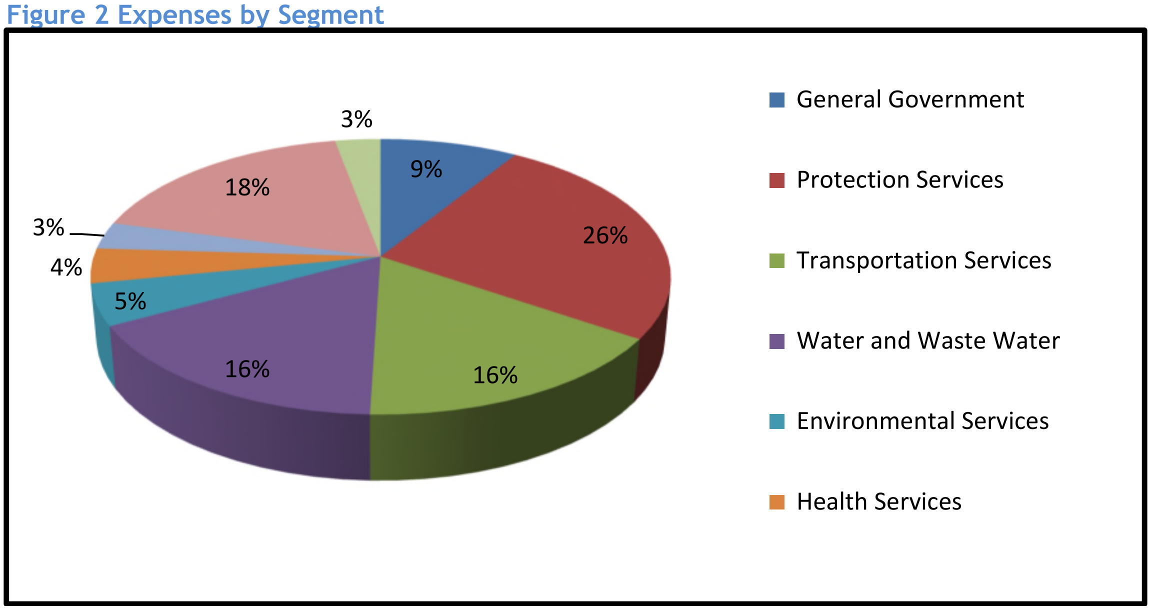
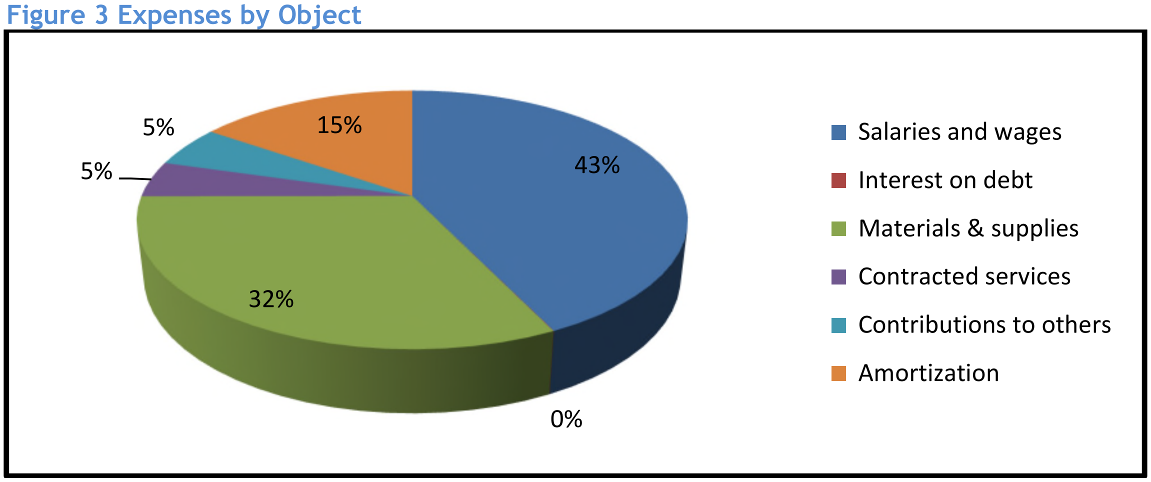


Figure 3 Expenses by Object



THE CORPORATION OF THE TOWN OF HANOVER
CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2025

CONTENTS

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

Management's Responsibility for the Consolidated Financial Statements

The management of the Corporation of the Town of Hanover ("Municipality") is responsible for the integrity, objectivity and accuracy of the financial information in the accompanying consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is disclosed in Note 1 to the consolidated financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, administration has developed and maintained a system of internal control designed to provide reasonable assurance that the Municipality's assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of the financial statements.

The Chief Administrative Officer and Director of Corporate Services review the financial statements before such statements are submitted to Council and published for the residents of Hanover. The external auditors have access to, and meet with Administration and Council to discuss their audit and the results of their examination.

Council meets with the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matter prior to council's approve of the consolidated financial statements.

The financial statements have been audited by MNP LLP, independent external auditors appointed by council. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Municipality's consolidated financial statements.

Hanover, Ontario

Sherri Walden
Chief Administrative Officer

Jelena Savic
Director of Corporate Services

Independent Auditor's Report

To the Members of Council of Corporation of the Town of Hanover:

Opinion

We have audited the consolidated financial statements of Corporation of the Town of Hanover and its subsidiaries (the "Municipality"), which comprise the consolidated statement of financial position as at December 31, 2025, 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 consolidated financial position of the Municipality as at December 31, 2025, and the results of its consolidated operations, changes in its net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Municipality 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 the 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 Municipality's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Municipality or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Municipality'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 Municipality’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 Municipality’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 Municipality 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Municipality as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes 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.

Hanover, Ontario

Chartered Professional Accountants

Licensed Public Accountants

THE CORPORATION OF THE TOWN OF HANOVER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2025

	2025 **$**	2024 $
FINANCIAL ASSETS		
Cash and cash equivalents (note 2)	**$ 12,214,680**	$ 15,849,132
Portfolio investments (note 3)	**2,001,818**	1,665,033
Taxes receivable	**735,507**	620,863
Water and wastewater charges receivable	**754,559**	805,580
Government transfers receivable	**3,565,481**	1,447,842
Other receivables	**2,600,578**	1,424,733
Inventory for resale	**24,313**	29,075
Long-term investments (note 4)	**2,756,742**	2,756,742
TOTAL FINANCIAL ASSETS	**24,653,678**	24,599,000
LIABILITIES		
Temporary borrowings (note 6)	**18,445**	5,824,778
Accounts payable and accrued liabilities	**3,626,513**	3,765,780
Deferred revenue (note 5)	**1,433,311**	891,913
Long-term debt (note 7)	**6,832,417**	112,326
Asset retirement obligations (note 8)	**4,995,602**	4,919,993
Employee future benefits liability (note 10)	**1,321,120**	1,164,927
TOTAL LIABILITIES	**18,227,408**	16,679,717
NET FINANCIAL ASSETS	**6,426,270**	7,919,283
NON-FINANCIAL ASSETS		
Tangible capital assets (schedule 1)	**115,610,608**	101,324,483
Inventory of supplies	**227,996**	207,051
Land held for sale	**1,946,528**	1,935,402
Prepaid expenses	**341,248**	329,331
TOTAL NON-FINANCIAL ASSETS	**118,126,380**	103,796,267
ACCUMULATED SURPLUS (note 12)	**$ 124,552,650**	$ 111,715,550

THE CORPORATION OF THE TOWN OF HANOVER

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended December 31, 2025

	Budget 2025 $	Actual 2025 $	Actual 2024 $
REVENUES			
Taxation	9,948,500	$ **10,001,335**	$ 9,228,399
Government transfers (note 15)	10,675,750	**10,227,231**	7,292,167
Waste and wastewater charges	5,687,800	**5,718,602**	5,298,122
User fees and service charged	3,839,382	**4,252,099**	2,271,464
Investment income	376,100	**931,519**	1,063,309
Donations and contributed assets	376,000	**4,026,424**	388,011
Other income	555,000	**593,565**	579,213
TOTAL REVENUES	31,458,532	$ **35,750,775**	$ 26,120,685
EXPENSES			
General government	1,798,600	$ **1,949,432**	$ 1,882,725
Protection services	5,914,400	**5,941,050**	5,447,445
Transportation services	2,211,099	**3,781,613**	2,187,240
Transit	1,088,090	**737,772**	1,210,635
Environmental services	4,347,350	**4,616,637**	4,544,254
Health and social services	567,900	**709,417**	865,798
Recreation and cultural services	4,425,100	**4,514,762**	4,484,678
Planning and development	567,000	**662,992**	620,168
TOTAL EXPENSES	20,919,539	$ **22,913,675**	$ 21,242,943
ANNUAL SURPLUS	10,538,993	**12,837,100**	4,877,742
ACCUMULATED SURPLUS - beginning of year	111,715,550	**111,715,550**	106,837,808
ACCUMULATED SURPLUS - end of year (note 10)	$ 122,254,543	$ **124,552,650**	$ 111,715,550

THE CORPORATION OF THE TOWN OF HANOVER

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the year ended December 31, 2025

	Budget 2025 $	**Actual 2025 $**	Actual 2024 $
ANNUAL SURPLUS	**10,538,993**	**12,837,100**	4,877,742
Acquisition of tangible capital assets	(17,337,000)	**(17,649,687)**	(12,140,209)
Proceeds on disposal of tangible capital assets	32,000	**65,110**	62,200
Amortization expense	2,568,300	**3,096,115**	3,038,874
(Gain)/loss on disposal of tangible capital assets	-	**202,338**	229,566
	(14,736,700)	**(14,286,125)**	(8,809,569)
Decrease (increase) in prepaid expenses		**(11,917)**	(288,642)
Decrease (increase) in inventory of supplies	**-**	**(20,945)**	(23,144)
Decrease (increase) in assets held for sale	**-**	**(11,126)**	3,017
	-	**(43,988)**	(308,769)
Change in net financial assets	(4,197,707)	**(1,493,013)**	(4,240,596)
Net financial assets, beginning of year	7,919,283	**7,919,283**	12,159,879
Net financial assets, end of year	3,721,576	**6,426,270**	7,919,283

THE CORPORATION OF THE TOWN OF HANOVER

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2025

	Actual 2025 $	Actual 2024 $
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual surplus	**12,837,100**	4,877,742
Non-cash charges to operations		
Amortization and writedown of tangible capital assets	**3,298,453**	3,268,440
Employee future benefits	**156,193**	(210,014)
Accretion of asset retirement obligation	**86,106**	83,633
	16,377,852	8,019,801
Change in non-cash assets and liabilties		
Taxes receivable	**(114,644)**	(79,284)
Accounts receivable	**(3,242,461)**	1,615,039
Inventory for resale	**4,762**	20,849
Accounts payable	**(139,272)**	1,338,564
Deferred revenue	**541,398**	(830,532)
Prepaid expenses and inventory of supplies	**(43,988)**	(308,769)
	13,383,647	9,775,668
CAPITAL		
Acquisition of tangible capital assets	**(17,649,687)**	(12,140,209)
Proceeds on disposal of tangible capital assets	**65,110**	62,200
Settlement of asset retirement obligation	**(10,497)**	(10,240)
	(17,595,074)	(12,088,249)
INVESTING		
Purchase of investments	**(336,785)**	(345,901)
Proceeds on sale of investments	**-**	2,000,000
Decrease in loans receivable	**-**	1,135,083
	(336,785)	2,789,182
FINANCING		
Increase (decrease) in temporary borrowings	**(5,806,331)**	5,783,169
Additions to long-term liabilities	**6,862,350**	-
Repayment of long term liabilities	**(142,259)**	(164,753)
	913,760	5,618,416
Net change in cash and cash equivalents	**(3,634,452)**	6,095,017
Cash and cash equivalents - beginning of year	**15,849,132**	9,754,115
Cash and cash equivalents - end of year	**12,214,680**	15,849,132

The Corporation of the Town of Hanover ("Municipality") is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, 2001, Municipal Affairs Act and related legislation. The Municipality provides municipal services such as fire, public works, planning, parks and recreation and other general government operations.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Municipality are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) as defined in the CPA Canada Public Sector Accounting Handbook. Significant aspects of the accounting policies are as follows:

a) Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the current fund, capital fund, reserves and reserve funds of all municipal organizations, committees, and boards which are owned or controlled by council. All interfund assets, liabilities, revenues and expenses have been eliminated on consolidation.

These entities include:

- Hanover Police Services Board
- Hanover Public Library Board
- Hanover Downtown Improvement Area
- Launch Pad Youth Activity & Technology Centre

A government partnership exists where the Municipality has shared control over the board or entity. The Municipality's pro-rata share of the assets, liabilities, revenues and expenses are reflected in the financial statements using the proportionate consolidation method. The Municipality's proportionate interest of the following government partnerships are reflected in the consolidated financial statements:

- Saugeen Mobility and Regional Transit 19.0% (2024 – 18.8%)
- Hanover / Walkerton Landfill Site 50.0% (2024 – 50.0%)
- Saugeen Municipal Airport 31.2% (2024 – 31.2%)

b) 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 revenues and expenses during the period. Management has made estimates of historical cost, useful lives and amortization of capital assets. In addition, estimates have been made of asset retirement obligations and employee future benefit costs. By their nature, these estimates are subject to measurement uncertainty and actual

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

results could differ from management's best estimates as additional information becomes more available in the future.

c) Revenue recognition

Taxation revenues are recorded at estimated amounts when they meet the definition of an asset, have been authorized, and the taxable event occurs. For property taxes, the taxable event is the period for which the tax is levied. As taxes recorded are initially based on management's best estimate of the taxes that will be received, it is possible that changes in future conditions, such as reassessments due to audits, appeals and court decisions, could result in a change in the amount of tax revenue recognized. Taxes receivable are recognized net of an allowance for anticipated uncollectable amounts.

Fines and donations are recognized when collected.

Fees, user charges and other revenues are recorded upon sale of goods or provision of service when collection is reasonably assured.

Investment income earned on surplus funds (other than obligatory reserve funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is recorded directly to each fund balance and forms part of the respective deferred revenue balances.

Government transfers are recognized as revenue in the financial statements 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 statement of operations as the stipulation liabilities are settled.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash accounts held at financial institutions.

e) County and school board

The Municipality collects taxation revenue on behalf of the school boards and the County of Grey. The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the County of Grey are not reflected in these financial statements.

f) Inventory

Inventory of goods held for resale are recorded at the lower of cost and net realizable value. Cost is determined on the average cost basis.

Assets held for sale, where it is not anticipated that the sale will be completed within one year, are reported as a non-financial asset.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory of goods held for consumption are recorded as a non-financial asset at the lower of cost and replacement cost. Cost is determined on the first-in first-out basis.

g) Tangible capital assets

Purchased 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 contributions are recorded at their fair value at the date of contribution. Where fair market value cannot be reasonably determined, contributed tangible capital assets are recorded at a nominal amount. Amortization is calculated on a straight-line basis over the estimated useful life of the asset. The useful lives of the assets are based on estimates made by management as follows:

Asset	**Useful Life**
Land improvements	25 to 40 years
Buildings	50 to 100 years
Building components	10 to 80 years
Equipment	5 to 25 years
Vehicles	5 to 30 years
Infrastructure:	
Road surfaces	20 to 80 years
Utility systems	70 to 100 years

h) Intangible assets

Intangible assets, art and cultural and historic treasures, and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources, are not recorded in these financial statements.

i) Liability for contaminated sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries. Management is not aware of any contaminated sites.

j) Asset retirement obligations

A liability for an asset retirement obligation is recognized when there is a legal obligation to incur retirement costs in relation to a tangible capital asset; the past transaction or event giving rise to the liability has occurred; it is expected that future economic benefits will be given up; and a

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

reasonable estimate of the amount can be made. The liability is recorded at an amount that is the best estimate of the expenditure required to retire a tangible capital asset at the financial statement date. This liability is subsequently reviewed at each financial reporting date and adjusted for the passage of time and for any revisions to the timing, amount required to settle the obligation or the discount rate. Upon the initial measurement of an asset retirement obligation, a corresponding asset retirement cost is added to the carrying value of the related tangible capital asset if it is still in productive use. This cost is amortized over the useful life of the tangible capital asset. If the related tangible capital asset is unrecognized or no longer in productive use, the asset retirement costs are expensed.

k) Employee Future Benefits

The municipality pays post-employment benefits to eligible employees on retirement. The benefits earned are recognized over the service life of the employees using the projected benefit method and management's best estimate of salary escalation, benefit costs, and retirement ages of employees.

Defined contribution plan accounting is applied to the municipality's multi-employer defined benefit pension plan.

l) Trust Funds

Funds held in trust by the municipality, and their related operations, are not included in these financial statements. The financial position and activity of the trust funds are reported separately on the trust fund balance sheet and statement of continuity.

m) Financial instruments

The Municipality classifies its financial instruments as either fair value or amortized cost.

Cash is measured at fair value. All other financial assets and financial liabilities are measured at amortized cost.

Interest and dividends attributable to financial instruments are reported in the statement of operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. All financial assets except derivatives are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

Transaction costs are added to the carrying value for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

2. CASH

Cash consists of deposits at a financial institution. The deposits earn interest at prime less 1.55%, on all business accounts, payable monthly.

The municipality has a line of credit that bears interest at the lender's prime rate less 0.5%. At December 31, 2025, the municipality had undrawn credit capacity under this facility of $500,000.

Included in cash is S763,283 (2024 - $563,229), the use of which is externally restricted by legislation or agreement.

3. INVESTMENTS

	2025	2024
	$	$
GICs and Mutual funds	**2,001,818**	1,665,033
Market value	**3,122,372**	2,576,450

4. LONG-TERM INVESTMENTS

	2025	2024
	$	$
Westario Power Inc.		
1,509 common shares	**2,756,742**	2,756,742

The municipality owns 15.09% of the outstanding shares of Westario Power Inc., a private company incorporated under the laws of the Province of Ontario. The fair value of these shares is not practicable to determine in the absence of published market quotations.

In December 2025, the shareholders of Westario Power Inc., including the Town of Hanover, approved the sale of Westario Power Inc. to ERTH Corporation.

In May 2026, ERTH Corporation made a formal application to the Ontario Energy Board seeking approval for the purchase. As of the date of these financial statements, this approval had not yet been granted.

The total proceeds from the disposition of the common shares of Westario Power Inc. cannot be reliably estimated at this time, and no amounts related to this transaction have been accrued in these financial statements

5. DEFERRED REVENUE

	2025	2024
	$	$
Obligatory reserve funds		
Provincial Gasoline Tax Funding	**710,477**	594,127
Federal Gasoline Tax Funding	**52,807**	29,135
	763,284	623,262
Deferred revenue	**670,027**	268,651
	1,433,311	891,913

The net change during the year in the obligatory reserve fund balances is made up of the following:

	Opening	**Contibutions received**	**Investment income**	**Revenue recognized**	**Ending**
	$	**$**	**$**	**$**	**$**
Obligatory Reserve					
Provincial Gasoline Tax	594,127	740,828	13,472	(637,950)	**710,477**
Federal Gasoline Tax	29,135	260,920	2,904	(240,152)	**52,807**
	623,262	1,001,748	16,376	(878,102)	**763,284**

6. TEMPORARY BORROWINGS

	2025	2024
	$	$
Ontario Infrastructure Temporary Loan, interest at Prime, interest only payments, due October 2029	-	$5,800,000
Credit union operating loan, prime rate less 0.50%, calculated and payable monthly	**18,445**	24,778
	18,445	5,824,778

7. LONG-TERM DEBT

	2025 $	2024 $
Term loan payable, repaid in the year	$ -	$ 112,326
Federation of Canadian Municipalities Term Loan, 4.98%, payable $213,251 semi-annually principal and interest, due October 2045	5,362,350	-
TD Bank Trail Bridges Loan, 4.49%, payable $15,538 monthly principal and interest, due September 2035	1,470,067	-
	$ 6,832,417	$ 112,326

Principal payments in the next 5 fiscal years and thereafter are as follows:

	Principal Repayments
2026	$ 284,418
2027	298,195
2028	312,473
2029	327,779
2030	343,661
Thereafter	5,265,891
	$ 6,832,417

8. ASSET RETIREMENT OBLIGATION

The municipality's financial statements include an asset retirement obligation for asbestos, lead paint and PCB's in the municipality's facilities. The municipality has also included an asset retirement obligation for the closure and post-closure costs with the municipality's active landfill site and post-closure costs of the municipality's closed landfill site. The related asset retirement costs are being amortized on a straight line basis. The liability associated with the closure and post-closure costs has been estimated using a net present value technique with a discount rate of 3.37% (2024 – 3.37%). The liability associated with other asset retirement obligations have not been present valued due to the uncertainty as to when the asbestos will be removed.

The estimated total undiscounted future expenditures are $11,118,565 (2024 - $11,139,301). The expenditures are expected to be incurred and liability settled as follows:

$358,856 incurred over the next 10 years and settled 2026 to 2035;
$638,428 incurred over the next 20 years and settled 2036 to 2045;
$2,208,000 incurred over the next 30 years and settled 2046 to 2055;
$3,389,877 incurred over the next 40 years and settled 2056 to 2065;
$3,471,857 incurred over the next 50 years and settled 2066 to 2075;
$901,547 incurred over the next 60 years and settled 2076 to 2085;
$Nil incurred over the next 70 years and settled 2086 to 2095; and
$150,000 incurred over the next 80 years and settled 2096 to 2105.

	2025	2024
	$	$
Balance, beginning of year	**4,919,993**	4,846,600
Increase due to accretion expense	**86,106**	83,633
Decrease due to liability settled during the year	**(10,497)**	(10,240)
Balance, end of year	**4,995,602**	4,919,993

Significant estimates and assumptions are made in determining the asset retirement costs as there are numerous factors that will affect the amount ultimately payable. Those uncertainties may result in future actual expenditures that are different than the amounts currently recorded. At each reporting date, as more information and experience is obtained as it relates to these asset retirement obligations, the estimates of the timing, the undiscounted cash flows and the discount rates may change. Adjustments to these factors are accounted for as an adjustment to the asset retirement obligation and the related tangible capital asset in the current period on a prospective basis.

9. PENSION PLAN

The Municipality makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of 109 (2024 – 109) members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefits to be received by the employees based on the length of services and rates of pay. Employees and employers contribute jointly to the plan. The amount contributed to OMERS by the Municipality for 2025 was $579,417 (2024 - $544,353). The contribution rate for 2025 was 9.0% to 15.8% depending on age and income level (2024 – 9.0% to 15.8%).

OMERS is a multi-employer plan, therefore any pension 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 OMERS pension surplus or deficit. The last available report for the OMERS plan was December 31, 2025. At that time the plan reported a $1.3 billion actuarial deficit (2024 - $2.9 billion actuarial deficit), based on actuarial liabilities of $149.6 billion (2024 - $140.8 billion) and actuarial assets of $148.3 billion (2024 - $137.9 billion). Ongoing adequacy of the current contribution rates will need to be monitored as declines in the financial markets may lead to increased future funding requirements.

10. RETIREMENT BENEFIT LIABILITY

The municipality provides retirement benefits other than pensions to substantially all of its full-time employees. The plan provides extended health and life insurance benefits to age 65. Certain employees may take a retirement lump sum payout in lieu of the benefit continuation. The plan is unfunded and requires no contribution from employees.

The retirement benefit liability at December 31 is determined as follows:

	2025	2024
	$	$
Retirement benefit accrued benefit obligation	**1,289,149**	1,312,680
Unamortized actuarial gain (loss)	**31,971**	(147,753)
Retirement benefit liability	**1,321,120**	1,164,927

The above amounts were determined by actuarial valuation using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared at December 31, 2024. The accrued benefit obligation shown for 2025 is based on an extrapolation of that 2024 valuation. There is a net unamortized actuarial loss to be amortized on a straight-line basis over the expected average remaining service life of the related employee groups.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical premium inflation rates, wage increases, employee turnover, and mortality rates. The assumptions used reflect management's best estimates, but are subject to measurement uncertainty. Actual results could differ significantly from those estimated because of the uncertainty related to future events and conditions. The liability was determined using a discount rate of 4.25%, along with an inflation rate of 2.00% and a compensation increase rate of 2.00% to 3.00%. For extended health care costs, a 5.67% annual rate of increase was assumed for 2026, decreasing to an ultimate annual rate of increase of 4.00% in 2031. For dental costs, a 4.00% annual rate of increase was assumed.

	2025	2024
	$	$
Current service cost	**92,279**	(139,373)
Changes due to plan amendments	**102,174**	-
Interest costs	**50,962**	41,863
Amortization of actuarial gain/(loss)	**(1,412)**	11,483
Total expense for the year	**244,003**	(86,027)
Benefit payments	**(87,811)**	(123,987)
Change in liability for the year	**156,192**	(210,014)

11. TANGIBLE CAPITAL ASSETS

The carrying value of tangible capital assets not being amortized because they are under construction, development, or have been removed from service is $10,987,241 (2024 -$1,561,570).

Certain land assets have been recorded at nominal values. The land can be used to provide future services.

For additional information, see the Consolidated Schedule of Tangible Capital Assets (Schedule 1).

12. ACCUMULATED SURPLUS

The accumulated surplus reported on the consolidated statement of financial position is comprised of the following:

	2025	2024
	$	$
General surplus (deficit)	**3,047**	(80,389)
Amount invested in land for resale	**1,922,006**	1,922,006
Amounts invested in tangible capital assets	**115,610,608**	101,324,483
Reserves and reserve funds set aside for specific purpose by council (note 13)	**20,166,128**	20,546,696
Amounts to be recovered (note 14)	**(13,149,139)**	(11,997,246)
	124,552,650	111,715,550

The general surplus is comprised of the following		
General area taxation	**76,998**	-
Launch Pad Youth Activity & Technology Centre	**(59,445)**	(59,446)
Saugeen Municipal Airport	**(14,506)**	(20,943)
	3,047	(80,389)

13. RESERVES AND RESERVE FUNDS

	2025	2024
	$	$
Reserves set aside for specific purpose by Council:		
Working funds	**457,434**	457,434
WSIB	**110,199**	113,450
Current		
General government	**867,993**	789,291
Protection services	**99,660**	63,669
Health services	**3,185**	3,305
Westario Power proceeds, set aside in note for future use	**-**	-
Other	**11,781**	1,981
Capital		
Protection services	**514,929**	157,501
Wastewater	**2,331,210**	1,766,856
Water	**1,724,171**	1,380,802
Waste collection and disposal	**228,812**	909,220
Health services	**39,882**	31,280
Hanover Public Library Board	**378,177**	352,431
Recreation and culture	**45,252**	37,751
Planning and development	**167,291**	158,086
Other capital purposes	**1,392,541**	2,086,568
	8,372,517	**8,309,625**
Reserve funds set aside for specific purpose by Council:		
Infrastructure	**1,068,732**	765,950
Investing in Hanover	**1,192,458**	945,749
Water	**2,805,482**	5,048,014
Wastewater	**3,890,439**	2,645,547
Planning and development	**79,758**	75,069
Westario Power proceeds, set aside in shares for future use	**2,756,742**	2,756,742
	11,793,611	12,237,071
Reserves and reserve funds set aside for specific purpose by council, end of the year	**20,166,128**	20,546,696

14. AMOUNTS TO BE RECOVERED

The balance of the amounts to be recovered is comprised of the following:

	2025 $	2024 $
Short term debt	-	5,800,000
Long term debt	**6,832,417**	112,326
Employee future benefits liability	**1,321,120**	1,164,927
Landfill closure and post-closure care liability	**4,995,602**	4,919,993
	13,149,139	11,997,246

The net change during the year in the amounts to be recovered is made up of the following:

	2025 $	2024 $
New debt issued	**6,862,350**	5,800,000
Principal payments on debt	**(5,942,259)**	(164,753)
Change in retirement benefit liability	**156,192**	(210,014)
Change in asset retirement obligation	**75,609**	73,393
Increase (decrease) in amounts to be recovered during the year	**1,151,892**	5,498,626

15. GOVERNMENT TRANSFERS

	2025 Budget $	2025 $	2024 $
Operating			
Province of Ontario Municipal Partnership Fund (OMPF)	2,241,500	**2,241,500**	2,055,000
Ontario Lottery and Gaming Corporation	1,313,000	**1,253,716**	1,332,101
Province of Ontario conditional grants			
General government	-	**-**	-
Protection services	36,700	**57,838**	53,564
Transit	600,800	**585,398**	635,145
Waste collection	-	**1,902**	107,029
Hanover Public Library Board operating grant	16,500	**29,725**	17,572
Social and family Services	-	**-**	18,096
Other	169,750	**30,176**	21,526
	4,378,250	**4,200,255**	4,240,033
Government of Canada conditional grants			
Hanover Public Library Board	-	**14,825**	8,515
Other	2,500	**3,020**	42,295
	2,500	**17,845**	50,810
Other Municipalities conditional grants			
Protection services	145,000	**145,000**	140,800
Roadways	26,600	**27,366**	19,116
Other	-	**-**	-
	171,600	**172,366**	159,916
Total operating transfers	4,552,350	**4,390,466**	4,450,759
Capital			
Province of Ontario conditional grants			
Roadways	500,000	**538,412**	442,099
Protection services	-	**141,365**	370,865
Transit	140,000	**52,553**	378,587
Water and wastewater	3,153,400	**2,689,483**	78,167
Recreation and culture services	-	**-**	421,362
	3,793,400	**3,421,813**	1,691,080
Government of Canada conditional grants			
Protection services	-	**755,669**	550,834
Roadways	330,000	**-**	-
Transit	-	**-**	-
Water and wastewater	2,000,000	**1,659,283**	93,809
Recreation and cultural services	-	**-**	505,685
	2,330,000	**2,414,952**	1,150,328
Total capital transfers	6,123,400	**5,836,765**	2,841,408
Total government transfers	10,675,750	**10,227,231**	7,292,167

15. GOVERNMENT TRANSFERS (continued)

Included in expenses are government transfers for the following:

	2025 Budget $	2025 $	2024 $
Conservation authority	179,200	**179,832**	148,386
Transit	752,783	**334,070**	845,774
Other	100,000	**99,350**	98,250
	1,031,983	**613,252**	1,092,410

16. OTHER INCOME

	2025 Budget $	2025 $	2024 $
Penalties and interest on taxation	80,000	**104,506**	96,003
Rents	409,100	**398,349**	388,140
Other	65,900	**90,710**	95,070
	555,000	**593,565**	579,213

17. SEGMENTED INFORMATION

The Corporation of the Town of Hanover is a diversified municipal government organization that provides a wide range of services to its citizens such as police, fire, roadways, water, and recreation and cultural services. Distinguishable functional segments have been separately disclosed in the segmented information (Schedule 2). The nature of the segments and the activities they encompass are as follows:

General Government
This segment relates to the revenues and expenses that relate to the operations of the municipality itself and unallocated items that cannot be directly attributed to any specific segment. General administration, council activities and maintenance of municipal buildings are included in the functions of general government.

Protection Services
Protection is comprised of police services, fire protection, emergency plan, building inspections, and animal control.

Transportation Services
Transportation is comprised of the municipality's roadways, storm sewers, sidewalks, street lighting, and winter control. It also includes the municipality's proportionate share of the operations of specialty transportation services and an airport, both services that are shared with surrounding municipalities.

Wastewater and Water Services
This segment treats and distributes the municipality's drinking water and ensures that it meets all provincial standards. It also includes the collection and treatment of wastewater.

17. SEGMENTED INFORMATION (continued)

Environmental Services
Environmental services consist of providing waste and recycling collection and the municipality's share of the operation of the Hanover / Walkerton joint landfill site.

Health Services
Health services are comprised of support to the medical clinic operations, cemetery and the Launch Pad Youth Activity and Technology Centre.

Hanover Public Library Board
This segment provides library services to assist with its citizens' informational needs.

Recreation and Cultural Services
This segment maintains parks and facilities and provides programs meant to improve the health and development of the municipality's citizens. Recreation programs such as skating and swimming lessons are provided at the arena and aquatic centre. The municipality also has a theatre to provide cultural programs.

Planning and Development Services
This segment provides services including residential and commercial planning, review of property development plans, and economic development services for the municipality.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers are measured on the basis of exchange amount. Amounts that are directly attributable to a number of segments have been allocated on a reasonable basis as follows:

i. Taxation
Allocated to those segments that are funded through taxation based on their net expenditure for the year.

ii. Unconditional grants from OMPF & OLG
Allocated to those segments that are funded through unallocated revenues based on their net expenditure for the year

18. GOVERNMENT PARTNERSHIPS

The following summarizes the financial position and operations of the municipal joint boards. The Municipality's pro-rata share of these accounts have been reported in the financial statements using the proportionate consolidation method:

	Saugeen Municipal Airport 31.2% $	S.M.A.R.T 19.0% $	Hanover / Walkerton Landfill Site 50.0% $
Financial Assets			
Cash and temporary investments	37,762	25,974	562,370
Accounts receivable	25,822	134,516	111,560
Other financial assets	17,454	-	-
	81,039	160,489	673,930
Liabilities			
Temporary borrowings	-	97,079	-
Accounts payable	89,776	166,868	216,306
Asset retirement obligation	-	-	5,261,376
Other liabilities	-	-	16,844
	89,776	263,947	5,494,526
Net financial assets (net debt)	(8,737)	(103,458)	(4,820,596)
Non financial assets	698,301	1,518,863	8,018,692
Accumulated Surpus	689,564	1,415,405	3,198,096
Accumulated Surplus			
Amounts to be recovered	(46,508)	-	(5,278,220)
Invested in tangible capital assets	698,301	1,415,405	8,018,692
Reserves and reserve funds	37,772	-	457,624
	689,564	1,415,405	3,198,096
Revenues			
Contributions from Town of Hanover	53,500	150,525	210,000
Other government contributions	119,100	641,000	215,258
Other	294,899	2,294,623	1,031,958
Expenses	(444,344)	(2,124,755)	(1,368,994)
Annual surplus (deficit)	23,155	961,393	88,222

19. BUDGET FIGURES

Under Canadian public sector accounting standards, budget amounts are to be reported on the consolidated statements of operations and change in net financial assets for comparative purposes. The budget amounts for The Corporation of the Town of Hanover are as approved by council and have been restated to conform to the basis of presentation of the revenues and expenses on the consolidated statements of operations and changes in net financial assets.

The following is a reconciliation of the budget approved by council:

	2025 Budget $	2025 $	2024 $
Annual surplus (deficit)	10,538,993	**12,837,100**	4,877,742
Acquistion of tangible capital assets	(17,337,000)	**(17,649,687)**	(12,140,209)
Proceeds on disposal of tangible capital assets	32,000	**65,110**	62,200
Amortization	2,568,300	**3,298,453**	3,268,440
Acquisition of assets held for sale	-	**-**	-
Proceeds from borrowings	-	**6,862,350**	5,800,000
Debt principal repayments	(295,300)	**(5,942,259)**	(164,753)
	(4,493,007)	**(528,934)**	1,703,420
Transfers from (to) reserves for operations	4,376,542	**988,473**	(859,627)
Change in unfunded liabilities	-	**231,802**	(136,621)
	(116,465)	**691,341**	707,172
Reserve funds annual surplus	-	**(607,905)**	(725,359)
General surplus (deficit), beginning of year	(80,389)	**(80,389)**	(62,202)
General surplus (deficit), end of year	(196,854)	**3,047**	(80,389)

20. OPERATIONS OF SCHOOL BOARD AND THE COUNTY OF GREY

During the year, the following tax revenue was raised and remitted to the school boards and the County of Grey:

	2025 Budget $	2025 $	2024 $
School boards	2,175,900	**2,216,892**	2,183,677
County of Grey	3,272,100	**3,682,115**	3,537,442
	5,448,000	**5,899,007**	5,721,119

21. TRUST FUNDS

The trust funds administered by the municipality amounting to $825,146 (2024 - $798,117) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of financial activities. At December 31, 2025, the trust fund balances are as follows:

	2025	2024
	$	$
Cemetery Pre-need Assurance Fund	**260,390**	252,788
Cemetery Care and Maintenance Funds	**564,756**	545,329
	825,146	798,117

22. CONTRACTUAL COMMITMENTS

The municipality has commitments with respect to capital projects at December 31, 2025 in the amount of $4,161,000 (2024 - $1,771,000)

23. FINANCIAL INSTRUMENTS

Financial Instrument Risk Management

The municipality is exposed to credit risk, liquidity risk and interest rate risk from its financial instruments. This note describes the municipality's objectives, policies and processes for managing those risks and the methods used to measure them. Further qualitative and quantitative information in respect of these risks is presented below and throughout these financial statements.

Credit risk
The municipality is exposed to credit risk through its cash, investments, accounts receivable and loans receivable. Bank balances of $12,214,680 are held at the same credit union. The Deposit Insurance Corporation of Ontario (DICO) insures deposits to a maximum of $250,000 per depositor. There is the possibility of non-collection of trade and other receivables. The majority of the municipality's receivables are from ratepayers and government entities. For receivables, the municipality measures impairment of each receivable type based on how long the amounts have been outstanding. The amounts outstanding at year end, which is the municipality's maximum exposure to credit risk related to receivables, were as follows:

23. FINANCIAL INSTRUMENTS (continued)

	0-30 days	31-90 days	91-365 days	1 to 2 years	3 to 10 years
Cash	12,214,680	-	-	-	-
Investments	2,001,818	-	-	-	-
Taxes receivable	283,588	214,735	53,684	182,657	844
Water and wastewater charges receivable	729,204	23,044	2,311	-	-
Government transfers receivable	3,565,481	-	-	-	-
Other receivables	2,384,037	66,045	14,563	135,933	-
Inventory for resale	24,313	-	-	-	-
Long-term investments	2,756,742	-	-	-	-
	23,959,863	**303,824**	**70,558**	**318,590**	**844**

Liquidity risk

Liquidity risk is the risk that the municipality encounters difficulty in meeting its obligations as they fall due. The municipality has a planning and budgeting process in place to help determine the funds required to support the municipality's normal operating requirements on an ongoing basis. The municipality is exposed to liquidity risk through its temporary borrowings, accounts payable and accrued liabilities, and long-term liabilities. The municipality ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. Further, the municipality seeks to maintain an available line of credit balance as approved by the appropriate borrowing by-law to meet, at a minimum, expected requirements for a period of at least 90 days. The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Within 6 months	6 months to 1 year	1 -5 years	Over 5 years
Temporary borrowings	18,445	-	-	-
Accounts payable and accrued liabilities	2,436,266	1,190,245	-	-
Long-term debt	140,973	143,445	1,282,108	5,265,890
	2,595,684	**1,333,690**	**1,282,108**	**5,265,890**

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates. The municipality is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the variable rate of temporary borrowings.

24. SUBSEQUENT EVENT

In December of 2025, the Councils of the Town of Hanover and the Municipality of West Grey approved the transfer of 1,600 acres of land along Concession 1, 2 and 3 of Hanover from the Municipality of West Grey to the Town of Hanover, in exchange for cash proceeds of $10 million which is to be paid in equal instalments of $500,000 over the next twenty years.

In May 2026, the Minister of Municipal Affairs and Housing signed the Minister's Restructuring Order transferring the 1,600 acres to the Town of Hanover effective May 1, 2026.

THE CORPORATION OF THE TOWN OF HANOVER

SCHEDULE 1 - CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

December 31, 2025

	Land and Land Improvements	Building	Equipment	Vehicles	Infrastructure	Totals
	$	$	$	$	$	$
COST						
Balance, beginning of year	$ 10,680,954	$ 53,332,638	$ 9,658,132	$ 3,779,563	$ 67,259,302	$ 144,710,589
Add: additions during the year	2,094,651	1,092,405	992,979	437,029	13,032,623	17,649,687
Less: disposals during the year	-	(502,769)	(100,980)	(64,348)	(193,151)	(861,248)
Balance, end of year	$ 12,775,605	$ 53,922,274	$ 10,550,131	$ 4,152,244	$ 80,098,774	$ 161,499,028
ACCUMULATED AMORTIZATION						
Balance, beginning of year	$ 2,412,558	$ 16,545,314	$ 4,067,204	$ 2,018,906	$ 18,342,124	$ 43,386,106
Add: amortization for the year	204,238	1,091,967	384,110	281,557	1,134,243	3,096,115
Less: disposals during the year	-	(370,477)	(100,980)	(50,580)	(71,764)	(593,800)
Balance, end of year	$ 2,616,796	$ 17,266,804	$ 4,350,335	$ 2,249,883	$ 19,404,603	$ 45,888,421
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	$ 10,158,809	$ 36,655,470	$ 6,199,797	$ 1,902,361	$ 60,694,171	$ 115,610,608

THE CORPORATION OF THE TOWN OF HANOVER

SCHEDULE 1 - CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

December 31, 2024

	Land and Land Improvements $	Building $	Equipment $	Vehicles $	Infrastructure $	Totals $
COST						
Balance, beginning of year	$ 10,517,515	$ 47,510,068	$ 7,776,354	$ 3,584,930	$ 64,369,008	$ 133,757,875
Add: additions during the year	189,802	6,223,021	2,386,518	320,653	3,020,215	12,140,209
Less: disposals during the year	(26,363)	(400,451)	(504,740)	(126,020)	(129,921)	(1,187,495)
Balance, end of year	$ 10,680,954	$ 53,332,638	$ 9,658,132	$ 3,779,563	$ 67,259,302	$ 144,710,589
ACCUMULATED AMORTIZATION						
Balance, beginning of year	$ 2,221,297	$ 15,933,610	$ 4,049,831	$ 1,870,348	$ 17,167,875	$ 41,242,961
Add: amortization for the year	193,875	965,589	360,278	274,578	1,244,554	3,038,874
Less: disposals during the year	(2,614)	(353,885)	(342,905)	(126,020)	(70,305)	(895,729)
Balance, end of year	$ 2,412,558	$ 16,545,314	$ 4,067,204	$ 2,018,906	$ 18,342,124	$ 43,386,106
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	$ 8,268,396	$ 36,787,324	$ 5,590,928	$ 1,760,657	$ 48,917,178	$ 101,324,483

THE CORPORATION OF THE TOWN OF HANOVER

SCHEDULE 2 - CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

For the year ended December 31, 2025

	General Government $	Protection Services $	Transportation Services $	Wastewater and Water $	Environmental Services $	Health Services $	Hanover Public Library Board $	Recreation and Cultural Services $	Planning and Development $	Consolidated $
Revenue										
Taxation	1,471,370	4,088,401	1,802,954	-	151,093	38,271	497,189	1,612,038	340,019	**10,001,335**
Fees and user charges	99,928	432,603	1,532,327	5,718,602	732,553	316,687	37,310	1,006,111	94,580	**9,970,701**
Other government transfers	-	1,099,872	1,203,729	4,348,766	32,078	-	44,550	3,020	-	**6,732,015**
OMPF & OLG grant	514,207	1,428,794	630,087	-	52,803	13,375	173,755	563,367	118,828	**3,495,216**
Investment income	667,067	-	-	217,924	29,320	-	11,557	-	5,651	**931,519**
Donations and other revenue	284,893	24,171	2,804,196	1,015,924	-	314,671	13,742	161,426	966	**4,619,989**
Total revenues	**3,037,465**	**7,073,841**	**7,973,293**	**11,301,216**	**997,847**	**683,004**	**778,103**	**3,345,962**	**560,044**	**35,750,775**
Expenses										
Salaries and benefits	1,312,244	4,091,608	744,109	987,149	123,425	185,688	493,860	1,857,849	232,683	**10,028,615**
Interest on debt	5,560	-	-	-	-	-	-	12,257	-	**17,817**
Materials and supplies	344,992	1,101,570	2,326,758	1,771,410	395,162	223,772	208,256	1,169,615	356,420	**7,897,955**
Contracted services	103,557	225,475	137,809	185,433	181,558	115,556	-	50,384	57,812	**1,057,584**
Government transfers	99,350	179,832	334,070	-	-	-	-	-	-	**613,252**
Amortization and loss on disposal	83,729	342,565	976,639	820,251	152,249	184,401	43,032	679,509	16,077	**3,298,452**
Total expenses	**1,949,432**	**5,941,050**	**4,519,385**	**3,764,243**	**852,394**	**709,417**	**745,148**	**3,769,614**	**662,992**	**22,913,675**
Net surplus/(deficit)	**1,088,033**	**1,132,791**	**3,453,908**	**7,536,973**	**145,453**	**(26,413)**	**32,955**	**(423,652)**	**(102,948)**	**12,837,100**

THE CORPORATION OF THE TOWN OF HANOVER

SCHEDULE 2 - CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE

For the year ended December 31, 2024

	General Government	Protection Services	Transportation Services	Wastewater and Water	Environmental Services	Health Services	Hanover Public Library Board	Recreation and Cultural Services	Planning and Development	Consolidated
	$	$	$	$	$	$	$	$	$	$
Revenue										
Taxation	1,058,416	3,609,629	1,656,030	-	244,198	35,717	470,527	1,791,829	362,053	9,228,399
Fees and user charges	66,366	36,852	217,387	5,298,122	603,783	309,267	44,634	914,271	78,904	7,569,586
Other government transfers	-	1,116,063	1,474,947	171,976	108,481	53,174	26,087	935,041	19,296	3,905,065
OMPF & OLG grant	516,232	845,800	1,294,720	-	54,379	7,954	104,778	482,614	80,625	3,387,102
Investment income	705,550	-	-	289,767	43,363	-	16,487	-	8,142	1,063,309
Donations and other revenue	278,204	38,626	36,590	-	-	377,824	10,324	214,554	11,101	967,224
Total revenues	2,624,768	5,646,970	4,679,674	5,759,865	1,054,204	783,936	672,837	4,338,309	560,121	26,120,685
Expenses										
Salaries and benefits	1,162,879	3,448,419	679,003	948,558	125,822	252,353	426,499	1,795,067	259,175	9,097,775
Interest on debt	-	-	-	-	-	-	-	5,103	-	5,103
Materials and supplies	416,309	1,428,170	806,036	1,502,532	639,580	342,435	202,288	1,158,607	324,874	6,820,831
Contracted services	126,651	220,391	94,799	174,593	117,604	128,607	-	59,738	36,000	958,383
Government transfers	98,250	148,386	845,774	-	-	-	-	-	-	1,092,410
Amortization and loss on disposal	78,636	202,079	972,263	883,561	152,004	142,403	42,019	795,357	119	3,268,441
Total expenses	1,882,725	5,447,445	3,397,875	3,509,244	1,035,010	865,798	670,806	3,813,872	620,168	21,242,943
Net surplus/(deficit)	742,043	199,525	1,281,799	2,250,621	19,194	(81,862)	2,031	524,437	(60,047)	4,877,742

Corporation of the Town of Hanover Trust Funds

2025 Audit Findings

Report to Council

December 31, 2025

Kevin Tremble, CPA, CA
T: 519.364.3790
E: kevin.tremble@mnp.ca

Overview

We are pleased to submit to you this Audit Findings Report (the “Report”) for discussion of our audit of the financial information of The Corporation of the Town of Hanover Trust Funds (the “The Corporation of the Town of Hanover Trust Funds") as at December 31, 2025 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of Council.

As auditors, we report to the Members of Council of on the results of our examination of the financial information of the The Corporation of the Town of Hanover Trust Funds as at and for the year ended December 31, 2025. The purpose of this Report is to assist you, as members of Council, in your review of the results of our audit.

This Report is intended solely for the information and use of Council and management and should not be distributed to or used by any other parties than these specified parties.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Engagement Status

We have substantially completed our audit of the financial information of the The Corporation of the Town of Hanover Trust Funds which has been carried out in accordance with Canadian generally accepted auditing standards and are prepared to sign our Independent Auditor's Report subsequent to completion of the following procedures:

- Discussion of subsequent events with Council;
- Discussion of fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual or suspected fraud;
- Discussion of laws and regulations, including any instances of actual or suspected non-compliance;
- Council's review and approval of the financial information.

No significant limitations were placed on the scope or timing of our audit.

Independent Auditor’s Report

We expect to have the above procedures completed and to release our Independent Auditor’s Report on August 10, 2026.

Unless unforeseen complications arise, our Independent Auditor’s Report will provide an unmodified opinion to the Members of Council of of the The Corporation of the Town of Hanover Trust Funds. A draft copy of our proposed Independent Auditor’s Report has been included with this report. The matters disclosed in the Independent Auditor’s Report are discussed further in the relevant sections of the Report.

Audit Reporting Matters

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the financial information considered separately.

Significant Audit, Accounting and Reporting Matters

Area		Comments
	Changes from Audit Service Plan	There were no deviations from the Audit Service Plan previously presented to you.
	Final Materiality	Final materiality used for our audit was $50,000 for December 31, 2025.
	Identified or Suspected Fraud	While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.
	Identified or Suspected Non-Compliance with Laws and Regulations	Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.
	Matters Arising in Connection with Related Parties	No significant matters arose during the course of our audit in connection with related parties of the The Corporation of the Town of Hanover Trust Funds.
	Auditor's Views of Significant Accounting Practices, Accounting Policies and Accounting Estimates	The application of Canadian public sector accounting standards allows and requires the The Corporation of the Town of Hanover Trust Funds to make accounting estimates and judgments regarding accounting policies and financial statement disclosures. As auditors, we are uniquely positioned to provide open and objective feedback regarding your The Corporation of the Town of Hanover Trust Funds's accounting practices, and have noted the following items during the course of our audit that we wish to

Area		Comments
		bring to your attention. The accounting policies used by the The Corporation of the Town of Hanover Trust Funds are appropriate and have been consistently applied.
	Financial Statement Disclosures	The disclosures made in the notes to the financial information appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial information.
	Significant Deficiencies in Internal Control	While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention.
	Matters Arising From Discussions with Management	There were no significant matters discussed, or subject to correspondence, with management that in our judgment need be brought to your attention.

Significant Risk Areas and Responses

Significant Risk Area	Response and Conclusion
Managaement override of controls Presumed risk of material misstatement due to fraud as per CAS 240.	MNP tested manual journal entries in response to the risk of fraud, performed a retrospective review of estimates, and evaluated the business rationale for significant or unusual transactions. Based on completed procedures, we concluded that fraud in relation to override of controls has not occurred.
Improper revenue recognition Presumed risk of material misstatement due to fraud where management may manage revenue to meet baseline revenue requirements.	MNP has sufficiently tested cut-off of both sales and expenses to ensure proper recording took place. Based on completed procedures, we concluded that revenue has been recognized appropriately.

Other Areas

Area	Comments
Auditor Independence	We confirm to Council that we are independent of the The Corporation of the Town of Hanover Trust Funds. Our letter to Council discussing our independence is provided separately from the

Area	Comments
	materials attached to this report.
Management Representations	We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit. This letter, provided by management, has been included as additional material to this report.
Summary of Significant Differences	One significant adjustment was proposed to management with respect to the December 31, 2025 financial information.

We appreciate having the opportunity to meet with you and respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

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Management Representation

(See Attached)

Corporation of the Town of Hanover
341 10th Street
Hanover, ON N4N 1P5

August 10, 2026

MNP LLP
485 10th Street
Hanover, Ontario N4N 1R2

To Whom It May Concern:

In connection with your audit of the financial information of Corporation of the Town of Hanover Trust Funds (the "The Town of Hanover Trust Funds") as at December 31, 2025 and for the year then ended, we hereby confirm to the best of our knowledge and belief, the following representations made to you during the course of your audit.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards. Accordingly, the audit included an examination of the accounting system, controls and related data, and tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances, for the purpose of expressing an opinion on the financial information. We also understand that such an audit is not designed to identify, nor can it necessarily be expected to disclose, misstatements, non-compliance with laws and regulations, fraud or other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial information would influence the decision of a reasonable person relying on the financial information.

Financial Information

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 3, 2026, for the preparation and fair presentation of The Town of Hanover Trust Funds's financial information in accordance with Canadian public sector accounting standards. We believe this financial informatio is complete and present fairly, in all material respects, the financial position as at December 31, 2025 and the results of its operations, in accordance with Canadian public sector accounting standards.

2. All transactions have been recorded in the accounting records and are reflected in the financial information, and are reported in the appropriate period.

3. We acknowledge that we are responsible for the accounting policies followed in the preparation of The Town of Hanover Trust Funds's financial information. Significant accounting policies, and any related changes to significant accounting policies, are disclosed in the financial information. The selection of accounting policies is appropriate in accordance with the requirements of Canadian public sector accounting standards, and are applied consistently throughout the financial information.

4. We are aware of and concur with the contents and results of the attached journal entries prepared by you, and

accept responsibility for the financial information effects of the entries.

5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards.

6. All events or transactions that have occurred subsequent to the statement of financial position and for which Canadian public sector accounting standards require adjustment or disclosure have been adjusted or disclosed appropriately in the financial information.

7. All plans or intentions that may affect the carrying value or classification of assets and liabilities are appropriately reflected in the financial statements in accordance with Canadian public sector accounting standards.

8. All liabilities, both known and contingent, requiring recognition or disclosure in the financial information in accordance with the requirements of Canadian public sector accounting standards have been adjusted or disclosed as appropriate.

9. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the financial information.

10. All assets, wherever located, to which The Town of Hanover Trust Funds had satisfactory title at the year-end, have been fairly stated and recorded in the financial information. The assets are free from hypothecation, liens and encumbrances, except as noted in the financial information. We have disclosed the nature and carrying amounts of any assets pledged as collateral. All assets of uncertain value, and restrictions imposed on assets, are appropriately reported in the financial information.

11. All aspects of laws, regulations or contractual agreements, including non-compliance, are appropriately reflected in the financial information.

12. All cash accounts have been appropriately recorded in the financial statements and all terms and associated conditions have been disclosed to you in full. We have provided you with the most current banking agreements.

13. Revenue has been recognized only where sales have been made and items delivered, or services rendered, and the amounts have been collected or are collectible. Revenues do not include any amounts arising from consignment sales or from any other transaction from which The Town of Hanover Trust Funds is not entitled to the proceeds.

14. We have identified all financial instruments, including derivatives, and hedging relationships. These have been appropriately recorded and disclosed in the financial information in accordance with the requirements of Canadian public sector accounting standards.

Information Provided

1. We have responded fully to all inquiries made to us and have made available to you:

    - A complete record of all financial records that are relevant to the preparation and presentation of the financial information, and related data;

- Additional information that you have requested from us for the purpose of your audit;
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. We acknowledge management's responsibility for the design, implementation and operation of controls that have been designed to prevent and detect fraud.

3. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.

4. Where the impact of any frauds or suspected frauds, and non-compliance or possible non-compliance with laws and regulations, has a material effect on the financial statements, we have disclosed to you all known significant facts relating thereto, including circumstances involving management, employees having significant roles over controls, and others. We have made known to you any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators and others. The effects of such events, if any, are properly presented in the financial information.

5. We have disclosed to you all deficiencies in the design or operation of internal controls over financial reporting of which we are aware.

6. We have disclosed to you all aspects of laws, regulations or contractual agreements that may affect the financial statements, including non-compliance.

7. We have disclosed to you the identities of all related parties to the The Town of Hanover Trust Funds and all related party relationships and transactions of which we are aware.

8. The use of the going concern basis of accounting is appropriate and the The Town of Hanover Trust Funds will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business. We have provided you with appropriate and complete information about identified events or conditions that may cast significant doubt on the The Town of Hanover Trust Funds's ability to continue as a going concern, our plans for future action and the feasibility of these plans.

9. We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

10. The previous year's representation letter dated August 11, 2025 is still applicable to the prior year's financial information and, and no matters have arisen that require restatement of that financial information.

11. There are no discussions with your firm's personnel regarding employment with The Town of Hanover Trust Funds.

Professional Services

1. We acknowledge the engagement letter dated February 3, 2026, which states the terms of reference regarding your professional services.

2. We are not aware of any reason why MNP LLP would not be considered independent for purposes of The Town of Hanover Trust Funds's audit.

Sincerely,

Corporation of the Town of Hanover

Signature	Title

Appendix A - Summary of Differences

Description of Differences	Proposed Adjustments DR (CR)				
	Earnings		Balance Sheet		
	Identified	Likely Aggregate	Assets	Liabilities	Surplus
To reverse FMV adjustments to trust funds investments	$ -	$ -	$ (328,042)	$ -	$ 328,042
Total	$ -	$ -	$ (328,042)	$ -	$ 328,042
Differences corrected by management	$ -	$ -	$ (328,042)	$ -	$ 328,042
Total differences net of corrections	$ -	$ -	$ -	$ -	$ -
Final overall materiality	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Excess (shortfall)	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,000**

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At MNP we're proud to be the national accounting, consulting and tax firm that is 100% Made in Canada.

Our history defines who we are and our approach to business. Being a Canadian firm has helped shape our values, our collaborative approach, and the way we work with our clients, engaging them every step of the way.

We have a unique perspective. Our decisions are made here – decisions that drive Canadian business and help us all achieve success — and we know the impact that our choices have on the cities and towns we call home.

Throughout our six decades of work, we've seen our communities are more than just a place we do business in. They're a place where our families live, play, and thrive, and we work to make them the best places they can be.

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THE CORPORATION OF THE TOWN OF HANOVER
TRUST FUNDS
FINANCIAL INFORMATION
For the year ended December 31, 2025

CONTENTS

Independent Auditor's Report

To the Members of Council of The Corporation of the Town of Hanover Trust Funds:

Opinion

We have audited the financial information of the The Corporation of the Town of Hanover Trust Funds (the "Trust Funds"), which comprise the balance sheet as at December 31, 2025, and the statement of continuity for the year then ended, and notes to the financial information, including a summary of significant accounting policies.

In our opinion, the accompanying financial information present fairly, in all material respects, the financial position of the Trust Funds as at December 31, 2025, and the statement of continuity 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 Financial Information section of our report. We are independent of the Trust Funds in accordance with the ethical requirements that are relevant to our audit of the financial information 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 Financial Information

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

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

Those charged with governance are responsible for overseeing the Trust Funds' financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the financial information 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 this financial information.

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

- Identify and assess the risks of material misstatement of the financial information, 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 Trust Funds' 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 Trust Funds' 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 financial information 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 Trust Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represent the underlying transactions and events in a manner that achieves fair presentation.

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.

MNP LLP

Hanover, Ontario

Chartered Professional Accountants

Licensed Public Accountants

THE CORPORATION OF THE TOWN OF HANOVER TRUST FUNDS

Balance Sheet

As at December 31	Cemetery Pre-Need Assurance Fund	Cemetery Care and Maintenance Fund	2025 Total	2024 Total
ASSETS				
Cash	$ 261,111	$ 215,343	**$ 476,454**	$ 447,649
Portfolio investments (Note 2)	-	670,328	**670,328**	562,642
Due from general account	-	-	**-**	1,133
	$ 261,111	$ 885,671	**$ 1,146,782**	1,011,424
LIABILITIES AND FUND BALANCES				
Accounts payable	$ 721	$ 320,915	**$ 321,636**	$ 213,307
Fund balance	260,390	564,756	**825,146**	798,117
	$ 261,111	$ 885,671	**$ 1,146,782**	$ 1,011,424

Statement of Continuity

For the year ended December 31	Cemetery Pre-Need Assurance Fund	Cemetery Care and Maintenance Fund	2025 Total	2024 Total
BALANCE, beginning of the year	$ 252,788	$ 545,329	**$ 798,117**	$ 748,472
RECEIPTS				
Interest earned	8,827	6,797	**15,624**	21,482
Gain on disposal of investments	-	107,686	**107,686**	110,601
Perpetual care	-	19,430	**19,430**	17,482
Prepaid needs	23,977	-	**23,977**	37,851
	32,804	133,913	**166,717**	187,416
EXPENSES				
Transfer to municipality	25,202	114,486	**139,688**	137,771
BALANCE, end of the year	$ 260,390	$ 564,756	**$ 825,146**	$ 798,117

Approved on behalf of Council:

______________________ Treasurer ______________________ C.A.O./Clerk

NOTES TO THE FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

The financial information of The Corporation of the Town of Hanover Trust Funds (the "Trust") are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) as defined in the CPA Canada Public Sector Accounting Handbook. Significant aspects of the accounting policies are as follows:

a) *Basis of Consolidation*

These trust funds have not been consolidated with the financial statements of The Corporation of the Town of Hanover.

b) *Portfolio Investments*

Portfolio investments are recorded at cost. They are assessed for impairment, and a write-down is recognized when there is a loss in value that is not recoverable.

c) *Financial instruments*

The Trust Funds classifies its financial instruments as either fair value or amortized cost. The Trust Funds accounting policy for each category is as follows:

i. *Fair Value*

This includes cash which is initially recognized at cost and subsequently carried at fair value. Changes in fair value are recognized in the statement of continuity. Transaction costs related to cash are expensed as incurred.

ii. *Amortized Cost*

All other financial instruments are measured at cost or amortized cost. The carrying amount of each of these financial instruments is presented on the balance sheet. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest method rate, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of continuity.

2. PORTFOLIO INVESTMENTS

Portfolio investments consist of mutual funds. The investments have a market value of $998,370 (2024 - $823,813) at the end of the year.

3. FINANCIAL INSTRUMENTS

Financial Instrument Risk Management

The Trust is exposed to risks that arise from its use of financial instruments. The Trust's financial instruments consist of cash, investments, interest receivable, due from the Town and due to the Town. It is management's opinion that the Trust is not exposed to significant currency risk arising from these financial instruments. The Trust is exposed to interest rate risk arising from its bank accounts and investments. The investments consist of pooled investments with One Investment Funds. The Trust is exposed to credit risk relating to its cash and investments. The cash and investments are held in Canadian Chartered banks. Amounts due to the Town are due within 30 days and is a liquidity risk to the Trust.