

**City of Orillia
Consolidated Financial Statements
December 31, 2003**

Grant Thornton 



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Auditors' Report

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

We have audited the consolidated statement of financial position of the City of Orillia as at December 31, 2003 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2003 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Orillia, Canada
April 8, 2004

Grant Thornton LLP

Chartered Accountants

City of Orillia

Consolidated Statement of Financial Position

December 31

2003

2002

Financial Assets

Cash and cash equivalents (Note 2)	\$ 22,561,269	\$ 16,325,991
Taxes receivable	4,421,389	4,902,050
Receivables	1,689,020	1,722,324
Other assets	370,609	311,029
Investment in Orillia Power Corporation (Note 3)	<u>33,040,000</u>	<u>31,862,000</u>
	<u>\$ 62,082,287</u>	<u>\$ 55,123,394</u>

Liabilities

Payables and accruals	\$ 3,924,400	\$ 4,493,404
Deferred revenue - obligatory reserves (Note 4)	278,096	224,770
Deferred revenue - other	495,151	95,673
Interest payable on debt	5,665	17,573
Municipal debt (Note 5)	178,000	572,000
Landfill closure and post-closure costs (Note 6)	68,000	68,000
Employee benefits payable (Note 7)	<u>640,402</u>	<u>152,000</u>
	<u>5,589,714</u>	<u>5,623,420</u>

Municipal Position

Operating fund	167,536	186,438
Capital fund	15,914,739	5,599,859
Reserves	8,262,365	12,661,250
Equity in Orillia Power Corporation (Note 3)	<u>33,040,000</u>	<u>31,862,000</u>
	57,384,640	50,309,547
Amounts to be recovered in future	<u>(892,067)</u>	<u>(809,573)</u>
	<u>56,492,573</u>	<u>49,499,974</u>
	<u>\$ 62,082,287</u>	<u>\$ 55,123,394</u>

Commitments and Contingencies (Notes 16 and 17)

See accompanying notes to the consolidated financial statements

City of Orillia

Consolidated Statement of Financial Activities

Year Ended December 31

2003

2002

	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Revenue			
Taxation (Note 8)	\$ 27,103,865	\$ 27,166,672	\$ 26,232,398
Grants (Note 10)	5,622,905	2,238,084	2,610,994
User charges (Note 11)	8,044,895	8,188,421	8,008,753
Other revenue (Note 12)	5,831,930	7,199,607	6,295,862
From deferred revenue	<u>925,000</u>	<u>1,131,864</u>	<u>1,172,004</u>
	<u>47,528,595</u>	<u>45,924,648</u>	<u>44,320,011</u>
Expenditures			
Current			
General government	3,041,582	3,101,403	2,941,372
Protection to persons and property	7,514,016	7,161,059	6,532,804
Transportation services	3,155,525	3,712,953	3,373,231
Environmental services	5,253,861	5,096,442	5,100,949
Health services	1,144,527	1,088,434	925,813
Social and family services	7,122,000	6,324,531	7,247,600
Recreation and cultural services	5,143,433	5,333,370	4,928,178
Planning and development	1,179,950	1,102,543	792,493
Change in employment benefits payable	-	488,402	-
	<u>33,554,894</u>	<u>33,409,137</u>	<u>31,842,440</u>
Capital			
General government	136,000	123,288	287,012
Protection to persons and property	42,000	68,868	410,425
Transportation services	2,737,400	3,753,315	3,885,314
Environmental services	5,629,600	1,493,472	1,278,946
Health services	2,000,000	264,283	13,339
Recreation and cultural services	2,296,000	857,061	1,067,186
Planning and development	30,000	140,625	3,712,392
	<u>12,871,000</u>	<u>6,700,912</u>	<u>10,654,614</u>
	<u>46,425,894</u>	<u>40,110,049</u>	<u>42,497,054</u>
Net revenue	<u>1,102,701</u>	<u>5,814,599</u>	<u>1,822,957</u>
Debt principal repayments	(394,000)	(394,000)	(508,000)
Debt interest to be recovered	-	(11,908)	(11,327)
Change in employment benefits payable	-	488,402	-
Increase (decrease) in amounts to be recovered in future	<u>(394,000)</u>	<u>82,494</u>	<u>(519,327)</u>
Change in fund balances	\$ <u>708,701</u>	\$ <u>5,897,093</u>	\$ <u>1,303,630</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statement of Changes in Financial Position

Year Ended December 31

2003

2002

Increase (decrease) in cash and cash equivalents

Operating activities

Net revenue	\$	5,814,599	\$	1,822,957
Decrease in taxes receivable		480,661		622,628
Decrease (increase) in receivables		33,304		(147,247)
(Increase) decrease in other assets		(59,580)		198,685
(Decrease) increase in payables and accruals		(569,004)		1,364,231
Increase (decrease) in deferred revenue		452,804		(327,999)
Decrease in interest payable on debt		(11,908)		(11,327)
Increase in employment benefits payable		488,402		-
		<u>6,629,278</u>		<u>3,521,928</u>

Financing activities

Municipal debt repayment		<u>(394,000)</u>		<u>(508,000)</u>
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Net increase in cash and cash equivalents

6,235,278

3,013,928

Cash and cash equivalents,

Beginning of year		<u>16,325,991</u>		<u>13,312,063</u>
End of year	\$	<u>22,561,269</u>	\$	<u>16,325,991</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statement of Current Fund Operations

Year Ended December 31

2003

2002

	Budget	Actual	Actual
Revenue			
Taxation (Note 8)	\$ 27,103,865	\$ 27,166,672	\$ 26,232,398
Grants (Note 10)	1,877,905	1,904,592	1,877,997
User charges (Note 11)	8,044,895	8,188,421	8,008,753
Other revenue (Note 12)	5,453,030	5,927,565	5,069,339
From deferred revenue	-	-	(121,405)
	<u>42,479,695</u>	<u>43,187,250</u>	<u>41,067,082</u>
Expenditures			
General government	3,041,582	3,101,403	2,941,372
Protection to persons and property	7,514,016	7,161,059	6,532,804
Transportation services	3,155,525	3,712,953	3,373,231
Environmental services	5,253,861	5,096,442	5,100,949
Health services	1,144,527	1,088,434	925,813
Social and family services	7,122,000	6,324,531	7,247,600
Recreation and cultural services	5,143,433	5,333,370	4,928,178
Planning and development	1,179,950	1,102,543	792,493
Change in employee benefits payable	-	488,402	-
	<u>33,554,894</u>	<u>33,409,137</u>	<u>31,842,440</u>
Net revenue	<u>8,924,801</u>	<u>9,778,113</u>	<u>9,224,642</u>
Financing and transfers			
Debt principal repayments	(394,000)	(394,000)	(508,000)
Debt interest to be recovered	-	(11,908)	(11,327)
Transfers to reserves and reserve funds	(6,654,504)	(7,851,892)	(6,160,959)
Transfers to capital fund operations	(2,012,000)	(2,027,617)	(2,579,366)
Change in employee benefits payable	-	488,402	-
Net financing and transfers	<u>(9,060,504)</u>	<u>(9,797,015)</u>	<u>(9,259,652)</u>
Change in operating fund	(135,703)	(18,902)	(35,010)
Surplus, beginning of year	<u>135,703</u>	<u>186,438</u>	<u>221,448</u>
Surplus, end of year	\$ <u>-</u>	\$ <u>167,536</u>	\$ <u>186,438</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Consolidated Statement of Capital Fund Operations

Year Ended December 31

2003

2002

	Budget	Actual	Actual
Revenue			
Grants (Note 10)	\$ 3,745,000	\$ 333,492	\$ 732,997
Other revenue (Note 12)	40,000	796,554	1,071,814
From deferred revenue	<u>925,000</u>	<u>1,131,864</u>	<u>1,293,409</u>
	<u>4,710,000</u>	<u>2,261,910</u>	<u>3,098,220</u>
Expenditures			
General government	136,000	123,288	287,012
Protection to persons and property	42,000	68,868	410,425
Transportation services	2,737,400	3,753,315	3,885,314
Environmental services	5,629,600	1,493,472	1,278,946
Health services	2,000,000	264,283	13,339
Recreation and cultural services	2,296,000	857,061	1,067,186
Planning and development	<u>30,000</u>	<u>140,625</u>	<u>3,712,392</u>
	<u>12,871,000</u>	<u>6,700,912</u>	<u>10,654,614</u>
Net expenditures	<u>(8,161,000)</u>	<u>(4,439,002)</u>	<u>(7,556,394)</u>
Financing and transfers			
Transfers from reserves and reserve funds	6,149,000	12,726,265	5,657,109
Transfers from current fund operations	<u>2,012,000</u>	<u>2,027,617</u>	<u>2,579,366</u>
Net financing and transfers	<u>8,161,000</u>	<u>14,753,882</u>	<u>8,236,475</u>
Change in capital fund	-	10,314,880	680,081
Surplus, beginning of year	<u>-</u>	<u>5,599,859</u>	<u>4,919,778</u>
Surplus, end of year	\$ <u>-</u>	\$ <u>15,914,739</u>	\$ <u>5,599,859</u>

See accompanying notes to the consolidated financial statements.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

1. Summary of significant accounting policies

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

(a) Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenue, expenditures and changes in fund balances and in 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, they include the following:

City of Orillia Police Services Board
Orillia Public Library Board
Orillia Downtown Management Board
Lake Simcoe Regional Airport Commission

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.

The statements exclude trust assets that are administered for the benefit of external parties (Note 14).

(b) Basis of accounting

The basis of accounting followed in the financial statement presentation includes revenue in the period in which the transactions or events occurred that gave rise to the revenue and expenditures in the period the goods and services are acquired and a liability is incurred or transfers are due.

(c) Fund accounting

Funds within the consolidated financial statements consist of the operating, capital and reserve funds. Transfers between funds are recorded as adjustments to the appropriate fund balance.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

1. Summary of significant accounting policies (Continued)

(d) School board transactions

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

(e) Capital assets

The historical cost and accumulated depreciation for capital assets are not reported for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities, in the year of acquisition.

(f) Deferred revenue for obligatory reserves

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

(g) Reserves for future capital purposes

Certain amounts, as approved by Municipal Council, are set aside in reserves and reserve funds for future capital purposes. Transfers to and from reserves and reserve funds are reflected as an adjustment to the respective fund.

(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 expenditure.

(i) Local improvement

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

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

1. Summary of significant accounting policies (Continued)

(j) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

2. Cash and cash equivalents 2003 2002

Cash and cash equivalents are comprised of:

Cash on hand	\$ 5,809	\$ 5,809
Cash held in banks	22,516,139	16,282,106
Temporary investments	<u>39,321</u>	<u>38,076</u>
	<u>\$ 22,561,269</u>	<u>\$ 16,325,991</u>

3. 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>2003</u>	<u>2002</u>
Financial position		
Current assets	\$ 16,072,000	\$ 14,144,000
Capital assets	21,587,000	21,213,000
Other assets	<u>3,925,000</u>	<u>3,805,000</u>
	<u>41,584,000</u>	<u>39,162,000</u>
Current liabilities	4,610,000	4,842,000
Non-current liabilities	<u>3,934,000</u>	<u>2,458,000</u>
	<u>8,544,000</u>	<u>7,300,000</u>
Net assets	<u>\$ 33,040,000</u>	<u>\$ 31,862,000</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

3. Investment in Orillia Power Corporation (Continued)

	<u>2003</u>	<u>2002</u>
Results of operations		
Revenue	\$ 29,426,000	\$ 29,662,000
Operating expenses	(26,936,000)	(27,674,000)
Financing expenses	(1,110,000)	(1,110,000)
Other income	<u>648,000</u>	<u>692,000</u>
Net earnings	\$ <u>2,028,000</u>	\$ <u>1,570,000</u>

The above information is as reported by Orillia Power Corporation.

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

	<u>2003</u>	<u>2002</u>
Electricity purchased	\$ 1,312,847	\$ 1,227,834
Other services purchased	42,886	51,309
Property taxes and other taxes	55,928	52,238
Interest received	1,110,000	1,110,000
Dividend received	850,000	500,000

The investment consists of:

Promissory note	\$ 14,796,000	\$ 14,796,000
Equity	<u>18,244,000</u>	<u>17,066,000</u>
	\$ <u>33,040,000</u>	\$ <u>31,862,000</u>

4. Deferred revenue – obligatory reserves

	<u>2003</u>	<u>2002</u>
Development charges	\$ 278,096	\$ -
Lot levies and subdivider contributions	-	139,881
Parking revenue	<u>-</u>	<u>84,889</u>
	\$ <u>278,096</u>	\$ <u>224,770</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

5. Municipal debt

The balance of Municipal debt reported on the consolidated statement of financial position is comprised of the following:

	<u>2003</u>	<u>2002</u>
Sanitary sewers	\$ 159,000	\$ 545,000
Waterworks	<u>19,000</u>	<u>27,000</u>
	<u>\$ 178,000</u>	<u>\$ 572,000</u>

The Municipal debt matures between the years 2004 and 2005. Principal repayments due in each of the next two years are as follows:

2004	\$ 71,000
2005	107,000

The Municipality paid \$48,665 (2002 - \$101,055) interest on municipal debt during the year. The interest rates vary over the terms of the debentures, ranging from 6.87% to 11.5% per annum.

6. 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, removal of ground water and leachates, and ongoing environmental monitoring, site inspection and maintenance.

The liability for the landfill site is recorded at \$68,000 and represents the present value of closure and post-closure costs for 41% of the current sites total cells, using an estimated long term borrowing rate of 6%. The liability is recorded based on the capacity of the landfill used to date. The total estimated future expenditures representing the sum of the discounted future cash flows for closure and post-closure care are \$165,000 leaving an amount to be recognized of \$97,000. The estimated remaining capacity of the site's opened cells are approximately 785,000 cubic metres, which will be filled in 62 years. Post-closure care is estimated to continue for a period of 25 years.

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

7. Employee benefits payable

	<u>2003</u>	<u>2002</u>
Dental, health, life, etc.	\$ <u>640,402</u>	\$ <u>152,000</u>

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

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

7. Employee benefits payable (Continued)

The Municipality pays certain life insurance, health and dental benefits on behalf of its retired employees. The Municipality recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit liability was determined by management using a discount rate of 6.0% (2002 – 5.0%).

	<u>2003</u>	<u>2002</u>
Accrued benefit liability, beginning of year	\$ 152,000	\$ 152,000
Expense for the period	511,573	19,670
Benefits paid	<u>(23,171)</u>	<u>(19,670)</u>
Accrued benefit liability, end of year	\$ <u>640,402</u>	\$ <u>152,000</u>

The main assumptions employed for the valuations are as follows:

(a) Salary levels

Future general salary and wage levels were assumed not to increase.

(b) Medical and dental costs

Medical and dental costs were assumed to increase at 5% per year.

8. Taxation	<u>Budget</u>	<u>2003</u>	<u>Actual</u>	<u>2002</u>
Real property	\$ 35,925,501	\$ 35,892,505		\$ 34,547,039
Payments in lieu of taxes	<u>2,736,985</u>	<u>2,832,788</u>		<u>2,735,687</u>
	38,662,486	38,725,293		37,282,726
Less: taxes collected on behalf of school boards (Note 9)	<u>11,558,621</u>	<u>11,558,621</u>		<u>11,050,328</u>
Net taxes available for municipal purposes	\$ <u>27,103,865</u>	\$ <u>27,166,672</u>		\$ <u>26,232,398</u>
Residential and farm	\$ 16,070,667	\$ 16,067,956		\$ 15,272,396
Multi-residential	1,988,187	1,988,187		2,017,428
Commercial	8,233,905	8,297,177		8,160,028
Industrial	<u>811,106</u>	<u>813,352</u>		<u>782,546</u>
Net taxes available for municipal purposes	\$ <u>27,103,865</u>	\$ <u>27,166,672</u>		\$ <u>26,232,398</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

9. Collection for the school boards

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

Taxes	\$ 11,558,621	\$ 11,050,328
Development charges	<u>241,411</u>	<u>184,520</u>
	<u>\$ 11,800,032</u>	<u>\$ 11,234,848</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.

10. Grants

	<u>Budget</u>	<u>2003</u> <u>Actual</u>	<u>2002</u>
Operating			
Province of Ontario	\$ 1,867,505	\$ 1,879,221	\$ 1,855,662
Government of Canada	<u>10,400</u>	<u>25,371</u>	<u>22,335</u>
	<u>1,877,905</u>	<u>1,904,592</u>	<u>1,877,997</u>
Capital			
Province of Ontario	3,745,000	293,492	633,801
Government of Canada	<u>-</u>	<u>40,000</u>	<u>99,196</u>
	<u>3,745,000</u>	<u>333,492</u>	<u>732,997</u>
	<u>\$ 5,622,905</u>	<u>\$ 2,238,084</u>	<u>\$ 2,610,994</u>

11. User charges

	<u>Budget</u>	<u>2003</u> <u>Actual</u>	<u>2002</u>
Operating			
Fees and service charges	\$ 2,552,085	\$ 2,598,293	\$ 2,357,147
Direct water billings	3,048,489	3,048,228	3,075,581
Direct sewer billings	<u>2,444,321</u>	<u>2,541,900</u>	<u>2,576,025</u>
	<u>\$ 8,044,895</u>	<u>\$ 8,188,421</u>	<u>\$ 8,008,753</u>

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

12. Other revenue	<u>2003</u>		<u>2002</u>
	<u>Budget</u>	<u>Actual</u>	
Operating			
Penalties and interest on taxes	\$ 750,000	\$ 720,861	\$ 734,865
Licenses and permits	566,550	644,312	452,478
Fines	143,000	184,446	89,449
Rents and leases	1,195,056	1,331,965	1,090,895
Interest income	1,409,700	1,488,680	1,443,373
Dividend from subsidiary	750,000	850,000	500,000
Revenue from other municipalities	353,549	369,620	323,870
Other	<u>285,175</u>	<u>337,681</u>	<u>434,409</u>
	<u>5,453,030</u>	<u>5,927,565</u>	<u>5,069,339</u>
Capital			
Proceeds from sale of land and other assets	-	508,227	702,245
Other	<u>40,000</u>	<u>288,327</u>	<u>369,569</u>
	<u>40,000</u>	<u>796,554</u>	<u>1,071,814</u>
Reserves and reserve funds			
Interest income	<u>338,900</u>	<u>475,488</u>	<u>154,709</u>
	<u>\$ 5,831,930</u>	<u>\$ 7,199,607</u>	<u>\$ 6,295,862</u>

13. Pension agreement

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 228 members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no employer or employee pension contributions required until January 2003.

Commencing January 1, 2003, contributions were made at rates ranging from 2.1% to 2.93% depending on the proposed retirement age and level of earnings. As a result \$403,885 (2002 – Nil) was contributed to OMERS during the year. Effective January 1, 2004 full contribution rates will resume from 6% to 9.8% depending on the proposed retirement age and the level of earnings.

City of Orillia

Notes to the Consolidated Financial Statements

December 31, 2003

14. Trust fund

A trust fund is administered by the Municipality amounting to \$3,520 (2002- \$4,212) and has not been included in the consolidated statement of financial position nor have its operations been included in the consolidated statement of financial activities or changes in financial position.

15. Public sector salary disclosure

In 2003, one employee was paid a salary, as defined in the Public Sector Disclosure Act, 1996, of \$100,000 or more:

Ian Brown, City Manager	Salary	\$	110,724
	Taxable benefit		<u>731</u>
		\$	<u>111,455</u>

16. Commitments

The Municipality has constructed a commercial building for lease financed by a loan from reserve funds, with Council approval.

The balance due to reserve funds, at December 31, 2003 is \$3,383,954 and will be repaid by 2016. The interest rates range from 3% to 5% per annum over the term of the loan.

Yearly payments to reserve over the next five years are approximately as follows:

2004	\$	861,455
2005		168,061
2006		167,033
2007		169,591
2008		262,167

Council has approved contributions to the Orillia Soldiers' Memorial Hospital Redevelopment Project in the amount of \$12,350,000. At year end, \$11,200,000 is the unpaid portion of this commitment. The Municipality has budgeted a portion of this commitment in the capital fund and reserves.

17. Contingencies

The Municipality is defending various legal actions. The merits of these claims are not determinable at this time and the settlement amounts, if any, cannot be reasonably estimated. Therefore, no liabilities have been recorded.

Auditors' Report

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

We have audited the statement of financial position of the trust fund of the City of Orillia as at December 31, 2003 and the statement of continuity for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the trust fund of the City as at December 31, 2003 and the continuity of trust fund for the year then ended in accordance with Canadian generally accepted accounting principles.

Orillia, Canada
April 8, 2004

Chartered Accountants

City of Orillia
Trust Fund
Statement of Financial Position

December 31	2003	2002
Assets		
Due from City of Orillia	\$ 684	\$ 849
Loans receivable - Ontario Home Renewal Program (Note 2)	<u>3,507</u>	<u>4,186</u>
	\$ <u>4,191</u>	\$ <u>5,035</u>
Liabilities		
Accounts payable to Province of Ontario	\$ 671	\$ 823
Trust fund - Ontario Home Renewal Program (Note 2)	<u>3,520</u>	<u>4,212</u>
	\$ <u>4,191</u>	\$ <u>5,035</u>

Statement of Continuity

Year Ended December 31	2003	2002
Revenue		
Interest earned	\$ 13	\$ 26
Expenditures		
Return of funds to Province of Ontario	671	823
Administration	34	34
Interest	<u>-</u>	<u>-</u>
	<u>705</u>	<u>857</u>
Decrease in trust fund	(692)	(831)
Trust fund, beginning of year	<u>4,212</u>	<u>5,043</u>
Trust fund, end of year	\$ <u>3,520</u>	\$ <u>4,212</u>

See accompanying notes to the financial statement.

City of Orillia

Trust Funds

Notes to the Financial Statements

December 31, 2003

1. Significant accounting policy

Basis of accounting

Capital receipts and income are reported on the cash basis of accounting.

Expenditures are reported on the cash basis of accounting with the exception of administrative expenses, which are reported on the accrual basis of accounting, which recognizes expenditures as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

2. Ontario Home Renewal Program

The Ontario Home Renewal Program was established by the Ontario Ministry of Housing in 1973 to provide grants for municipalities to make loans to assist owner occupants to repair, rehabilitate and improve their homes to local property standards. Individual loans are limited to \$7,500 of which the maximum forgivable portion is \$4,000. The program was discontinued by the province in 1994. In the event of the sale or lease of the home or in the event of the homeowner ceasing to occupy the home, the balances of the repayable loan and the unearned forgivable loan immediately become due and payable by the homeowner.