

**CORPORATION OF THE
TOWN OF DESERONTO
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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Chartered Accountants

AUDITORS' REPORT

TO THE MEMBERS OF COUNCIL, INHABITANTS AND RATEPAYERS OF THE CORPORATION OF THE TOWN OF DESERONTO

We have audited the consolidated statement of financial position of the Corporation of the Town of Deseronto as at December 31, 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 Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements, present fairly, in all material respects, the financial position of the Town as at December 31, 2005 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Peterborough, Ontario
February 7, 2006

Chartered Accountants

CORPORATION OF THE TOWN OF DESERONTO

**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES For
The Year Ended December 31,2005**

	Budget	Actual	Actual
	2005	2005	2004
	\$	\$	\$
REVENUES			
Property taxation	758,250	769,375	716,578
Taxation from other governments	29,250	30,338	29,290
User charges	1,152,752	1,128,306	965,710
Government of Canada	-	15,141	-
Province of Ontario	723,409	774,324	902,351
Other municipalities	-	40,983	-
Penalties and interest on taxes	38,000	33,452	37,650
Investment income	-	1,693	2,395
Capital donations	12,000	6,210	8,000
Sale of capital assets	-	69,100	66,778
TOTAL REVENUES	2,713,661	2,868,922	2,728,752
EXPENDITURES			
General government	330,778	315,078	479,893
Protection to persons and property	663,651	632,583	603,904
Transportation services	279,157	270,671	275,158
Environmental services	824,246	774,271	1,152,552
Health services	4,000	11,903	22,809
Recreation and cultural services	386,855	364,847	372,836
Planning and development	14,000	79,442	26,898
TOTAL EXPENDITURES	2,502,687	2,448,795	2,934,050
NET REVENUES/(EXPENDITURES)	210,974	420,127	(205,298)
INCREASE (DECREASE) IN AMOUNTS			
TO BE RECOVERED			
Long term debt repaid	(152,278)	(152,279)	(146,931)
Long term debt issued	345,000	345,000	-
	192,722	192,721	(146,931)
INCREASE (DECREASE) IN FUND BALANCES	403,696	612,848	(352,229)
OPENING FUND BALANCES	(175,324)	(171,382)	180,847
CLOSING FUND BALANCES	228,372	441,466	(171,382)

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



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CORPORATION OF THE TOWN OF DESERONTO

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION At
December 31,2005**

	2005	2004
	\$	\$
ASSETS		
FINANCIAL ASSETS	185,253	96,458
Cash and temporary investments	258,444	180,377
Taxes and grants in lieu receivable	273,733	785,328
Accounts receivable	13,778	6,538
Other assets		
TOTAL ASSETS	731,208	1,068,701
LIABILITIES AND MUNICIPAL POSITION		
LIABILITIES		
Bank indebtedness	-	387,378
Accounts payable	206,600	742,324
Deferred revenue obligatory reserve funds (Note 3)	49,210	31,536
Other deferred revenues	33,932	78,845
Long term debt (Note 4)	1,523,406	1,330,685
	1,813,148	2,570,768
MUNICIPAL POSITION		
Fund Balances (Note 5) Current fund		
Capital fund Reserves (see Schedule page 13)	7,846 (367,472) 433,620	(102,969) 299,059
Amount To Be Recovered	441,466	(171,382)
Long term debt	(1,523,406)	(1,330,685)
	(1,081,940)	(1,502,067)
TOTAL LIABILITIES AND MUNICIPAL POSITION	731,208	1,068,701

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



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CORPORATION OF THE TOWN OF DESERONTO

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION For
The Year Ended December 31,2005**

	2005 \$	2004 \$
OPERATIONS		
Net revenues/(expenditures)	420,127	(205,298)
(Uses) Sources:		
(Increase) decrease in taxes receivable	(78,067)	65,189
(Increase) decrease in trade and other receivables	511,595	76,171
(Increase) decrease in other assets	(7,240)	27,137
Increase (decrease) in accounts payable	(535,724)	203,058
Increase (decrease) in deferred revenue - obligatory reserve funds	17,674	6,000
Increase (decrease) in other deferred revenues	(44,913)	1,591
Net increase (decrease) in cash from operations	283,452	173,848
FINANCING		
Long term debt repaid	(152,279)	(146,931)
Long term debt issued	345,000	
	192,721	(146,931)
NET CHANGE IN CASH AND CASH EQUIVALENTS OPENING	476,173	26,917
CASH AND CASH EQUIVALENTS	(290,920)	(317,837)
CLOSING CASH AND CASH EQUIVALENTS	185,253	(290,920)
REPRESENTED BY:	185,253	96,458
Cash and temporary investments		(387,378)
Bank indebtedness		
	185,253	(290,920)

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



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CORPORATION OF THE TOWN OF DESERONTO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31,2005

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

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies are as follows:

Reporting Entity

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

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

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

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

Accounting

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

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

Basis of Accounting

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

Capital Assets

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

Reserves

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

CORPORATION OF THE TOWN OF DESERONTO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2005

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Revenue

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

Government Funding

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

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the period. Actual results could differ from these estimates.

Financial Instruments

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

2. OPERATIONS OF SCHOOL BOARDS AND THE COUNTY OF HASTINGS

During 2005, requisitions were made by the County of Hastings and School Boards requiring the Town to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are as follows:

	School Boards \$	County \$
Property taxes	244,092	252,445
Taxation from other governments	31	5,723
	<hr/>	
Amount requisitioned and remitted	244,123	25 8,168

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



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CORPORATION OF THE TOWN OF DESERONTO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2005

3. DEFERRED REVENUE - OBLIGATORY RESERVE FUNDS

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

	2005	2004
	\$	\$
.parkland	13,576	13,429
.lot levy	18,124	18,107
. federal gas tax rebate	17,510	
	49,210	31,536

4. LONG TERM DEBT

	2005	2004
	\$	\$
(a) The balance of long term debt reported on the Consolidated Statement of Financial Position is made up of the following:		
Payable to the Province of Ontario - Financial Integrity Fund annual payments of \$27,790 principal and interest, at 6.80%, due in 2013. The principal and interest on this loan have been postponed until December 31, 2006. Interest on this loan has been accrued at December 31, 2005 in the amount of \$11,372.	167,234	167,234
Long term bank loan, with principal payments of \$4,760 per month plus interest at 4.75%, due in 2008	123,920	181,040
Debenture payable with annual instalments of varying amounts plus interest at variable amounts ranging from 6.90% to 7.50%, due in 2012	689,000	764,000
Long term loan from Ontario Strategic Infrastructure Financing Authority, with semi-annual payments of various amounts plus interest at 4.04%, due in 2015	345,000	
Long term bank loan with monthly payments of \$1,390 plus interest at 4.75%, due in 2017	193,010	209,690
Lease purchase agreement with monthly payments of \$352.57 principal and interest with interest at 10.5165%, due in 2007	5,242	8,721
Total long term debt incurred by the municipality and outstanding at the end of the year amount to	1,523,406	1,330,685



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CORPORATION OF THE TOWN OF DESERONTO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31, 2005

4. LONG TERM DEBT - (Cont'd)

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

	Principal	Interest	Total
	\$	\$	\$
2006	202,708	85,886	288,594
2007	207,510	74,023	281,533
2008	167,098	62,715	229,813
2009	165,957	52,628	218,585
2010	175,635	41,920	217,555
	918,908	317,172	1,236,080
2011 and thereafter	604,498	66,903	671,401
	1,523,406	384,075	1,907,481

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

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

	2005	2004
	\$	\$
Principal payments	152,279	146,931
Interest	79,969	87,006
	232,248	233,937



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CORPORATION OF THE TOWN OF DESERONTO

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2005**

MUNICIPAL POSITION AT THE END OF THE YEAR

The municipal position is comprised of the following:

	2005	2004
	\$	\$
Current Fund		
For general reduction (increase) of taxation and user charges . .		
. Town	7,906	(49,267)
. Water and sewer system	(8,088)	(73,346)
. Public Library board	6,593	15,704
. Cemetery Board	(5,144)	(4,595)
. Business Improvement Area Board	6,579	8,535
	7,846	(102,969)
Capital Fund		
Watermain upgrades		(333,568)
Transportation equipment		(33,904)
		(367,472)
Reserves	433,620	299,059
	441,466	(171,382)

PENSION AGREEMENTS

The municipality makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions required on account of current service in 2005 were \$10,973 (2004 - \$11,908).



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CORPORATION OF THE TOWN OF DESERONTO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For
The Year Ended December 31,2005

7. TRUST FUNDS

Trust funds administered by the municipality amounting to \$86,821 (2004 \$85,028) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Financial Activities.

8. EXPENDITURES BY OBJECT

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

	2005	2004
	\$	\$
Salaries, wages and employee benefits	543,948	516,178
Debt interest charges	79,969	87,005
Materials	628,606	607,776
Contracted services	1,063,796	1,155,529
Rents and financial expenses	36,231	25,840
External transfers	22,141	28,086
	2,374,691	2,420,414

9. BUDGET FIGURES

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

10. COMPARATIVE FIGURES

Comparative figures were restated, where required, to conform with the current year presentation.