

Consolidated Financial Statements

City of Orillia

December 31, 2012

Contents

| | Page |
|---|-------------|
| Independent Auditor's Report | 1-2 |
| Consolidated Statement of Financial Position | 3 |
| Consolidated Statements of Operations and Accumulated Surplus | 4 |
| Consolidated Statement of Changes in Net Financial Assets | 5 |
| Consolidated Statement of Cash Flows | 6 |
| Notes to the Consolidated Financial Statements | 7-23 |

Independent Auditor's Report

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To the Members of Council, Inhabitants and
Ratepayers of the City of Orillia

We have audited the accompanying consolidated financial statements of the City of Orillia, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of operations and accumulated surplus, the consolidated statement of changes in net financial assets, and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City of Orillia as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Grant Thornton LLP

Orillia, Canada
July 15, 2013

Chartered Accountants
Licensed Public Accountants

City of Orillia

Consolidated Statement of Financial Position

December 31

2012

2011

Financial assets

| | | |
|--|-------------------|-------------------|
| Cash and cash equivalents (Note 4) | \$ 7,260,560 | \$ 585,650 |
| Investments (Note 5) | 1,221,292 | 1,240,947 |
| Taxes receivable | 6,515,385 | 5,680,549 |
| Receivables | 5,194,463 | 5,552,464 |
| Inventories for resale | 41,237 | 52,717 |
| Investment in Orillia Power Corporation (Note 6) | <u>35,654,000</u> | <u>34,727,000</u> |

55,886,937

47,839,327

Financial liabilities

| | | |
|---|------------------|------------------|
| Temporary loans (Note 7) | - | 8,922,575 |
| Payables and accruals | 8,104,154 | 10,079,084 |
| Deferred revenue - obligatory reserves (Note 8) | 2,281,065 | 1,720,772 |
| Deferred revenue - other | 115,611 | 245,066 |
| Long term debt (Note 9) | 20,031,840 | - |
| Landfill closure and post-closure costs (Note 10) | 4,503,000 | 3,049,000 |
| Employee future benefits payable (Note 11) | <u>1,331,090</u> | <u>1,726,008</u> |

36,366,760

25,742,505

Net financial assets (Page 5)

19,520,177

22,096,822

Non-financial assets

| | | |
|-----------------------------------|--------------------|--------------------|
| Other assets (Note 12) | 519,551 | 541,761 |
| Tangible capital assets (Note 13) | <u>339,155,479</u> | <u>332,758,570</u> |
| | <u>339,675,030</u> | <u>333,300,331</u> |

Accumulated surplus (Note 14)

\$ 359,195,207

\$ 355,397,153

Contingencies (Note 21)

See accompanying notes to the consolidated financial statements

City of Orillia

Consolidated Statements of Operations and Accumulated Surplus

Year Ended December 31

2012

2011

| | <u>Budget</u> | <u>Actual</u> | <u>Actual</u> |
|---|---------------------|-----------------------|-----------------------|
| Revenue | | | |
| Taxation (Note 15) | \$ 44,143,818 | \$ 43,756,696 | \$ 42,576,481 |
| Grants (Note 17) | 2,928,874 | 3,934,412 | 4,713,167 |
| User charges (Note 18) | 14,418,481 | 14,491,089 | 13,759,973 |
| Other revenue (Note 19) | 4,889,175 | 5,152,454 | 5,506,280 |
| Developer contributions earned | 1,949,000 | 1,869,521 | 2,522,971 |
| Dividend from Orillia Power Corporation (Note 6) | <u>2,000,000</u> | <u>1,100,000</u> | <u>2,000,000</u> |
| | <u>70,329,348</u> | <u>70,304,172</u> | <u>71,078,872</u> |
| Expenditures | | | |
| General government | 5,470,374 | 5,239,060 | 5,042,290 |
| Protection to persons and property | 14,233,838 | 14,426,077 | 13,582,922 |
| Transportation services | 11,996,582 | 11,945,336 | 11,537,574 |
| Environmental services | 11,686,568 | 13,077,095 | 11,300,986 |
| Health services | 1,623,000 | 1,615,197 | 1,605,423 |
| Social and family services | 5,061,881 | 5,067,663 | 5,085,651 |
| Recreation and cultural services | 12,007,065 | 12,045,013 | 10,563,420 |
| Planning and development | <u>2,638,043</u> | <u>2,612,526</u> | <u>3,457,042</u> |
| | <u>64,717,351</u> | <u>66,027,967</u> | <u>62,175,308</u> |
| Net revenue | <u>5,611,997</u> | <u>4,276,205</u> | <u>8,903,564</u> |
| Other revenues (expenditures) | | | |
| Change in equity for Orillia Power Corporation (Note 6) | - | 927,000 | 398,000 |
| Gain on disposal of tangible capital assets | - | 27,836 | 138,819 |
| Writedown of assets | - | (932,987) | (6,446,274) |
| Contribution to Lakehead University | <u>(500,000)</u> | <u>(500,000)</u> | <u>(500,000)</u> |
| Annual surplus | \$ <u>5,111,997</u> | <u>3,798,054</u> | <u>2,494,109</u> |
| Accumulated surplus, beginning of year | | <u>355,397,153</u> | <u>352,903,044</u> |
| Accumulated surplus, end of year | | \$ <u>359,195,207</u> | \$ <u>355,397,153</u> |

See accompanying notes to the consolidated financial statements.

City of Orillia**Consolidated Statement of Changes in Net Financial Assets**

Year Ended December 31

2012**2011**

| | | |
|--|----------------------|----------------------|
| Annual surplus | \$ <u>3,798,054</u> | \$ <u>2,494,109</u> |
| Acquisition of tangible capital assets | (20,517,352) | (28,259,144) |
| Writedown of assets | 932,987 | 6,446,274 |
| Amortization of tangible capital assets | 13,136,068 | 12,140,853 |
| Proceeds from sale of tangible capital assets | 79,224 | 365,710 |
| Gain on disposal of tangible capital assets | <u>(27,836)</u> | <u>(138,819)</u> |
| | <u>(6,396,909)</u> | <u>(9,445,126)</u> |
| Change in other assets | <u>22,210</u> | <u>(54,093)</u> |
| Change in net financial assets | <u>(2,576,645)</u> | <u>(7,005,110)</u> |
| Net financial assets, beginning of the year | <u>22,096,822</u> | <u>29,101,932</u> |
| Net financial assets, end of the year | \$ <u>19,520,177</u> | \$ <u>22,096,822</u> |

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statement of Cash Flows

Year Ended December 31

2012

2011

Increase (decrease) in cash and cash equivalents

Operating activities

| | | |
|---|-------------------|-------------------|
| Annual surplus | \$ 3,798,054 | \$ 2,494,109 |
| Amortization of tangible capital assets | 13,136,068 | 12,140,853 |
| Change in equity in Orillia Power Corporation | (927,000) | (398,000) |
| Gain on sale of tangible capital assets | (27,836) | (138,819) |
| Writedown of assets | 932,987 | 6,446,274 |
| Increase in landfill closure and post closure costs | 1,454,000 | 435,000 |
| Decrease in employee future benefits payable | (394,918) | (10,859) |
| Change in non-operating working capital | | |
| Inventories for resale | 11,480 | (8,049) |
| Taxes receivable | (834,836) | (580,017) |
| Receivables | 358,001 | 1,509,063 |
| Other assets | 22,210 | (54,093) |
| Payables and accruals | (1,974,930) | (1,270,282) |
| Deferred revenue | 430,838 | (642,349) |
| Cash provided by operating activities | <u>15,984,118</u> | <u>19,922,831</u> |

Financing activities

| | | |
|--|-------------------|------------------|
| Net advances of long term debt | 20,031,840 | - |
| Net (repayments) advances of temporary loans | (8,922,575) | 3,741,343 |
| Cash provided by financing activities | <u>11,109,265</u> | <u>3,741,343</u> |

Investing activities

| | | |
|---|---------------------|---------------------|
| Proceeds from sale of tangible capital assets | 79,224 | 365,710 |
| Acquisition of tangible capital assets | (20,517,352) | (28,259,144) |
| Change in investments | <u>19,655</u> | <u>4,288,411</u> |
| Cash used in investing activities | <u>(20,418,473)</u> | <u>(23,605,023)</u> |

Net increase in cash and cash equivalents 6,674,910 59,151

Cash and cash equivalents, beginning of year 585,650 526,499

Cash and cash equivalents, end of year \$ 7,260,560 \$ 585,650

See accompanying notes to the consolidated financial statements.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

1. Summary of significant accounting policies

The consolidated financial statements of the City of Orillia (the Municipality) are prepared by management in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the Municipality are as follows:

a) Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenue, expenditures and surplus and financial position of the reporting entity. The reporting entity is comprised of all organizations and enterprises accountable for the administration of their affairs and resources to the Municipality and which are owned or controlled by the Municipality. In addition to general government tax-supported operations, the larger enterprises include the following:

City of Orillia Police Services Board
Orillia Public Library Board
Orillia Youth Opportunities Committee

As detailed in legislation, the Orillia Downtown Management Board has a reporting relationship with the City.

Inter-departmental and organizational transactions and balances are eliminated.

Orillia Power Corporation is a wholly-owned subsidiary corporation of the Municipality and is accounted for on a modified equity basis, consistent with the Canadian generally accepted accounting treatment for government enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated.

b) Accrual accounting

Sources of financing and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as result of receipt of goods or services and the creation of a legal obligation to pay.

c) School board transactions

The taxation, other revenue, expenditures, assets and liabilities with respect to the operations of the school boards are not reflected in these financial statements.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

1. Summary of significant accounting policies (Continued)

d) Deferred revenue for obligatory reserves

Receipts which are restricted by legislation of senior governments or by agreement with external parties are deferred and reported as restricted revenue. When qualifying expenditures are incurred, restricted revenues are brought into revenue at equal amounts. Revenue received in advance of expenditures, which will be incurred in a later period, are deferred until they are earned by being matched against these expenditures.

e) Non-financial assets

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Tangible capital assets received as contributions are recorded at their fair value at the date of receipt. The costs, less residual value of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

| | <u>Useful life - years</u> |
|---------------------------------------|----------------------------|
| General | |
| Buildings | 10 - 50 |
| Vehicles | 3 - 20 |
| Equipment and furniture | 4 - 50 |
| Other | 4 - 10 |
| Infrastructure | |
| Facilities | 40 - 50 |
| Roads and bridges | 15 - 100 |
| Underground and other networks | 2 - 100 |
| Vehicles and equipment infrastructure | 5 - 15 |

Assets under construction are not amortized until the asset is available for productive use. Half year amortization is charged in the year of acquisition.

(ii) Contribution of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, and that fair value is also recorded as revenue. Tangible capital assets conveyed from developers are recorded at the estimated engineering value at time of registration. The value contributed during the year was \$ nil (2011 – \$ nil).

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

1. Summary of significant accounting policies (Continued)

e) Non-financial assets (Continued)

(iii) Interest capitalization

Interest of \$178,968 (2011 \$135,735) was capitalized for the external debt issued to finance the construction of tangible capital assets.

(iv) Nominal value

The Municipality owns several assets which are listed at nominal value in the tangible capital assets. These include fully amortized assets such as library books acquired prior to 2001, some older buildings, and donated land under certain pedestrian trails.

(v) Works of art

The Municipality owns various works of art and historic artifacts displayed at various locations including the Orillia Public Library, Leacock Museum and the Orillia Opera House. The historic cost of these items is not included in tangible capital assets.

(vi) Disposal of tangible capital assets /writedown of assets under construction

Gain and (loss) on disposal of assets are recorded as the difference between proceeds received and the net book value. Writedown of assets under construction have been written off as a result of the project being cancelled or finished with no future benefit to the Municipality.

f) Revenue recognition

The Municipality recognizes taxation revenue on an annual basis using total assessment values for the year and annually established tax rates. Property assessment values are provided by the Municipal Property Assessment Corporation and tax rates are established and approved by Council.

Government transfers are recognized as revenue in the year in which events giving rise to the transfer occur, providing that the transfer is authorized and the amount can be reasonably estimated.

Grants are recognized as revenue when approved, to the extent the related expenditures have been incurred and collection can be reasonably assured.

User charges and other revenue are recognized as revenue when the services are provided and there is reasonable assurance of collection. Interest is recognized when earned.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

1. Summary of significant accounting policies (Continued)

g) Subdivision infrastructure

Subdivision streets, lighting, sidewalks, drainage and other infrastructure are required to be provided by subdivision developers. Upon completion they are turned over to the Municipality. The Municipality is not involved in the construction and does not budget for either the contribution from the developer or the capital expenditure.

h) Local improvement

The Municipality records expenditures funded by local improvement bylaws as they are incurred. Revenue is recognized over the term of the local improvement bylaws, as they are collected.

i) Water and sewer area improvement charges

The Municipality records expenditures funded by bylaws to impose charges on property owners as they are incurred. Revenue is recognized over the term of the bylaw, as they are collected.

j) Reserves and reserve funds

Certain amounts, as approved by Council, are set aside in reserves and reserve funds for future operations and capital purposes. Further disclosure of the amounts are part of accumulated surplus in Note 14 of the financial statements.

2. Future accounting pronouncements

The CICA amended Section 3410 "Government Transfers" to provide guidance for accounting and reporting of government transfers from both a transferring government and a recipient government perspective. It clarifies the difference between eligibility criteria and stipulations and their roles in the recognition of government transfers by both government parties. It explains how the definition of liabilities in Public Sector Accounting Board Section 3200, Liabilities, should apply to the recognition of government transfers by a recipient government. It addresses what evidence would be required to support the authorization of a government transfer from the perspective of the transferring government. These amendments are effective for fiscal periods beginning on or after April 1, 2012. Retroactive or prospective application is permitted.

The CICA Section 3450 "Financial Instruments" is a new section that establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to fiscal periods beginning on or after April 1, 2015.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

2. Future accounting pronouncements (Continued)

The CICA Section 3260 "Liability for Contaminated Sites" establishes the recognition, measurement and disclosure requirements for reporting liabilities associated with remediation of contaminated sites. It provides guidance surrounding the requirement to recognize a liability when an entity has contamination at a site that exceeds an environmental standard, the entity is responsible or accepts responsibility, the entity expects to have to give up future economic benefits and the amount can be reasonably estimated. The guidance further states that if an entity cannot reasonably estimate the amount, they must still provide disclosures concerning the liability. This section applies to fiscal periods beginning on or after April 1, 2014.

3. Budget reconciliation

The budget approved by Council differs from the budget in the Consolidated Statement of Operations and Accumulated Surplus as the approved budget has been adjusted to account for the material changes due to PSAB reporting requirements.

| | <u>Revenues</u> | <u>Expenses</u> |
|--|----------------------|----------------------|
| Total Council's approved budgets | \$ 70,329,348 | \$ 74,094,383 |
| Less: Acquisition of tangible capital assets budgeted | | (22,013,100) |
| Less: Contribution to the University | | (500,000) |
| Add: Amortization expense | | 13,136,068 |
| Adjusted budget per consolidated statement of operations | \$ <u>70,329,348</u> | \$ <u>64,717,351</u> |

4. Cash and cash equivalents

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|-------------------|
| Cash is comprised of: | | |
| Unrestricted cash, held at the bank and on hand | \$ 2,281,065 | \$ - |
| Restricted cash, held at the bank | <u>4,979,495</u> | <u>585,650</u> |
| | \$ <u>7,260,560</u> | \$ <u>585,650</u> |

5. Investments

Investments are guaranteed investments certificates, recorded at cost plus accrued interest. The current investment is due February 2014 and is earning interest at 4.37%

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

6. Investment in Orillia Power Corporation

Orillia Power Corporation, established by Municipal Council under Municipal By-Law 2000-155, is wholly owned by the City of Orillia and provides electric utility services.

The following table provides condensed supplementary financial information of Orillia Power Corporation.

| | <u>2012</u> | <u>2011</u> |
|------------------------------|----------------------|----------------------|
| Financial position | | |
| Current assets | \$ 15,343,000 | \$ 15,081,000 |
| Capital assets | 27,842,000 | 24,603,000 |
| Other assets | <u>2,159,000</u> | <u>4,736,000</u> |
| | <u>45,344,000</u> | <u>44,420,000</u> |
| Current liabilities | 5,817,000 | 6,020,000 |
| Non-current liabilities | <u>3,873,000</u> | <u>3,673,000</u> |
| | <u>9,690,000</u> | <u>9,693,000</u> |
| Net assets | \$ <u>35,654,000</u> | \$ <u>34,727,000</u> |
| Results of operations | | |
| Revenue | \$ 41,844,000 | \$ 40,946,000 |
| Operating expenses | (39,534,000) | (38,088,000) |
| Financing expenses | (1,006,000) | (1,024,000) |
| Other income | <u>723,000</u> | <u>564,000</u> |
| Net earnings | 2,027,000 | 2,398,000 |
| Dividend | <u>(1,100,000)</u> | <u>(2,000,000)</u> |
| Change in equity | \$ <u>927,000</u> | \$ <u>398,000</u> |

The above information is as reported by Orillia Power Corporation.

The following summarizes the Municipality's related party transactions with Orillia Power Corporation during the year. All transactions are in the normal course of operations, and are recorded at the exchange value based on normal commercial rates, or as agreed to by the party:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|--------------|--------------|
| Electricity purchased | \$ 1,940,281 | \$ 1,797,833 |
| Other services purchased | 623,366 | 71,453 |
| Property taxes and other taxes | 63,648 | 65,310 |
| Interest received | 924,750 | 924,750 |
| Dividend received | 1,100,000 | 2,000,000 |
| Other services sold | 108,151 | 105,281 |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

6. Investment in Orillia Power Corporation (Continued)

| The investment consists of: | <u>2012</u> | <u>2011</u> |
|------------------------------------|-------------------|-------------------|
| Promissory note | \$ 14,796,000 | \$ 14,796,000 |
| Equity | <u>20,858,000</u> | <u>19,931,000</u> |
| | <u>35,654,000</u> | <u>34,727,000</u> |
| Balance outstanding at December 31 | | |
| Due to Orillia Power Corporation | \$ <u>615,813</u> | \$ <u>60,255</u> |

7. Temporary loans

The Municipality has converted the temporary loans from the prior year to a debenture for \$20,031,840 (see Note 9).

| 8. Deferred revenue – obligatory reserves | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Lot levies and subdivider contributions | \$ 487,586 | \$ 542,537 |
| Provincial and federal gas tax revenue | <u>1,793,479</u> | <u>1,178,235</u> |
| | <u>\$ 2,281,065</u> | <u>\$ 1,720,772</u> |

9. Long term debt

| | | |
|--|----------------------|-------------|
| Ontario Infrastructure and Lands Corporation, repayable in semi-annual principal payments of \$1,001,592 plus interest at 2.64%, The debentures are direct, general, unsecured and subordinated obligation of the Municipality, maturing October 2022 | \$ <u>20,031,840</u> | \$ <u>-</u> |
|--|----------------------|-------------|

Five year principal repayments

| | |
|------------|----------------------|
| 2013 | \$ 2,003,184 |
| 2014 | 2,003,184 |
| 2015 | 2,003,184 |
| 2016 | 2,003,184 |
| 2017 | 2,003,184 |
| Thereafter | <u>10,015,920</u> |
| | <u>\$ 20,031,840</u> |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

10. Landfill closure and post-closure costs

Solid waste landfill closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, management of ground water and leachates, and ongoing environmental monitoring, site inspection and maintenance.

The liability for the landfill site is recorded at \$4,503,000 (2011 - \$3,049,000) and represents the present value of closure and post-closure costs for 47.0% (2011 - 46.2%) of the current site's total cells, using an estimated long term borrowing rate of 4% (2011 - 6%) and inflation rate of 2.5% (2011 - 4%). The liability is recorded based on the capacity of the landfill used to date.

The total estimated future expenditures representing the sum of the discounted future cash flows for closure and post-closure care are \$9,574,000 leaving an amount to be recognized of \$5,071,000. The estimated remaining capacity of the sites unused cells are approximately 688,500 (2011 - 699,600) cubic metres, estimated to be filled in 54 years (2011 - 55 years). Post-closure care is estimated to continue for a period of 25 years.

The Municipality has not made allocations to fund the liability at this time.

The Municipality has increased the amount of expected future cost, before factoring in discount rates and inflation rates, by \$2,000,000. The Municipality also changed the estimated discount rate and inflation rate, as shown above. As a result of this change, the 2012 liability for the landfill is \$546,013 lower than it would have been without the change in rates. The effect on future periods is not practical to estimate.

11. Employee future benefits payable

2012

2011

The Municipality provides certain employee benefits which will require funding in future periods:

| | | |
|---|---------------------|---------------------|
| Dental, medical, workers compensation, etc. | \$ <u>1,331,090</u> | \$ <u>1,726,008</u> |
|---|---------------------|---------------------|

The Municipality pays certain medical and dental benefits on behalf of its retired employees. The Municipality recognizes these post-retirement costs in the period in which the employees rendered the services. The amount for workers compensation was determined by Workplace Safety and Insurance Board.

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Accrued benefit liability, beginning of year | \$ 1,726,008 | \$ 1,736,867 |
| Expense for the period | (330,441) | 56,575 |
| Benefits paid | <u>(64,477)</u> | <u>(67,434)</u> |
| Accrued benefit liability, end of year | \$ <u>1,331,090</u> | \$ <u>1,726,008</u> |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

11. Employee future benefits payable (Continued)

The main assumptions employed for the valuations of medical and dental costs by management are as follows:

| | <u>2012</u> | <u>2011</u> |
|--|-------------|-------------|
| Eligible employees not in a position to retire early | 58 | 53 |
| Employee turnover over previous 5 years | 17.0% | 15.9% |
| Average retirement - fire | 57 | 57 |
| - other | 61 | 61 |
| Yearly benefit costs per employee | | |
| - fire | \$ 3,192 | \$ 3,192 |
| - city | 1,692 | 1,692 |
| - other | 1,692 | 1,692 |
| Benefits inflation rate per year | 2.5% | 5% |
| Discount rate | 4.0% | 6% |

The Municipality has changed the estimated discount rate and inflation rate, as shown above. As a result of this change, the 2012 accrued benefit expense and accrued benefits liability is \$29,614 lower than it would have been without the change. The effect on future periods is not practical to estimate.

12. Other assets

| Other assets are comprised of: | <u>2012</u> | <u>2011</u> |
|--------------------------------|-------------------|-------------------|
| Prepays | \$ 83,173 | \$ 77,457 |
| Supplies inventory | <u>436,378</u> | <u>464,304</u> |
| | <u>\$ 519,551</u> | <u>\$ 541,761</u> |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

13. Tangible capital assets

| Cost | <u>2011</u> | <u>Additions</u> | <u>Disposals/ Transfers</u> | <u>2012</u> |
|---------------------------------------|-----------------------|----------------------|---------------------------------|-----------------------|
| Land | \$ 60,243,285 | \$ 75,000 | \$ - | \$ 60,318,285 |
| Buildings | 42,909,800 | 18,631,043 | (1,254,370) | 60,286,473 |
| Vehicles | 6,130,105 | 956,485 | (536,613) | 6,549,977 |
| Equipment and furniture | 17,369,450 | 3,369,562 | (88,825) | 20,650,187 |
| Other | 13,724,804 | 6,043,149 | - | 19,767,953 |
| Facilities | 28,020,520 | 302,787 | - | 28,323,307 |
| Roads and bridges | 141,624,067 | 1,288,206 | - | 142,912,273 |
| Underground and other networks | 128,127,745 | 1,781,311 | - | 129,909,056 |
| Vehicles and equipment infrastructure | <u>32,308,342</u> | <u>2,338,307</u> | <u>(465,207)</u> | <u>34,181,442</u> |
| | 470,458,118 | 34,785,850 | (2,345,015) | 502,898,953 |
| Assets under construction | <u>23,148,060</u> | - | <u>(14,268,498)</u> | <u>8,879,562</u> |
| | \$ <u>493,606,178</u> | \$ <u>34,785,850</u> | \$ <u>(16,613,513)</u> | \$ <u>511,778,515</u> |

| Accumulated amortization | <u>2011</u> | <u>Amortization</u> | <u>Disposals</u> | <u>2012</u> |
|---------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Land | \$ - | \$ - | \$ - | \$ - |
| Buildings | 8,741,802 | 1,507,497 | (321,382) | 9,927,917 |
| Vehicles | 2,004,870 | 422,699 | (485,323) | 1,942,246 |
| Equipment and furniture | 6,493,832 | 1,249,740 | (88,825) | 7,654,747 |
| Other | 4,645,985 | 827,211 | - | 5,473,196 |
| Facilities | 6,255,442 | 704,950 | - | 6,960,392 |
| Roads and bridges | 69,859,760 | 4,532,565 | - | 74,392,325 |
| Underground and other networks | 50,063,263 | 2,430,991 | - | 52,494,254 |
| Vehicles and equipment infrastructure | <u>12,782,654</u> | <u>1,460,415</u> | <u>(465,110)</u> | <u>13,777,959</u> |
| | \$ <u>160,847,608</u> | \$ <u>13,136,068</u> | \$ <u>(1,360,640)</u> | \$ <u>172,623,036</u> |

| Net book value | <u>2011</u> | <u>2012</u> |
|---------------------------------------|-----------------------|-----------------------|
| Land | \$ 60,243,285 | \$ 60,318,285 |
| Buildings | 34,167,998 | 50,358,556 |
| Vehicles | 4,125,235 | 4,607,731 |
| Equipment and furniture | 10,875,618 | 12,995,440 |
| Other | 9,078,819 | 14,294,757 |
| Facilities | 21,765,078 | 21,362,915 |
| Roads and bridges | 71,764,307 | 68,519,948 |
| Underground and other networks | 78,064,482 | 77,414,802 |
| Vehicles and equipment infrastructure | <u>19,525,688</u> | <u>20,403,483</u> |
| | 309,610,510 | 330,275,917 |
| Assets under construction | <u>23,148,060</u> | <u>8,879,562</u> |
| | \$ <u>332,758,570</u> | \$ <u>339,155,479</u> |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

| | | |
|--|-------------------------------|------------------------------|
| 14. Accumulated surplus | <u>2012</u> | <u>2011</u> |
| Accumulated surplus is comprised of the following | | |
| Reserves set aside by Council | | |
| For contingencies | \$ 1,408,314 | \$ 1,024,423 |
| For future capital purposes | 2,220,454 | 2,769,070 |
| For current purposes | <u>101,577</u> | <u>53,358</u> |
| Total reserves | <u>3,730,345</u> | <u>3,846,851</u> |
| Reserve funds set aside by Council | | |
| For insurance | 358,068 | 371,076 |
| For future capital purposes | (18,895,093) | (11,743,110) |
| For current purposes | <u>44,903</u> | <u>46,764</u> |
| Total reserve funds | <u>(18,492,122)</u> | <u>(11,325,270)</u> |
| Total reserves and reserve funds | \$ <u>(14,761,777)</u> | \$ <u>(7,478,419)</u> |
| Surpluses | | |
| Invested in tangible capital assets | \$ 339,155,479 | \$ 332,758,570 |
| Committed capital funding | 4,915,181 | 99,687 |
| Equity in Orillia Power Corporation (Note 6) | 35,654,000 | 34,727,000 |
| BIA fund surplus | 66,414 | 65,323 |
| Less unfunded liabilities: | | |
| Employee benefit and post-employment liabilities (Note 11) | (1,331,090) | (1,726,008) |
| Landfill and post-closure liabilities (Note 10) | <u>(4,503,000)</u> | <u>(3,049,000)</u> |
| Total surpluses | <u>373,956,984</u> | \$ <u>362,875,572</u> |
| Accumulated surplus | \$ <u>359,195,207</u> | \$ <u>355,397,153</u> |

| | | | |
|---|-----------------------------|-----------------------------|-----------------------------|
| 15. Taxation | | <u>2012</u> | <u>2011</u> |
| | <u>Budget</u> | <u>Actual</u> | <u>Actual</u> |
| Real property | \$ 53,223,371 | \$ 52,873,175 | \$ 51,833,705 |
| Payments in lieu of taxes | <u>3,658,637</u> | <u>3,621,711</u> | <u>3,567,832</u> |
| | 56,882,008 | 56,494,886 | 55,401,537 |
| Less: taxes collected on behalf of school boards (Note 16) | <u>12,738,190</u> | <u>12,738,190</u> | <u>12,825,056</u> |
| Net taxes available for municipal purposes | \$ <u>44,143,818</u> | \$ <u>43,756,696</u> | \$ <u>42,576,481</u> |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

15. Taxation (continued)

| | | | |
|---|----------------------|----------------------|----------------------|
| Residential and farm | \$ 27,599,426 | \$ 27,381,172 | \$ 26,389,044 |
| Multi-residential | 2,778,461 | 2,778,461 | 2,650,849 |
| Commercial | 12,736,810 | 12,561,644 | 12,512,860 |
| Industrial | <u>1,029,121</u> | <u>1,035,419</u> | <u>1,023,728</u> |
| Net taxes available for municipal purposes | \$ <u>44,143,818</u> | \$ <u>43,756,696</u> | \$ <u>42,576,481</u> |

16. Collection on behalf of school boards

Total taxes and development charges received or receivable on behalf of the school boards are as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------|----------------------|----------------------|
| Taxes | \$ 12,996,653 | \$ 13,094,743 |
| Less: writeoffs | <u>(258,463)</u> | <u>(269,687)</u> |
| | 12,738,190 | 12,825,056 |
| Development charges | <u>75,853</u> | <u>157,756</u> |
| | \$ 12,814,043 | \$ 12,982,812 |

The Municipality is required to levy and collect taxes on behalf of the school boards. These taxes are recorded as revenue at the amounts levied. The taxes levied over (under) the amounts requisitioned, are recorded as accounts payable (receivable).

The Municipality is also required to bill and collect development charges on behalf of the school boards. Development charges collected in excess of those paid to the school boards are recorded as accounts payable.

17. Grants

| | <u>Budget</u> | <u>Actual</u> | <u>Actual</u> |
|----------------------|---------------------|---------------------|---------------------|
| Operating | | | |
| Province of Ontario | \$ 637,284 | \$ 632,394 | \$ 599,804 |
| Government of Canada | <u>29,590</u> | <u>50,866</u> | <u>48,206</u> |
| | <u>666,874</u> | <u>683,260</u> | <u>648,010</u> |
| Capital | | | |
| Province of Ontario | - | 938,258 | 2,046,348 |
| Government of Canada | <u>2,262,000</u> | <u>2,312,894</u> | <u>2,018,809</u> |
| | <u>2,262,000</u> | <u>3,251,152</u> | <u>4,065,157</u> |
| | \$ 2,928,874 | \$ 3,934,412 | \$ 4,713,167 |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

| 18. User charges | <u>2012</u> | | <u>2011</u> |
|--------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>Budget</u> | <u>Actual</u> | <u>Actual</u> |
| Operating | | | |
| Fees and service charges | \$ 5,746,283 | \$ 5,397,593 | \$ 5,096,007 |
| Direct water billings | 4,126,987 | 4,306,084 | 4,086,679 |
| Direct sewer billings | <u>4,545,211</u> | <u>4,787,412</u> | <u>4,577,287</u> |
| | \$ <u>14,418,481</u> | \$ <u>14,491,089</u> | \$ <u>13,759,973</u> |

| 19. Other revenue | <u>2012</u> | | <u>2011</u> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| | <u>Budget</u> | <u>Actual</u> | <u>Actual</u> |
| Penalties and interest on taxes | \$ 750,000 | \$ 885,078 | \$ 762,403 |
| Licenses and permits | 855,411 | 538,925 | 859,720 |
| Fines | 288,000 | 250,495 | 178,900 |
| Rents and leases | 1,087,126 | 1,092,296 | 1,077,099 |
| Interest income | 956,315 | 1,006,956 | 1,244,131 |
| Revenue from other municipalities | 499,633 | 497,649 | 442,389 |
| Other | <u>452,690</u> | <u>881,055</u> | <u>941,638</u> |
| | \$ <u>4,889,175</u> | \$ <u>5,152,454</u> | \$ <u>5,506,280</u> |

20. Pension agreement

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 299 (2011 - 242) members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. This pension plan is accounted for as a defined contribution plan as there is insufficient information available to apply defined benefit plan accounting. Employers and employees contribute jointly to the plan.

Contribution rates were from 8.3% to 13.9% (2011 - 7.4% to 14.1%) depending on the normal retirement age and the level of earnings. As a result \$1,543,363 (2011 - \$1,330,703) was contributed to OMERS during the year.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

21. Contingencies

The Municipality is involved from time to time in litigation, which arises in the normal course of business. In respect of any outstanding claims, the Municipality believes that insurance coverage is adequate and that no material exposure exists on the eventual settlement of such litigation, except for;

In 2010, the Municipality's development charge by-law has been challenged at the Ontario Municipal Board. A payable has not been accrued as the likelihood of loss, if any, is unknown, and should any loss incur, it would not be covered by the Municipality's insurance.

There is a claim against the Municipality regarding the award of a tender for the Municipality's waste collection and recycling collection contracts. Any costs or settlements related to the claim are not covered by the Municipality's insurance policy. The issue has been settled subsequent to year-end.

22. Financial instruments

The Municipality's financial instruments consist of cash and cash equivalents, investments, receivables, payables and accruals and deferred revenue. Unless otherwise noted, it is management's opinion that the Municipality is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

23. Comparative figures

Certain comparative figures in these financial statements have been reclassified to conform with presentation adopted for the current year.

24. Interfund borrowings

As a means of funding capital projects, developer contributions were allocated as the funding source for the projects as approved by Council. There were not enough funds in developer contributions to fund these projects, so general City funds were used to temporarily finance the projects. There is no set date of when these funds will all be repaid, but are reduced as collections are made and funds are allocated. Interest is charged based on the balance of the fund according to the City's procedure for allocating interest. For the purposes of these financial statements, both the financing and the repayment are reflected as interfund transfers and therefore eliminated during consolidation. The following is the current status of the internal borrowings outstanding.

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| | \$ <u>13,504,020</u> | \$ <u>14,527,189</u> |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

25. Segmented reporting

In accordance with Section 2700 of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants, the Municipality has prepared segmented financial information.

The Municipality is a municipal government entity that provides a wide range of services to its citizens. The schedule of segment disclosure provides the financial information by major reporting segments.

The revenue and expenditures for each service area have been separately disclosed in the segmented information, and include the following activities:

General Government

The General Government reporting segment includes a wide variety of departments and functions within the Municipality. These include Council, City Manager's Office, Treasury, Clerk's Department, Personnel, Payroll, Information Technology, Property Management, and other corporate management costs.

Protection

Protection services include Police, Fire, Bylaw Enforcement and Building Department. Police services are provided by the Ontario Provincial Police under contract.

Transportation

Transportation services include Roads, Winter Control, Transit, Parking and Street Lighting.

Environmental

Environmental services include the Sanitary Sewer, Storm sewer and Waterworks systems, Solid Waste Management, and Pollution Control.

Health, Social and Family

The Municipality makes payments to operate a variety of social services on their behalf. Payments are made to Simcoe Muskoka District Health Unit for Public Health and to The County of Simcoe for Paramedic, General Assistances (OW/ODSP), Homes for the Aged, Child Care and Social Housing.

Recreation and Culture

Recreation & Culture services include Parks, Recreation Programs, Recreation Facilities, Cultural Services, Orillia Opera House, Leacock Museum, and the Orillia Public Library.

Planning and Development

This category includes Planning, zoning and development services, the Economic Development Committee, the Downtown Orillia Management Board, and the operation of Commercial Rental Properties.

Other

Expenditures and revenue not directly attributable to a specific category are reported under this category.

Allocation Methods

In the preparation of segmented financial information, it is necessary to use reasonable allocation methods. For each reported segment, revenue represents both amounts that are directly attributable to the segment and amounts that are allocated. Property taxation is allocated to each segment based on the approved budget.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

25. Segmented reporting December 31, 2012 (Continued)

| | General Government | Protection | Transportation | Environmental | Health, Social and Family | Recreation & Culture | Planning & Development | Other, reserves and capital tax levy | Consolidated |
|---------------------------------------|-----------------------|--------------------|----------------------|----------------------|------------------------------|-------------------------|---------------------------|---|---------------------|
| Revenue | | | | | | | | | |
| Taxation | \$4,796,903 | \$12,285,861 | \$5,035,444 | \$1,389,068 | \$6,657,641 | \$5,554,114 | \$924,754 | \$7,112,911 | \$43,756,696 |
| Grants | 1,526 | 178,211 | 1,667,823 | 7,894 | - | 2,072,024 | 6,934 | - | 3,934,412 |
| User charges | 89,135 | 127,911 | 1,322,319 | 10,014,369 | - | 2,772,914 | 164,441 | - | 14,491,089 |
| Other | 325,618 | 1,054,979 | 20,610 | 411,170 | 17,934 | 466,744 | 868,465 | 3,086,934 | 6,252,454 |
| Developer contributions earned | - | - | - | - | - | - | - | 1,869,521 | 1,869,521 |
| Total revenue | 5,213,182 | 13,646,962 | 8,046,196 | 11,822,501 | 6,675,575 | 10,865,796 | 1,964,594 | 12,069,366 | 70,304,172 |
| Expenditures | | | | | | | | | |
| Salaries and wages | 3,248,748 | 5,463,152 | 2,839,723 | 2,793,281 | 216,703 | 5,794,566 | 1,308,546 | - | 21,664,719 |
| Goods and services | 1,467,451 | 8,709,439 | 3,531,265 | 6,361,255 | 72,010 | 3,240,304 | 1,169,218 | - | 24,550,942 |
| Other | - | - | - | - | 6,394,147 | 252,301 | 29,790 | - | 6,676,238 |
| Amortization | 522,861 | 253,486 | 5,574,348 | 3,922,559 | - | 2,757,842 | 104,972 | - | 13,136,068 |
| Total expenditures | 5,239,060 | 14,426,077 | 11,945,336 | 13,077,095 | 6,682,860 | 12,045,013 | 2,612,526 | - | 66,027,967 |
| Net revenue (expenditures) | \$(25,878) | \$(779,115) | \$(3,899,140) | \$(1,254,594) | \$(7,285) | \$(1,179,217) | \$(647,932) | \$12,069,366 | \$ 4,276,205 |

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2012

25. Segmented reporting December 31, 2011 (Continued)

| | General Government | Protection | Transportation | Environmental | Health, Social and Family | Recreation, & Culture | Planning & Development | Other, reserves and capital tax levy | Consolidated |
|---------------------------------------|-----------------------|---------------------|-----------------------|-------------------|------------------------------|--------------------------|---------------------------|---|----------------------|
| Revenue | | | | | | | | | |
| Taxation | \$ 4,282,830 | \$11,763,140 | \$ 5,024,551 | \$ 1,262,787 | \$ 6,545,191 | \$ 5,254,486 | \$ 1,067,958 | \$ 7,375,538 | \$ 42,576,481 |
| Grants | 11,844 | 130,366 | 2,586,878 | 26,877 | - | 1,937,797 | 19,405 | - | 4,713,167 |
| User charges | 70,692 | 120,491 | 1,252,786 | 9,661,740 | - | 2,473,063 | 181,201 | - | 13,759,973 |
| Other | 188,725 | 1,283,661 | 500 | 488,699 | 19,337 | 528,324 | 959,898 | 4,037,136 | 7,506,280 |
| Developer contributions earned | - | - | - | - | - | - | - | 2,522,971 | 2,522,971 |
| Total revenue | 4,554,091 | 13,297,658 | 8,864,715 | 11,440,103 | 6,564,528 | 10,193,670 | 2,228,462 | 13,935,645 | 71,078,872 |
| Expenditures | | | | | | | | | |
| Salaries and wages | 3,051,180 | 5,521,021 | 2,740,303 | 2,680,459 | 182,483 | 5,475,504 | 1,331,698 | - | 20,982,648 |
| Goods and services | 1,470,319 | 7,823,934 | 3,432,078 | 4,986,432 | 68,918 | 2,650,027 | 2,001,449 | - | 22,433,157 |
| Other | - | 900 | - | - | 6,439,673 | 157,163 | 20,914 | - | 6,618,650 |
| Amortization | 520,791 | 237,067 | 5,365,193 | 3,634,095 | - | 2,280,726 | 102,981 | - | 12,140,853 |
| Total expenditures | 5,042,290 | 13,582,922 | 11,537,574 | 11,300,986 | 6,691,074 | 10,563,420 | 3,457,042 | - | 62,175,308 |
| Net revenue (expenditures) | \$ (488,199) | \$ (285,264) | \$ (2,672,859) | \$ 139,117 | \$ (126,546) | \$ (369,750) | \$ (1,228,580) | \$13,935,645 | \$ 8,903,564 |