

Consolidated Financial Statements

City of Orillia

December 31, 2017

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Independent Auditor's Report

To the Mayor and Councillors 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, 2017, the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City of Orillia as at December 31, 2017 and the results of its operations, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Barrie, Ontario
July 19, 2018

City of Orillia

Consolidated Statement of Financial Position

December 31

2017

2016

Financial assets

Cash and cash equivalents (Note 3)	\$ 13,722,451	\$ 14,752,895
Investments (Note 4)	15,000,000	15,000,000
Taxes receivable	5,296,203	4,944,803
Receivables	7,129,624	5,342,478
Inventories for resale	40,442	39,342
Investment in Orillia Power Corporation (Note 5)	<u>47,082,000</u>	<u>42,885,000</u>
	<u>88,270,720</u>	<u>82,964,518</u>

Financial liabilities

Payables and accruals (Note 5)	18,552,685	13,078,493
Deferred revenue - obligatory reserves (Note 6)	3,828,023	3,023,582
Deferred revenue - other	1,312,327	1,257,131
Long term debt (Note 7)	10,015,920	12,019,104
Landfill closure and post-closure costs (Note 8)	5,268,847	5,075,600
Employee future benefits payable (Note 9)	<u>6,508,200</u>	<u>6,226,200</u>
	<u>45,486,002</u>	<u>40,680,110</u>

Net financial assets (Page 5)

<u>42,784,718</u>	<u>42,284,408</u>
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Non-financial assets

Other assets (Note 10)	470,512	446,149
Tangible capital assets (Note 11)	<u>375,200,911</u>	<u>353,447,658</u>
	<u>375,671,423</u>	<u>353,893,807</u>

Accumulated surplus (Note 12)

\$ <u>418,456,141</u>	\$ <u>396,178,215</u>
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Contingencies (Note 19)

See accompanying notes to the consolidated financial statements

City of Orillia

Consolidated Statements of Operations and Accumulated Surplus

Year Ended December 31

2017

2016

	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
	(Note 2)		
Revenue			
Taxation (Note 13)	\$ 53,451,732	\$ 52,672,411	\$ 50,595,623
Grants (Note 15)	9,783,658	6,954,798	3,307,813
User charges (Note 16)	19,187,329	19,125,757	18,610,785
Other revenue (Note 17)	5,732,929	7,188,522	7,372,251
Developer contributions earned	<u>5,262,000</u>	<u>3,577,998</u>	<u>3,504,310</u>
	<u>93,417,648</u>	<u>89,519,486</u>	<u>83,390,782</u>
Expenses			
General government	6,795,171	6,156,681	6,075,196
Protection to persons and property	16,899,901	16,655,381	16,514,812
Transportation services	12,911,138	13,219,933	12,446,288
Environmental services	13,233,815	12,833,135	12,326,782
Health services	2,170,000	2,196,510	1,929,553
Social and family services	4,623,271	4,535,067	4,535,568
Recreation and cultural services	13,379,496	13,485,170	13,202,236
Planning and development	<u>3,992,458</u>	<u>3,452,484</u>	<u>3,335,207</u>
	<u>74,005,250</u>	<u>72,534,361</u>	<u>70,365,642</u>
Net revenue	<u>19,412,398</u>	<u>16,985,125</u>	<u>13,025,140</u>
Other revenues (expenses)			
Equity income from Orillia Power Corporation (Note 5)	1,100,000	5,297,000	2,724,000
Gain on disposal of tangible capital assets	-	1,352,680	3,310,731
Donated and contributed tangible capital assets	-	48,000	1,406,081
Change in employee future benefits payable	-	(282,000)	(271,100)
Debenture interest	(292,891)	(292,891)	(346,360)
Legal costs – disposal of assets (Note 5)	-	(291,118)	(720,894)
Tax assessments at risk	-	(538,870)	(793,300)
	<u>807,109</u>	<u>5,292,801</u>	<u>5,309,158</u>
Annual surplus	\$ <u>20,219,507</u>	<u>22,277,926</u>	<u>18,334,298</u>
Accumulated surplus, beginning of year		<u>396,178,215</u>	<u>377,843,917</u>
Accumulated surplus, end of year		\$ <u>418,456,141</u>	\$ <u>396,178,215</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statements of Changes in Net Financial Assets

Year Ended December 31

2017

2016

	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
	(Note 2)		
Annual Surplus	\$ <u>20,219,507</u>	\$ <u>22,277,926</u>	\$ <u>18,334,298</u>
Acquisition of tangible capital assets	(35,471,000)	(38,681,005)	(30,038,554)
Donated and contributed tangible capital assets	-	(48,000)	(1,406,081)
Amortization of tangible capital assets	14,566,518	14,566,518	14,161,528
Proceeds from sale of tangible capital assets	-	3,761,914	4,307,467
Gain on disposal of tangible capital assets	-	(1,352,680)	(3,310,731)
	<u>(20,904,482)</u>	<u>(21,753,253)</u>	<u>(16,286,371)</u>
Change in other assets	<u>-</u>	<u>(24,363)</u>	<u>18,155</u>
Change in net financial assets	<u>(684,975)</u>	<u>500,310</u>	<u>2,066,082</u>
Net financial assets, beginning of the year	<u>42,284,408</u>	<u>42,284,408</u>	<u>40,218,326</u>
Net financial assets, end of the year	\$ <u>42,099,743</u>	\$ <u>42,784,718</u>	\$ <u>42,284,408</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statement of Cash Flows

Year Ended December 31

2017

2016

Increase (decrease) in cash and cash equivalents

Operating activities

Annual surplus \$ 22,277,926 \$ 18,334,298

Items not involving cash

Amortization of tangible capital assets 14,566,518 14,161,528
 Gain on sale of tangible capital assets (1,352,680) (3,310,731)
 Equity income from Orillia Power Corporation (5,297,000) (2,724,000)

Change in non-cash operating balances

Inventories for resale (1,100) (1,025)
 Taxes receivable (351,400) 910,634
 Receivables (1,787,146) (1,409,303)
 Other assets (24,363) 18,155
 Payables and accruals 5,474,192 3,471,051
 Deferred revenue – obligatory reserves (Note 6) 804,441 976,204
 Deferred revenue – other 55,196 777,904
 Increase in landfill closure and post closure costs 193,247 101,600
 Increase/(decrease) in employee future benefits payable 282,000 271,100
 Cash provided by operating activities 34,839,831 31,577,415

Financing activities

Repayments of long term debt (2,003,184) (2,003,184)
 Cash provided by financing activities (2,003,184) (2,003,184)

Investing activities

Dividends received from Orillia Power Corporation 1,100,000 1,100,000
 Acquisition of investments - (9,375,000)
 Cash provided by investing activities 1,100,000 (8,275,000)

Capital activities

Proceeds from sale of tangible capital assets 3,761,914 4,307,467
 Acquisition of tangible capital assets (38,681,005) (30,038,554)
 Contributed tangible capital assets (48,000) (1,406,081)
 Cash used in capital activities (34,967,091) (27,137,168)

Net increase/(decrease) in cash and cash equivalents (1,030,444) (5,837,937)

Cash and cash equivalents, beginning of year 14,752,895 20,590,832

Cash and cash equivalents, end of year \$ 13,722,451 \$ 14,752,895

See accompanying notes to the consolidated financial statements.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

1. Summary of significant accounting policies

The consolidated financial statements of the City of Orillia (the Municipality) are prepared by management in accordance with public sector accounting standards for local governments, as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. 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, expenses 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
Downtown Orillia Management Board

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

c) School board transactions

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

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

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 on the consolidated financial statements. When qualifying expenses are incurred, restricted revenues are brought into revenue at equal amounts. Revenue received in advance of expenses, which will be incurred in a later period, are deferred until they are earned by being matched against these expenses.

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. 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, when the fair value can be reasonably estimated. Tangible capital assets conveyed from developers are recorded at the estimated engineering value at time of registration. The value contributed during the year was \$48,000 (2016 – \$1,406,081).

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

1. Summary of significant accounting policies (continued)

e) Non-financial assets (continued)

(iii) Interest capitalization

Interest of \$nil (2016 - \$nil) 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. Taxation revenues are recorded at the time the taxes are authorized and the taxable event occurs. Assessments and related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the appeals are submitted. The Municipality is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are earned.

Government transfers are recognized as revenue in the year in which events giving rise to the transfer occur, providing that the transfer is authorized, any eligibility criteria have been met and the amount can be reasonably estimated, except to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the consolidated statement of operations as the stipulated liabilities are settled.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

1. Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

Grants are recognized as revenue when approved, to the extent the related expenses 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.

g) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The principal estimates used in the preparation of these consolidated financial statements are landfill closure and post-closure liabilities, post-employment benefits liability, the estimated useful lives of tangible capital assets and other accrued liabilities and/or obligations. Actual results could differ from management's best estimates as additional information becomes available in the future.

h) 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 expense.

Developer contributions and fees for services are recognized over the period of service or when required expenses occur if applicable.

j) Area improvement charges

The Municipality records expenses 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.

k) 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 12 of the consolidated financial statements.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

1. Summary of significant accounting policies (continued)

l) Pension plan

The Municipality is an employer member of the Ontario Municipal Employees' Retirement System ("OMERS"), which is a multi-employer defined benefit pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Municipality has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles. The Municipality records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the plan for past employee service.

m) Employee future benefits payable

The Municipality accrues its obligations under employee benefit plans as the employees render the services necessary to earn employee future benefits. The Municipality has adopted the following valuation methods and assumptions:

Actuarial cost method:

Accrued benefit obligations are computed using the projected benefit method prorated on service, as defined in PSAB 3250 and PSAB 3255. The objective under this method is to expense each member's benefit under the plan taking into consideration projections of benefit costs to and during retirement. Under this method an equal portion of total estimated future benefit is attributed to each year of service.

Funding policy:

The non-pension post-retirement benefits are funded on a pay-as-you-go basis. The Municipality funds on a cash basis as benefits are paid. No assets have been formally segregated and restricted to provide the non-pension post-retirement benefits.

Accounting policies:

Actuarial gains and losses are amortized on a linear basis over the expected average remaining service life ("EARSL") of members expected to receive benefits under the plan, with amortization commencing in the period following the determination of the gain or loss.

Workplace Safety and Insurance Board (WSIB):

The costs of WSIB obligations are actuarially determined and are expensed in the period they occur. Any actuarial gains and losses that are related to WSIB benefits are recognized immediately in the period they arise.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

2. 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	\$ 94,517,648	\$ 94,909,309
Less: Acquisition of tangible capital assets budgeted	-	(35,471,000)
Add: Amortization expense	-	14,566,941
Adjusted budget per consolidated statement of operations	\$ <u>94,517,648</u>	\$ <u>74,005,250</u>

3. Cash and cash equivalents

2017

2016

Cash is comprised of:

Unrestricted cash, held at the bank and on hand	\$ 9,894,428	\$ 11,729,313
Restricted cash, held at the bank	<u>3,828,023</u>	<u>3,023,582</u>
	\$ <u>13,722,451</u>	\$ <u>14,752,895</u>

The Municipality's bank accounts are held at one chartered bank. The bank accounts earn interest at a variable rate calculated on the daily balances. The Municipality has a revolving demand credit facility with the Toronto-Dominion Bank for a maximum amount of \$10,000,000 available, including a letter of credit in the amount of \$34,000, at the bank's prime rate less 0.75% per annum (2016 – 0.75%). No amounts were drawn from the credit facility as at December 31, 2017 (2016 - \$nil).

There is provincial and municipal legislation that restricts how restricted funds may be used reported in Note 6.

4. Investments

Investments are guaranteed investments certificates, recorded at cost plus accrued interest. Investments are due at various times in 2018 and earn interest at 1.53%.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

5. 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>2017</u>	<u>2016</u>
Financial position		
Current assets	\$ 16,794,000	\$ 15,209,000
Capital assets	59,709,000	52,617,000
Other assets	2,565,000	1,493,000
Regulatory deferral account debit balances	<u>1,455,000</u>	<u>1,757,000</u>
	<u>80,523,000</u>	<u>71,076,000</u>
Current liabilities	16,143,000	15,417,000
Long-term liabilities	10,752,000	7,910,000
Other	4,132,000	2,728,000
Regulatory deferral account credit balances	<u>2,414,000</u>	<u>2,136,000</u>
	<u>33,441,000</u>	<u>28,191,000</u>
Net assets	\$ <u>47,082,000</u>	\$ <u>42,885,000</u>
Results of operations		
Revenue	\$ 54,937,000	\$ 55,082,000
Operating expenses	(47,803,000)	(51,070,000)
Financing expenses	(1,351,000)	(1,084,000)
Payments in lieu of taxes	(1,441,000)	368,000
Net movement in regulatory deferral account balances	(356,000)	(547,000)
Gain on previously held equity interest as part of business acquisition	874,000	-
Non-controlling interest	437,000	-
Actuarial loss on defined benefit plans net of deferred taxes	<u>-</u>	<u>(25,000)</u>
Total comprehensive income	5,297,000	2,724,000
Dividend	<u>(1,100,000)</u>	<u>(1,100,000)</u>
Change in equity	\$ <u>4,197,000</u>	\$ <u>1,624,000</u>

The above information is as reported by Orillia Power Corporation.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

5. Investment in Orillia Power Corporation (continued)

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 parties:

	<u>2017</u>	<u>2016</u>
Electricity purchased	\$ 2,729,408	\$ 2,618,111
Other services purchased	196,089	115,973
Property taxes and other taxes	73,194	74,899
Interest received	924,750	924,750
Dividend received	1,100,000	1,100,000
Other services sold	66,918	102,964

The investment consists of:

	<u>2017</u>	<u>2016</u>
Promissory note	\$ 14,796,000	\$ 14,796,000
Equity	<u>32,286,000</u>	<u>28,089,000</u>
	<u>\$ 47,082,000</u>	<u>\$ 42,885,000</u>
Balance outstanding at December 31		
Due to Orillia Power Corporation	<u>\$ 1,300,741</u>	<u>\$ 1,026,286</u>

The promissory notes payable to the City of Orillia, bear interest for the current year at 6.25% per annum (2016 – 6.25%) and interest is paid annually. The promissory notes are due December 31, 2030 and payments are interest only. Under the terms of the notes, the Municipality can demand repayment of up to 20% of the original principal in a calendar year with the payment to be made March 31 provided the Municipality gives six months' notice. The fair value of the notes at current market borrowing rates approximates \$16.97 million (2016 – \$17.25 million). The notes are secured by a general security agreement on all the assets of Orillia Power Corporation.

The Municipality and Orillia Power Corporation have signed a share purchase agreement with Hydro One Inc. to sell Orillia Power Distribution Corporation ("OPDC"). The agreement was signed on August 15, 2016 subject to review and approval by the Ontario Energy Board ("OEB"). On April 12, 2018 the City of Orillia received notification that the OEB denied the application for the sale of OPDC. As part of the contractual agreement of the sale to seek OEB approval, the City and Hydro One have filed a motion to review and revise the OEB's decision. This appeal is currently before the OEB and no decision has been made as of the issuance date of these consolidated financial statements.

During the year ended December 31, 2017, legal fees of \$291,118 (2016 – \$720,894) related to the future sale of OPDC have been incurred on behalf of Orillia Power Corporation and are included in legal costs – disposal of assets on the consolidated statements of operations and accumulated surplus. The amount due to OPC for these legal costs is included in payables and accruals on the consolidated statement of financial position.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

6. Deferred revenue – obligatory reserves

	<u>2016</u>	Opening adjustment unfunded development charges	Restricted revenue and investment income	Transfer to capital/ revenue	Adjustment unfunded development charges	<u>2017</u>
Lot levies and subdivider Contributions	\$ 1,003,847	\$(13,668,820)	\$ 3,274,719	\$ (4,426,225)	\$14,526,424	\$ 709,945
Ontario Community Infrastructure Fund	-	-	825,926	(783,000)	-	42,926
Provincial and federal gas tax	<u>2,019,735</u>	<u>-</u>	<u>2,441,877</u>	<u>(1,386,460)</u>	<u>-</u>	<u>3,075,152</u>
	<u>\$ 3,023,582</u>	<u>\$(13,668,820)</u>	<u>\$ 6,542,522</u>	<u>\$ (6,595,685)</u>	<u>\$14,526,424</u>	<u>\$ 3,828,023</u>

There is provincial and municipal legislation that restricts how these funds may be used. Cash restricted to fund these reserves is reported in Note 3.

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. For the purposes of these financial statements, both the financing and the repayment are reflected as interfund transfers and therefore eliminated during consolidation (Note 21).

7. Long term debt

	<u>2017</u>	<u>2016</u>
Ontario Infrastructure and Lands Corporation, repayable in semi-annual principal payments of \$1,001,592 plus interest at 2.64%, the debentures are approved by municipal by-law, maturing October 2022	\$ <u>10,015,920</u>	\$ <u>12,019,104</u>

The interest expense relating to the above long-term debt was \$292,891 (2016 - \$346,360).

Five year principal repayments

2018	\$ 2,003,184
2019	2,003,184
2020	2,003,184
2021	2,003,184
2022	<u>2,003,184</u>
	\$ <u>10,015,920</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

8. 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 \$5,268,847 (2016 - \$5,075,600) and represents the present value of closure and post-closure costs for 51.7% (2016 – 50.7%) of the current site's total cells, using an estimated long term borrowing rate of 4% (2016 - 4%) and inflation rate of 2.5% (2016 – 2.5%). The liability is recorded based on the capacity of the landfill used to date.

The total estimated future expenses representing the sum of the discounted future cash flows for closure and post-closure care are \$10,197,000 leaving an amount to be recognized of \$4,928,000. The estimated remaining capacity of the sites unused cells are approximately 628,300 (2016 – 641,000) cubic metres, estimated to be filled in 49 years. Post-closure care is estimated to continue for a period of 25 years.

The reserve balances include a reserve to partially offset the future closure costs. The balance of this reserve at the end of 2017 was \$665,996.

9. Employee future benefits payable

	Retiree Benefits	Sick Leave	WSIB	Total
Accrued benefit obligation and liability, beginning of year	\$ 3,105,700	\$ 888,500	\$ 2,232,000	\$ 6,226,200
Expenses for the year	311,100	158,100	178,000	647,200
Benefits paid	<u>(178,500)</u>	<u>(118,100)</u>	<u>(68,600)</u>	<u>(365,200)</u>
Accrued benefit obligation and liability, end of year	<u>\$ 3,238,300</u>	<u>\$ 928,500</u>	<u>\$ 2,341,400</u>	<u>\$ 6,508,200</u>

The Municipality provides health care and dental benefits to certain employee groups after retirement until members reach 65 years of age. The benefit costs and liabilities related to this plan are based on an actuarial valuation prepared by an independent firm. The date of the most recent actuarial valuation was as of December 31, 2015.

The Municipality is a Schedule 2 employer under the Workplace Safety and Insurance Act and, as such, assumes responsibility for financing its workplace safety and insurance costs. The costs and liabilities related to WSIB are based on an actuarial valuation prepared by an independent firm. The date of the most recent actuarial valuation was as of December 31, 2015.

The main actuarial assumptions employed for the valuation are as follows:

(a) Interest (discount) rate

The obligation as at December 31, 2017 of the present value of future liabilities and the expenses, was determined using an annual discount rate of 3.4% per annum (Retirement Benefit Plan) (2016 – 3.4%) and 3.3% per annum (Sick Leave and WSIB Plan) (2016 – 3.3%).

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

9. Employee future benefits payable (continued)

(b) Salary levels

Future general salary and wage levels were assumed to increase 3.0% per year (2016 – 3.0%).

(c) Health care costs

Health care costs were assumed to increase by 7.74% in 2017 and decrease by 3.94% per year to 4.00% in 2036 (2016 - assumed to increase by 7.94%).

(d) Dental costs

Dental costs were assumed to increase at a rate of 4.0% per annum (2016 - 4.0%).

10. Other assets

Other assets are comprised of:

	<u>2017</u>	<u>2016</u>
Prepays	\$ 82,575	\$ 77,377
Supplies inventory	<u>387,937</u>	<u>368,772</u>
	<u>\$ 470,512</u>	<u>\$ 446,149</u>

11. Tangible capital assets

Cost	<u>2016</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>2017</u>
Land	\$ 66,576,928	\$ 56,758	\$ (2,047,334)	\$ 64,586,352
Buildings	74,897,904	1,792,497	(453,085)	76,237,316
Vehicles	8,451,583	38,768	(66,047)	8,424,304
Equipment and furniture	23,841,130	2,100,032	(412,431)	25,528,731
Other	21,344,954	674,376	(92,225)	21,927,105
Facilities	28,866,695	809,041	(33,112)	29,642,624
Roads and bridges	153,481,162	5,371,140	(5,976,217)	152,876,085
Underground and other networks	140,500,470	709,342	(1,887,284)	139,322,528
Infrastructure - vehicles and equipment	<u>36,756,314</u>	<u>4,555,146</u>	<u>(594,249)</u>	<u>40,717,211</u>
	554,717,140	16,107,100	(11,561,984)	559,262,256
Assets under construction	<u>11,320,575</u>	<u>29,072,052</u>	<u>(6,450,147)</u>	<u>33,942,480</u>
	<u>\$ 566,037,715</u>	<u>\$ 45,179,152</u>	<u>\$ (18,012,131)</u>	<u>\$ 593,204,736</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

11. Tangible capital assets (continued)

Accumulated amortization	<u>2016</u>	<u>Amortization</u>	<u>Disposals</u>	<u>2017</u>
Land	\$ -	\$ -	\$ -	\$ -
Buildings	15,387,469	2,113,265	(155,350)	17,345,384
Vehicles	3,469,261	527,907	(21,611)	3,975,557
Equipment and furniture	9,240,190	1,602,834	(444,581)	10,398,443
Other	8,659,897	980,775	(40,346)	9,600,326
Facilities	9,964,509	695,405	-	10,659,914
Roads and bridges	88,790,158	4,400,372	(5,976,217)	87,214,313
Underground and other networks	59,813,133	2,536,606	(1,887,284)	60,462,455
Infrastructure - vehicles and equipment	<u>17,265,440</u>	<u>1,709,354</u>	<u>(627,361)</u>	<u>18,347,433</u>
	\$ <u>212,590,057</u>	\$ <u>14,566,518</u>	\$ <u>(9,152,750)</u>	\$ <u>218,003,825</u>

Net book value	<u>2016</u>	<u>2017</u>
Land	\$ 66,576,928	\$ 64,586,352
Buildings	59,510,435	58,891,932
Vehicles	4,982,322	4,448,747
Equipment and furniture	14,600,940	15,130,288
Other	12,685,057	12,326,779
Facilities	18,902,186	18,982,710
Roads and bridges	64,691,004	65,661,772
Underground and other networks	80,687,337	78,860,073
Infrastructure - vehicles and equipment	<u>19,490,874</u>	<u>22,369,778</u>
	332,127,083	341,258,431
Assets under construction	<u>11,320,575</u>	<u>33,942,480</u>
	\$ <u>353,447,658</u>	\$ <u>375,200,911</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

11. Tangible capital assets (continued)

Cost	<u>2015</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>2016</u>
Land	\$ 60,048,976	\$ 6,911,709	\$ (383,757)	\$ 66,576,928
Buildings	69,452,524	6,145,546	(700,166)	74,897,904
Vehicles	6,916,631	1,633,451	(98,499)	8,451,583
Equipment and furniture	23,589,445	1,259,261	(1,007,576)	23,841,130
Other	21,621,694	119,305	(396,045)	21,344,954
Facilities	28,391,419	475,276	-	28,866,695
Roads and bridges	153,581,802	2,475,654	(2,576,294)	153,481,162
Underground and other networks	140,772,536	2,509,435	(2,781,501)	140,500,470
Infrastructure - vehicles and equipment	<u>36,087,139</u>	<u>1,655,131</u>	<u>(985,956)</u>	<u>36,756,314</u>
	540,462,166	23,184,768	(8,929,794)	554,717,140
Assets under construction	<u>3,060,708</u>	<u>8,862,578</u>	<u>(602,711)</u>	<u>11,320,575</u>
	<u>\$ 543,522,874</u>	<u>\$ 32,047,346</u>	<u>\$ (9,532,505)</u>	<u>\$ 566,037,715</u>

Accumulated amortization	<u>2015</u>	<u>Amortization</u>	<u>Disposals</u>	<u>2016</u>
Land	\$ -	\$ -	\$ -	\$ -
Buildings	13,960,400	1,982,982	(555,913)	15,387,469
Vehicles	3,070,292	497,468	(98,499)	3,469,261
Equipment and furniture	8,732,570	1,475,737	(968,117)	9,240,190
Other	7,872,294	970,857	(183,254)	8,659,897
Facilities	9,082,990	881,519	-	9,964,509
Roads and bridges	86,914,871	4,235,105	(2,359,818)	88,790,158
Underground and other networks	60,084,952	2,509,682	(2,781,501)	59,813,133
Infrastructure - vehicles and equipment	<u>16,643,218</u>	<u>1,608,178</u>	<u>(985,956)</u>	<u>17,265,440</u>
	<u>\$ 206,361,587</u>	<u>\$ 14,161,528</u>	<u>\$ (7,933,058)</u>	<u>\$ 212,590,057</u>

Net book value	<u>2015</u>	<u>2016</u>
Land	\$ 60,048,976	\$ 66,576,928
Buildings	55,492,124	59,510,435
Vehicles	3,846,339	4,982,322
Equipment and furniture	14,856,875	14,600,940
Other	13,749,400	12,685,057
Facilities	19,308,429	18,902,186
Roads and bridges	66,666,931	64,691,004
Underground and other networks	80,687,584	80,687,337
Infrastructure - vehicles and equipment	<u>19,443,921</u>	<u>19,490,874</u>
	334,100,579	342,127,083
Assets under construction	<u>3,060,708</u>	<u>11,320,575</u>
	<u>\$ 337,161,287</u>	<u>\$ 353,447,658</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

12. Accumulated surplus	<u>2017</u>	<u>2016</u>
Accumulated surplus is comprised of the following		
Reserves set aside by Council		
For contingencies	\$ 1,902,960	\$ 949,956
For future capital purposes	4,584,049	3,595,383
For current purposes	<u>2,268,678</u>	<u>1,478,963</u>
Total reserves	<u>8,755,687</u>	<u>6,024,302</u>
Reserve funds set aside by Council		
For insurance	920,636	301,812
For future capital purposes	(45,369,889)	3,815,650
For current purposes	<u>52,868</u>	<u>46,598</u>
Total reserve funds	<u>(44,396,385)</u>	<u>4,164,060</u>
Total reserves and reserve funds	<u>\$ (35,640,698)</u>	<u>\$ 10,188,362</u>
Surpluses		
Invested in tangible capital assets	\$ 375,200,911	\$ 353,447,658
Committed capital funding	60,391,706	16,088,141
Unfinanced capital expenditure	(14,526,424)	(13,668,820)
Equity in Orillia Power Corporation (Note 5)	47,082,000	42,885,000
Downtown Orillia Management Board surplus	69,875	53,868
Less unfunded liabilities:		
Preparation costs to be recovered – disposal of assets	(1,012,012)	(720,894)
Assessments at risk	(1,332,170)	(793,300)
Employee benefit and post-employment liabilities (Note 9)	(6,508,200)	(6,226,200)
Landfill and post-closure liabilities (Note 8)	<u>(5,268,847)</u>	<u>(5,075,600)</u>
Total surpluses	<u>454,096,839</u>	<u>385,989,853</u>
Accumulated surplus	<u>\$ 418,456,141</u>	<u>\$ 396,178,215</u>

13. Taxation		<u>2017</u>	<u>2016</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Real property	\$ 60,751,747	\$ 59,995,106	\$ 58,646,581
Payments in lieu of taxes	<u>4,431,867</u>	<u>4,409,187</u>	<u>4,309,848</u>
	65,183,614	64,404,293	62,956,429
Less: taxes collected on behalf of school boards (Note 14)	<u>11,731,882</u>	<u>11,731,882</u>	<u>12,360,806</u>
Net taxes available for municipal purposes	<u>\$ 53,451,732</u>	<u>\$ 52,672,411</u>	<u>\$ 50,595,623</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

13. Taxation (continued)	2017		2016
	Budget	Actual	Actual
Residential and farm	\$ 34,080,671	\$ 34,140,713	\$ 32,344,988
Multi-residential	3,449,299	3,505,771	3,295,515
Commercial	14,714,426	13,804,008	13,842,575
Industrial	<u>1,207,336</u>	<u>1,221,919</u>	<u>1,112,545</u>
Net taxes available for municipal purposes	\$ <u>53,451,732</u>	\$ <u>52,672,411</u>	\$ <u>50,595,623</u>

14. Collection on behalf of school boards	2017	2016
Total taxes and development charges received or receivable on behalf of the school boards are as follows:		
Taxes	\$ 12,789,921	\$ 12,975,811
Less: writeoffs	<u>(1,058,039)</u>	<u>(615,005)</u>
	11,731,882	12,360,806
Development charges	<u>390,075</u>	<u>519,487</u>
	\$ <u>12,121,957</u>	\$ <u>12,880,293</u>

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.

15. Grants	2017	2016
	Budget	Actual
Operating		Actual
Province of Ontario	\$ 679,924	\$ 642,737
Government of Canada	<u>43,734</u>	<u>58,918</u>
	<u>723,658</u>	<u>701,655</u>
Capital		
Province of Ontario	4,150,000	822,333
Government of Canada	<u>4,910,000</u>	<u>1,783,825</u>
	<u>9,060,000</u>	<u>2,606,158</u>
	\$ <u>9,783,658</u>	\$ <u>3,307,813</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

16. User charges	<u>2017</u>		<u>2016</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Operating			
Fees and service charges	\$ 6,249,062	\$ 6,852,619	\$ 6,096,541
Direct water billings	5,906,031	5,637,108	5,713,616
Direct sewer billings	<u>7,032,236</u>	<u>6,636,030</u>	<u>6,800,628</u>
	\$ <u>19,187,329</u>	\$ <u>19,125,757</u>	\$ <u>18,610,785</u>

17. Other revenue	<u>2017</u>		<u>2016</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Penalties and interest on taxes	\$ 890,000	\$ 757,975	\$ 776,495
Licenses and permits	859,601	844,999	1,011,794
Fines	270,000	245,633	252,817
Rents and leases	2,204,204	2,041,135	1,980,820
Interest income	120,677	1,361,575	1,216,507
Revenue from other municipalities	419,515	470,131	375,285
Other	<u>968,932</u>	<u>1,467,074</u>	<u>1,758,533</u>
	\$ <u>5,732,929</u>	\$ <u>7,188,522</u>	\$ <u>7,372,251</u>

18. Pension agreement

OMERS provides pension services to more than 482,000 active and retired members and approximately 1,000 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2017. The results of this valuation disclosed total actuarial liabilities of \$94,431 million in respect of benefits accrued for service with actuarial assets at that date of \$89,028 million indicating an actuarial deficit of \$5,403 million. Since OMERS is a multi-employer plan, 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.

Contributions made by the Municipality to OMERS for 2017 were \$2,191,485 (2016 - \$1,921,507).

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

19. 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.

20. Comparative figures

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

21. 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 interfund borrowings are reduced as collections are made and funds are allocated. Interest is charged based on the balance of the fund according to the Municipality'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>2017</u>	<u>2016</u>
	\$ <u>14,526,424</u>	\$ <u>13,668,820</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

22. 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 expenses 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 and 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.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

23. Segmented reporting (continued)

Other

Expenses 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, 2017

23. Segmented reporting December 31, 2017 (continued)

	General Government	Protection	Transportation	Environmental	Health, Social and Family	Recreation and Culture	Planning and Development	Other, reserves and capital tax levy	Consolidated
Revenue									
Taxation	\$5,326,170	\$14,902,739	\$5,460,306	\$1,224,312	\$6,444,221	\$6,761,036	\$1,399,301	\$11,154,326	\$52,672,411
Grants	-	132,227	3,290,613	1,328,860	-	2,170,859	32,239	-	6,954,798
User charges	88,065	172,700	1,501,169	13,893,958	-	2,970,054	499,811	-	19,125,757
Other revenue	342,515	1,323,183	12,550	595,572	122,864	387,570	1,694,883	2,709,385	7,188,522
Developer contributions earned	-	-	-	-	-	-	-	3,577,998	3,577,998
Total revenue	5,756,750	16,530,849	10,264,638	17,042,702	6,567,085	12,289,519	3,626,234	17,441,709	89,519,486
Expenses									
Salaries and wages	4,030,400	7,259,872	3,021,110	3,732,825	307,422	6,196,416	1,636,905	-	26,184,950
Goods and services	1,684,930	8,878,937	4,569,290	4,870,303	139,814	3,678,378	1,354,112	-	25,175,764
Other	8,077	-	-	-	6,284,341	203,916	110,795	-	6,607,129
Amortization	433,274	516,572	5,629,533	4,230,007	-	3,406,460	350,672	-	14,566,518
Total expenses	6,156,681	16,655,381	13,219,933	12,833,135	6,731,577	13,485,170	3,452,484	-	72,534,361
Net revenue (expenses)	\$(399,931)	\$(124,532)	\$(2,955,295)	\$4,209,567	\$(164,492)	\$(1,195,651)	\$173,750	\$17,441,709	\$16,985,125

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2017

23. Segmented reporting December 31, 2016 (continued)

	General Government	Protection	Transportation	Environmental	Health, Social and Family	Recreation and Culture	Planning and Development	Other, reserves and capital tax levy	Consolidated
Revenue									
Taxation	\$5,531,433	\$14,787,001	\$5,208,780	\$1,280,965	\$6,421,764	\$6,591,124	\$1,426,195	\$9,348,361	\$50,595,623
Grants	-	124,570	3,046,813	-	-	121,362	15,068	-	3,307,813
User charges	111,683	148,982	1,468,159	13,773,896	-	2,815,216	292,849	-	18,610,785
Other revenue	345,990	1,461,320	32,126	614,444	547,416	673,062	1,661,790	2,036,103	7,372,251
Developer contributions earned	-	-	-	-	-	-	-	3,504,310	3,504,310
Total revenue	5,989,106	16,521,873	9,755,878	15,669,305	6,969,180	10,200,764	3,395,902	14,888,774	83,390,782
Expenses									
Salaries and wages	4,239,240	7,111,725	2,999,217	3,450,720	299,795	6,139,657	1,643,299	-	25,883,653
Goods and services	1,413,883	8,877,445	4,110,592	4,578,667	122,833	3,435,221	1,400,424	-	23,939,065
Other	6,047	-	-	-	6,042,493	292,504	40,352	-	6,381,396
Amortization	416,026	525,642	5,336,479	4,297,395	-	3,334,854	251,132	-	14,161,528
Total expenses	6,075,196	16,514,812	12,446,288	12,326,782	6,465,121	13,202,236	3,335,207	-	70,365,642
Net revenue (expenses)	\$(86,090)	\$7,061	\$(2,690,410)	\$3,342,523	\$504,059	\$(3,001,472)	\$60,695	\$14,888,774	\$13,025,140