



The City of Kenora, Ontario, Canada

Annual Report
2005



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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

City CAO and Managers

Not Shown:

- ❑ Bill Preisentanz, CAO
- ❑ Karen Brown, Manager of Finance & Administration
- ❑ Warren Brinkman, Manager of Emergency Services
- ❑ Rick Perchuk, Manager of Operations
- ❑ Barry Reynard, Manager of Community Services

Introductory Information

City Council

City CAO and Managers

Mayor's Message

Kenora is a picturesque waterfront community, nestled on the shores of famous Lake of the Woods. Our City has a rich cultural history that our residents are proud of. The main economic sectors within Kenora include tourism and forestry related businesses.

The City continued to face challenges in 2005. Most significantly, the City lost one of its major employers and taxpayers through the permanent closure of the local Abitibi Consolidated Inc. mill, resulting in significant economic and financial impacts to the City. Coupled with mounting fiscal challenges relating to downloaded services, an aging infrastructure, as well as concerns over the long-term stability of the City's Provincial funding, the City may be facing some of its greatest challenges yet.

As a community, we are committed to continuous improvement philosophy. We believe that the strong team we have developed for the City will provide us with the ability to face these challenges head on and make us stronger as a City. 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. Council and I remain committed to making Kenora the preferred place to live and visit.

We believe that, together, there is no challenge so great that it cannot be overcome.



Mayor David Canfield

CAO's Message

For 2005, the City faced several challenges, the most notable of which was the closure of the local Abitibi Consolidated mill in October 2005, one of the City's major taxpayers and employers. In response, the City increased its focus on economic development, creating both an Economic Development Officer position for the City, as well as an Economic Development committee. We believe this new direction will help to further diversify the local economy and better position the City to face the challenges ahead.

As with many Ontario municipalities, Kenora continued to face mounting fiscal challenges in 2005. The struggle to maintain services at a level our citizens have come to expect and rely upon continues to be 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. 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 provide highlights of our activities for 2005.



Bill Preisenz
CAO

Introductory Information

Mayor's Message

CAO's Message

City's Strategic Plan

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.

During the years shortly after amalgamation, and 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 was 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."

Based on this, during late 2004, Council and senior staff met to review and update the City's Strategic Plan. The City's new strategic plan, Kenora Vision 2009, was unveiled during 2005. The updated plan was intended to recognize new challenges facing the City, and set out related goals as appropriate to help the City meet those challenges. The City will continue to both work towards the directions as outlined within its strategic planning document and amend the plan as appropriate to more accurately reflect new challenges and opportunities as we move into the future.

Guiding Principles for the Corporation

Kenora Vision 2009 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 continues to be a significant component of the City’s economic base, despite the significant challenges currently facing this sector. The City currently is pleased to be home to a Trus Joist strand board mill, as well as 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.

Interesting Statistics – “2005 by the Numbers”

Kenora’s Population	13,807
Household Count	7,270
Total Hectares in the Municipality	24,939 hectares
Total Property Assessment	\$ 1.21 billion
Kilometers of Water Main	131.0 km
Kilometers of Sewer Main	136.5 km
Kilometers of Roads	
Asphalt	125.0 km
Surface Treatment	37.0 km
Gravel	161.0 km
Tonnes of Garbage Disposed of	17,846.1 tonnes
Trees & Shrubs Planted	68
Fire Calls for Services	753
Calls for Police Services	
Kenora Police Services	12,800
Ontario Provincial Police	2,051
Dogs Licensed	760
Bears Trapped & Released	97
City Business Licences Held	389
Business Licences Issued in 2005	35
City Employees	245.0 FTE's
Employees Receiving First Aid / CPR Training	36

Introductory Information

City Profile

Interesting Statistics – “2005 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 300 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

2005 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 2005 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 2005 current fund revenues were \$33.6 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 \$35.0 million. Taxation continues to be the primary income source for the City's current fund, representing 48.6% of all total current revenues. Fees and user charges represent an additional 28.5% of total current revenues. An analysis of current revenues by source, as well as the final current fund balance change, has been included on the following page.

Overall current fund expenditures in the various functional areas listed above were \$29.4 million in 2005, before debt principal repayment and net transfers to capital and reserve funds. The consolidated current fund balance decreased slightly in 2005. An analysis of the current fund expenditures by function, including debt repayment, net transfers to capital and reserve funds has also been included on the following page. The next page contains some overall variance analysis of the 2005 actual operating results as compared to the original budget estimates.

Financial Highlights

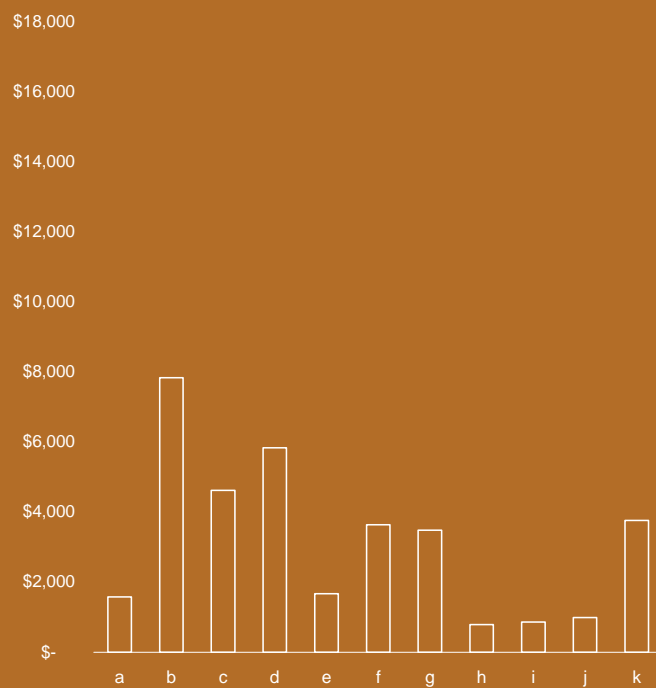
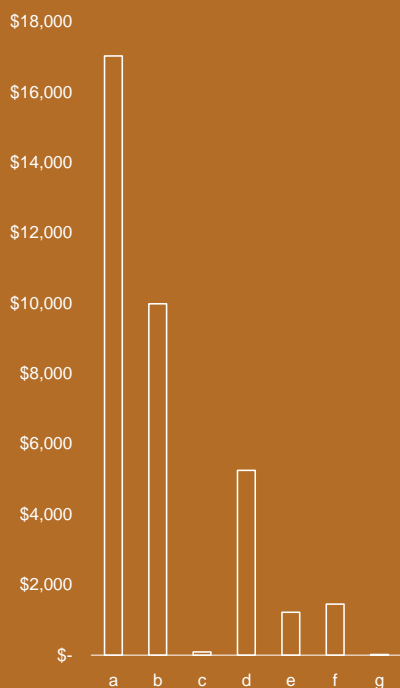
2005 Financial Information

Current Fund

Current Fund

Source of Revenues / Allocation of Expenditures
2005 Actual Results (in thousands of dollars)

Financial Highlights



Source of Income Dollar

a Taxation	\$ 17,028	48.6%
b Fees and user charges	9,986	28.5%
c Canada grants	93	0.3%
d Ontario grants	5,252	15.0%
e Other	1,216	3.5%
f Government business enterprise	1,450	4.1%
g Change in current fund balance	22	0.0%
	\$ 35,047	100.0%

Allocation of Expenditures

a General government	1,579	4.5%
b Protection services	7,834	22.4%
c Transportation services	4,618	13.2%
d Environmental services	5,833	16.6%
e Health services	1,670	4.8%
f Social and family services	3,634	10.4%
g Recreational and cultural services	3,480	9.9%
h Planning and development	790	2.3%
i Debt principal repayment	864	2.5%
j Net transfers to capital	988	2.8%
k Net transfers to reserves and reserve funds	3,757	10.6%
	35,047	100.0%

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

Category	2005 Budget	2005 Actual	Variance Fav. (Unfav.)	% Variance Fav. (Unfav.)	Variance Explanation Favourable (Unfavourable)
Revenues	\$ 32,595	\$ 33,575	\$ 980	2.9%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - The addition of a new major commercial development to the City's tax base through supplementaries, not budgeted for in 2005. - Remaining, unbudgeted supplementary taxes on residential properties were in excess of unbudgeted tax write offs. - Higher than anticipated results relating to City user fees, in particular fees for City utilities, including the water & sewer user fees, as well as those for the City's transfer facility. - Higher than expected recoveries relating to recycling.
Expenditures	\$ 28,225	\$ 29,438	\$ (1,213)	-4.1%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - Mayor & Council. An unbudgeted contribution to the Kenora and Lake of the Woods Regional Community Foundation for approximately \$287K in 2005. This contribution was funded from City contingency reserves. - Kenora Police Services. Higher than anticipated wage & benefits costs related to the Kenora Police Services (KPS), primarily due to overtime costs incurred in excess of those budgeted for. This was due partly to investigative requirements with regards to serious offences, including a homicide during the fall of 2005. In addition, under the adequacy standards, KPS was required to participate in Immediate Rapid Deployment (IRD) training for each officer in 2005. KPS, in partnership with the OPP, set up training on both IRD and Block Training. Combined, these two training requirements resulted in approximately 6 days of training per officer, the majority of which was required to be accommodated through overtime. These training requirements were not originally anticipated in the 2005 budget, but were required for KPS in order to meet the Provincial legislated standards. - Kenora Police Services Board. Higher than anticipated legal costs for the Kenora Police Services Board due to a lengthy disciplinary proceeding arising out of the Carambetsos prosecution. - Roads maintenance. Higher than anticipated roads related wages & benefits costs. - Winter control. Higher than anticipated costs related to winter control. This occurred partly due to an above average snowfall in 2005, resulting in increased snow plowing and removal costs. In addition, the milder winter weather caused increased melting and related icing conditions to both City streets and sidewalks. This icing resulted in increased sanding and salting requirements. - New Operations Facility. A number of factors impacted costs related to the new facility. The most significant was the payment of interest related to the construction debt used to finance this project. This payment was funded through the incremental tax revenues generated through a tax supplementary on the new commercial development at the former public works property. In addition, 2005 represented the first year of operations, and no history existed to accurately predict operating expenditures. City experienced higher than anticipated costs in materials & supplies, rental of own equipment, telephone and utilities and work order charges. - Ambulance. The City received a substantial refund related to land ambulance as a result of an amendment to the previous provincial funding formula in 2005 and the KDSB's ability to accrue a deficit in land ambulance relating to provincial funding not yet received, resulting in this line being significantly under budget in 2005.

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 \$10.4 million in 2005. Major capital works for 2005 included:

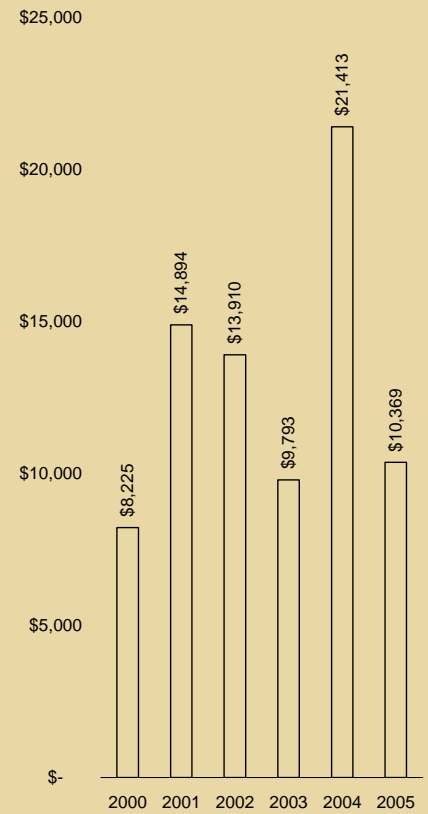
- ❑ Highway 17 E - \$2.5 million
- ❑ Recreation Facility Retrofit / Expansion Completion - \$2.5 million

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 and were completed during 2005. Phase II represents the area between the Fifth Street South intersection to the Eighth Avenue Bridge. Phase II works commenced 2005 and are anticipated to be completed during 2006. The 2006 budget allocation for the completion of Phase II works is an additional \$.6 million.

The recreation facility retrofit / expansion is 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 chart on this page shows gross capital fund expenditures for the City during the six years since amalgamation.

City Capital Fund Expenditures (in thousands of dollars)



Financial Highlights

Capital Fund

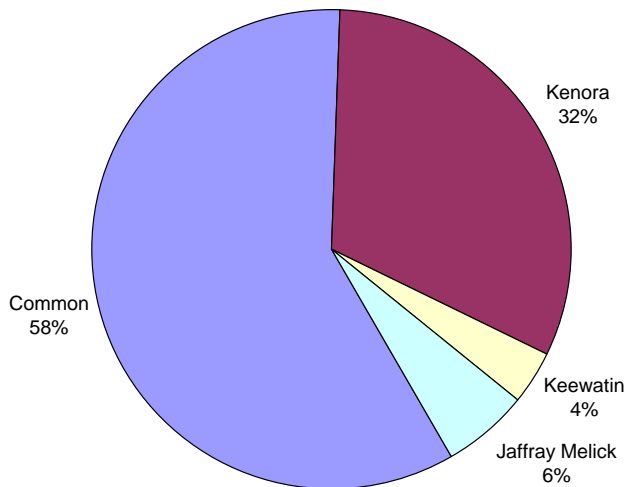
Reserves and Reserve Funds

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 (\$2.1 million) and consolidated contingency (\$3.6 million) reserves.

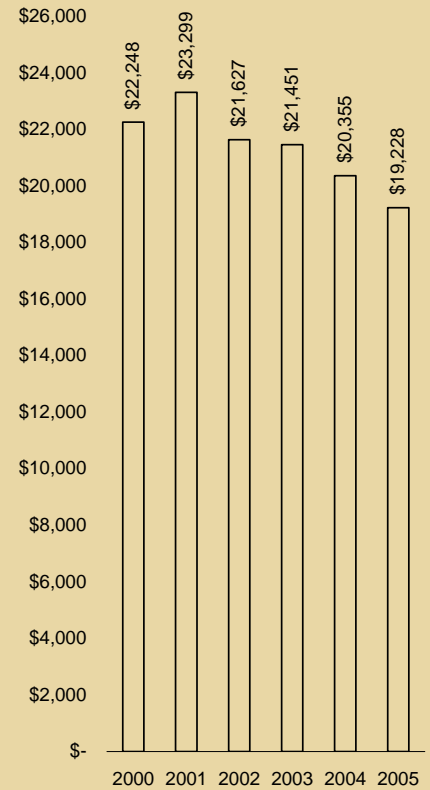
As part of the terms of the amalgamation agreement, reserves and reserve funds existing at 1 January 2000 were protected by geographic boundaries of the former Towns of Kenora, Keewatin and Jaffray Melick. This protection remained in effect until 31 December 2004. Despite the expiration of this requirement, 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 2005 was \$19.2 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 \$18.7 million at the end of 2005. 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 2005 was \$44.5 million. This page includes a chart outlining the City's comparative 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.

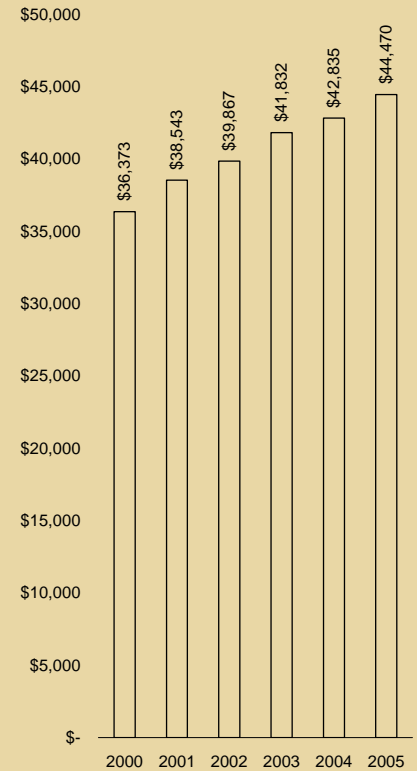
The Kenora Hydro Electric Corporation Ltd. (Kenora Hydro) is a Local Distribution Company (LDC), incorporated under the Ontario Business Corporation Act in compliance with Hydro Deregulation. Kenora Hydro provides hydro distribution services to residents within the boundaries of the former Towns of Kenora 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
Professional Corporation
CHARTERED ACCOUNTANTS

421 Second Street South
Kenora, Ontario P9N 1G7
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AUDITOR'S REPORT

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

We have audited the consolidated statement of financial position of **The Corporation of the City of Kenora** as at **31 December 2005** 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 Kenora as at 31 December 2005 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.



PROFESSIONAL CORPORATION
CHARTERED ACCOUNTANTS

Kenora, Ontario
9 May 2006

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2005

(in thousands of dollars)

	2005	2004
Financial Assets		
Cash (Note 2)	\$ 13,496	\$ 12,434
Temporary investments (Note 3)	8,183	8,020
Taxes receivable	652	1,039
Trade and other receivables	7,560	9,177
Inventory held for resale	20	13
Long term investments	228	-
Investment in government business enterprises (Note 4)	44,470	42,835
	74,609	73,518
Non Financial Assets		
Inventories of consumables and prepaids	732	637
	\$ 75,341	\$ 74,155
Liabilities		
Accounts payable and accrued liabilities	\$ 7,367	\$ 8,408
Deferred revenue (Note 5)	2,504	1,681
Long term liabilities (Note 6)	17,330	15,936
Employee benefits payable (Note 16)	1,886	1,686
	29,087	27,711
Municipal Position		
Current fund	(57)	(35)
Capital fund	(57)	(775)
Reserves and reserve funds	19,228	20,355
Net equity in government business enterprises (Note 4)	44,470	42,835
	63,584	62,380
Amounts to be recovered (Note 7)	(17,330)	(15,936)
	46,254	46,444
	\$ 75,341	\$ 74,155

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

for the year ended 31 December 2005

(in thousands of dollars)

	2005 Budget	2005 Actual	2004 Actual
Revenues			
Taxation	\$ 16,712	\$ 17,028	\$ 16,045
Fees and user charges	9,516	9,986	9,035
Canada grants	44	322	891
Ontario grants	6,339	6,515	9,055
Other income (Note 8)	1,874	2,714	5,501
	<u>34,485</u>	<u>36,565</u>	<u>40,527</u>
Expenditures			
Current Operations (Note 9)			
General government	1,434	1,579	1,258
Protection to persons and property	7,531	7,834	7,329
Transportation services	3,536	4,618	4,313
Environmental services	5,879	5,833	5,821
Health services	2,105	1,670	2,072
Social and family services	3,570	3,634	3,554
Recreation and cultural services	3,409	3,484	2,775
Planning and development	765	790	796
	<u>28,229</u>	<u>29,442</u>	<u>27,918</u>
Capital			
General government	178	197	129
Protection to persons and property	253	189	122
Transportation services	4,034	2,691	10,956
Environment services	2,736	1,377	312
Health services	29	31	9
Social and family services	-	53	25
Recreational and cultural services	2,019	2,944	6,222
Planning and development	3,478	2,887	3,638
	<u>12,727</u>	<u>10,369</u>	<u>21,413</u>
	<u>40,956</u>	<u>39,811</u>	<u>49,331</u>
Net expenditure for the year before financing and transfers	(6,471)	(3,246)	(8,804)
Financing and transfers			
New debt issued	862	2,258	8,887
Debt principal repayments	(879)	(864)	(787)
Net transfer from government business enterprises	1,450	1,450	1,350
	<u>1,433</u>	<u>2,844</u>	<u>9,450</u>
Net revenue (expenditure) for the year	(5,038)	(402)	646
Surplus/net income for the year of government business enterprises	1,981	1,635	1,003
Change in fund balances for the year	\$ (3,057)	\$ 1,233	\$ 1,649
Fund Balances, beginning of the year	62,380	62,380	60,761
Adjustments			
PSAB recommendations - local improvement receipts	(29)	(29)	(30)
Fund Balances, end of the year	\$ 59,294	\$ 63,584	\$ 62,380

See Accompanying Notes

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended 31 December 2005

(in thousands of dollars)

	2005	2004
Cash flows from operating activities		
Net change in fund balances for the year	\$ 1,233	\$ 1,649
Increase in amounts to be recovered	(1,394)	(8,101)
Decrease in local improvements receivable	(30)	(30)
	<u>(191)</u>	<u>(6,482)</u>
Decrease in taxes receivable	387	233
Decrease (increase) in trade and other receivables	1,617	(2,272)
Increase in other assets	(330)	(67)
Decrease in accounts payable and accrued liabilities	(1,040)	(1,193)
Increase in employee benefits payable	200	50
Increase (decrease) in deferred revenue	823	(812)
	<u>1,466</u>	<u>(10,543)</u>
Cash flows from financing activities		
Increase in long term liabilities	1,394	8,101
Cash flows from investing activities		
Increase in investment in government business enterprises	(1,635)	(1,003)
Net change in cash and equivalents	<u>1,225</u>	<u>(3,445)</u>
Cash and equivalents, beginning of year	<u>20,454</u>	<u>23,899</u>
Cash and equivalents, end of year	<u>\$ 21,679</u>	<u>\$ 20,454</u>
Represented by		
Cash	\$ 13,496	\$ 12,434
Temporary Investments	8,183	8,020
	<u>\$ 21,679</u>	<u>\$ 20,454</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2005

(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 72.02% 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 2005

(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 2005

(in thousands of dollars)

2. CASH

	2005	2004
Unrestricted	\$ 10,832	\$ 10,092
Restricted	2,664	2,342
	\$ 13,496	\$ 12,434

3. TEMPORARY INVESTMENTS

	Market Value	2005	2004
Unrestricted	\$ 4,289	\$ 4,289	\$ 3,236
Restricted	3,894	3,894	4,784
	\$ 8,183	\$ 8,183	\$ 8,020

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 2005.

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

	2005	2004
Current assets	\$ 13,615	\$ 12,555
Long term investments	17,106	15,918
Capital assets	14,840	15,278
Goodwill	2,794	2,794
Total Assets	48,355	46,545
Current liabilities	3,255	3,412
Long term liabilities	630	298
Total Liabilities	3,885	3,710
Net Assets	44,470	42,835

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2005

(in thousands of dollars)

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

	2005	2004
Revenues	\$ 21,909	\$ 21,615
Expenses	18,506	17,404
Net Income	3,403	4,211
Contribution to City of Kenora	(1,768)	(3,208)
	1,635	1,003
Net assets, beginning of year	42,835	41,832
Net assets, end of year	\$ 44,470	\$ 42,835

ii) Balances with other organizations

Due to City of Kenora Revenue Fund	\$ (62)	\$ (1,677)
Long term investments		
Debentures - City of Kenora Capital Fund	\$ 17,220	\$ 15,726
Demand note payable, City of Kenora	\$ 3,069	\$ 3,069

iii) Transactions with other organizations

Administration charges by City of Kenora	\$ 1,635	\$ 1,647
Interest charged by KMTS Mobility	(533)	(260)
	\$ 1,102	\$ 1,387

The prior year's opening balance of the Investment in Government Business Enterprises has been restated to reflect a change in the classification of the interfund balance.

Purchases from and sales to the City of Kenora and its business enterprises in the normal course of operations are recorded at amounts approximating those charged to unrelated parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2005

(in thousands of dollars)

5. DEFERRED REVENUE

	2005	2004
Government of Canada - Wharf Maintenance	\$ 1,358	\$ 1,398
Other deferred revenue	1,146	283
	\$ 2,504	\$ 1,681

6. LONG TERM LIABILITIES

	2005	2004
3.3% debenture payable, maturing 2025	\$ 9,045	\$ 8,887
3.55% debenture payable, maturing 2015	6,225	6,736
4.05% debenture payable, maturing 2025	1,950	-
Other debentures, interest rates 3.55% to 8.125%, maturing 2005 and 2006	110	313
	\$ 17,330	\$ 15,936

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

2006	1,031
2007	953
2008	987
2009	1,021
2010	1,057

7. AMOUNTS TO BE RECOVERED

	2005	2004
Capital outlay financed by long term liabilities and to be recovered in future years	\$ 17,330	\$ 15,936

8. OTHER INCOME

	2005	2004
Penalties and interest on taxation	\$ 259	\$ 283
Investment income	759	528
Donations	231	203
Sale of land and miscellaneous	1,465	4,487
	\$ 2,714	\$ 5,501

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2005

(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:

	2005	2004
Salaries, wages and employee benefits	\$ 14,551	\$ 13,864
Materials	7,075	6,328
Contracted services	3,973	4,043
Rents and financial expenses	240	241
Interest on long term debt	546	284
Contributions to other organizations	3,057	3,158
	\$ 29,442	\$ 27,918

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 2005 was \$781 (2004 - \$800).

11. PUBLIC SECTOR SALARY DISCLOSURE

For 2005, the following employees were 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 Administrative Officer	\$ 118	\$ 1
Karen Brown	Manager of Finance and Administration	\$ 101	\$ 1

12. BUDGET AMOUNTS

Budget data for 2005 included in these consolidated financial statements represents budgets approved by Council.

13. OPERATIONS OF SCHOOL BOARDS

During the year, taxation revenue of \$7,312 was raised and remitted to the school boards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2005

(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:

	2005	2004
Lake of the Woods Cemetery		
Land Fund	\$ 17	\$ 15
Perpetual Care Fund	403	385
Langford Estate	46	45
	\$ 466	\$ 445

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 2005 was \$55 (2004 - \$60), and the resulting future employee benefit liability was \$1,866 at 31 December 2005 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, 2005 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 2005 grading down to 5% in 2013.

d) Dental Costs

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

16. EMPLOYEE BENEFITS PAYABLE

	2005	2004
Employee Future Benefits	\$ 1,594	\$ 1,530
Vested sick leave	132	156
Lieu time accrual	160	-
	\$ 1,886	\$ 1,686

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2005

(in thousands of dollars)

17. CONTINGENCIES

At 31 December 2005, the Corporation of the City of Kenora has guaranteed bank indebtedness of the Kenora Golf and Country Club in the amount of \$486. The maximum amount of the guarantee is \$600.

The Corporation of the City of Kenora is liable for its pro-rata share totalling \$2,269 (2004 - \$1,712) 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 present value of the estimated total expenditures for closure & post-closure care has been estimated at \$47 at December 31, 2005. This amount has been accrued in the financial statements.

The City maintains one active landfill site which has an estimated remaining useful life of approximately 60 years. Based on an environmental assessment performed by consultants no amounts are required to be accrued relating to the closure & post-closure care for this landfill site.

SCHEDULE OF CURRENT FUND OPERATIONS

for the year ended 31 December 2005

(in thousands of dollars)

	2005 Budget	2005 Actual	2004 Actual
Revenues			
Taxation	\$ 16,712	\$ 17,028	\$ 16,045
Fees and user charges	9,515	9,986	9,035
Canada grants	44	93	39
Ontario grants	5,243	5,252	5,873
Other	1,081	1,216	1,514
	32,595	33,575	32,506
Expenditures			
General government	1,434	1,579	1,258
Protection services	7,531	7,834	7,329
Transportation services	3,537	4,618	4,313
Environmental services	5,879	5,833	5,821
Health services	2,105	1,670	2,072
Social and family services	3,570	3,634	3,554
Recreation and cultural services	3,404	3,480	2,775
Planning and development	765	790	796
	28,225	29,438	27,918
Net revenue for the year	4,370	4,137	4,588
Financing and transfers			
Debt principal repayments	(879)	(864)	(787)
Transfers to capital fund	(1,975)	(988)	(918)
Transfers to reserves and reserve funds	(2,970)	(4,081)	(4,735)
Transfers from reserves and reserve funds	4	324	522
Net transfer from government business enterprises	1,450	1,450	1,350
	(4,370)	(4,159)	(4,568)
Change in fund balance for the year	-	(22)	20
Current fund, beginning of year	-	(35)	(55)
Current fund, end of the year	\$ -	\$ (57)	\$ (35)
Analyzed as follows:			
City of Kenora	\$ 9	\$ 8	
Kenora Handi Transit	2	7	
Lake of the Woods Museum	10	10	
Kenora Public Library	(78)	(60)	
	\$ (57)	\$ (35)	

SCHEDULE OF CAPITAL FUND OPERATIONS

for the year ended 31 December 2005

(in thousands of dollars)

	2005 Budget	2005 Actual	2004 Actual
Revenues			
Canada grants	\$ -	\$ 229	\$ 852
Ontario grants	1,096	1,263	3,182
Other	659	1,363	3,572
	1,755	2,855	7,606
Expenditures			
General government	178	197	129
Protection services	253	189	122
Transportation services	4,034	2,691	10,956
Environmental services	2,736	1,377	312
Health services	28	31	9
Social and family services	-	53	25
Recreation and cultural services	2,019	2,944	6,222
Planning and development	3,478	2,887	3,638
	12,726	10,369	21,413
Net expenditures for the year	(10,971)	(7,514)	(13,807)
Financing and transfers			
New debt issued	862	2,258	8,887
Transfers to reserves and reserve funds	-	-	(7)
Transfers from current fund operations	1,975	988	918
Transfers from reserves and reserve funds	8,134	5,015	5,731
	10,971	8,261	15,529
Change in fund balance for the year	-	747	1,722
Capital fund, beginning of the year	(1,134)	(1,134)	(2,856)
Adjustment for Public Sector Accounting Recommendations			
Opening balances - local improvements receivable	359	359	389
Activity for the year - local improvements receipts	(29)	(29)	(30)
	330	330	359
Adjusted capital fund balance, beginning of year	(804)	(804)	(2,497)
Capital fund, end of the year	\$ (804)	\$ (57)	\$ (775)

SCHEDULE OF RESERVES AND RESERVE FUNDS

for the year ended 31 December 2005

(in thousands of dollars)

	2005 Budget	2005 Actual	2004 Actual
Revenue	\$ 134	\$ 134	\$ 419
Expenditures	4	4	4
	130	130	415
Net transfers from (to) other funds			
Transfer from current fund operations	2,970	4,080	4,735
Transfer from capital fund operations	-	-	7
Transfer to capital fund operations	(8,134)	(5,014)	(5,731)
Transfer to current fund operations	(4)	(324)	(522)
	(5,168)	(1,258)	(1,511)
Change in balance for the year	(5,038)	(1,128)	(1,096)
Reserves and reserve funds, beginning of the year	20,355	20,356	21,451
Reserves and reserve funds, end of year	\$ 15,317	\$ 19,228	\$ 20,355

Analyzed as follows:

Reserves and reserve funds set aside for specific purpose by Council

Working capital	\$ 2,112	\$ 1,911
Contingencies	3,810	3,823
Capital expenditure purposes	11,237	12,670
Replacement of equipment	1,217	1,133
Library	36	38
Museum	571	592
Handi Transit	51	44
Cemetery Columbarium	54	32
Current expenditure purposes	140	112
Reserves and reserve funds, end of year	\$ 19,228	\$ 20,355