

**CORPORATION OF THE
TOWN OF DESERONTO
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31,2006**

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Collins Barrow

Chartered Accountants

AUDITORS' REPORT

TO 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, 2006 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 Town'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 Town as at December 31, 2006 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants Licensed
Public Accountants

Peterborough, Ontario April
11, 2007

CORPORATION OF THE TOWN OF DESERONTO

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION At
December 31,2006**

	2006	2005
	\$	\$
ASSETS		
FINANCIAL ASSETS		
Cash and temporary investments	67,180	185,253
Taxes and grants in lieu receivable	339,319	258,444
Accounts receivable	552,428	273,733
Other assets	121,653	13,778
TOTAL ASSETS	1,080,580	731,208
LIABILITIES AND MUNICIPAL POSITION		
LIABILITIES		
Accounts payable	458,636	206,600
Deferred revenue obligatory reserve funds (Note 3)	82,394	49,210
Other deferred revenues	44,446	33,932
Long term debt (Note 4)	1,352,412	1,523,406
	1,937,888	1,813,148
MUNICIPAL POSITION		
Fund Balances (Note 5) Current fund		
Capital fund Reserves (see Schedule page 13)	(1,527) (73,709) 570,340	7,846 433,620
Amount To Be Recovered	495,104	441,466
Long term debt	(1,352,412)	(1,523,406)
	(857,308)	(1,081,940)
TOTAL LIABILITIES AND MUNICIPAL POSITION	1,080,580	731,208

The accompanying notes are an integral part of this financial statement.

CORPORATION OF THE TOWN OF DESERONTO

**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES For
The Year Ended December 31,2006**

	Budget	Actual	Actual
	2006	2006	2005
	\$	\$	\$
REVENUES			
Property taxation	895,719	879,387	769,375
Taxation from other governments	32,500	32,755	30,338
User charges	1,107,672	1,268,532	1,128,306
Government of Canada	-	23,122	15,141
Province of Ontario	603,618	742,837	774,324
Other municipalities	-	71,662	40,983
Penalties and interest on taxes	38,000	37,351	33,452
Investment income	-	9,997	1,693
Capital donations	-	3,021	6,210
Sale of capital assets	-	38,300	69,100
TOTAL REVENUES	2,677,509	3,106,964	2,868,922
EXPENDITURES			
General government	318,685	300,100	315,078
Protection to persons and property	665,744	646,444	632,583
Transportation services	388,338	606,619	270,671
Environmental services	786,624	733,451	774,271
Health services	4,000	19,381	11,903
Recreation and cultural services	424,366	559,947	364,847
Planning and development	7,000	16,390	79,442
TOTAL EXPENDITURES	2,594,757	2,882,332	2,448,795
NET REVENUES/(EXPENDITURES)	82,752	224,632	420,127
INCREASE (DECREASE) IN AMOUNTS			
TO BE RECOVERED			
Long term debt repaid	(202,708)	(185,046)	(152,279)
Long term debt issued	-	14,052	345,000
	(202,708)	(170,994)	192,721
INCREASE (DECREASE) IN FUND BALANCES	(119,956)	53,638	612,848
OPENING FUND BALANCES	441,466	441,466	(171,382)
CLOSING FUND BALANCES	321,510	495,104	441,466

The accompanying notes are an integral part of this financial statement.



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CORPORATION OF THE TOWN OF DESERONTO**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION For
The Year Ended December 31,2006**

	2006	2005
	\$	\$
OPERATIONS		
Net revenues/(expenditures)	224,632	420,127
(Uses) Sources:		
(Increase) in taxes receivable	(80,875)	(78,067)
(Increase) decrease in trade and other receivables	(278,695)	511,595
(Increase) in other assets	(107,875)	(7,240)
Increase (decrease) in accounts payable	252,036	(535,724)
Increase in deferred revenue - obligatory reserve funds	33,184	17,674
Increase (decrease) in other deferred revenues	10,514	(44,913)
Net increase (decrease) in cash from operations	52,921	283,452
FINANCING		
Long term debt repaid	(185,046)	(152,279)
Long term debt issued	14,052	345,000
	(170,994)	192,721
NET CHANGE IN CASH AND CASH EQUIVALENTS OPENING	(118,073)	476,173
CASH AND CASH EQUIVALENTS	185,253	(290,920)
CLOSING CASH AND CASH EQUIVALENTS	67,180	185,253

The accompanying notes are an integral part of this financial statement.



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CORPORATION OF THE TOWN OF DESERONTO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31,2006

The Town of Deseronto is a lower tier municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared 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 are as follows:

Reporting Entity

These consolidated financial statements reflect the assets, liabilities, revenues and expenditures and fund balances of the reporting entity.

The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Town and which are owned or controlled by the Town. The financial statements include:

Deseronto Water and Sewer System Deseronto
Community Recreation Centre Deseronto
Public Library Board Deseronto Cemetery
Board Deseronto Business Improvement Area

All interfund assets and liabilities and revenues and expenditures are eliminated.

Fund Accounting

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

Trust funds and their related operations administered by the Town are not included in these financial statements but are reported on separately on the Trust Funds Statement of Continuity and Statement of Financial Position.

Basis of Accounting

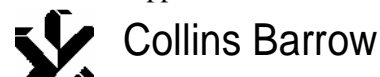
Sources of financing and expenditures are reported on the accrual basis of accounting. The accrual basis recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal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

Capital Assets

Expenditures made on capital assets are reported as capital expenditures on the Consolidated Statement of Financial Activities in the period incurred.

Reserves

Certain amounts, as approved by Council, are set aside in reserves for future operating and capital purposes. Transfers to and/or from reserves are an adjustment to the respective fund when approved.



CORPORATION OF THE TOWN OF DESERONTO

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2006**

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Revenue

Deferred revenues represent user charges and fees which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

Government Funding

Government funding is recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 financial statements, and the reported amounts of revenue and expenditures during the period. Actual results could differ from these estimates.

Financial Instruments

The municipality's financial instruments consist of cash and temporary investments, taxes and grants in lieu receivable, accounts receivable, accounts payable and long term debt. The municipality's long term debt have outstanding obligations with a variable rate of interest and as such represents a credit risk to the municipality should interest rates fluctuate. The municipality does not have any other significant concentration of currency or credit risks.

2. OPERATIONS OF SCHOOL BOARDS AND THE COUNTY OF HASTINGS

During 2006, requisitions were made by the County of Hastings and School Boards requiring the Town to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are as follows:

	School Boards	County
Property taxes	243,082	246,057
Taxation from other governments	28	5,445
<hr/>		
Amount requisitioned and remitted	243,110	251,502

These amounts have not been included in the Consolidated Statement of Financial Activities.

CORPORATION OF THE TOWN OF DESERONTO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31, 2006

3. DEFERRED REVENUE - OBLIGATORY RESERVE FUNDS

A requirement of the public sector accounting principles of the Canadian Institute of Chartered Accountants, is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial legislation and other agreements restrict how these funds may be used and under certain circumstances these funds may possibly be refunded. The balances in the obligatory reserve funds of the municipality are summarized below.

	2006	2005
	\$	\$
. parkland	11,730	13,576
. lot levy	18,133	18,124
. federal gas tax rebate	52,531	17,510
	82,394	49,210

4. LONG TERM DEBT

	2006	2005
	\$	\$
(a) The balance of long term debt reported on the Consolidated Statement of Financial Position is made up of the following:		
Payable to the Province of Ontario - Financial Integrity Fund annual payments of \$27,790 principal and interest, at 6.80%, due in 2014. The principal and interest on this loan have been postponed until December 31, 2007. Interest on this loan has been accrued at December 31, 2006 in the amount of \$11,372.	167,234	167,234
Long term bank loan, with principal payments of \$4,760 per month plus interest at prime currently 6.00%, due in 2008.	66,800	123,920
Debenture payable with annual instalments of varying amounts plus interest at variable amounts ranging from 6.90% to 7.50%, due in 2012.	609,000	689,000
Long term loan from Ontario Strategic Infrastructure Financing Authority, with semi-annual payments of \$21,140 principal and interest at 4.04%, due in 2015.	316,372	345,000



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CORPORATION OF THE TOWN OF DESERONTO

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2006**

4. LONG TERM DEBT - (Cont'd)

	2006	2005
Long term bank loan with monthly payments of \$1,390 plus interest at prime currently 6.00%, due in 2017.	176,330	193,010
Lease purchase agreement with monthly payments of \$352.57 principal and interest with interest at 10.5165%, due in 2007. Lease balance renewed and combined with new lease purchase reported below.	-	5,242
Lease purchase agreement with monthly payments of \$398 principal and interest with interest at 10.235%, due 2011.	16,676	
	1,352,412	1,523,406

(b) Future long term debt payments are as follows:

	Principal \$	Interest \$	Total \$
2007	208,236	79,289	287,525
2008	169,474	67,035	236,509
2009	168,635	56,422	225,057
2010	178,649	45,169	223,818
2011	186,566	33,095	219,661
20 12 and thereafter	911,560 440,852	281,010 44,831	1,192,570 485,683
	1,352,412	325,841	1,678,253

(c) The long term debt in (a) issued in the name of the municipality have received approval of the Ontario Municipal Board (or approval by private legislation) for those approved on or before December 31, 1992. Those approved after January 1, 1993 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

CORPORATION OF THE TOWN OF DESERONTO

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2006**

4. LONG TERM DEBT - (Cont'd)

(d) Total charges for the year for long term debt which are reported on the Consolidated Statement of Financial Activities are as follows:

	2006 \$	2005 \$
Principal payments	185,046	152,279
Interest	89,417	79,969
	274,463	232,248

5. MUNICIPAL POSITION AT THE END OF THE YEAR

The municipal position is comprised of the following:

	2006 \$	2005 \$
Current Fund		
For general reduction (increase) of taxation and user charges .		
Town .	-	7,906
Water and sewer system .	-	(8,088)
Public Library board .	(627)	6,593
Cemetery Board .	(8,507)	(5,144)
Business Improvement Area Board	7,607	6,579
	(1,527)	7,846
Capital Fund . Transportation services	(73,709)	-
Reserves	570,340	433,620
	495,104	441,466



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CORPORATION OF THE TOWN OF DESERONTO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2006

6. PENSION AGREEMENTS

The municipality makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of all permanent, full-time 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.

Contributions required on account of current service in 2006 were \$13,390 (2005 - \$10,973).

7. TRUST FUNDS

Trust funds administered by the municipality amounting to \$88,947 (2005 - \$86,821) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Financial Activities.

8. EXPENDITURES BY OBJECT

The operating expenditures for the year reported on the Consolidated Schedule of Current Fund operations by object are as follows:

	2006	2005
	\$	\$
Salaries, wages and employee benefits	582,394	543,948
Debt interest charges	89,417	79,969
Materials	646,916	628,606
Contracted services	1,011,461	1,063,796
Rents and financial expenses	19,720	36,231
External transfers	20,604	22,141
	2,370,512	2,374,691

9. BUDGET FIGURES

Budgets established for capital funds and reserves are based on a project-oriented basis, the costs of which may be carried out over one or more years. Although they are not directly comparable with the current year actual amounts they have been reflected on the Consolidated Statement of Financial Activities. Budget figures are not subject to audit.