

THE CORPORATION OF THE TOWN OF DESERONTO
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REYNOLDS, JEFFERY & MURRAY

CHARTERED ACCOUNTANTS

A-1

AUDITORS' REPORT

**The Mayor, The Members of Council,
Inhabitants and Ratepayers of The
Corporation of the Town of Deseronto**

We have audited the consolidated statement of financial position of The Corporation of the Town of Deseronto as at December 31, 2002 and the consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Town of Deseronto as at December 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles for the public sector.

Reynolds, Jeffery & Murray — i

Picton, Ontario
April 24, 2003

CHARTERED ACCOUNTANTS

**THE CORPORATION OF THE TOWN OF DESERONTO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2002**

	2002	2001
	\$	\$
FINANCIAL ASSETS		
Cash and temporary investments - note 3	131,102	616,472
Taxes receivable Accounts receivable	417,799	389,721
Other	423,189	94,281
	2,583	3,785
	974,673	1,104,259
 LIABILITIES		
Temporary borrowings - note 4	610,000	101,252
Accounts payable Deferred	466,868	391,286
revenue - note 5 Municipal long-	83,824	24,983
term debt - note 6	1,621,425	1,482,63
	2,782,117	2,000,155
 MUNICIPAL POSITION		
Operating fund - note 7	(122,611)	(27,869)
Capital fund	(288,389)	(14,273)
Reserves - note 8	224,981	628,880
Fund balances	(186,019)	586,738
Amounts to be recovered from future taxation and user charges	(1,621,425)	(1,482,634)
Municipal position	(1,807,444)	(895,896)
	974,673	1,104,259

The accompanying notes form an integral part of these financial statements

REYNOLDS, JEFFERY & MURRAY
CHARTERED ACCOUNTANTS

**THE CORPORATION OF THE TOWN OF DESERONTO
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	2002	2002	2001
	\$	\$	\$
	Budget	Actual	Actual
REVENUE	Unaudited	Audited	Audited
Net municipal taxation - note 10	572,485	608,282	609,674
User charges	942,575	939,822	838,548
Ontario transfer payments	432,446	427,496	353,689
Canada transfer payments - conditional	-	1,801	79,668
Penalty and interest on taxes	50,000	52,141	50,238
Investment income	30,050	17,575	31,215
	<u>2,027,556</u>	<u>2,047,117</u>	<u>1,963,032</u>
EXPENDITURES			
General government	327,097	319,948	378,135
Protection to persons and property	709,722	645,606	575,559
Transportation services	258,963	253,827	222,222
Environmental services	617,000	624,306	630,118
Health services	15,000	16,308	12,598
Recreation and cultural services	260,280	250,151	223,030
Planning and development	31,200	33,449	23,020
	<u>2,219,262</u>	<u>2,143,595</u>	<u>2,064,682</u>
REVENUE OVER EXPENDITURES	(191,706)	(96,478)	(101,650)
(EXPENDITURES OVER REVENUE)			
FINANCING AND TRANSFERS			
Long-term debt principal repayments	(120,200)	(128,675)	(374,383)
Transfers (to) from capital fund	-	(16,754)	551,555
Transfers (to) from reserves	333,494	147,165	27,178
	<u>213,294</u>	<u>1,736</u>	<u>204,350</u>
CHANGE IN OPERATING FUND BALANCE	21,588	(94,742)	102,700
OPERATING FUND BALANCE - BEGINNING OF YEAR	(27,869)	(27,869)	(130,569)
OPERATING FUND BALANCE - END OF YEAR	<u>(6,281)</u>	<u>(122,611)</u>	<u>(27,869)</u>

The accompanying notes form an integral part of these financial statements

REYNOLDS, JEFFERY & MURRAY
CHARTERED ACCOUNTANTS

**THE CORPORATION OF THE TOWN OF DESERONTO
CONSOLIDATED STATEMENT OF CAPITAL FUND OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	2002 \$	2002 \$	2001 \$
	Budget Unaudited	Actual Audited	Actual Audited
REVENUE			
Ontario transfer payments Upper tier	547,867	513,225	57,237
transfer payments Investment	-	-	28,000
income Proceeds on sale of capital	-	-	6,062
assets	-	61,724	1,048,625
	<u>547,867</u>	<u>574,949</u>	<u>1,139,924</u>
EXPENDITURES			
General government Protection to	41,200	41,203	16,995
persons and property Transportation	8,000	14,575	6,878
services Environmental services	-	187,627	36,707
Recreation and cultural services Social	30,000	294,477	311,314
services	802,667	852,130	133,821
	-	-	38,317
	<u>881,867</u>	<u>1,390,012</u>	<u>544,032</u>
REVENUE OVER EXPENDITURES			
(EXPENDITURES OVER REVENUE)	(334,000)	(815,063)	595,892
FINANCING AND TRANSFERS			
Proceeds from long-term debt issuance	250,000	267,459	335,000
Transfers from (to) reserves Transfers	98,273	256,734	(262,405)
from (to) operating fund	-	16,754	(551,555)
	<u>348,273</u>	<u>540,947</u>	<u>(478,960)</u>
CHANGE IN CAPITAL FUND BALANCE	14,273	(274,116)	116,932
CAPITAL FUND BALANCE - BEGINNING OF	<u>(14,273)</u>	<u>(14,273)</u>	<u>(131,205)</u>
CAPITAL FUND BALANCE - END OF YEAR	"	(288,389)	(14,273)

The accompanying notes form an integral part of these financial statements

REYNOLDS, JEFFERY & MURRAY
CHARTERED ACCOUNTANTS

**THE CORPORATION OF THE TOWN OF DESERONTO
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	2002	2001
	\$	\$
OPERATIONS		
Revenue over expenditures (expenditures over revenue)		
- Operating fund	(96,478)	(101,650)
- Capital fund	(815,063)	595,892
	(911,541)	494,242
Uses		
Increase in taxes receivable	(28,078)	(38,081)
Increase in accounts receivable	(328,908)	-
Decrease in accounts payable	-	(240,721)
	(356,986)	(278,802)
Sources		
Increase in accounts payable	75,582	-
Decrease in other assets	1,202	752
Decrease in accounts receivable	-	395,287
Increase in deferred revenue	58,841	3,668
	135,625	399,707
Net increase (decrease) in cash from operations	(1,132,902)	615,147
FINANCING		
Proceeds from temporary borrowings	508,748	-
Proceeds from long-term debt issuance	267,459	335,000
Long-term debt repaid	(128,675)	(374,383)
Temporary borrowings repaid	-	(225,048)
	647,532	(264,431)
NET CHANGE IN CASH AND TEMPORARY INVESTMENTS CASH	(485,370)	350,716
AND TEMPORARY INVESTMENTS - BEGINNING OF YEAR CASH	616,472	265,756
AND TEMPORARY INVESTMENTS - END OF YEAR	131,102	616,472

The accompanying notes form an integral part of these financial statements

REYNOLDS, JEFFERY & MURRAY
CHARTERED ACCOUNTANTS

**THE CORPORATION OF THE TOWN OF DESERONTO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

1. BASIS OF CONSOLIDATED PRESENTATION

- a) These consolidated statements reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, reserve funds and reserves and include the activities of all committees of Council and the following boards and funds which are under the control of Council:

Deseronto Public Library Board
Deseronto Community Recreation Centre
Deseronto Cemetery Board
Deseronto Business Improvement Association
Water and Sewer Fund
General Taxation Fund

All interfund assets and liabilities are eliminated.

- b) Trust funds and their related operations administered by the municipality are not consolidated, but are reported separately on the "Trust Funds Consolidated Statement of Financial Position" and "Consolidated Statement of Continuity of Trust Funds" (note 9).
- c) Accounting for School Board and County Transactions

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the School Boards, and the County of Hastings are not reflected in the municipal fund balances of these financial statements (note 10).

2. SIGNIFICANT ACCOUNTING POLICIES

- a) **Accrual Basis of Accounting**

Revenue 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 receipt of goods or services and a legal obligation to pay.

- b) **Capital Assets**

Physical capital assets used in the activities of the municipality are not recorded for municipal purposes, but are reported as an expenditure on the Consolidated Statement of Capital Fund Operations in the year of acquisition.

REYNOLDS, JEFFERY & MURRAY

CHARTERED ACCOUNTANTS

THE CORPORATION OF THE TOWN OF DESERONTO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Deferred Revenue

Deferred revenue consisted of prepaid user fees and externally restricted revenue not yet expended for their specified purpose. These included reserve funds set aside for specific purposes by legislation, regulation or agreement (note 5).

d) Realty Property Available for Resale

The municipality holds legal title to a number of realty properties that are available for resale. These are recorded as financial assets at their realizable value which is convertible to cash. At December 31, 2001 the realizable value of these assets were undeterminable as marketing activities did not result in significant interest.

3. CASH AND TEMPORARY ASSETS

Cash and temporary assets consist of the following:

	2002	2001
	\$	\$
Unrestricted	109,657	598,616
Restricted	21,445	17,856
	<u>131,102</u>	<u>616,472</u>

Restricted cash and temporary assets are reserve funds set aside for a specific purpose by legislation, regulation or agreement (note 5).

4. TEMPORARY BORROWINGS

The temporary borrowings consists of:

	2002	2001
	\$	\$
Bank overdraft	610,000	99,894
Bank operating demand loan, prime + 1%	-	1,358
	<u>610,000</u>	<u>101,252</u>

REYNOLDS, JEFFERY &
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**THE CORPORATION OF THE TOWN OF DESERONTO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

5. DEFERRED REVENUE

a) Deferred revenue consists of:

	2002	2001
	\$	\$
Town of Deseronto Arctic Gardens	58,756	7,127
Deseronto Community Recreation Centre	3,623	
Reserve funds	21,445	17,856
	<u>83,821</u>	<u>24,983</u>

b) Deferred revenue for the Deseronto Community Recreation Centre is prepaid ice rentals for the following year.

c) Reserve funds are set aside for specific purpose by legislation, regulation or agreement. They are recorded as deferred revenue until they are expended for their specific purpose. The continuity of reserve funds for the year is as follows:

	2002	2001
	\$	\$
Receipts		
Interest	89	241
Development charges	<u>3,500</u>	<u>2,000</u>
	3,589	2,241
Expenditures		
Transfer to capital fund	<u>-</u>	<u>-</u>
Change in reserve funds	3,589	2,241
Reserve funds - beginning of year	17,856	15,615
Reserve funds - end of year	<u>21,445</u>	<u>17,856</u>
Set aside for:		
Park lands	13,038	11,757
Capital works	<u>8,407</u>	<u>6,099</u>
	<u>21,445</u>	<u>17,856</u>

REYNOLDS, JEFFERY &
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THE CORPORATION OF THE TOWN OF DESERONTO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

6. MUNICIPAL LONG-TERM DEBT

	2002	2001
	\$	\$
General Government		
Ministry of Municipal Affairs and Housing, due 2009, 6.8%, repayable in blended annual payments of \$27,790. The 2002 payment was postponed by MMAH.	167,234	167,234
Recreation and Cultural Services		
Bank term loan, due 2017, prime, repayable in principal payments of \$1,390 per month plus interest.	243,050	
Equipment lease, repayable in blended monthly payments of \$375.41 at an effective interest rate of 11.03%.	15,861	
Environmental		
Canadian Depository for Securities Ltd. - installment bond, due 2012, bearing 7.37% effective interest rate and blended annual repayments of \$128,836 dropping to \$124,500 by 2012. 963,000	900,000	
Bank term loan, due 2007, repayable in principal payments of \$4,760 per month plus interest at the bank's prime rate of interest.	<u>295,280</u>	<u>352,400</u>
	1,621,425	<u>1,482,634</u>

a) Principal repayments will be recovered from future taxation and user charges as follows:

	\$
2003	159,195
2004	164,642
2005	171,198
2006	177,878
2007	191,667
2008 to 2012	680,595
beyond 2012	<u>76,250</u>
	<u>1,621,425</u>

REYNOLDS, JEFFERY & MURRAY
CHARTERED ACCOUNTANTS

**THE CORPORATION OF THE TOWN OF DESERONTO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

6. MUNICIPAL LONG-TERM DEBT (continued)

- b) Total charges for long-term liabilities which are included in the consolidated statement of operations are as follows:

	2001	2001
	\$	\$
Principal payments - operating	128,675	374,383
Interest	83,685	116,285
	<u>212,360</u>	<u>490,668</u>

- c) The annual principal and interest payments required to service municipal long-term debt are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

7. OPERATING FUND BALANCE

- a) The operating fund balance at the end of the year is comprised of the following:

	2002	2001
	\$	\$
For general reduction (increase) of taxation	(158,546)	(20,291)
For local boards and funds to reduce (increase) taxation or user charges	35,935	(7,578)
	<u>(122,611)</u>	<u>(27,869)</u>

8. RESERVES

The balance of reserves set aside for specific purposes by Council are analyzed as follows:

	2002	2001
	\$	\$
Reserves set aside for specific purpose by Council		
- for working capital	87,829	87,829
- for library capital works	5,000	5,000
- for general capital works/contingencies	35,346	441,845
- for water and sewer debt repayment	<u>96,806</u>	<u>94,206</u>
	<u>224,981</u>	<u>628,880</u>

**THE CORPORATION OF THE TOWN OF DESERONTO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

8. RESERVES (continued)

The continuity of reserves for the year is as follows:

	2002	2001
	\$	\$
Transfers from (to) capital fund	(256,734)	262,405
Transfers from (to) operating fund	<u>(147,165)</u>	<u>(27,179)</u>
Change in reserves	(403,899)	235,226
Reserves - beginning of year	<u>628,880</u>	<u>393,654</u>
Reserves - end of year	<u>224,981</u>	<u>628,880</u>

9. TRUST FUNDS

The Trust funds administered by the municipality amounting to \$85,981 (2001 - \$84,758) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations".

10. OPERATIONS OF SCHOOL BOARDS AND THE COUNTY OF HASTINGS

Taxation and other revenues are collected on behalf of the School Boards and the County of Hastings and accordingly forwarded to them. Therefore, the following amounts have been excluded from taxation revenue of the municipality:

	2002	2001
	\$	\$
School boards	271,905	270,306
County of Hastings	<u>277,524</u>	<u>281,635</u>
Amounts netted	<u>549,429</u>	<u>551,941</u>

11. PENSION AGREEMENTS

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of certain employees. 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.