



The City of Kenora, Ontario, Canada

Annual Report
2004



Table of Contents 2

Introductory Information

City Council	3
Mayor’s Message	4
CAO’s Message	4
City’s Strategic Plan	5
Guiding Principles for the Corporation	5
City Profile	6
Interesting Statistics - “2004 by the Numbers”	6
City Council and Committee Structure	7

Financial Highlights

2004 Financial Information	8
Current Fund	8
Capital Fund	11
Reserves and Reserve Funds	12
Government Business Enterprises	13
Kenora Hydro Electric Corporation Ltd.	13
KMTS	13

City Financial Statements

Auditor’s Report	14
Consolidated Statement of Financial Position	15
Consolidated Statement of Financial Activities	16
Consolidated Statement of Changes in Financial Position	17
Notes to Consolidated Financial Statements	18
Schedule of Current Fund Operations	26
Schedule of Capital Fund Operations	27
Schedule of Reserves and Reserve Funds	28

Table of
Contents



City Council

From Left to Right:

- ❑ Councillor Andrew Poirier, Chair of Operations
- ❑ Councillor Ted Szajewski , Chair of Community Services
- ❑ Councillor Len Compton, Chair of Utilities and Communications
- ❑ Mayor Dave Canfield
- ❑ Councillor Colin Wasacase, Chair of Property and Community Planning
- ❑ Councillor Ingrid Parkes, Chair of Emergency Services
- ❑ Councillor Rory McMillan, Chair of Finance and Administration

Introductory Information

City Council

Mayor's Message

Kenora is a picturesque community nestled on the north shore of famous Lake of the Woods. Rich in tourism and forestry sector business, Kenora is a thriving, diversified community. The City is anticipating strong growth over the coming years, and Council and myself are committed to making Kenora the preferred place to live and visit.

The City continued to face challenges in 2004, as it has in prior years, with regards to the costs of downloaded services and an aging infrastructure. As a community, however, we are committed to continuous improvement philosophy. Even though it has been a challenge, we believe that the future is bright. We will continue to address service delivery through constant review and improvement, keeping Kenora a place our Citizens want to live and raise their families.

We believe in the Team concept at the City of Kenora. With the strong team we have developed for the City, we are well positioned for a successful future. We fully anticipate that, even though we have some challenges to face in 2005 and onward, we will continue to succeed.

Together, we believe that there is no challenge so great, that it cannot be overcome.



David Canfield
Mayor

CAO's Message

For Kenora, 2004 was a year of redefinition and re-adapting as municipal governments in Ontario faced mounting fiscal challenges. In the shadow of these challenges was a continued focus on planning and revamping our services. Council set the direction early in the year with the adoption of budgets that balanced the realities of government funding with the cost of doing business. The struggle to continue to provide the services our citizens have come to expect and rely upon has become the driving force for innovation and review.

The City of Kenora's annual report covers the City's fiscal year, which runs from January 01 to December 31, 2004. Just as corporations publish annual reports for their stockholders, so the City of Kenora, as a municipal corporation, is submitting an annual report to its stakeholders – the citizens and business owners of Kenora. It is our pleasure to bring highlights of our activities for 2004.



Bill Preisenz
CAO

Introductory Information

Mayor's Message

CAO's Message

City's Strategic Plan

During the five years since its inception, under Council direction, the new City has actively pursued continued improvements, enhancements and growth, working to position itself as a regional leader.

As part of Council's direction, Council and senior staff undertook a strategic planning exercise, resulting in the development of a City strategic plan, Kenora Vision 2007. The intent of the Plan is to provide focus and direction to the City in its journey into the future. The plan lays the foundation for the City's future, sets out the City's guiding principles, as well as provides the strategic directions for the City.

It is recognized, however, that the strategic plan does not end simply with the development of a planning document. In fact, one of the key points noted in the introduction portion of the City's strategic plan was that "...the corporate strategic plan is a dynamic document, one that can be adapted as conditions change. As such, it requires regular review and revision."

During late 2004, Council and senior staff met to review and update the City's Strategic Plan. In addition, it was felt that the best way for the City to gauge its progress under the Strategic Plan was to continuously evaluate progress made within the plan, and ensure that the forward direction provided within the plan continues to be in the best interests of the City of Kenora, and ultimately its Citizens, Council and Staff. As such, the City provides annual public reports of both progress and achievements made within the City's Strategic Plan, as well as future targets planned. The annual reporting is used by the City to ensure continued forward movement within the Plan, and determine where the City must re-evaluate directions given within the Plan. Ultimately, the annual Progress Report Card on the Strategic Plan is a primary means of communicating, both to the public and City employees, changes and progress made under direction of the Plan.

Guiding Principles for the Corporation

Kenora Vision 2007 sets out guiding principles for the City. These principles provide the City with guidelines for evaluating and determining its actions, and have become the cornerstone for major Council decisions, as well as a primary component of the budget setting process.

These principles are:

- Kenora will provide fairness in taxation
- Kenora will provide value for service to the ratepayer
- Kenora will ensure sound fiscal management
- Kenora will provide quality of life amenities and services for citizens and visitors
- Kenora will explore and pursue new opportunities
- Kenora will value and be responsible to its employees
- Kenora will understand and respect its citizens
- Kenora will inform and engage its citizens
- Kenora will be a steward of the environment

Introductory Information

City's Strategic Plan

Guiding Principles For the Corporation

City Profile

The Towns of Kenora, Keewatin and Jaffray Melick amalgamated on 1 January 2000 to form the City of Kenora, forming the second largest center in Northwestern Ontario. The City of Kenora is the largest municipality within the District of Kenora, and represents a commercial hub for the region. With an “open for business” approach, the City has been recognized by senior levels of government as “forward thinking”, and continues to actively and aggressively pursue development opportunities as available.

The forestry sector is a significant component of the City’s economic base. The City currently is pleased to be home to both an Abitibi Consolidated Inc. plant, as well as more recently a newly constructed Trus Joist facility. Additional local participants in this industry include Devlin Timber and Kenora Forest Products.

Located on famous Lake of the Woods, Kenora also represents a major tourist destination, and hosts a significant number of tourism related businesses, either within the City or in the surrounding area. The retail sector is also a significant contributor to the local economy, with a major new commercial development occurring during 2004 and completed in early to mid 2005.

Interesting Statistics – “2004 by the Numbers”

Kenora's Population	14,846
Household Count	7,244
Total Hectares in the Municipality	24,939 hectares
Total Property Assessment	\$ 1.13 billion
Kilometers of Water Main	131.0 km
Kilometers of Sewer Main	136.5 km
Kilometers of Roads	
Asphalt	125.0 km
Surface Treatment	34.0 km
Gravel	164.0 km
Tonnes of Garbage Disposed of	17,174.4 tonnes
Trees & Shrubs Planted	241
Fire Calls for Services	611
Calls for Police Services	
Kenora Police Services	13,823
Ontario Provincial Police	7,692
Dogs Licensed	697
Bears Trapped & Released	7
Business Licences Issued	354
City Employees	238.5 FTE's
Employees Receiving First Aid / CPR Training	46

Introductory Information

City Profile

Interesting Statistics – “2004 by the Numbers”

City Council and Committee Structure

City Council represents the elected decision making authority for the City. Council is comprised of the Mayor and six Councillors, all elected at large within the City. Council exercises its legislative authority through the passing of City By-laws and resolutions.

The City operates through a standing committee structure. Each standing committee is comprised of three Members of Council. These committees meet on a bi-weekly basis, and are responsible for making recommendations to Committee of the Whole within their respective mandates. Standing committees currently include:

- ❑ Community Services Committee
- ❑ Emergency Services Committee
- ❑ Finance and Administration Committee
- ❑ Operations Committee
- ❑ Property and Community Planning Committee
- ❑ Utilities and Communications Committee

In addition, the City has various boards, commissions and committees responsible for various components of its overall operations, as well as independent boards and committees. These include:

- ❑ Kenora Police Services Board
- ❑ KMTS Commission
- ❑ Kenora Hydro Electric Corporation Ltd. Board
- ❑ Other Boards and Committees, such as, but not limited to:
 - Kenora Handi Transit Board
 - Kenora Public Library Board
 - Lake of the Woods Museum Board
 - Leisure Services Committee

The City of Kenora also has an Audit Committee, comprised of three Members of Council, as well as two citizen representatives. This Committee is responsible for making recommendations directly to Council regarding the following:

- ❑ Internal Audit Function
- ❑ Corporate Control Framework
- ❑ Performance Measures / Benchmarking
- ❑ External Audit Function
- ❑ Financial and Other Reporting
- ❑ General and Administrative

Ultimately Council is responsible for City direction, policy and decisions. The City CAO, Bill Presentanz, is directly responsible for the City's operations. The CAO oversees a team of Managers who are also responsible to work directly with their respective standing committees. Together, the CAO and Managers work with the 250 plus City employees who maintain City operations and provide front line customer service to our residents and visitors.

Introductory Information

City Council and Committee Structure

2004 Financial Information

The financial statements, and all other financial information provided herein, are the responsibility of the management of the City of Kenora, and 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.

The 2004 statements outline the financial position and operations of the City of Kenora. They are presented both on a consolidated basis, as well as on an individual fund basis, including an operating fund, a capital fund and a reserve fund. Various boards and municipal enterprises have also been consolidated into the City's financial statements, as outlined in the significant accounting policies (note 1 to the consolidated financial statements). In addition, the City statements also reflect the City's significant investment in government business enterprises.

Current Fund

The current fund operations are broken into eight main functional areas. These areas, together with some examples of the types of expenditures that are incurred in these areas are as follows:

- ❑ General government (Mayor and Council, City administration)
- ❑ Protection to persons and property (Fire, Police, By-law enforcement, 911 Services)
- ❑ Transportation services (Roads, Transit)
- ❑ Environmental services (Water and Sewer, Garbage, Recycling)
- ❑ Health services (Northwestern Health Unit, Cemeteries, Ambulance)
- ❑ Social and family services (Ontario Works, Day Care, District of Kenora Home for the Aged)
- ❑ Recreation and cultural services (Parks, Recreation Centre, Library, Museum)
- ❑ Planning and development (Planning, Northwest Business Centre, Lake of the Woods Business Incentive Corporation)

The 2004 current fund revenues were \$32.5 million before transfers from government business enterprises. These transfers represented an additional \$1.4 million in current fund revenues to the City, resulting in total combined current revenue of \$33.9 million. Taxation continues to be the primary income source for the City's current fund, representing 47.4% of all total current revenues. Fees and user charges represent an additional 26.7% of total current revenues. An analysis of current revenues by source has been included on the following page.

Overall current fund expenditures in the various functional areas listed above were \$27.9 million in 2004, before debt principal repayment and net transfers to capital and reserve funds. The consolidated current fund balance increased slightly in 2004. An analysis of the current fund expenditures by function, including debt repayment, net transfers to capital and reserve funds, as well as final current fund balance change, has also been included on the following page. The next page contains some overall variance analysis of the 2004 actual operating results as compared to the original budget estimates.

Financial Highlights

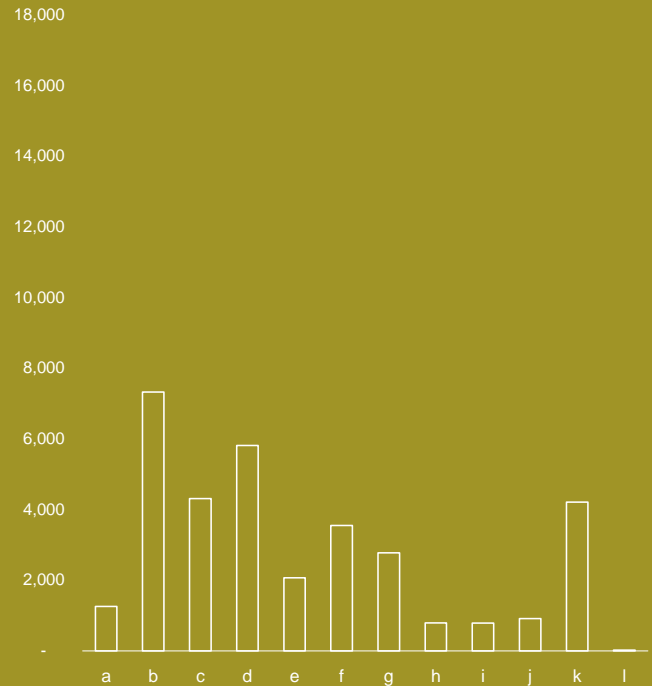
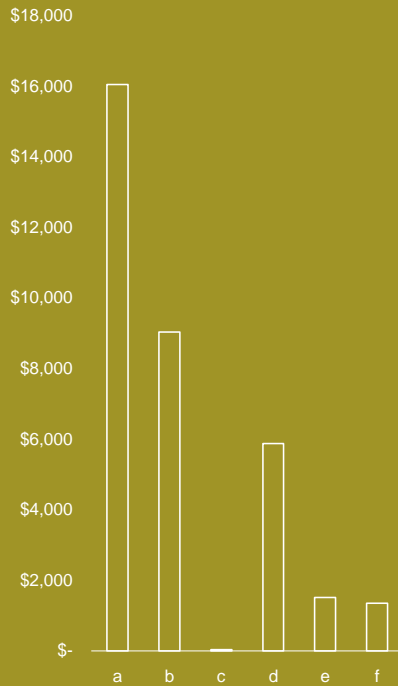
2004 Financial Information

Current Fund

Current Fund

Source of Revenues / Allocation of Expenditures
2004 Actual Results (in thousands of dollars)

Financial Highlights



Source of Income Dollar

a Taxation	\$ 16,045	47.4%
b Fees and user charges	9,035	26.7%
c Canada grants	39	0.1%
d Ontario grants	5,873	17.3%
e Other	1,514	4.5%
f Government business enterprise	1,350	4.0%
	\$ 33,856	100.0%

Allocation of Expenditures

a General government	1,258	3.7%
b Protection services	7,329	21.6%
c Transportation services	4,313	12.7%
d Environmental services	5,821	17.2%
e Health services	2,072	6.1%
f Social and family services	3,554	10.5%
g Recreational and cultural services	2,775	8.2%
h Planning and development	796	2.4%
i Debt principal repayment	787	2.3%
j Net transfers to capital	918	2.7%
k Net transfers to reserves and reserve funds	4,213	12.4%
l Change in current fund balance	20	0.2%
	33,856	100.0%

City of Kenora
Current Fund Operations
Comparison of Actual to Budget
(in thousands of dollars)

Category	2004 Budget	2004 Actual	Variance Fav. (Unfav.)	% Variance Fav. (Unfav.)	Variance Explanation Favourable (Unfavourable)
Revenues	\$ 30,811	\$ 32,506	\$ 1,695	5.2%	Main impacts include: <ul style="list-style-type: none"> - The City passed a 16% increase in the water & sewer rates effective 1 January 2004. The increase was accounted for in the budget, together with an estimated loss in consumption related to the higher rate structure that did not materialize. This represented an additional \$.5 million in revenues over the original budgeted amount. - The demolition of the old Town of Kenora public works facility during late 2003 / early 2004 resulted in an unusual spike in tipping fee revenue for the Kenora Area Landfill. - The City received confirmation of an unbudgeted CRF Reconciliation from the Province for 2003 and 2004. This represented an accrual of almost \$.6 million of incremental Provincial funding for 2004. - Sale of Day Care Building, not budgeted for.
Expenditures	\$ 27,050	\$ 27,918	\$ (868)	-3.1%	Main impacts include: <ul style="list-style-type: none"> - The City was significantly impacted by two major arbitration awards, for both Fire and Ambulance services. In addition, the negotiated settlement with the Police included an incremental 2% in July 2004 not originally budgeted for. - Winter control. A number of factors impacted winter control including a higher volume of snowfall during 2004, the carryover of snow volumes from three significant storms at the end of 2003, the loss of the Highway 17 E dump and consolidation of snow dumps to one location which required snow to be trucked to North end snow dump resulting in increased travel time costs, as well as the increased salt use for improved road conditions in achieving a bare asphalt surface. - Sewage Treatment Plant. Increased volumes of sludge were hauled to the Kenora Area Landfill, resulting in a significant increase in landfill disposal fees. - Storm sewer replacement across First Avenue. This was an emergency repair required when the existing pipe collapsed due to corrosion, and resulted in the excavation of the intersection of Fifth and First Avenue to replace a large portion of the storm system - from the Lake to Fifth Avenue. - Waterworks. The City experienced an increased number of water main breaks in 2004, including a number of repairs related to breaks during late 2003, which resulted in additional repairs and patching expenditures.

Capital Fund

The City's capital fund represents significant expenditures related to physical assets or large projects for the City. These expenditures generally provide the City with a long-term benefit, either through the purchase of new capital assets, improvement to existing City capital assets, or the extension of the life of existing capital assets. These expenditures are also broken out based on the same functional areas as outlined under Current Fund.

Overall capital fund expenditures in the various functional areas were \$21.4 million in 2004. Major capital works for 2004 included:

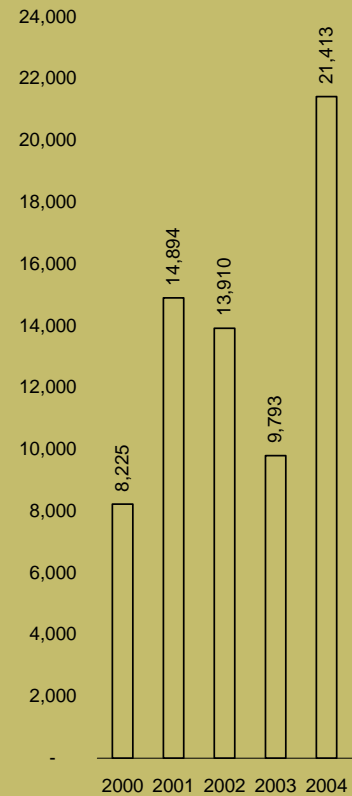
- ❑ Highway 17 East - \$3.2 million
- ❑ New Operations Facility / Relocation - \$9.5 million
- ❑ Recreation Facility Retrofit / Expansion - \$6.0 million

The Highway 17 East works represent the construction of a three lane roadway, with a center turning lane, together with sidewalk, curbing and storm sewers. The project is comprised of two separate phases. Phase I represents the area between the Fifth Street South intersection to Agur Street, and included traffic signals at both Miikana Way and Fifth Street South, as well as the development of a retention pond for controlling storm sewer run off. Phase I works commenced in 2004, with an anticipated completion date of June 2005. Phase II represents the area between the Fifth Street South intersection to the Eighth Avenue Bridge. Phase II works are planned to begin in August 2005, with an anticipated completion date in late fall 2005. The additional 2005 budget allocation for both completion of Phase I and performing Phase II works is an additional \$3.4 million.

The new operations facility / relocation project is a longer-term project which relates to the construction of a new operations facility, including the relocation and consolidation of operations from three separate public works facilities and one engineering / planning facility in late 2004. This project facilitated a new major commercial development within the City at the site of the old Town of Kenora public works location. The new development included construction of a Walmart, which opened early in 2005, together with new Canadian Tire and Marks Work Warehouse locations, both of which opened in June 2005. This project was partly financed through an internal debenture, the repayment of which is to be funded directly through increased municipal taxation revenues resulting from the new commercial development.

The recreation facility retrofit / expansion is also a longer-term project. This project represents the conversion of the recreation center into a multi-use facility, designed to serve everyone in the Kenora and Lake of the Woods area with an array of features that equip the facility to lead the community in healthy recreation and leisure changes. Some of the new features include a new family pool with slide together with family change rooms, a climbing wall and fitness area, together with space for the Seniors Centre and physiotherapy clinic. This project was substantially completed, and opened its doors to the public, in May 2005. The official opening is currently scheduled for September 2005.

City Capital Fund Expenditures (in thousands of dollars)



Financial Highlights

Capital Fund

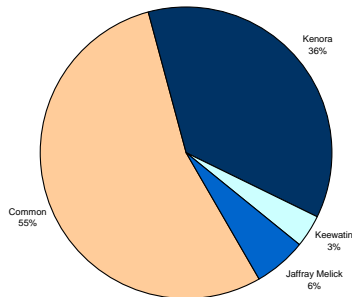
Reserves and Reserve Funds

The City maintains reserves and reserve funds designed to offset future costs related to specific expenditures, as approved by Council. While these reserves are primarily intended for capital expenditures, the City also holds significant working capital (\$1.9 million) and consolidated contingency (\$3.8 million) reserves.

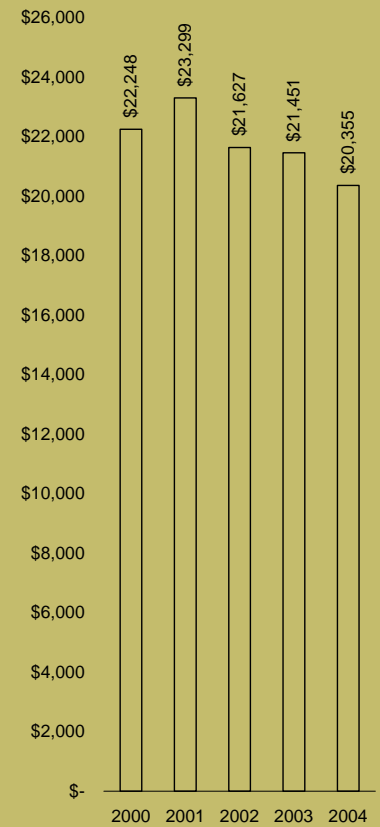
As part of the terms of the amalgamation agreement, reserves and reserve funds existing at 1 January 2000 were protected by geographic boundaries of the former Towns of Kenora, Keewatin and Jaffray Melick. This protection remained in effect until 31 December 2004. Despite the expiration of this requirement, the City continues to track any pre-amalgamation reserve monies by the separate geographic areas to which they relate. Any new reserves or reserve funds that have accumulated since the date of amalgamation are considered common reserves, and can be used throughout the new City boundaries.

The consolidated reserve and reserve fund balance as at the end of 2004 was \$20.4 million. This chart to the right outlines the consolidated reserve and reserve fund combined balances since City inception. These balances exclude any equity related to the Kenora Hydro Electric Corporation Ltd., KMTS, KMTS Net and KMTS Mobility. This equity is reflected separately as net equity in government business enterprises.

The unconsolidated, combined reserve and reserve fund balances for the City before including consolidated entities was \$19.9 million at the end of 2004. The following pie chart shows the current allocation between common reserves accumulated since City inception, and remaining balances of pre-amalgamation reserves still tracked by the geographic boundaries of the former Towns of Kenora, Keewatin and Jaffray Melick.



City Reserves and Reserve Funds
(in thousands of dollars)



Financial Highlights

Reserves and Reserve Funds

Government Business Enterprises

Government business enterprises are separate municipal operations or legal entities that report independently to a separate Board or Commission and do not rely on the City for funding. The City's combined net equity in government business enterprises as at the end of 2004 was \$39.8 million. This page includes a chart outlining the City's net equity in government business enterprises since City inception. This amount is comprised of consolidated net equity from the following:

- ❑ Kenora Hydro Electric Corporation Ltd.
- ❑ Kenora Municipal Telephone System (KMTS)
- ❑ KMTS Mobility
- ❑ KMTS Net

Kenora Hydro Electric Corporation Ltd.

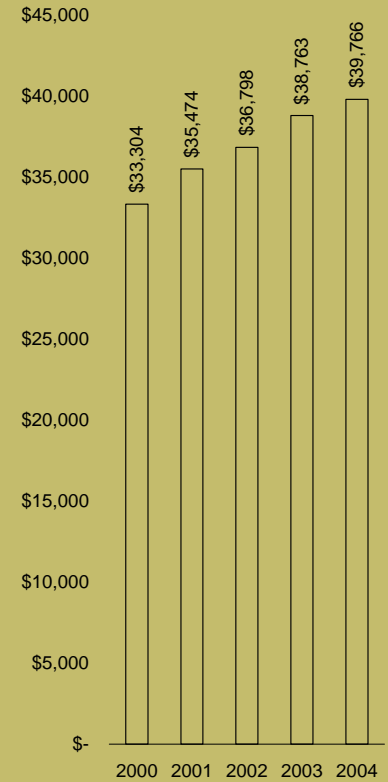
The Kenora Hydro Electric Corporation Ltd. (Kenora Hydro) is a Local Distribution Company (LDC), incorporated under the Ontario Business Corporation Act in compliance with Hydro Deregulation. Kenora Hydro provides hydro distribution services to residents within the boundaries of the former Towns of Kenora and Keewatin. Kenora Hydro operates as an independent corporation under a Board of Directors appointed by the City as the sole shareholder.

KMTS

KMTS also operates independently under a separate commission. The KMTS Commission is responsible for the operations of KMTS, KMTS Mobility and KMTS Net. These KMTS organizations provide local, long distance, fibre, wireless, mobility and internet services.

Government Business Enterprises

(in thousands of dollars)



Financial Highlights

Government Business Enterprises

Kenora Hydro Electric Corporation Ltd.

KMTS

Martin R. Nelson*
CHARTERED ACCOUNTANT

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AUDITOR'S REPORT

TO THE MEMBERS OF COUNCIL, INHABITANTS & RATEPAYERS OF THE CORPORATION OF THE CITY OF KENORA

I have audited the consolidated statement of financial position of **The Corporation of the City of Kenora** as at **31 December 2004** 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Kenora as at 31 December 2004 and the results of its financial activities and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANT

Kenora, Ontario
25 April 2005

For this communication, together with the work done to prepare this communication and for this opinion I have formed, if any, I accept and assume responsibility only to the addressee of this communication, as specified in my letter of engagement.

*denotes professional corporation

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2004

(in thousands of dollars)

	2004	2003
Financial Assets		
Cash (Note 2)	\$ 12,434	\$ 14,096
Temporary investments (Note 3)	8,020	9,803
Taxes receivable	1,039	1,272
Trade and other receivables	9,177	6,905
Inventory held for resale	13	24
Investment in government business enterprises (Note 4)	39,766	38,763
	70,449	70,863
Non Financial Assets		
Inventories of consumables and prepaids	637	559
	\$ 71,086	\$ 71,422
Liabilities		
Accounts payable and accrued liabilities	8,408	9,601
Deferred revenue (Note 5)	1,681	2,493
Long term liabilities (Note 6)	15,936	7,835
Employee benefits payable (Note 16)	1,686	1,636
	27,711	21,565
Municipal Position		
Current fund	(35)	(55)
Capital fund	(775)	(2,467)
Reserves and reserve funds	20,355	21,451
Net equity in government business enterprises (Note 4)	39,766	38,763
	59,311	57,692
Amounts to be recovered (Note 7)	(15,936)	(7,835)
	43,375	49,857
	\$ 71,086	\$ 71,422

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

for the year ended 31 December 2004

(in thousands of dollars)

	2004 Budget	2004 Actual	2003 Actual
Revenues			
Taxation	\$ 16,382	\$ 16,045	\$ 15,563
Fees and user charges	8,174	9,035	8,659
Canada grants	44	891	382
Ontario grants	9,940	9,055	5,751
Other income (Note 8)	3,429	5,501	2,044
	37,969	40,527	32,399
Expenditures			
Current Operations (Note 9)			
General government	1,437	1,258	1,213
Protection to persons and property	7,271	7,329	6,314
Transportation services	3,511	4,313	3,782
Environmental services	5,691	5,821	5,986
Health services	1,945	2,072	1,514
Social and family services	3,515	3,554	3,308
Recreation and cultural services	2,892	2,775	2,827
Planning and development	788	796	807
	27,050	27,918	25,751
Capital			
General government	263	129	138
Protection to persons and property	229	122	509
Transportation services	12,535	10,956	6,339
Environment services	2,007	312	1,433
Health services	10	9	94
Social and family services	25	25	-
Recreational and cultural services	6,966	6,222	932
Planning and development	659	3,638	348
	22,694	21,413	9,793
	49,744	49,331	35,544
Net expenditure for the year before financing and transfers	(11,775)	(8,804)	(3,145)
Financing and transfers			
New debt issued	8,139	8,887	307
Debt principal repayments	(787)	(787)	(1,512)
Net transfer from government business enterprises	1,350	1,350	1,411
	8,702	9,450	206
Net revenue (expenditure) for the year	(3,073)	646	(2,939)
Surplus/net income for the year of government business enterprises	1,305	1,003	1,871
Change in fund balances for the year	\$ (1,768)	\$ 1,649	\$ (1,068)
Fund Balances, beginning of the year	57,682	57,692	57,686
Adjustments			
PSAB recommendations - local improvement receipts	(30)	(30)	(38)
Restatement of employee future benefits repayable (Note 15)	-	-	1,112
	(30)	(30)	1,074
Fund Balances, end of the year	\$ 55,884	\$ 59,311	\$ 57,692

See Accompanying Notes

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended 31 December 2004

(in thousands of dollars)

	2004	2003
Cash flows from operating activities		
Net change in fund balances for the year	\$ 1,649	\$ (1,068)
Adjustment to beginning of year fund balances,		
Restatement of future benefits payable	-	1,112
Net change in fund balances for the year, as restated	1,649	44
Decrease (increase) in amounts to be recovered	(8,101)	1,206
Decrease in local improvements receivable	(30)	(38)
	(6,482)	1,212
Decrease in taxes receivable	233	166
Decrease (increase) in trade and other receivables	(2,272)	2,699
Decrease (increase) in other assets	(67)	115
Increase (decrease) in accounts payable and accrued liabilities	(1,193)	3,426
Increase (decrease) in employee benefits payable	50	(1,059)
Increase (decrease) in deferred revenue	(812)	838
	(10,543)	7,397
Cash flows from financing activities		
Increase (decrease) in long term liabilities	8,101	(1,206)
Cash flows from investing activities		
Increase in investment in government business enterprises	(1,003)	(1,871)
Net change in cash and equivalents	(3,445)	4,320
Cash and equivalents, beginning of year	23,899	19,579
Cash and equivalents, end of year	\$ 20,454	\$ 23,899
Represented by		
Cash	12,434	14,096
Temporary Investments	8,020	9,803
	20,454	23,899

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation of the City of Kenora 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 City are as follows:

a) Basis of Accounting

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available; 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.

b) Basis of Consolidation

The consolidated financial 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 the Municipality. All interfund assets, liabilities, revenues and expenditures have been eliminated on consolidation.

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

- Kenora Handi Transit
- Kenora Public Library
- Lake of the Woods Cemetery
- Lake of the Woods Museum

The Provincial Offences Fund is a government partnership where the municipality has shared control over the board / entity. The municipality's pro rata share of the assets, liabilities, revenues and expenditures are reflected in the financial statements using the proportionate consolidation method. The municipality's proportionate interest of 72.26% of the Provincial Offences Fund is reflected in the consolidated financial statements.

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:

- Kenora Hydro Electric Corporation Ltd.
- Kenora Municipal Telephone System
- KMTS Mobility
- KMTS Net

c) Use of Estimates

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Temporary Investments

Temporary investments are recorded at the lower of cost and market value.

e) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on the average cost basis.

f) Capital Assets

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.

g) Amounts to be Recovered

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.

h) 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.

i) Trust Funds

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

j) Deferred Revenue

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

2. CASH

	2004	2003
Unrestricted	\$ 10,092	\$ 11,792
Restricted	2,342	2,304
	\$ 12,434	\$ 14,096

3. TEMPORARY INVESTMENTS

	Market Value	2004	2003
Unrestricted	\$ 3,236	\$ 3,236	\$ 2,155
Restricted	4,784	4,784	7,648
	\$ 8,020	\$ 8,020	\$ 9,803

Investments have been recorded at the lower of cost and market value at the end of the year

4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

The Kenora Hydro Electric Corporation Ltd., the Kenora Municipal Telephone System, KMTS Mobility and KMTS Net are owned and controlled by the City of Kenora and as business enterprises of the City, are accounted for on a modified equity basis in these financial statements. The following information provides condensed supplementary information for the enterprises for the year ended 31 December 2004.

i) Financial Position, Results of Operations and Changes in Net Assets

	2004	2003
Current assets	\$ 12,555	\$ 21,543
Long term investments	15,918	7,023
Capital assets	15,278	15,894
Goodwill	2,794	2,884
Total Assets	46,545	47,344
Current liabilities	3,412	5,184
Long term liabilities	3,367	3,397
Total Liabilities	6,779	8,581
Net Assets	39,766	38,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

4. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES - continued**i) Financial Position, Results of Operations and Changes in Net Assets - continued**

	2004	2003
Revenues	21,615	19,779
Expenses	17,404	16,497
Net Income	4,211	3,282
Contribution to City of Kenora	(3,208)	(1,411)
	1,003	1,871
Net assets, beginning of year	38,763	36,892
Net assets, end of year	\$ 39,766	\$ 38,763

ii) Balances with other organizations

Due from (to) City of Kenora Revenue Fund	\$ (1,677)	\$ (104)
Long term investments		
Debentures - City of Kenora Capital Fund	\$ 15,726	\$ 7,526
Demand note payable, City of Kenora	\$ 3,069	\$ 3,069

iii) Transactions with other organizations

Administration charges by City of Kenora Revenue Fund	\$ 1,647	\$ 1,529
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5. DEFERRED REVENUE

	2004	2003
Government of Canada - Wharf Maintenance	\$ 1,398	\$ 1,440
Other deferred revenue	283	1,053
	\$ 1,681	\$ 2,493

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

6. LONG TERM LIABILITIES

	2004	2003
3.3% debenture payable, maturing 2020	\$ 8,887	\$ -
3.55% debenture payable, maturing 2015	6,736	7,229
Other debentures, interest rates 3.55% to 8.125%, maturing 2005 and 2006	313	606
	\$ 15,936	\$ 7,835

Principal payments for the next five fiscal years are as follows:

2005	714
2006	1,107
2007	1,031
2008	1,066
2009	1,103

7. AMOUNTS TO BE RECOVERED

	2004	2003
Capital outlay financed by long term liabilities and to be recovered in future years	\$ 15,936	\$ 7,835

8. OTHER INCOME

	2004	2003
Penalties and interest on taxation	\$ 283	\$ 294
Investment income	528	942
Donations	203	110
Sale of land and miscellaneous	4,487	698
	\$ 5,501	\$ 2,044

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

9. EXPENDITURES BY OBJECT

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

	2004	2003
Salaries, wages and employee benefits	\$ 13,864	\$ 12,997
Materials	6,328	6,121
Contracted services	4,043	3,298
Rents and financial expenses	241	203
Interest on long term debt	284	346
Contributions to other organizations	3,158	2,786
	\$ 27,918	\$ 25,751

10. PENSION AGREEMENTS

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 258 members of its staff. This 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. The amount contributed to OMERS for 2004 was \$800 (2003 - \$227).

11. PUBLIC SECTOR SALARY DISCLOSURE

For 2004, the following employee was paid a salary, as defined in the Public Sector Salary Disclosure Act, 1996 of \$100,000 or more.

Name	Position	Salary Paid	Taxable Benefits
William Preisentanz	City Chief Administrator Officer	\$ 119	\$ 1

12. BUDGET AMOUNTS

Budget data for 2004 included in these consolidated financial statements represents budgets approved by Council.

13. OPERATIONS OF SCHOOL BOARDS

During the year, taxation revenue of \$6,894 was raised and remitted to the school boards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

14. TRUST FUNDS

The trust funds administered by the municipality 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, 2004, the trust funds balances are as follows:

	2004	2003
Lake of the Woods Cemetery		
Land Fund	\$ 15	\$ 14
Perpetual Care Fund	385	368
Langford Estate	45	44
	\$ 445	\$ 426

15. EMPLOYEE FUTURE BENEFITS

The City of Kenora pays certain health and dental benefits on behalf of its retired employees. The City recognizes post-retirement costs in the period in which the employees rendered the services. The expense for the twelve months ended 31 December 2004 was \$60 (2003 - \$72), and the resulting future employee benefit liability was \$1,801 at 31 December 2004 for the City and its business enterprises.

The main assumptions employed for the calculation of employee future benefits are as follows:

a) Interest (Discount) Rate

The interest (discount) rate used for fiscal December 31, 2004 expense and funded status is 6%.

b) Salary Levels

Future general salary and wage levels were assumed to increase at 3% per annum.

c) Medical Costs

Medical costs were assumed to increase 10% in 2004 grading down to 5% in 2013.

d) Dental Costs

Dental costs were assumed to increase at 5% per year.

16. EMPLOYEE BENEFITS PAYABLE

	2004	2003
Employee Future Benefits	\$ 1,530	\$ 1,472
Vested sick leave	156	164
	\$ 1,686	\$ 1,636

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

(in thousands of dollars)

17. CONTINGENCIES

At 31 December 2004, the Corporation of the City of Kenora has guaranteed bank indebtedness of the Kenora Golf and Country Club in the amount of \$526. The maximum amount of the guarantee is \$600.

The Corporation of the City of Kenora is liable for its pro-rata share totalling \$1,712 (2003 - \$630) of the cumulative operating deficit of the District of Kenora Home for the Aged. The Home's management expects to recover this deficit from projected future operating surpluses. A billing to municipalities for their respective share of the deficit is not anticipated.

The Corporation of the City of Kenora has several claims and possible claims pending against it. The outcome of these claims is not yet determined and no amounts have been recorded in the accounts relating to these claims and possible claims.

18. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES

The Ontario Environmental Protection Act set out regulatory requirements for the closure and maintenance of landfill sites. Under this Act, the City is required to provide for closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided over the estimated remaining life of active landfill sites based upon usage.

The City has one inactive landfill site. It has previously incurred all costs relating to the closure and retains responsibility for all costs relating to post-closure care which are recorded annually as they are incurred.

The City maintains one active landfill site which has an estimated remaining useful life of approximately 60 years. No amounts have been accrued relating to the closure and post-closure care for this landfill site.

SCHEDULE OF CURRENT FUND OPERATIONS

for the year ended 31 December 2004

(in thousands of dollars)

	2004 Budget	2004 Actual	2003 Actual
Revenues			
Taxation	\$ 16,382	\$ 16,045	\$ 15,563
Fees and user charges	8,174	9,035	8,659
Canada grants	44	39	56
Ontario grants	5,267	5,873	5,289
Other	944	1,514	1,393
	30,811	32,506	30,960
Expenditures			
General government	1,437	1,258	1,213
Protection services	7,271	7,329	6,314
Transportation services	3,511	4,313	3,782
Environmental services	5,691	5,821	5,986
Health services	1,945	2,072	1,514
Social and family services	3,515	3,554	3,308
Recreation and cultural services	2,892	2,775	2,827
Planning and development	788	796	807
	27,050	27,918	25,751
Net revenue for the year	3,761	4,588	5,209
Financing and transfers			
Debt principal repayments	(787)	(787)	(1,513)
Transfers to capital fund	(2,064)	(918)	(1,681)
Transfers to reserves and reserve funds	(2,260)	(4,735)	(3,805)
Transfers from reserves and reserve funds	-	522	383
Net transfer from government business enterprises	1,350	1,350	1,411
	(3,761)	(4,568)	(5,205)
Change in fund balance for the year	-	20	4
Current fund, beginning of year	-	(55)	(58)
Adjustment to current fund balance, beginning of the year, restatement of employee future benefits payable	-	-	(1)
Adjusted current fund, beginning of year	-	(55)	(59)
Current fund, end of the year	\$ -	\$ (35)	\$ (55)
Analyzed as follows:			
City of Kenora		8	7
Kenora Handi Transit		7	2
Lake of the Woods Museum		10	11
Kenora Public Library		(60)	(75)
		(35)	(55)

SCHEDULE OF CAPITAL FUND OPERATIONS

for the year ended 31 December 2004

(in thousands of dollars)

	2004 Budget	2004 Actual	2003 Actual
Revenues			
Canada grants	-	\$ 852	\$ 326
Ontario grants	4,673	3,182	462
Other	2,070	3,572	347
	6,743	7,606	1,135
Expenditures			
General government	263	129	138
Protection services	229	122	509
Transportation services	12,535	10,956	6,339
Environmental services	2,007	312	1,433
Health services	10	9	94
Social and family services	25	25	-
Recreation and cultural services	6,966	6,222	932
Planning and development	659	3,638	348
	22,694	21,413	9,793
Net expenditures for the year	(15,951)	(13,807)	(8,658)
Financing and transfers			
New debt issued	8,139	8,887	307
Transfers to reserves and reserve funds	-	(7)	(408)
Transfers from current fund operations	2,064	918	1,681
Transfers from reserves and reserve funds	5,748	5,731	5,423
	15,951	15,529	7,003
Change in fund balance for the year	-	1,722	(1,655)
Capital fund, beginning of the year	(2,856)	(2,856)	(1,201)
Adjustment for Public Sector Accounting Recommendations			
Opening balances - local improvements receivable	389	389	427
Activity for the year - local improvements receipts	(30)	(30)	(38)
	359	359	389
Adjusted capital fund balance, beginning of year	(2,497)	(2,497)	(812)
Capital fund, end of the year	(2,497)	\$ (775)	\$ (2,467)

SCHEDULE OF RESERVES AND RESERVE FUNDS

for the year ended 31 December 2004

(in thousands of dollars)

	2004 Budget	2004 Actual	2003 Actual
Revenue	\$ 419	\$ 419	\$ 392
Expenditures	4	4	87
	415	415	305
Net transfers from (to) other funds			
Transfer from current fund operations	2,260	4,735	3,805
Transfer to capital fund operations	(5,748)	(5,724)	(5,015)
Transfer to current fund operations	-	(522)	(383)
	(3,488)	(1,511)	(1,593)
Change in balance for the year	(3,073)	(1,096)	(1,288)
Reserves and reserve funds, beginning of the year	21,451	21,451	21,626
Adjustment to balance, beginning of the year, restatement of employee future benefits payable (Note 15)	-	-	1,113
Adjusted reserves and reserve funds, beginning of year	21,451	21,451	22,739
Reserves and reserve funds, end of year	\$ 18,378	\$ 20,355	\$ 21,451

Analyzed as follows:

Reserves and reserve funds set aside for specific purpose by Council

Working capital	1,911	1,711
Contingencies	3,823	3,537
Capital expenditure purposes	12,670	14,233
Replacement of equipment	1,133	1,248
Library	38	38
Museum	592	574
Handi Transit	44	37
Cemetery Columbarium	32	11
Current expenditure purposes	112	62
Reserves and reserve funds, end of year	20,355	21,451