

The Corporation of the City of Dryden
Consolidated Financial Statements
For the year ended December 31, 2007

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For the year ended December 31, 2007

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Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the City of Dryden

We have audited the consolidated statement of financial position of The Corporation of the City of Dryden as at December 31, 2007 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 municipality'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 Corporation of the City of Dryden as at December 31, 2007 and the results of its financial activities and changes in financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Dryden, Ontario
August 27, 2008

The Corporation of the City of Dryden Consolidated Statement of Financial Position

| December 31 | 2007 | 2006 |
|--|----------------------|----------------------|
| Assets | | |
| Financial assets | | |
| Cash and bank | \$ 3,237,804 | \$ 605,320 |
| Temporary investments (Note 1) | 2,707,005 | 2,382,099 |
| Taxes receivable | 589,602 | 753,794 |
| Accounts receivable (Note 2) | 831,632 | 1,047,063 |
| User charges receivable | 214,017 | 122,153 |
| Grants receivable | 593,643 | 2,118,334 |
| Investment in government business enterprises (Note 3) | 6,278,586 | 7,103,340 |
| Long-term receivables (Note 4) | 7,967,458 | 7,854,246 |
| | \$ 22,419,747 | \$ 21,986,349 |
| Liabilities and Municipal Position | | |
| Liabilities | | |
| Bank indebtedness (Note 5) | \$ - | \$ 695,150 |
| Accounts payable and accrued liabilities | 4,527,601 | 5,565,914 |
| Landfill closure and post closure liability (Note 6) | 406,787 | 374,023 |
| Post-retirement benefits liability (Note 7) | 860,414 | 641,120 |
| Deferred revenue/obligatory reserve funds (Note 8) | 313,682 | 469,865 |
| Net long-term liabilities (Note 9) | 15,310,003 | 11,568,647 |
| | 21,418,487 | 19,314,719 |
| Municipal position | | |
| Current fund (deficit) (Note 10) | (1,114,653) | (732,982) |
| Capital fund (deficit) (Note 11) | - | (3,140,052) |
| Reserves | 5,312,965 | 5,867,889 |
| Net equity in government business enterprises (Note 3) | 8,112,129 | 8,338,883 |
| | 12,310,441 | 10,333,738 |
| Amounts to be recovered (Note 12) | (11,309,181) | (7,662,108) |
| | 1,001,260 | 2,671,630 |
| | \$ 22,419,747 | \$ 21,986,349 |

The accompanying summary of significant accounting policies, notes and schedules are an integral part of these consolidated financial statements.

The Corporation of the City of Dryden Consolidated Statement of Financial Activities

| For the year ended December 31 | 2007 Budget | 2007 Actual | 2006 Actual |
|--|---------------------|---------------------|-----------------------|
| Revenue | | | |
| Taxation | \$ 9,902,436 | \$ 9,901,424 | \$ 9,563,975 |
| Payments in lieu of taxation | 233,739 | 235,814 | 216,265 |
| Fees and user charges | 6,050,990 | 5,321,545 | 5,213,909 |
| Canada grants | 1,099,132 | 360,984 | 721,942 |
| Ontario grants | 6,512,915 | 5,959,840 | 6,349,304 |
| Municipal grants | - | - | 3,559 |
| Dryden Municipal Telephone System share of income (loss) (Note 3) | 749,767 | 462,979 | (38,008) |
| Dryden Mobility share of income (Note 3) | 369,123 | 60,267 | 295,143 |
| Other income (Note 13) | 3,627,291 | 3,786,911 | 3,738,084 |
| | <u>28,545,393</u> | <u>26,089,764</u> | <u>26,064,173</u> |
| Expenditures | | | |
| Current Operations (Note 14) | | | |
| General government | 2,619,441 | 3,283,087 | 2,903,051 |
| Protection services | 4,531,874 | 4,819,241 | 4,680,314 |
| Transportation services | 2,766,118 | 3,028,402 | 2,726,645 |
| Environmental services | 2,777,368 | 2,947,240 | 2,883,812 |
| Health services | 1,145,845 | 1,188,080 | 1,224,988 |
| Social and family services | 4,044,214 | 4,122,658 | 4,023,201 |
| Social housing | 662,809 | 649,733 | 675,076 |
| Recreation and cultural services | 2,983,320 | 3,014,525 | 3,032,812 |
| Planning and development | 855,602 | 384,035 | 198,732 |
| | <u>22,386,591</u> | <u>23,437,001</u> | <u>22,348,631</u> |
| Capital | | | |
| General government | 556,600 | 434,736 | 556,289 |
| Protection services | 195,750 | 156,839 | 327,512 |
| Transportation services | 1,299,700 | 838,904 | 2,133,092 |
| Environmental services | 1,884,000 | 1,370,634 | 3,832,071 |
| Health services | 116,500 | 94,548 | 84,967 |
| Social and family services | 152,538 | 62,046 | 51,402 |
| Recreation and cultural services | 899,900 | 1,061,051 | 636,961 |
| Planning and development | 464,000 | 304,375 | 227,564 |
| | <u>5,568,988</u> | <u>4,323,133</u> | <u>7,849,858</u> |
| Net revenue (expenditures) for the year | <u>589,814</u> | <u>(1,670,370)</u> | <u>(4,134,316)</u> |
| Change in amounts to be recovered and adjustments | | | |
| Debenture proceeds | 1,150,000 | 4,000,000 | - |
| Debt principal repayments | (579,666) | (495,854) | (473,059) |
| Change in employee benefits payable | - | 222,075 | 59,227 |
| Change in interest payable | - | - | (7,291) |
| Transferred to Deferred Revenue/Obligatory Reserve Funds | - | - | (102,982) |
| Change in landfill closure and post closure costs | - | 32,764 | 80,747 |
| Change in District of Kenora Home for the Aged | - | (111,912) | 525,234 |
| | <u>570,334</u> | <u>3,647,073</u> | <u>81,876</u> |
| Change in fund balances for the year | <u>\$ 1,160,148</u> | <u>\$ 1,976,703</u> | <u>\$ (4,052,440)</u> |

The accompanying summary of significant accounting policies, notes and schedules are an integral part of these consolidated financial statements.

**The Corporation of the City of Dryden
Consolidated Statement of Changes in Financial Position**

| For the year ended December 31 | 2007 | 2006 |
|--|---------------------|--------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net revenue (expenditures) for the year | \$ (1,670,370) | \$ (4,134,316) |
| Changes in non-cash working capital balances | | |
| Decrease in government business enterprises | 824,754 | 1,003,752 |
| Decrease (increase) in taxes receivable | 164,192 | (222,361) |
| Decrease in accounts receivable | 215,431 | 231,525 |
| Decrease (increase) in user charges receivable | (91,864) | 4,098 |
| Decrease in grants receivable | 1,524,691 | 575,961 |
| Increase in long-term receivables | (113,212) | (205,853) |
| Increase (decrease) in accounts payable and accrued liabilities | (1,038,313) | 1,466,112 |
| Increase in landfill closure and post closure liability | 32,764 | 80,746 |
| Increase in post-retirement benefits liability | 219,294 | 80,213 |
| Increase (decrease) in deferred revenue | (156,183) | 194,975 |
| Adjustment - Transfer to Deferred Revenue/Obligatory Reserve Funds | - | (102,982) |
| | <u>(88,816)</u> | <u>(1,028,130)</u> |
| Investing activities | | |
| Increase in temporary investments | <u>(324,906)</u> | <u>(54,087)</u> |
| Financing activities | | |
| Decrease in bank indebtedness | (695,150) | (5,554,498) |
| Increase in long-term liabilities | <u>3,741,356</u> | <u>6,353,699</u> |
| | <u>3,046,206</u> | <u>799,201</u> |
| Net change in cash | 2,632,484 | (283,016) |
| Cash and bank, beginning of the year | 605,320 | 888,336 |
| Cash and bank, end of the year | \$ 3,237,804 | \$ 605,320 |

The accompanying summary of significant accounting policies, notes and schedules are an integral part of these consolidated financial statements.

The Corporation of the City of Dryden

Summary of Significant Accounting Policies

December 31, 2007

Management Responsibility

The consolidated financial statements of The Corporation of the City of Dryden are the representations of management. They have been prepared in accordance with accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of Consolidation

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

The following boards and municipal enterprises owned or controlled by Council have been consolidated:

- Dryden Regional Airport
- Dryden Public Library Board
- Dryden Police Services Board
- Dryden Museum Advisory Board
- Dryden Cemetery Board
- Dryden Waterworks Department

Government business enterprises and partnerships are separate legal entities which do not rely on the municipality for funding. Investments in government business enterprises are accounted for using the modified equity method. The following government business enterprises are reflected in the consolidated financial statements:

- Dryden Municipal Telephone System
- Dryden Mobility

The Corporation of the City of Dryden

Summary of Significant Accounting Policies

December 31, 2007

| | |
|--|--|
| Non-consolidated Entities | <p>The following joint local boards are not consolidated:</p> <p>District of Kenora Home for the Aged Northwestern Health Unit Kenora District Services Board</p> |
| Basis of Accounting | <p>Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipts of goods or services and the creation of a legal obligation to pay.</p> |
| Temporary Investments | <p>Temporary investments are recorded at the lower of cost and market value.</p> |
| Inventories | <p>Inventories of supplies, including vehicle parts and road maintenance materials, are charged to operations when purchased.</p> |
| Capital Assets | <p>The historical cost and accumulated amortization of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the period of acquisition.</p> |
| Deferred Revenue/Obligatory Reserve Funds | <p>Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of financial position. The revenue is reported on the consolidated statement of financial activities in the year in which it is used for the specified purpose.</p> |
| Amounts to be Recovered | <p>Amounts to be recovered are reported in the municipal position on the consolidated statement of financial position. The balance represents the outstanding principal portion of unmatured long-term liabilities, liabilities not yet due, and other future expenditures not yet levied on the ratepayers.</p> |
| Government Transfers | <p>Government transfers, which include legislative grants, are recognized in the consolidated financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility have been met and reasonable estimates of the amount can be made.</p> |

The Corporation of the City of Dryden

Summary of Significant Accounting Policies

December 31, 2007

Tax Revenues

The amount of the total tax levy is determined each year through Council's approval of the annual operation budget. Municipal tax rates are set annually by Council for each class or type of property, in accordance with legislation and Council approved policies, in order to raise the revenues required to meet operating budget requirements. Education tax rates are established by the Province each year in order to fund the costs of education on a Province wide basis.

Property assessment, on which property taxes are based, are established by the Municipal Property Assessment Corporation. The current value assessment (CVA) of a property represents an estimated market value of a property as of a fixed date. Assessed values for all properties within the municipality are provided to the City in the form of the returned assessment roll in December of each year.

The amount of property tax levied on an individual property is the product of the CVA of the property and the tax rate for the class, together with any adjustments that reflect Council approved mitigation or other tax policy measures.

Fees, Rentals and User Charges

Revenues are recorded in the accounts when the title passes to the buyer and/or when services have been rendered and the transaction can be reasonably measured.

School Boards

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

Trust Funds

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

Post-retirement Benefits

The cost of retirement benefits earned by employees is actuarially determined using the projected cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

The Corporation of the City of Dryden Notes to Consolidated Financial Statements

December 31, 2007

1. Temporary Investments

| | <u>2007</u> | <u>2006</u> |
|--------------|---------------------|---------------------|
| Unrestricted | <u>\$ 2,707,005</u> | <u>\$ 2,382,099</u> |

Investments have a market value of \$2,707,005 (2006 - \$2,382,098) at the end of the year.

The investments include a combination of term deposits, money market investments and guaranteed investment certificates. The above investments earn interest at varying rates between 2.3% and 4.0%.

2. Accounts Receivable

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|--------------------|---------------------|
| Trade and other | \$ 831,632 | \$ 1,047,063 |
| Provincial Offences Act | | |
| Fines and charges | 3,709,229 | 3,074,115 |
| Allowance for doubtful accounts | <u>(3,709,229)</u> | <u>(3,074,115)</u> |
| | <u>\$ 831,632</u> | <u>\$ 1,047,063</u> |

Provincial Offences Act

The majority of the fines and penalties receivable for the Provincial Offences Act have been outstanding for more than one hundred and twenty days. Due to the nature of these fines and penalties, it is difficult for the municipality to actively pursue collection of these outstanding accounts.

The Corporation of the City of Dryden Notes to Consolidated Financial Statements

December 31, 2007

3. Investment in Government Business Enterprises

| | 2007 | 2006 |
|---|---------------------|---------------------|
| Dryden Municipal Telephone System | | |
| Net equity in Government Business Investment | \$ 7,080,039 | \$ 7,017,060 |
| Due to The Corporation of the City of Dryden | (1,661,741) | (1,241,075) |
| | 5,418,298 | 5,775,985 |
| Dryden Mobility | | |
| Net equity in Government Business Investment | 1,032,090 | 1,321,823 |
| Due from (to) The Corporation of the City of Dryden | (171,802) | 5,532 |
| | 860,288 | 1,327,355 |
| | \$ 6,278,586 | \$ 7,103,340 |

Dryden Municipal Telephone System and Dryden Mobility are owned and controlled by The Corporation of the City of Dryden as business enterprises of the City and are accounted for on a modified equity basis in these consolidated financial statements. The following information provides condensed supplementary information for the enterprises for the year ended December 31, 2007:

Financial Position, Results of Operations and Changes in Net Assets

| | Dryden Municipal Telephone System | Dryden Mobility | 2007 Total | 2006 Total |
|-------------------------|--------------------------------------|---------------------|---------------------|---------------------|
| Current assets | \$ 2,802,856 | \$ 214,396 | \$ 3,017,252 | \$ 2,051,247 |
| Long-term investments | 15,303 | - | 15,303 | 14,851 |
| Capital assets | 4,573,572 | 1,037,722 | 5,611,294 | 6,644,334 |
| | \$ 7,391,731 | \$ 1,252,118 | \$ 8,643,849 | \$ 8,710,432 |
| Current liabilities | \$ 229,769 | \$ 220,028 | \$ 449,797 | \$ 229,113 |
| Long-term liabilities | 66,620 | - | 66,620 | 127,585 |
| Deferred liability | 15,303 | - | 15,303 | 14,851 |
| | 311,692 | 220,028 | 531,720 | 371,549 |
| Net assets, end of year | 7,080,039 | 1,032,090 | 8,112,129 | 8,338,883 |
| | \$ 7,391,731 | \$ 1,252,118 | \$ 8,643,849 | \$ 8,710,432 |

**The Corporation of the City of Dryden
Notes to Consolidated Financial Statements**

December 31, 2007

3. Investment in Government Business Enterprises (continued)

Results of Operations

| | Dryden Municipal Telephone System | Dryden Mobility | 2007 Total | 2006 Total |
|--|--------------------------------------|---------------------|---------------------|---------------------|
| Revenues | \$ 4,787,554 | \$ 1,973,351 | \$ 6,760,905 | \$ 6,303,759 |
| Operating expenses | 4,324,575 | 1,913,084 | 6,237,659 | 6,046,624 |
| Net income | 462,979 | 60,267 | 523,246 | 257,135 |
| Contribution to The Corporation of the City of Dryden | (400,000) | (350,000) | (750,000) | (650,000) |
| | 62,979 | (289,733) | (226,754) | (392,865) |
| Net equity, beginning of the year | 7,017,060 | 1,321,823 | 8,338,883 | 8,731,748 |
| Net equity, end of the year | <u>\$ 7,080,039</u> | <u>\$ 1,032,090</u> | <u>\$ 8,112,129</u> | <u>\$ 8,338,883</u> |

4. Long-term Receivables

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| Loan receivable from Dryden Regional Health Centre, unsecured, repayable in monthly instalments of \$14,380 including interest at 5%; maturing January 2014 | \$ 903,490 | \$ 1,027,488 |
| Loan receivable from District of Kenora Home for the Aged, repayable in monthly instalments of \$76,282 including interest at 5.28%, secured by debenture By-law # 3139-2004; maturing June 2016 | 6,258,198 | 6,826,758 |
| Loan receivable from District of Kenora Home for Aged, repayable in monthly instalments of \$9,822 including interest at 5.28%, secured by debenture By-law # 3139-2004; maturing June 2016 | 805,770 | - |
| | <u>\$ 7,967,458</u> | <u>\$ 7,854,246</u> |

Principal payments required on long-term receivables for the next five years and thereafter are as follows:

| Year | Amount |
|------------|---------------------|
| 2008 | \$ 806,823 |
| 2009 | 850,087 |
| 2010 | 895,671 |
| 2011 | 943,701 |
| 2012 | 994,308 |
| Thereafter | 3,476,868 |
| | <u>\$ 7,967,458</u> |

The Corporation of the City of Dryden Notes to Consolidated Financial Statements

December 31, 2007

5. Bank Indebtedness

| | 2007 | 2006 |
|----------------|------|------------|
| Line of credit | \$ - | \$ 695,150 |

The Corporation of the City of Dryden has an operating line of credit of \$6,000,000 with the Canadian Imperial Bank of Commerce. This operating line of credit is for general business purposes, is due on demand and bears interest at prime plus 1/4%. The operating line of credit is secured by Council By-laws.

The Corporation of the City of Dryden had not utilized any advances under this facility at December 31, 2007.

6. Landfill Closure and Post Closure Liability

Effective January 1, 2003, the municipality adopted accounting recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants with respect to landfill site closing and post closure costs. As a result, the consolidated statement of financial position now reflects liabilities for anticipated future costs related to the closing and monitoring of the existing Dryden and Barclay landfill sites. This liability is recognized over the operating life of the waste disposal sites, in proportion to the sites' utilized capacity.

Relevant information regarding the landfill sites is as follows:

| | Dryden Site | Barclay Site |
|--|-------------|--------------|
| Total estimated expenditures for closure and post closure | \$ 813,890 | \$ 347,022 |
| Landfill closure and post closure liability as at December 31, 2007 | \$ 201,143 | \$ 205,643 |
| Total expenditures remaining to be recognized | \$ 612,747 | \$ 141,380 |
| Remaining capacity of the site (cubic metres) | 436,660 | 5,500 |
| Remaining landfill site life (years) | 24 | 4 |
| Number of years required for post closure care | 25 | 25 |

7. Post-retirement Benefits Liability

The Corporation of the City of Dryden provides the following benefits to employees who have been a member of the benefits plan for at least one year immediately prior to retirement from active service with retirement under the terms of the OMERS pension plan:

- Extended health care drug plan
- Dental benefits
- Semi-private hospital coverage
- Vision care
- Group life insurance and AD&D insurance

At December 31, 2007, The Corporation of the City of Dryden's accrued benefit obligation relating to post-retirement benefit plans was \$860,414 (2006 - \$641,120).

**The Corporation of the City of Dryden
Notes to Consolidated Financial Statements**

December 31, 2007

7. Post-retirement Benefits Liability (continued)

The significant actuarial assumptions adopted and estimated for The Corporation of the City of Dryden's accrued benefit obligations are as follows:

| | |
|--------------------------------|---|
| Discount Rate | 5.25% |
| Health Care Drug Cost Increase | 8.2% decreasing linearly to an ultimate rate after 7 years of Consumer Price Index (CPI), plus 1% |
| General Inflation | 3% |
| Other Benefits Cost Increase | Consumer Price Index plus 1% |

Included in the employee benefits on the schedule of current fund operations is an amount of \$219,214 (net of employer contributions) regarding future benefits.

8. Deferred Revenue/Obligatory Reserve Funds

| | <u>2007</u> | <u>2006</u> |
|-------------------------------------|-------------------|-------------------|
| Deferred revenue | \$ 313,682 | \$ 418,188 |
| Obligatory reserve funds - Parkland | - | 51,677 |
| | <u>\$ 313,682</u> | <u>\$ 469,865</u> |

The net change during the year in the deferred revenue/obligatory reserve fund balances is made up as follows:

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|
| Balance, beginning of the year | \$ 469,865 | \$ 274,890 |
| Transferred from Reserves - Federal Gas Tax grant | - | 102,982 |
| Transfers from revenue in the current year | | |
| Deferred grants | 251,930 | 360,250 |
| Donations | 21,468 | - |
| Miscellaneous | 5,943 | 299 |
| Interest income - Parkland | 2,136 | 1,823 |
| | <u>281,477</u> | <u>362,372</u> |
| Transfers to revenue in the current year | | |
| Transfer to grant revenue | 372,950 | 138,070 |
| Transfer to miscellaneous revenue | 64,710 | - |
| Transfer to donation revenue | - | 132,309 |
| | <u>437,660</u> | <u>270,379</u> |
| Balance, end of the year | <u>\$ 313,682</u> | <u>\$ 469,865</u> |

The Corporation of the City of Dryden Notes to Consolidated Financial Statements

December 31, 2007

9. Net Long-term Liabilities

a) The balance of net long-term liabilities reported on the consolidated statement of financial position is made up of the following:

| | 2007 | 2006 |
|--|----------------------|----------------------|
| Total net long-term liabilities incurred by the municipality, maturing 2017 and outstanding at the end of the year amount to | \$ 15,310,003 | \$ 11,568,647 |

b) Debt charges for the next five fiscal years and thereafter are as follows:

| | Principal | Interest | Total |
|------------|----------------------|---------------------|----------------------|
| 2008 | \$ 1,443,087 | \$ 748,345 | \$ 2,191,432 |
| 2009 | 1,511,020 | 673,731 | 2,184,751 |
| 2010 | 1,589,530 | 595,220 | 2,184,750 |
| 2011 | 1,672,143 | 512,607 | 2,184,750 |
| 2012 | 1,759,071 | 425,679 | 2,184,750 |
| Thereafter | 7,335,152 | 831,751 | 8,166,903 |
| | \$ 15,310,003 | \$ 3,787,333 | \$ 19,097,336 |

c) The net long-term liabilities in a) issued in the name of the municipality have either received approval of the Ontario Municipal Board on or before December 31, 2000, or are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing if issued after January 1, 2006.

The above long-term debt has various maturity dates from 2007 to 2016 and interest rates varying from 4.54% and 6.75% respectively.

The agreements governing the long-term debt facilities contain certain covenants regarding i) provision of audited financial statements within 120 days of the fiscal year end, and ii) provision of the approved budget within 120 days of the fiscal year end. The City was in violation of both of these covenants as at December 31, 2007.

10. Current Fund (Deficit)

The balance on the consolidated statement of financial position of \$(1,114,653) [2006 - \$(732,982)] at the end of the year is comprised of the following:

| | 2007 | 2006 |
|---|-----------------------|---------------------|
| To be financed by operations of the operating fund for the following year | \$ (489,123) | \$ (27,345) |
| To be financed by operations of the Waterworks department for the following year | (661,286) | (742,302) |
| To be applied to (financed by) operations of the Dryden Public Library for the following year | (3,719) | 185 |
| To be applied to operations of the Dryden Cemetery Board for the following year | 39,475 | 36,480 |
| Current fund (deficit), end of the year | \$ (1,114,653) | \$ (732,982) |

**The Corporation of the City of Dryden
Notes to Consolidated Financial Statements**

December 31, 2007

11. Capital Fund (Deficit)

| | 2007 | 2006 |
|---|------|----------------|
| Acquisition of capital assets to be financed through: | | |
| Issue of debentures | \$ - | \$ (3,140,052) |

12. Amounts to be Recovered

| | 2007 | 2006 |
|--|---------------|--------------|
| Capital outlay financed by long-term liabilities and to be recovered in future years | \$ 8,246,035 | \$ 4,741,889 |
| Post-retirement benefits liability | 1,008,117 | 786,042 |
| Landfill closure and post closure costs | 406,787 | 374,023 |
| District of Kenora Home for the Aged | 1,648,242 | 1,760,154 |
| | \$ 11,309,181 | \$ 7,662,108 |

13. Other Income

| | 2007 | 2006 |
|------------------------------------|--------------|--------------|
| Penalties and interest on taxation | \$ 90,276 | \$ 98,135 |
| Investment | 743,460 | 589,706 |
| Building rentals | 641,326 | 655,364 |
| Provincial Offences Act | 802,353 | 1,097,812 |
| Licences and permits | 73,858 | 69,864 |
| Sale of land and other assets | 19,045 | 15,000 |
| Other fines | 19,796 | 19,758 |
| Miscellaneous | 1,120,814 | 954,756 |
| Donations | 275,983 | 237,689 |
| | \$ 3,786,911 | \$ 3,738,084 |

The Corporation of the City of Dryden

Notes to Consolidated Financial Statements

December 31, 2007

14. Expenditures by Object

Total operating expenditures for the year reported on the consolidated statement of financial activities are as follows:

| | 2007 | 2006 |
|---------------------------------------|---------------|---------------|
| Salaries, wages and employee benefits | \$ 12,041,353 | \$ 10,777,592 |
| Materials | 5,904,265 | 5,493,430 |
| Contracted services | 1,435,804 | 1,320,343 |
| Rents and financial expenses | 317,463 | 327,463 |
| Interest on long-term debt | 583,282 | 407,069 |
| Contributions to other organizations | 3,154,834 | 4,022,734 |
| | \$ 23,437,001 | \$ 22,348,631 |

15. Tangible Capital Assets

For the year ended December 31, 2009, the City will be required to comply with Section 3150, Tangible Capital Assets of the Public Sector Accounting Board Handbook. Section 3150 requires the capitalization and amortization of tangible assets in the financial statements. As a transitional provision, Public Sector Guideline 7 - Tangible Capital Assets of Local Governments, requires disclosure of information for each major class of tangible capital asset for which all relevant information can be provided for the complete stock of tangible capital assets of the category.

The City is in the process of inventory stage and no financial information is available for the capital assets.

16. Public Sector Salary Disclosure

As required under the Public Sector Salary Disclosure Act, 1996, the following employees of the City were paid \$100,000 or more in 2007:

| Name | Position | Salary Paid | Taxable Benefits |
|------------------|---|-------------|------------------|
| Arie Hoogenboom | City Manager | \$ 119,610 | \$ 1,603 |
| Shayne MacKinnon | Police Chief | \$ 110,421 | \$ 3,777 |
| Ann Tkachyk | Detective Sergeant/ Acting Inspector | \$ 101,343 | \$ 552 |
| Mike Fenton | Director of Engineering & Public Works Supervisor | \$ 106,153 | \$ 714 |

The Corporation of the City of Dryden

Notes to Consolidated Financial Statements

December 31, 2007

17. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan, on behalf of 204 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. Employers and employees contribute jointly to the plan.

Because 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 Corporation of the City of Dryden does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2007 was \$642,106 (2006 - \$572,482). The OMERS Board rate was 6.5% to 10%, depending on income level for 2007 (2006 - 6% - 9.8%, depending on income level).

18. Trust Funds

The trust funds administered by the municipality amounting to \$510,396 (2006 - \$485,892) have not been included in the consolidated statement of financial position nor have the operations been included in the consolidated statement of financial activities. At December 31, 2007, the trusts fund balances are as follows:

| | 2007 | 2006 |
|-------------------------|------------|------------|
| Cemetery Perpetual Care | \$ 510,396 | \$ 485,892 |

19. Contributions to Unconsolidated Joint Boards

The following contributions were made by the municipality to Joint Boards:

| | 2007 | 2006 |
|--------------------------------------|---------------------|---------------------|
| District of Kenora Home for the Aged | \$ 680,424 | \$ 1,306,946 |
| Northwestern Health Unit | 392,915 | 388,079 |
| Kenora District Services Board | 1,844,375 | 1,942,746 |
| | <u>\$ 2,917,714</u> | <u>\$ 3,637,771</u> |

20. Operations of School Boards

During the year, taxation revenue of \$5,591,245 (2006 - \$5,658,700) was raised and remitted to the school boards.

21. Physical Assets

The amounts below represent the values as estimated by the municipality's insurer:

| | |
|-------------------------|---------------|
| Building and structures | \$ 58,234,500 |
| Contents and equipment | 24,877,450 |

The Corporation of the City of Dryden

Notes to Consolidated Financial Statements

December 31, 2007

22. Budget Amounts

Under Canadian generally accepted accounting principles, budget amounts are to be reported on the consolidated statement of financial activities for comparative purposes. The 2007 budget amounts for The Corporation of the City of Dryden approved by Council have been restated to conform to the basis of preparation of the revenues and expenditures on the consolidated statement of financial activities.

23. Commitments

The Corporation of the City of Dryden leases certain of its premises and equipment under various operating leases. The future minimum lease payments over the next five years are as follows:

| Year | Amount |
|------|------------|
| 2008 | \$ 280,191 |
| 2009 | 243,166 |
| 2010 | 178,247 |
| 2011 | 76,327 |
| 2012 | 52,383 |

24. Contingent Liabilities

The Corporation of the City of Dryden has settled a claim with Roma Insurance. The City may still be liable for additional amounts, however, management is unable to determine if there will be a liability from future claims. In addition, the City is involved in various lawsuits pertaining to a motor vehicle accident which occurred in 2004 for which the amount of settlement, if any, is not determinable.

No opinion is expressed as to whether these claims would have a material effect on the City's current year consolidated financial statements. If any settlements result from the claims, these settlements will be expensed in the Consolidated Statement of Financial Activities in the year in which judgements are rendered. No provision has been made in these consolidated financial statements in respect of the above claims.

A taxpayer has filed an appeal with the Assessment Review Board for a reduction in their taxes for a number of years. In the opinion of management, the overall reduction of tax is not determinable. As such, no provision has been provided for in the consolidated financial statements. Reductions, if any, made with respect to this appeal are expected to be accounted for as a charge to expenditures in the period in which the realization is known.

25. Financial Instruments

Unless otherwise noted, it is management's opinion that The Corporation of the City of Dryden is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair values of the financial instruments approximate their carrying values, unless otherwise noted.

The Corporation of the City of Dryden

Notes to Consolidated Financial Statements

December 31, 2007

26. Provincial Offences Administration (POA)

Effective February 26, 2001, The Corporation of the City of Dryden assumed the administration of Provincial Offences for the Dryden Court Services Area. The transfer of administration from the Ministry of the Attorney General, to the City, was a result of Provincial Offences Act (POA) 1977, which provides the frame work for the transfer of responsibility and administration of POA courts.

The POA is a procedural law for administering and prosecuting provincial offences, including those committed under the Highway Traffic Act, Liquor Licence Act, Municipal By-Laws and minor federal offences. The POA governs all aspects of legal process from serving notice to defendant, to conducting trials including sentencing and appeals.

Balances arising from operations of the POA office have been consolidated with these financial statements effective from the January 1, 2003 assumption of the operations by the City. The revenue of the court offices consists of fines levied under Parts 1 & 111 (including delay penalties) for POA charges fined in the Dryden Courts.

Offenders may pay their fines at any court office in Ontario at which time their receipt is recorded in the Integrated Courts Operation Network System (ICON) operated by the Province of Ontario. Revenue is recognized when receipt of funds is recorded by the provincial ICON System regardless of the location where payment is made.

27. Credit Risk

The Corporation of the City of Dryden is in the normal course of operations, exposed to credit risk from having bank account balances over the amounts insured by the Canadian Deposit Insurance Corporation.

28. Comparative Figures

Certain of the comparative figures have been restated to conform to the presentation adopted in the current year.

The Corporation of the City of Dryden Schedule of Current Fund Operations

| For the year ended December 31 | 2007 Budget | 2007 Actual | 2006 Actual |
|--|--------------------|-----------------------|---------------------|
| Revenue | | | |
| Taxation | \$ 9,902,436 | \$ 9,901,424 | \$ 9,563,975 |
| Payments in lieu of taxation | 233,739 | 235,814 | 216,265 |
| Fees and user charges | 6,050,990 | 5,321,545 | 5,213,909 |
| Canada grants | 355,127 | 72,174 | 229,591 |
| Ontario grants | 5,679,209 | 5,428,379 | 4,632,230 |
| Municipal grants | - | - | 3,559 |
| Other | 3,472,291 | 3,999,121 | 3,940,712 |
| | <u>25,693,792</u> | <u>24,958,457</u> | <u>23,800,241</u> |
| Expenditures | | | |
| General government | 2,619,441 | 3,283,087 | 2,903,051 |
| Protection services | 4,531,874 | 4,819,241 | 4,680,314 |
| Transportation services | 2,766,118 | 3,028,402 | 2,726,645 |
| Environmental services | 2,777,368 | 2,947,240 | 2,883,812 |
| Health services | 1,145,845 | 1,188,080 | 1,224,988 |
| Social and family services | 4,044,214 | 4,122,658 | 4,023,201 |
| Social housing | 662,809 | 649,733 | 675,076 |
| Recreation and cultural services | 2,983,320 | 3,014,525 | 3,032,812 |
| Planning and development | 855,602 | 384,035 | 198,732 |
| | <u>22,386,591</u> | <u>23,437,001</u> | <u>22,348,631</u> |
| Net revenue (expenditures) for the year | <u>3,307,201</u> | <u>1,521,456</u> | <u>1,451,610</u> |
| Change in amounts to be recovered and adjustments | | | |
| Debt principal repayments | (579,666) | (495,854) | (473,059) |
| Change in employee benefits payable | - | 222,075 | 59,227 |
| Change in interest payable | - | - | (7,291) |
| Change in landfill closure and post closure costs | - | 32,764 | 80,747 |
| Change in District of Kenora Home for the Aged | - | (111,912) | 525,234 |
| Transfers to capital fund | (1,855,990) | (1,253,141) | (1,513,296) |
| Transfers to reserves | (149,800) | (297,059) | (65,735) |
| | <u>(2,585,456)</u> | <u>(1,903,127)</u> | <u>(1,394,173)</u> |
| Change in fund balances for the year | 721,745 | (381,671) | 57,437 |
| Current fund (deficit), beginning of the year | <u>(155,933)</u> | <u>(732,982)</u> | <u>(790,419)</u> |
| Current fund (deficit), end of the year | <u>\$ 565,812</u> | <u>\$ (1,114,653)</u> | <u>\$ (732,982)</u> |

The Corporation of the City of Dryden Schedule of Capital Fund Operations

| For the year ended December 31 | 2007 Budget | 2007 Actual | 2006 Actual |
|--|--------------------|--------------------|-----------------------|
| Revenue | | | |
| Canada grants | \$ 744,005 | \$ 288,810 | \$ 492,351 |
| Ontario grants | 833,706 | 531,461 | 1,717,074 |
| Other | 155,000 | 255,361 | 206,050 |
| | <u>1,732,711</u> | <u>1,075,632</u> | <u>2,415,475</u> |
| Expenditures | | | |
| General government | 556,600 | 434,736 | 556,289 |
| Protection services | 195,750 | 156,839 | 327,512 |
| Transportation services | 1,299,700 | 838,904 | 2,133,092 |
| Environmental services | 1,884,000 | 1,370,634 | 3,832,071 |
| Health services | 116,500 | 94,548 | 84,967 |
| Social and family services | 152,538 | 62,046 | 51,402 |
| Recreation and cultural services | 899,900 | 1,061,051 | 636,961 |
| Planning and development | 464,000 | 304,375 | 227,564 |
| | <u>5,568,988</u> | <u>4,323,133</u> | <u>7,849,858</u> |
| Net revenue (expenditures) for the year | <u>(3,836,277)</u> | <u>(3,247,501)</u> | <u>(5,434,383)</u> |
| Financing and transfers | | | |
| Debenture proceeds | 1,150,000 | 4,000,000 | - |
| Transfers from revenue fund | 1,855,990 | 1,253,141 | 1,513,296 |
| Transfers from reserves | 1,554,134 | 1,134,412 | 781,035 |
| | <u>4,560,124</u> | <u>6,387,553</u> | <u>2,294,331</u> |
| Change in fund balances for the year | 723,847 | 3,140,052 | (3,140,052) |
| Capital fund (deficit), beginning of the year | - | <u>(3,140,052)</u> | - |
| Capital fund (deficit), end of the year | <u>\$ 723,847</u> | <u>\$ -</u> | <u>\$ (3,140,052)</u> |

The Corporation of the City of Dryden Schedule of Reserves

| For the year ended December 31 | 2007 Budget | 2007 Actual | 2006 Actual |
|--|----------------|----------------|----------------|
| Revenue | | | |
| Interest | \$ - | \$ 228,616 | \$ 241,322 |
| Other | - | 53,813 | - |
| | - | 282,429 | 241,322 |
| Net transfers from (to) other funds | | | |
| Transfers from revenue fund | 149,800 | 297,059 | 65,735 |
| Transfers to capital fund | (1,554,134) | (1,134,412) | (781,035) |
| Transfer to Deferred Revenue/Obligatory Reserve Funds | - | - | (102,982) |
| | (1,404,334) | (837,353) | (818,282) |
| Change in fund balances for the year | (1,404,334) | (554,924) | (576,960) |
| Reserves, beginning of the year | 6,444,849 | 5,867,889 | 6,444,849 |
| Reserves, end of the year | \$ 5,040,515 | \$ 5,312,965 | \$ 5,867,889 |
| Analyzed as follows: | | | |
| Reserves set aside for specific purpose by Council: | | | |
| Working funds | | \$ 1,002,153 | \$ 1,163,835 |
| General capital expenditure purposes | | 4,073,849 | 4,337,631 |
| Sick leave and WSIB benefits | | 147,703 | 144,922 |
| Recreation | | - | 38,417 |
| Personal protection | | - | 1,500 |
| Roads | | 89,260 | 181,584 |
| Reserves, end of the year | | \$ 5,312,965 | \$ 5,867,889 |