

Consolidated Financial Statements

City of Orillia

December 31, 2016

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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, 2016, the consolidated statements of operations and accumulated surplus, change in net debt 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.



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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, 2016 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
June 26, 2017

City of Orillia

Consolidated Statement of Financial Position

December 31

2016

2015

Financial assets

Cash and cash equivalents (Note 3)	\$ 14,752,895	\$ 20,590,832
Investments (Note 4)	15,000,000	5,625,000
Taxes receivable	4,944,803	5,855,437
Receivables	5,342,478	3,933,175
Inventories for resale	39,342	38,317
Investment in Orillia Power Corporation (Note 5)	<u>42,885,000</u>	<u>41,261,000</u>
	<u>82,964,518</u>	<u>77,303,761</u>

Financial liabilities

Payables and accruals (Note 5)	13,078,493	9,607,442
Deferred revenue - obligatory reserves (Note 6)	3,023,582	2,047,378
Deferred revenue - other	1,257,131	479,227
Long term debt (Note 7)	12,019,104	14,022,288
Landfill closure and post-closure costs (Note 8)	5,075,600	4,974,000
Employee future benefits payable (Note 9)	<u>6,226,200</u>	<u>5,955,100</u>
	<u>40,680,110</u>	<u>37,085,435</u>

Net financial assets (Page 5)

<u>42,284,408</u>	<u>40,218,326</u>
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Non-financial assets

Other assets (Note 10)	446,149	464,304
Tangible capital assets (Note 11)	<u>353,447,658</u>	<u>337,161,287</u>
	<u>353,893,807</u>	<u>337,625,591</u>

Accumulated surplus (Note 12)

\$ <u>396,178,215</u>	\$ <u>377,843,917</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

2016

2015

	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
	(Note 2)		
Revenue			
Taxation (Note 13)	\$ 51,831,729	\$ 50,595,623	\$ 49,156,128
Grants (Note 15)	4,433,678	3,307,813	3,153,462
User charges (Note 16)	17,990,450	18,610,785	18,069,441
Other revenue (Note 17)	5,894,356	7,372,251	5,987,688
Developer contributions earned	<u>4,045,000</u>	<u>3,504,310</u>	<u>1,325,823</u>
	<u>84,195,213</u>	<u>83,390,782</u>	<u>77,692,542</u>
Expenses			
General government	6,441,131	6,075,196	6,136,371
Protection to persons and property	16,638,965	16,514,812	16,443,303
Transportation services	12,364,415	12,446,288	12,813,266
Environmental services	12,530,268	12,326,782	12,071,590
Health services	2,010,000	1,929,553	1,784,807
Social and family services	4,540,064	4,535,568	4,759,649
Recreation and cultural services	13,201,805	13,202,236	13,243,873
Planning and development	<u>3,006,132</u>	<u>3,335,207</u>	<u>2,746,395</u>
	<u>70,732,780</u>	<u>70,365,642</u>	<u>69,999,254</u>
Net revenue	<u>13,462,433</u>	<u>13,025,140</u>	<u>7,693,288</u>
Other revenues (expenses)			
Equity income from Orillia Power Corporation (Note 5)	1,100,000	2,724,000	2,679,000
Gain on disposal of tangible capital assets	-	3,310,731	830,408
Donated and contributed tangible capital assets	-	1,406,081	200,000
Writedown of assets under construction	-	-	(1,331,197)
Change in employee future benefits payable	-	(271,100)	480,475
Debenture interest	(348,243)	(346,360)	(399,088)
Legal costs – disposal of assets (Note 5)	-	(720,894)	-
Tax assessments at risk	<u>-</u>	<u>(793,300)</u>	<u>-</u>
	<u>751,757</u>	<u>5,309,158</u>	<u>2,459,598</u>
Annual surplus	\$ <u>14,214,190</u>	<u>18,334,298</u>	<u>10,152,886</u>
Accumulated surplus, beginning of year		<u>377,843,917</u>	<u>367,691,031</u>
Accumulated surplus, end of year		\$ <u>396,178,215</u>	\$ <u>377,843,917</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statements of Changes in Net Financial Assets

Year Ended December 31

2016

2015

	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
	(Note 2)		
Annual Surplus	\$ <u>14,214,190</u>	\$ <u>18,334,298</u>	\$ <u>10,152,886</u>
Acquisition of tangible capital assets	(18,033,207)	(30,038,554)	(9,838,558)
Donated and contributed tangible capital assets	-	(1,406,081)	(200,000)
Writedown of assets under construction	-	-	1,331,197
Amortization of tangible capital assets	14,161,528	14,161,528	14,178,829
Proceeds from sale of tangible capital assets	-	4,307,467	888,379
Gain on disposal of tangible capital assets	-	(3,310,731)	(830,408)
	<u>(3,871,679)</u>	<u>(16,286,371)</u>	<u>5,529,439</u>
Change in other assets	-	<u>18,155</u>	<u>51,505</u>
Change in net financial assets	<u>10,342,511</u>	<u>2,066,082</u>	<u>15,733,830</u>
Net financial assets, beginning of the year	<u>40,218,326</u>	<u>40,218,326</u>	<u>24,484,496</u>
Net financial assets, end of the year	\$ <u>50,560,837</u>	\$ <u>42,284,408</u>	\$ <u>40,218,326</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statement of Cash Flows

Year Ended December 31

2016

2015

Increase (decrease) in cash and cash equivalents

Operating activities

Annual surplus	\$ 18,334,298	\$ 10,152,886
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Items not involving cash

Amortization of tangible capital assets	14,161,528	14,178,829
Gain on sale of tangible capital assets	(3,310,731)	(830,408)
Writedown of assets under construction	-	1,331,197
Equity income from Orillia Power Corporation	(2,724,000)	(2,679,000)

Change in non-cash operating balances

Inventories for resale	(1,025)	4,335
Taxes receivable	910,634	583,860
Receivables	(1,409,303)	(119,882)
Other assets	18,155	51,505
Payables and accruals	3,471,051	(651,350)
Deferred revenue – obligatory reserves (Note 6)	976,204	404,738
Deferred revenue – other	777,904	341,495
Increase in landfill closure and post closure costs	101,600	168,000
Increase/(decrease) in employee future benefits payable	271,100	(480,475)
Cash provided by operating activities	<u>31,577,415</u>	<u>22,455,730</u>

Financing activities

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

Investing activities

Dividends received from Orillia Power Corporation	1,100,000	1,100,000
Acquisition of investments	<u>(9,375,000)</u>	<u>(214,197)</u>
Cash provided by investing activities	<u>(8,275,000)</u>	<u>885,803</u>

Capital activities

Proceeds from sale of tangible capital assets	4,307,467	888,379
Acquisition of tangible capital assets	(30,038,554)	(9,838,558)
Contributed tangible capital assets	<u>(1,406,081)</u>	<u>(200,000)</u>
Cash used in capital activities	<u>(27,137,168)</u>	<u>(9,150,179)</u>

Net increase/(decrease) in cash and cash equivalents	(5,837,937)	12,188,170
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Cash and cash equivalents, beginning of year	<u>20,590,832</u>	<u>8,402,662</u>
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Cash and cash equivalents, end of year	\$ <u>14,752,895</u>	\$ <u>20,590,832</u>
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See accompanying notes to the consolidated financial statements.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

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, 2016

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 \$1,406,081 (2015 – \$200,000).

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

1. Summary of significant accounting policies (continued)

e) Non-financial assets (continued)

(iii) Interest capitalization

Interest of \$nil (2015 - \$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, 2016

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, 2016

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, 2016

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	\$ 84,195,213	\$ 74,604,459
Less: Acquisition of tangible capital assets budgeted	-	(18,033,207)
Add: Amortization expense	-	14,161,528
Adjusted budget per consolidated statement of operations	<u>\$ 84,195,213</u>	<u>\$ 70,732,780</u>

3. Cash and cash equivalents

2016

2015

Cash is comprised of:

Unrestricted cash, held at the bank and on hand	\$ 11,729,313	\$ 18,543,454
Restricted cash, held at the bank	<u>3,023,582</u>	<u>2,047,378</u>
	<u>\$ 14,752,895</u>	<u>\$ 20,590,832</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 \$10,034,000 available, including a letter of credit in the amount of \$34,000, at the bank's prime rate less 0.75% per annum (2015 – 0.75%). No amounts were drawn from the credit facility as at December 31, 2016 (2015 - \$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 2017 and earn interest at 1.50%.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

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>2016</u>	<u>2015</u>
Financial position		
Current assets	\$ 15,209,000	\$ 13,231,000
Capital assets	52,617,000	40,524,000
Other assets	1,493,000	328,000
Regulatory deferral account debit balances	<u>1,757,000</u>	<u>2,126,000</u>
	<u>71,076,000</u>	<u>56,209,000</u>
Current liabilities	15,417,000	8,977,000
Long-term liabilities	7,910,000	735,000
Other	2,728,000	2,249,000
Regulatory deferral account credit balances	<u>2,136,000</u>	<u>2,987,000</u>
	<u>28,191,000</u>	<u>14,948,000</u>
Net assets	\$ <u>42,885,000</u>	\$ <u>41,261,000</u>
Results of operations		
Revenue	\$ 55,082,000	\$ 51,916,000
Operating expenses	(51,070,000)	(46,297,000)
Financing expenses	(1,084,000)	(1,002,000)
Payments in lieu of taxes	368,000	(1,100,000)
Net movement in regulatory deferral account balances	(547,000)	(688,000)
Actuarial loss on defined benefit plans net of deferred taxes	<u>(25,000)</u>	<u>-</u>
Total comprehensive income	2,724,000	2,829,000
Dividend	(1,100,000)	(1,100,000)
Transitional adjustment – post-retirement benefits	<u>-</u>	<u>(150,000)</u>
Change in equity	\$ <u>1,624,000</u>	\$ <u>1,579,000</u>

The above information is as reported by Orillia Power Corporation.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

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>2016</u>	<u>2015</u>
Electricity purchased	\$ 2,618,111	\$ 2,332,415
Other services purchased	115,973	136,530
Property taxes and other taxes	74,899	68,464
Interest received	924,750	924,750
Dividend received	1,100,000	1,100,000
Other services sold	102,964	81,487

The investment consists of:

	<u>2016</u>	<u>2015</u>
Promissory note	\$ 14,796,000	\$ 14,796,000
Equity	<u>28,089,000</u>	<u>26,465,000</u>
	\$ <u>42,885,000</u>	\$ <u>41,261,000</u>
Balance outstanding at December 31		
Due to Orillia Power Corporation	\$ <u>1,026,286</u>	\$ <u>212,629</u>

The promissory notes payable to the City of Orillia, bear interest for the current year at 6.25% per annum (2015 – 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 \$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"). No decision has been made by the OEB as of the issuance date of these consolidated financial statements.

As at December 31, 2016, legal fees of \$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, 2016

6. Deferred revenue – obligatory reserves

	<u>2015</u>	Opening adjustment unfunded development charges	Restricted revenue and investment income	Transfer to capital/ revenue	Adjustment unfunded development charges	<u>2016</u>
Lot levies and subdivider contributions	\$ 277,422	\$(12,251,102)	\$ 4,291,420	\$ (4,982,713)	\$13,668,820	\$ 1,003,847
Provincial and federal gas tax	<u>1,769,956</u>	-	<u>2,355,779</u>	<u>(2,106,000)</u>	-	<u>2,019,735</u>
	<u>\$ 2,047,378</u>	<u>\$(12,251,102)</u>	<u>\$ 6,647,199</u>	<u>\$ (7,088,713)</u>	<u>\$13,668,820</u>	<u>\$ 3,023,582</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>2016</u>	<u>2015</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>12,019,104</u>	\$ <u>14,022,288</u>

The interest expense relating to the above long-term debt was \$346,360 (2015 - \$399,088).

Five year principal repayments and thereafter

2017	\$ 2,003,184
2018	2,003,184
2019	2,003,184
2020	2,003,184
2021	2,003,184
2022	<u>2,003,184</u>
	\$ <u>12,019,104</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

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 \$5,075,600 (2015 - \$4,974,000) and represents the present value of closure and post-closure costs for 50.7% (2015 – 49.7%) of the current site's total cells, using an estimated long term borrowing rate of 4% (2015 - 4%) and inflation rate of 2.5% (2015 – 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 \$10,013,000 leaving an amount to be recognized of \$4,937,000. The estimated remaining capacity of the sites unused cells are approximately 641,000 (2015 – 653,700) cubic metres, estimated to be filled in 50 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 2016 was \$409,809.

9. Employee future benefits payable

	Retiree Benefits	Sick Leave	WSIB	Total
Accrued benefit obligation and liability, beginning of year	\$ 2,977,700	\$ 850,600	\$ 2,126,800	\$ 5,955,100
Expenses for the year	298,800	153,100	171,200	623,100
Benefits paid	<u>(170,800)</u>	<u>(115,200)</u>	<u>(66,000)</u>	<u>(352,000)</u>
Accrued benefit obligation and liability, end of year	<u>\$ 3,105,700</u>	<u>\$ 888,500</u>	<u>\$ 2,232,000</u>	<u>\$ 6,226,200</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, 2016 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) (2015 – 3.4%) and 3.3% per annum (Sick Leave and WSIB Plan) (2015 – 3.3%).

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

9. Employee future benefits payable (continued)

(b) Salary levels

Future general salary and wage levels were assumed to increase 3.0% per year (2015 – 3.0%).

(c) Health care costs

Health care costs were assumed to increase by 7.94% in 2016 and decrease by 3.94% per year to 4.00% in 2036 (2015 - assumed to increase by 7.94%).

(d) Dental costs

Dental costs were assumed to increase at a rate of 4.0% per annum (2015 - 4.0%).

10. Other assets

Other assets are comprised of:

	<u>2016</u>	<u>2015</u>
Prepays	\$ 77,377	\$ 83,127
Supplies inventory	<u>368,772</u>	<u>381,177</u>
	<u>\$ 446,149</u>	<u>\$ 464,304</u>

11. Tangible capital assets

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>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

11. Tangible capital assets (continued)

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, 2016

11. Tangible capital assets (continued)

Cost	<u>2014</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>2015</u>
Land	\$ 60,052,476	\$ -	\$ (3,500)	\$ 60,048,976
Buildings	68,403,276	1,049,248	-	69,452,524
Vehicles	6,889,205	52,820	(25,394)	6,916,631
Equipment and furniture	23,648,202	1,573,872	(1,632,629)	23,589,445
Other	21,411,757	270,931	(60,994)	21,621,694
Facilities	28,379,000	12,419	-	28,391,419
Roads and bridges	152,656,708	2,648,293	(1,723,199)	153,581,802
Underground and other networks	138,694,777	2,077,759	-	140,772,536
Infrastructure - vehicles and equipment	<u>35,610,695</u>	<u>1,420,857</u>	<u>(944,413)</u>	<u>36,087,139</u>
	535,746,096	9,106,199	(4,390,129)	540,462,166
Assets under construction	<u>3,459,546</u>	<u>1,810,745</u>	<u>(2,209,583)</u>	<u>3,060,708</u>
	<u>\$ 539,205,642</u>	<u>\$ 10,916,944</u>	<u>\$ (6,599,712)</u>	<u>\$ 543,522,874</u>

Accumulated amortization	<u>2014</u>	<u>Amortization</u>	<u>Disposals</u>	<u>2015</u>
Land	\$ -	\$ -	\$ -	\$ -
Buildings	12,103,969	1,856,431	-	13,960,400
Vehicles	2,643,094	452,592	(25,394)	3,070,292
Equipment and furniture	8,903,331	1,458,877	(1,629,638)	8,732,570
Other	6,910,024	982,094	(19,824)	7,872,294
Facilities	8,382,385	700,605	-	9,082,990
Roads and bridges	84,024,780	4,613,290	(1,723,199)	86,914,871
Underground and other networks	57,545,411	2,539,541	-	60,084,952
Infrastructure - vehicles and equipment	<u>16,001,922</u>	<u>1,575,399</u>	<u>(934,103)</u>	<u>16,643,218</u>
	<u>\$ 196,514,916</u>	<u>\$ 14,178,829</u>	<u>\$ (4,332,158)</u>	<u>\$ 206,361,587</u>

Net book value	<u>2014</u>	<u>2015</u>
Land	\$ 60,052,476	\$ 60,048,976
Buildings	56,299,307	55,492,124
Vehicles	4,246,111	3,846,339
Equipment and furniture	14,744,871	14,856,875
Other	14,501,733	13,749,400
Facilities	19,996,615	19,308,429
Roads and bridges	68,631,928	66,666,931
Underground and other networks	81,149,366	80,687,584
Infrastructure - vehicles and equipment	<u>19,608,773</u>	<u>19,443,921</u>
	339,231,180	334,100,579
Assets under construction	<u>3,459,546</u>	<u>3,060,708</u>
	<u>\$ 342,690,726</u>	<u>\$ 337,161,287</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

12. Accumulated surplus	<u>2016</u>	<u>2015</u>
Accumulated surplus is comprised of the following		
Reserves set aside by Council		
For contingencies	\$ 949,956	\$ (328,073)
For future capital purposes	3,595,383	4,400,034
For current purposes	<u>1,478,963</u>	<u>1,064,967</u>
Total reserves	<u>6,024,302</u>	<u>5,136,928</u>
Reserve funds set aside by Council		
For insurance	301,812	157,060
For future capital purposes	3,815,650	5,937,437
For current purposes	<u>46,598</u>	<u>43,230</u>
Total reserve funds	<u>4,164,060</u>	<u>6,137,727</u>
Total reserves and reserve funds	<u>\$ 10,188,362</u>	<u>\$ 11,274,655</u>
Surpluses		
Invested in tangible capital assets	\$ 353,447,658	\$ 337,161,287
Committed capital funding	2,419,321	(974,151)
Equity in Orillia Power Corporation (Note 5)	42,885,000	41,261,000
Downtown Orillia Management Board surplus	53,868	50,226
Less unfunded liabilities:		
Preparation costs to be recovered – disposal of assets	(720,894)	-
Assessments at risk	(793,300)	-
Employee benefit and post-employment liabilities (Note 9)	(6,226,200)	(5,955,100)
Landfill and post-closure liabilities (Note 8)	<u>(5,075,600)</u>	<u>(4,974,000)</u>
Total surpluses	<u>385,989,853</u>	<u>366,569,262</u>
Accumulated surplus	<u>\$ 396,178,215</u>	<u>\$ 377,843,917</u>

13. Taxation		<u>2016</u>	<u>2015</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Real property	\$ 60,227,121	\$ 58,646,581	\$ 57,636,648
Payments in lieu of taxes	<u>4,344,108</u>	<u>4,309,848</u>	<u>4,254,146</u>
	64,571,229	62,956,429	61,890,794
Less: taxes collected on behalf of school boards (Note 14)	<u>12,739,500</u>	<u>12,360,806</u>	<u>12,734,666</u>
Net taxes available for municipal purposes	<u>\$ 51,831,729</u>	<u>\$ 50,595,623</u>	<u>\$ 49,156,128</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

13. Taxation (continued)	<u>2016</u>		<u>2015</u>
	Budget	Actual	Actual
Residential and farm	\$ 32,308,423	\$ 32,344,988	\$ 30,666,168
Multi-residential	3,274,050	3,295,515	3,276,128
Commercial	15,090,662	13,842,575	14,118,985
Industrial	<u>1,158,594</u>	<u>1,112,545</u>	<u>1,094,847</u>
Net taxes available for municipal purposes	\$ <u>51,831,729</u>	\$ <u>50,595,623</u>	\$ <u>49,156,128</u>

14. Collection on behalf of school boards	<u>2016</u>	<u>2015</u>
Total taxes and development charges received or receivable on behalf of the school boards are as follows:		
Taxes	\$ 12,975,811	\$ 12,970,977
Less: writeoffs	<u>(615,005)</u>	<u>(236,311)</u>
	12,360,806	12,734,666
Development charges	<u>519,487</u>	<u>190,901</u>
	\$ <u>12,880,293</u>	\$ <u>12,925,567</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	<u>2016</u>		<u>2015</u>
	Budget	Actual	Actual
Operating			
Province of Ontario	\$ 645,944	\$ 642,737	\$ 801,097
Government of Canada	<u>43,734</u>	<u>58,918</u>	<u>60,713</u>
	<u>689,678</u>	<u>701,655</u>	<u>861,810</u>
Capital			
Province of Ontario	473,000	822,333	591,652
Government of Canada	<u>3,271,000</u>	<u>1,783,825</u>	<u>1,700,000</u>
	<u>3,744,000</u>	<u>2,606,158</u>	<u>2,291,652</u>
	\$ <u>4,433,678</u>	\$ <u>3,307,813</u>	\$ <u>3,153,462</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

16. User charges	<u>2016</u>		<u>2015</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Operating			
Fees and service charges	\$ 5,969,156	\$ 6,096,541	\$ 6,076,530
Direct water billings	5,566,291	5,713,616	5,484,553
Direct sewer billings	<u>6,455,003</u>	<u>6,800,628</u>	<u>6,508,358</u>
	\$ <u>17,990,450</u>	\$ <u>18,610,785</u>	\$ <u>18,069,441</u>

17. Other revenue	<u>2016</u>		<u>2015</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Penalties and interest on taxes	\$ 910,000	\$ 776,495	\$ 887,687
Licenses and permits	756,392	1,011,794	570,116
Fines	280,000	252,817	264,907
Rents and leases	1,206,645	1,980,820	1,179,739
Interest income	1,260,849	1,216,507	1,353,585
Revenue from other municipalities	346,445	375,285	286,087
Other	<u>1,134,025</u>	<u>1,758,533</u>	<u>1,445,567</u>
	\$ <u>5,894,356</u>	\$ <u>7,372,251</u>	\$ <u>5,987,688</u>

18. Pension agreement

OMERS provides pension services to more than 470,000 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, 2016. The results of this valuation disclosed total actuarial liabilities of \$87,554 million in respect of benefits accrued for service with actuarial assets at that date of \$81,834 million indicating an actuarial deficit of \$5,720 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 2016 were \$1,921,507 (2015 - \$1,905,017).

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

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>2016</u>	<u>2015</u>
	\$ <u>13,668,820</u>	\$ <u>12,251,102</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2016

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, 2016

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, 2016

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

City of Orillia
Notes to the Consolidated Financial Statements

December 31, 2016

23. Segmented reporting December 31, 2015 (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	\$5,380,287	\$14,362,867	\$5,245,586	\$1,287,675	\$6,405,659	\$6,231,629	\$993,276	\$9,249,149	\$49,156,128
Grants	-	299,418	2,137,000	591,652	-	115,507	9,885	-	3,153,462
User charges	70,210	142,447	1,472,169	13,287,468	-	2,865,827	231,320	-	18,069,441
Other revenue	329,610	1,000,120	29,583	466,139	41,945	966,803	868,778	2,284,710	5,987,688
Developer contributions earned	-	-	-	-	-	-	-	1,325,823	1,325,823
Total revenue	5,780,107	15,804,852	8,884,338	15,632,934	6,447,604	10,179,766	2,103,259	12,859,682	77,692,542
Expenses									
Salaries and wages	4,294,732	6,868,013	3,070,248	3,380,420	279,239	6,047,457	1,492,796	-	25,432,905
Goods and services	1,414,351	9,044,516	4,082,704	4,591,962	89,515	3,582,425	1,078,972	-	23,884,445
Other	-	1,000	-	-	6,175,702	286,021	40,352	-	6,503,075
Amortization	427,288	529,774	5,660,314	4,099,208	-	3,327,970	134,275	-	14,178,829
Total expenses	6,136,371	16,443,303	12,813,266	12,071,590	6,544,456	13,243,873	2,746,395	-	69,999,254
Net revenue (expenses)	\$(356,264)	\$(638,451)	\$(3,928,928)	\$3,561,344	\$(96,852)	\$(3,064,107)	\$(643,136)	\$12,859,682	\$7,693,288