

MUNICIPALITY OF CHATHAM-KENT

CORPORATE SERVICES

FINANCIAL SERVICES

TO: Mayor and Members of Council

FROM: Gord Quinton, BA, CGA
Supervisor, Accounting Operations

DATE: October 18, 2010

SUBJECT: 2009 Audited Financial Statements

RECOMMENDATIONS

It is recommended that:

1. The audited financial statements for the year ended December 31, 2009, be received.
2. Council comply with Ontario regulation 284/09 by confirming that the 2010 budget was developed using the cash basis and has excluded the following accrual expenses: amortization expense and employee future benefits expense.

BACKGROUND

Under section 286 of the Municipal Act, 2001, Finance is responsible for payments and collections, for record keeping, for investments and for providing Council with financial information. All financial statements are prepared by municipal staff. The Auditor reviews these statements to ensure compliance with legislation, regulations and accounting standards.

Since its inception, the Municipality of Chatham-Kent has had its financial records and its financial control systems audited annually by an independent firm of external auditors appointed under contract by Council. As Council knows, the senior audit partner meets directly with Council in closed session at least annually, with municipal staff absent, to obtain comments and instructions from Council. In addition to the standard audit report, the auditor conducts extra tests and examinations based on Council concerns. Results of the audit are shared directly with Council.

As well as investigating specific Council concerns, the external auditors' objectives are to:

- Obtain assurance that the financial statements are free of material misstatement
- Evaluate the fairness of presentation of the financial statements in accordance with local government accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA)
- Report to administration and to Council on:
 - significant internal control weaknesses
 - errors noted during the audit
 - any matters the auditor believes should be disclosed

Other statutory financial audits that can occur include:

- Canada Revenue Agency (CRA) audits of employer statutory remittances
- CRA audits of GST/HST returns
- Ontario Retail Sales tax audits
- Ministry Program specific audits

The Municipality also engages GST/HST/Retail Sales tax specialists for non-statutory audits to ensure the proper amount of federal and provincial sales tax is charged or claimed. An annual credit rating is also conducted¹.

Copies of the audited financial statements are attached as Appendix "A" and will also be presented on the municipal website. A synopsis of the financial results will be published in local papers following acceptance of this report (section 295.1, Municipal Act).

Financial statement information is prepared using information from the Financial Information Return (FIR) which is a statutory report filed with the Ministry of Municipal Affairs and Housing annually. Copies of the FIR and financial statements are available on request, free of charge (section 295.2, Municipal Act).

COMMENTS

The external auditor has concluded a review of the records of the Corporation and has issued an unqualified audit opinion on the basis of this review. This means that there were no significant internal financial control weaknesses or material errors noted during the audit. All provincial deadlines continue to be met.

¹ Standard & Poors conducts an annual financial review and ranks the municipality in accordance with its findings. Chatham-Kent currently has a rating of A with a stable outlook. One contributing factor was the "relatively good liquidity, manageable debt and reasonable economic prospects". (August 10, 2010)

Accounting Changes in 2009

Before proceeding any further it should be noted that two major PSAB changes were implemented in 2009. Financial information for 2008 has been restated in the new format for ease of comparison. These changes were required by the Accounting Standards Board. The Municipality was required to comply.

PSAB 3150 – Accounting for Tangible Capital Assets

The most significant change involved the recognition of tangible capital assets on the Consolidated Statement of Financial Position and the recognition of amortization as an expense on the Consolidated Statement of Operations and Accumulated Surplus. Municipal financial statements have changed in a way that makes them more easily comparable with private sector financial statements. Specifically, depreciable tangible capital assets are to be gradually written off over their expected useful life rather than expensing a capital asset in the year of commission. Looking at 2008, this one change in statement presentation has moved the Municipality's equity position from a shortfall of \$70 million to a surplus of \$674 million.

The sudden appearance of \$744 million in additional value does not change the financial condition of the Municipality. The change was to improve the usefulness of the statements. The budget process remains the same. The amount raised through taxation continues to be based on the Municipality's cash flow requirements.

PSAB 1200 – Financial Statement Presentation

The presentation of the Municipal financial statements has changed to make them better understood and comparable with the private sector statement format. The most important changes are the removal of reserves and funds, and the introduction of amortization as an expense.

This standard moves municipal financial statements away from fund accounting to be more like a private sector corporation. The Consolidated Statement of Financial Position is no longer reported by fund, for example the Operating Fund, the Capital Fund, and the Reserves Fund. The municipal position which previously presented the various funds and amounts to be recovered is no longer presented in detail on the statement and is now replaced by a single line titled "Accumulated Surplus". The Accumulated Surplus is tied up primarily in infrastructure investments and reserve allocations and is therefore not available for distribution to taxpayers.

The Consolidated Statement of Operations and Accumulated Surplus is now reported on a consolidated basis only with consolidated budget comparisons. No longer does the operations statement include capital expenditures as they have been capitalized and will be amortized over their useful life with the annual amortization expensed to this statement.

The Consolidated Statement of Changes in Net Debt is a required new statement that provides a reconciliation of the annual surplus to the change in net financial assets.

The Consolidated Statement of Cash Flows illustrates the effects operations, asset purchases, and debt repayments have on the cash position of the municipality.

Reported 2009 results

The following are additional comments regarding the financial statements.

This excerpt from the Consolidated Statement of Operations and Accumulated Surplus (see page 3 of the financial statement attachment) lists the total revenues, expenses, and the resulting excess revenues over expenses.

	2009	2008
Revenues	301,504,987	306,134,707
Expenses	274,320,697	269,552,166
Excess revenues over expenses before other items	27,184,290	36,582,541
Income from subsidiary	3,705,063	3,356,710
Excess revenues over expenses	\$30,889,353	\$39,939,251

The Municipal 2009 year-end cash basis surplus is \$414,028 (\$733,001 in 2008) as was reported by Budget and Performance Services at the June 14 Council meeting. This figure is included as part of the \$30,889,353 (\$39,582,541 in 2008) excess revenue over expenses reported on the Consolidated Statement of Operations and Accumulated Surplus. The \$31 million surplus (under the new accounting rules) is calculated using accrual accounting. Previously, under modified cash accounting, investments in bridges and roads etc. were written off immediately against in-year surpluses. Under accrual accounting, being used from 2009 forward, the cost of capital assets are to be written off against tax revenues over the useful life of the asset. Some of the assets are 50+ years. This results in amortization expense much less than expensed over the cash requirements for replacement. For this reason there will usually be an annual surplus in the operating statement. The following table indicates the relation between the \$31 million accrual accounting surplus in the financial statements to the \$414 thousand surplus as per the balanced cash budget approved by Council during the 2009 budget deliberations.

	2009	2008
Accrual basis surplus as per Financial Statements	30,889,353	39,939,251
Adjustments:		
Amortization	29,192,870	28,702,999
Taxation, grant, other Tangible Capital Assets funding	(42,745,255)	(49,634,388)
Long-term debt repayment	(12,190,182)	(11,039,673)
Income from subsidiary	(3,705,063)	(3,356,710)
Other	(1,027,695)	(3,878,478)
Cash basis surplus as previously reported to Council	\$414,028	\$733,001

Total Municipal and PUC expenses, excluding hydro operations, in 2009 were \$274,320,697, (\$269,552,166 in 2008). C-K Energy is audited separately and is not consolidated in this report.

The attached consolidated municipal financial statements include the PUC (Water/Wastewater), the Library, Museums, Board of Health and Police Service Board, along with all other municipal services. Separate audits for the Public Health Division, Federal Gas Tax expenditures, Long Term Care and Transfer Payment Annual Reconciliation (Social Services) were also prepared for grant purposes and are available on request. One time special audits were done for the Wallaceburg Community Task Force, Communities in Transitions, Newcomer's Information Portal, and the Ridgetown Water Pollution Control Plant project as required for grant or loan purposes. Municipal trust activities are audited separately. C-K Energy and subsidiary financial results are reflected in separate statements. The net income of these operations is incorporated in the municipal financial statements as "Income from Subsidiary" and "Investment in Chatham-Kent Energy Inc."

The following excerpt from the Consolidated Statement of Financial Position (see page 2 of the financial statement attachment) lists the total assets, liabilities, and the resulting accumulated surplus.

	2009	2008
Financial assets	147,040,212	165,053,511
Liabilities	211,060,525	219,730,179
Net financial assets	(64,020,313)	(54,676,668)
Non-financial assets	768,867,024	728,634,026
Accumulated surplus	\$704,846,711	\$673,957,358

Accumulated Surplus

The new financial statement format along with recording the tangible capital assets in the statement results in a \$704,846,711 accumulated surplus for 2009. The accumulated surplus represents Chatham-Kent's net financial position. This figure consists of the net investments in tangible capital assets, the investment in Chatham-Kent Energy Inc, accumulated fund balances, and reserves (now part of surplus), less amounts to be recovered in the future. This figure represents the municipality's ability to meet the current and future needs of the community. Note 13 (see page 17 of the financial statement attachment) lists the various allocations of surplus.

Some of the significant items included in the accumulated surplus are detailed below.

Invested in tangible capital assets is the net investment in tangible capital assets of the municipality less any outstanding debt related to this investment. The following excerpt from note 12 (see page 16 of the financial statement attachment) lists the net book value of Chatham-Kent's assets.

	2009	2008
Land and land improvements	41,010,607	41,099,016
Buildings	109,782,144	110,817,843
Equipment	48,705,416	48,069,063
Vehicles	21,997,281	19,215,233
Underground Linear	213,315,385	214,396,535

Plants and facilities	23,416,410	22,126,785
Bridges	91,632,822	87,861,449
Transportation	165,023,546	161,688,848
Other assets	3,138,696	3,101,375
	718,022,307	708,376,147
Assets under construction	48,100,344	18,536,265
Total tangible capital assets	\$766,122,651	\$726,912,412

Chatham-Kent Energy Inc. net equity is the Municipality's 90% share of the 2009 Chatham-Kent Energy (CKE) net income of \$4,116,737 (\$3,729,678 in 2008) plus the value of the shares and long-term note payable to the Municipality for consideration of the original transfer of net assets to CKE².

Reserves and Reserve Funds are the reserve balances at year-end. A breakdown of Reserves and Reserve funds is attached as Appendix "B". Also see Note 13 of the audited financial statements. Reserve balances include amounts encumbered. The amount in reserves is only slightly reduced from 2008 due to the use of some grant money parked in reserves along with various other changes.

Unfunded are for items that are not required to be funded by current accounting regulations, but represent a future cost to the Municipality that financial statement readers should be aware of, and are required to be reported by PSAB regulations. The required disclosures include:

- Post-employment benefits such as life insurance and medical benefits that will be incurred and will potentially be due at some future time. The discount rate used by the actuarial consultant in determining the net present value of future benefits was 5.5% (7.00% in 2008)
- Estimated future liabilities as provided by Workplace Safety & Insurance Board
- Staff vacation credits that have been earned but not taken at year-end
- Interest on long-term debt accrued but not paid by year-end

A detailed breakdown of these future obligations is found below:

	2009	2008
Employee future benefits	18,575,250	17,894,282
WSIB obligation	3,401,733	3,656,818
Vacation pay	2,226,363	1,899,577
Total unfunded employee future benefits	\$24,203,346	\$23,450,677
Interest on long-term liabilities	1,076,498	1,162,701

² The value placed on CKE securities is based on cost and may not reflect market values.

	2009	2008
Service Revenue	86,255,583	92,116,301
Cost of Power	70,974,461	75,682,349
Gross Margin	15,281,122	16,433,952
Operating Income	19,857,934	20,679,068
Net Earnings (100%)	4,116,737	3,729,678
Retained Earnings (End of Year)	14,832,319	12,975,582
Dividends Paid to C-K	\$2,034,000	\$1,521,000
Dividends Paid to Corix Utilities	\$226,000	\$169,000

The Municipality provides funding for these liabilities through the budget process in the year of disbursement.

Long Term Liabilities

Net long-term liabilities are the balances of debentures outstanding. Notes 8 and 9 (see page 14 and 15 of the financial statement attachment) provide details of the long-term liabilities. Debenture detail is provided in figure 1; there was no new debt issued in 2009. The "Funded By" columns identify the sources of future funding to service the debt payments. The tax funded obligation is currently approximately \$19 million.

Figure 1 (Detail) Chatham-Kent Long Term Debt as at December 31, 2009

Debt Issue #	Rate %	Term	Total	Funded by:			
				PUC rates	PUC locals	Mun.Tax	Mun. Other
Debt Issued by the Municipality of Chatham-Kent							
2002-01	5.375	10	20,000,000 (A)	16,700,000		1,249,000	2,051,000
2003-01	5.39	10	12,000,000 (B)		12,000,000		
2004-01	2.55	10	10,864,650 (C)			1,862,229	9,002,421
2004-02	2.73	20	43,400,000 (D)	43,400,000			
2004-03	5.19	10	10,000,000 (E)			2,653,000	7,347,000
2005-01	4.94	20	43,000,000 (F)			13,299,000	29,701,000
2005-02	2.53	20	22,128,742 (G)	22,128,742			
2006-01	2.50	10	6,137,771 (H)			6,137,771	
2007-01	2.52	20	2,800,000 (I)	2,800,000			
2007-02	4.94	20	5,170,000 (J)				5,170,000
2007-03	5.38	5	1,428,000 (K)				1,428,000
Subtotal			176,929,163	85,028,742	12,000,000	25,201,000	54,699,421
Less Principal amounts repaid by Dec 31, 2009			(49,900,837)	(24,004,072)	(5,217,027)	(6,542,512)	(14,137,226)
Chatham-Kent Issued Debt Outstanding at Dec 31, 2009			127,028,326	61,024,670	\$6,782,973	18,658,488	40,562,195
Other Debt assumed by Chatham-Kent							
Former Entities Dec 31, 2009	various	various	1,504,000 (L)	1,364,128		139,872	
Social Housing download Dec 31, 2009	Various	various	6,357,777 (M)				6,357,777
Total Debt Outstanding Dec 31, 2009			\$134,890,103	\$62,388,798	\$6,782,973	\$18,798,360	\$46,919,972

(A) Debenture: Water \$15,900,000, Wastewater \$800,000, Bridges \$1,249,000, Ambulance Station \$751,000, Bloomfield Business Park \$1,300,000
 (B) CIBC Bank Loan: Ratepayer Waterlines \$12,000,000
 (C) OMEIFA Debenture: Bridges \$1,862,229, Bloomfield Business Park \$9,002,421
 (D) OMEIFA Debenture: Water \$17,125,000, Wastewater \$25,675,000
 (E) CIBC Bank Loan: Lifecycle Roads \$2,149,000, Lifecycle Buildings \$504,000, Ratepayer Drainage \$3,047,000, Ambulance Station \$1,000,000, CK Centre for Community Services Building \$3,300,000
 (F) OSIFA Debenture: Riverview Gardens \$40,300,000 33% tax funded, Bloomfield Business Park \$2,700,000
 (G) OMEIFA Debenture: Water \$19,253,236, Wastewater \$2,875,506
 (H) OMEIFA Debenture: Bridges \$6,137,771
 (I) OMEIFA Debenture: Wastewater \$2,800,000
 (J) OSIFA Debenture: Social Housing – Wallaceburg Housing Corporation purchase \$5,170,000
 (K) CIBC Bank Loan: Global Vehicle Systems loan \$1,428,000
 (L) Included are Wallaceburg Wastewater \$1,364,128, Wallaceburg Fire \$139,872
 (M) Debt came with the Social Housing units on transfer to the Municipality from the Province in 2001. A component of social housing costs are tax funded. The debt is held by Provincial agencies.

Development Charges Act

Under section 43 of the *Development Charges Act, 1997*, the Treasurer is required to give Council a statement of activity for the Development Charges Reserve Fund. Figure 2 is a summary of the fund activity.

Figure 2 Development Charges Reserve Fund						
	2009			2008		
	Roads	Water	Sewer	Roads	Water	Sewer
Opening Balance	\$0	\$0	\$0	\$0	\$0	\$0
Contribution from developers	0	119,844	91,443	0	141,778	107,154
Interest Earned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	0	119,844	91,443	0	141,778	107,154
Use of funds:						
Development Charges Study	0			0		
Investment in Capital	<u>0</u>	<u>119,884</u>	<u>91,443</u>	<u>0</u>	<u>141,778</u>	<u>107,154</u>
	0	119,844	91,443	0	141,778	107,154
Ending Balance	\$0	\$0	\$0	\$0	\$0	\$0

Budget Figures

Budget figures provided as part of the Consolidated Statement of Operations and Accumulated Surplus (see page 3 of the financial statement attachment) do not reflect the balanced 2009 Budget as approved by Council for the following reasons:

- Capital projects benefiting and assessed to landowners and developers, such as water, wastewater, drainage and sidewalks / curb and gutters are not part of the annual budget process and are shown as a local improvement receivable on the Statement of Financial Position
- Capital projects for industrial lands are not part of the budget process and are shown as land held for resale in the Statement of Financial Position
- Under PSAB standards, transfers to/from reserves/capital are not considered as a source of expense/revenue for Municipal activities and are not included in the financial statement budget
- Amortization expense is not included in the Council approved budget as it does not require cash, but is included on the financial statement budget
- Cash raised for the purpose of building or improving tangible capital assets is included as revenue in the Council approved budget and the expenditure of building the asset is included as well. However, in the financial statements, only the revenue budgets (taxes, user fees, grants) are included as the expenditure is an asset amortized over the life of the asset.

Public Utilities Commission

PUC operations are integrated into those of the Municipality. Its activities are audited along with municipal operations. Separate financial statements are prepared and presented annually to the Commission. A summary cash basis statement for 2009 is presented below along with the 2008 comparison.

As at December 31	Water		Wastewater	
	2009	2008	2009	2008
Revenues	\$17,885,600	\$14,942,932	\$13,292,936	\$10,664,548
Expenditures	<u>19,799,694</u>	<u>16,767,862</u>	<u>13,760,710</u>	<u>11,607,007</u>
Net Income	(1,914,094)	(1,824,930)	(467,774)	(942,459)

Reserve Fund Balance (End of Year)	<u>\$1,014,536</u>	<u>\$1,043,766</u>	<u>\$3,153,555</u>	<u>\$2,314,397</u>
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Municipal Leasing

Under regulation 266/02 of the Municipal Act, Council established a financial leasing policy by which the Treasurer shall report annually to Council the impact on municipal finances of financial leases.

Financial leases are a form of indebtedness that if material, can impact on the municipal annual debt repayment limit.

Under the leasing policy:

Section 1. Any lease or cumulative group of leases that exceeds a term of one year

that is entered into by the Municipality, being in effect at any one time, shall be considered material if collectively all leasing payments incurred in any calendar year exceeds 2% of the Municipal Annual Debt Repayment Limit as determined by the Treasurer.

Once the 2% limit has been exceeded all leases subsequently entered into by the Municipality shall be considered material.

Section 3. Leasing done for any of the following reasons with a lease term exceeding, or expected to exceed, one year shall be considered a “reportable” lease for the purpose of this policy:

- Capital items leased as a form of financing
- Like equipment with a leased value exceeding \$10,000 annually
- Goods or services only available through lease where collectively lease payments exceed \$20,000 annually
- Leases entered into following a buy verses lease analysis for any property and for any amount

Where, in the opinion of the Treasurer, a lease meets the criteria under this policy as “reportable” or, where the Director of Legal Services considers a lease reportable for any other reason, Council reports dealing with leasing shall be reviewed and commented on, in the body of the report, by the Treasurer and (as appropriate) by the Director of Legal Services.

<u>Materiality Calculations</u>	
Annual Debt Limit (December 31, 2009)	³ \$29,805,888
2% of this limit (established by policy)	596,100
Financial Lease Payments 2009	
Fleet	188,584
Copiers	<u>162,998</u>
Total	\$351,582

The municipality does not often use financial leases, as the cost of other forms of indebtedness is more advantageous. Because 2009 financial lease payments are less

³ 2009 Annual Debt Limit Calculation

1 Gross Debt Charges		
	Principal	\$ 11,889,581
	Interest	\$ 5,947,714
	Subtotal	\$ 17,847,295
2 OCWA		-
3 Long term commitments		\$ 100,000
4 Debt Charges for Lease Purchases		-
5 SUBTOTAL DEBT CHARGES		\$ 17,947,295
6 Debt Charges for Utilities		-
7 Downtown Revitalization Loans		-
8 Tile Drainage & Shoreline Assistance		631,564
9 SUBTOTAL TO BE EXCLUDED		-
10 NET DEBT CHARGES		\$ 17,315,731

11 Total Revenue Fund Revenues	\$304,852,882
12 Downtown Revitalization Loan payments from above	-
13 Drainage/shoreline fees	\$ 144,224
14 Grants from other governments	
Ontario	\$ 99,032,016
Canada	\$ 17,088,534
Other Municipalities, other items	\$ 101,632
Total Grants from Governments	\$ 116,222,182
15 Joint Board Fees	-
Amounts to be deducted from revenue	\$ 116,366,406
16 Net Revenue Fund Funds	\$188,486,476
17 25% of net revenue fund	\$ 47,121,619
18 Annual Repayment Limit	\$ 29,805,888
25% of item #17 less net debt charges #10	

At 6% interest, the Municipality has the capacity to borrow an additional \$342 million with repayment amortized over 20 years.

than 2% of the annual repayment limit established by the Province under regulation 403/02, the value of the leases is not considered material under the financial leasing policy and therefore, will not be deducted from the municipal annual repayment limit for 2009.

2010 Budget Impact

Under Ontario regulation 284/09 Council must adopt by resolution that the 2010 budget has excluded the following expenses:

- Amortization expenses
- Post employment benefit expenses
- Solid waste landfill closure cost and post closure expenses (not a material issue in Chatham-Kent)

For the 2010 budget amortization expenses is estimate to be \$29.5 million and post employment expenses is estimated to be \$0.5 million, both of which were excluded as cost when the 2010 budget was approved.

In future years a detailed report will be included as part of the budget approval process.

COMMUNITY STRATEGIC PLAN

The recommendation in this report supports the following objective and strategic direction:

B: Economy – We are a prosperous community

B1: Promote and market Chatham-Kent

Desired Outcomes/Proposed Activities

- Chatham-Kent to be recognized as a municipal leader in responsible fiscal management through manageable tax rate changes and sustainable fiscal planning.

The recommendation will not adversely impact on the remainder of the Community Strategic Plan.

CONSULTATION

Prior to finalization of the published statements, all departments reviewed their respective areas. The external auditor has concluded a review of the records of the Corporation and has issued an unqualified audit opinion on the basis of this review. This means that there were no significant internal financial control weaknesses or material errors noted during the audit.

FINANCIAL IMPLICATIONS

The accumulated Municipal surplus of \$414,028 was addressed in a separate Budget & Performance Services report presented to Council. The cost of the external audit is part of the approved annual budget.

The audit is performed annually in accordance with Section 296 of the Municipal Act. As part of this review, the auditor:

- Reviewed the accounts and transactions of the Municipality and expressed an opinion.
- Performed duties as required under the Municipal Act and as directed by Council.

A Request for Proposal for Auditing Services was awarded in 2008. The 2009 audit was the second in a five year term.

Prepared by:

Reviewed by:

Gord Quinton, BA, CGA
Supervisor, Accounting Operations

Stuart Wood, CMA
Director, Financial Services/Treasurer

Reviewed by:

Reviewed by:

Gerry Wolting, B.Math, CA.
General Manager
Corporate Services

Rob Browning
Chief Administrative Officer

c.

Attachment(s) – Appendix “A” – Consolidated Financial Statements of the Corporation
of the Municipality of Chatham-Kent
– Appendix “B” – Chatham-Kent Summary of Reserves

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APPENDIX A

Consolidated financial statements of

The Corporation of the Municipality of Chatham-Kent

December 31, 2009

The Corporation of the Municipality of Chatham-Kent

December 31, 2009

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Municipality of Chatham-Kent

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Auditors' Report

To the Members of Council, and the Citizens of the
Corporation of the Municipality of Chatham-Kent

We have audited the consolidated statement of financial position of the Corporation of the Municipality of Chatham-Kent as at December 31, 2009 and the consolidated statements of operations and accumulated surplus, change in net debt and cash flows 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 Municipality as at December 31, 2009 and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
September 3, 2010

**The Corporation of the
Municipality of Chatham-Kent**
Consolidated statement of financial position
as at December 31, 2009

	2009	2008
	\$	(Restated) \$
Financial assets		
Cash	33,069,635	61,829,827
Taxes receivable	10,890,717	8,671,726
Accounts receivable	17,868,539	13,715,577
Investment in Chatham-Kent Energy Inc. (Note 2)	38,298,474	36,627,411
Note receivable from Chatham-Kent Energy Inc. (Note 3)	23,523,326	23,523,326
Land held for resale	5,585,279	5,769,479
Other assets	3,280,577	1,082,907
Local improvement receivable (Note 11)	14,523,665	13,833,258
	147,040,212	165,053,511
Liabilities		
Accounts payable and accrued liabilities	33,086,057	27,941,778
Accrued interest (Note 10)	1,733,713	1,911,156
Accrued employee benefits (Note 5)	25,394,775	24,944,428
Current note payable	100,000	100,000
Deferred revenue (Note 7)	15,555,877	17,452,532
Debentures outstanding (Note 8)	134,890,103	146,980,285
Long-term note payable (Note 8)	300,000	400,000
	211,060,525	219,730,179
Net debt	(64,020,313)	(54,676,668)
Non-financial assets		
Tangible capital assets (Note 12)	766,122,651	726,912,412
Inventory	901,283	70,130
Prepaid expenses	1,843,090	1,651,484
	768,867,024	728,634,026
Accumulated surplus (Note 13)	704,846,711	673,957,358
Commitments (Note 18)		
Contingencies (Note 20)		

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of operations and accumulated surplus
year ended December 31, 2009

	2009 Budget (Unaudited) \$	2009 Actual \$	2008 Actual (Restated) \$
Revenues			
Taxation and user charges			
Property taxation	149,755,077	150,143,956	147,049,473
Payments in lieu of taxes from other governments	3,430,150	3,455,986	3,489,756
User charges	54,196,506	53,868,430	48,512,864
	207,381,733	207,468,372	199,052,093
Deduct amounts received or receivable for School Boards	(32,849,987)	(32,849,987)	(33,363,104)
	174,531,746	174,618,385	165,688,989
Grants			
Government of Canada	15,052,433	17,088,535	7,474,686
Province of Ontario	94,090,039	99,032,016	117,704,925
	109,142,472	116,120,551	125,179,611
Other			
Investment income	3,273,647	2,851,040	4,438,343
Penalties and interest on taxes	1,200,000	1,591,323	1,179,194
Contributions from landowners and developers	2,448,144	211,287	5,156,942
Sale of land and equipment	175,775	2,261,178	495,570
Provincial offences administration	2,087,500	2,124,657	2,348,349
Other	892,105	1,726,566	1,647,709
	10,077,171	10,766,051	15,266,107
Total revenues	293,751,389	301,504,987	306,134,707
Expenses			
General government	3,844,281	3,646,374	2,447,916
Protection of persons and property	46,899,586	46,422,040	45,301,230
Transportation services	40,170,194	40,882,501	44,727,990
Environmental services	43,704,216	41,907,083	39,572,262
Health services	20,662,288	20,107,445	19,937,978
Social and family services	82,055,792	83,111,708	80,614,204
Social housing	13,763,520	11,429,250	11,105,085
Recreation and cultural services	20,318,134	20,070,836	18,118,899
Planning and development	5,921,289	6,386,293	7,232,757
Loss on disposal of tangible capital assets	-	357,167	493,845
Total expenses	277,339,300	274,320,697	269,552,166
Excess of revenues over expenses before other items	16,412,089	27,184,290	36,582,541
Other items			
Income from subsidiary	-	3,705,063	3,356,710
Excess of revenues over expenses	16,412,089	30,889,353	39,939,251
Accumulated surplus, beginning of year	-	673,957,358	634,018,107
Accumulated surplus, end of year	16,412,089	704,846,711	673,957,358

**The Corporation of the
Municipality of Chatham-Kent**
Consolidated statement of changes in net debt
year ended December 31, 2009

	2009	2008
	\$	(Restated) \$
Excess of revenues over expenses	30,889,353	39,939,251
Acquisition of tangible capital assets	(39,309,205)	(24,787,213)
Increase in tangible capital assets construction in progress	(29,564,080)	(12,038,297)
Amortization of tangible capital assets	29,192,870	28,702,999
Loss on sale of tangible capital assets	357,167	493,845
Proceeds of sale of tangible capital assets	113,009	495,570
Change in inventory	(831,153)	(8,991)
Change in prepaids	(191,606)	227,429
Change in net debt	(9,343,645)	33,024,593
Net debt, beginning of year	(54,676,668)	(87,701,261)
Net debt, end of year	(64,020,313)	(54,676,668)

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of cash flows
year ended December 31, 2009

	2009	2008
	\$	(Restated) \$
Operating transactions		
Excess of revenues over expenses	30,889,353	39,939,251
Items not involving cash		
Amortization	29,192,870	28,702,999
Loss on sale of tangible capital assets	357,167	493,845
Income from subsidiary	(3,705,063)	(3,356,710)
Change in non-cash working capital items	(3,931,551)	375,711
Change in obligations to be funded from future revenues	272,904	1,675,531
Increase in inventory	(831,153)	(8,991)
Increase in prepaid expenses	(191,606)	227,429
	52,052,921	68,049,065
Financing transactions		
Note payable repayment	(100,000)	(100,000)
Long-term debt repayment	(12,090,182)	(10,939,673)
Deferred revenue	(1,896,655)	459,618
	(14,086,837)	(10,580,055)
Capital transactions		
Acquisition of tangible capital assets	(68,873,285)	(36,825,510)
Proceeds of sale of tangible capital assets	113,009	118,644
	(68,760,276)	(36,706,866)
Investing transaction		
Dividends received from Chatham-Kent Energy Inc.	2,034,000	1,521,000
Net increase (decrease) in cash	(28,760,192)	22,283,144
Cash, beginning of year	61,829,827	39,546,682
Cash, end of year	33,069,635	61,829,826

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

1. Accounting policies

The consolidated financial statements of the Corporation of the Municipality of Chatham-Kent (the "Municipality") are the representation of management 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 adopted by the Municipality are as follows:

Basis of consolidation

Consolidated entities

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity and changes in investment in tangible capital assets and include the activities of all committees of Council and the following local boards and municipal entities which are under the control of Council:

- Chatham-Kent Public Libraries
- Chatham-Kent Museums
- Public Utilities Commission for the Municipality of Chatham-Kent - Water / Wastewater Division
- Chatham-Kent Police Services Board
- Chatham-Kent Board of Health

All interfund assets and liabilities and revenues and expenses have been eliminated with the exception of loans or advances between reserve funds and any other fund of the municipality and the resulting interest income and expenditures.

Subsidiary

Chatham-Kent Energy Inc. is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated.

Accounting for school board transactions

The taxation and other revenues with respect to the operations of the school boards are reflected in the Consolidated statement of operations but with no effect on accumulated surplus balances since the total is shown as a deduction.

In addition, the expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements except to the extent that any over levies are reported on the Consolidated statement of financial position as "other current liabilities".

Trust funds

Trust funds and their related operations administered by the Municipality are not consolidated, but are reported separately on the Trust Funds' Statement of continuity and financial position.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

1. Accounting policies (continued)

Basis of accounting

Accrual basis of accounting

The consolidated financial statements are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues, as they become available and measurable; expenses 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.

Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of an asset. The cost, less residual value, of the tangible capital asset is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Land improvements	20-50
Buildings	15-40
Equipment	4-30
Vehicles	5-20
Underground linear	30-75
Plants and facilities	20-40
Bridges	50-75
Transportation	15-50
Other assets	5-10

Amortization is charged beginning in the month the asset was available for productive use and to the month of disposal. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets received as contributions are recorded at their fair market value at the date of receipt and also are recorded as revenue.

Works of art, artifacts, cultural or historic assets are not recorded as assets in the consolidated financial statements.

Land held for resale

Land held for resale is recorded at the lower of cost and net realizable value. Costs include amounts for land acquisition and improvements to prepare the land for sale or servicing.

Government transfers

Government transfers are recognized in the consolidated financial statements as revenues in the period in which the 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.

Investment income

Investment income earned on surpluses, reserves and reserve funds (other than obligatory reserve funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of deferred revenue.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

1. Accounting policies (continued)

Management estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in accounting policies

During the year the municipality adopted PSAB sections *1200 Financial Statement Presentation* and *3150 Tangible Capital Assets*. PSAB 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. The adoption of PSAB 1200 did not have any impact on the consolidated financial statements.

PSAB 3150 requires governments to record and amortize their tangible capital assets in their financial statements. The costs of tangible capital assets were based on historical records or, when historical records were not available; other methods determined to provide a best estimate of historical costs and accumulated amortization of the assets. In certain cases, the municipality used replacement costs and appropriate indices to deflate the replacement cost to an estimated historical cost at the year of acquisition.

The adoption of PS 3150 has been applied retroactively and prior periods have been restated as follows:

	\$
Accumulated deficit as at January 1, 2008	(69,971,005)
Adjustment for net book value of tangible capital assets	726,912,412
Adjustment for land held for resale	5,769,479
Adjustment for local improvements receivable	11,246,472
Accumulated surplus, as restated	673,957,358

	\$
Excess revenues over expenses	
Net revenue, as previously reported	30,160,383
Tangible capital assets capitalized but previously expensed	36,825,511
Amortization expense not previously recorded	(28,702,999)
Loss on sale of assets not previously recorded	(493,845)
Proceeds on disposal previously reported as revenue	(118,644)
Sale of land held for resale previously reported as revenue	(392,921)
Contributed capital from developers not previously reported	4,192,514
Funding received for local improvements previously recorded as revenue	(6,483,470)
Expenses for local improvements previously expensed	4,952,722
Excess revenues over expenses, as restated	39,939,251

2. Investment in Chatham-Kent Energy Inc.

Chatham-Kent Energy Inc. ("the Company") and its wholly-owned subsidiaries, Chatham-Kent Hydro Inc. and Chatham-Kent Utility Services Inc., were incorporated September 22, 2000 under the *Business Corporations Act (Ontario)*.

The Company also has a wholly-owned subsidiary, Middlesex Power Distribution Corporation, which it purchased 100% of the outstanding common shares on June 30, 2005.

The Company is owned 90% by the Municipality of Chatham-Kent and 10% by Corix Utilities.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

2. Investment in Chatham-Kent Energy Inc. (continued)

The principal activity of the Company and its subsidiaries is to distribute electricity to customers within the Municipality of Chatham-Kent, Township of Strathroy-Caradoc and the Municipality of North Middlesex, under the license issued by the Ontario Energy Board ("OEB"). Other activities of the Company, and its subsidiaries, are to provide energy services, meter services, and street lighting services.

Under a Municipality by-law, dated September 5, 2000, the former Public Utilities Commission of the Municipality of Chatham-Kent – Electrical Division and the Municipality transferred the assets, liabilities and employees associated with the distribution of electricity at book value effective October 1, 2000. The book value of the net assets transferred to the Company at October 1, 2000 was \$47,379,123. In consideration for the transfer the Company issued long-term notes payable to the Municipality in the aggregate principal amount of \$23,523,326 together with shares valued at \$23,855,798.

The incorporation and subsequent reorganization was required by provisions of Bill 35, *The Energy Competition Act, 1998* enacted by the Province of Ontario to introduce competition in the electricity market.

In 2008 the Company issued 222 common shares to Corix which represents a 10% ownership.

The following table provides condensed supplementary consolidated financial information for the Company and its subsidiaries for the year ended December 31:

	2009	2008
	\$	\$
Financial position		
Assets		
Current	26,860,709	28,231,086
Capital	55,724,565	55,418,590
Other	11,173,025	5,146,812
Total assets	93,758,299	88,796,488
Liabilities		
Current	17,612,823	16,454,943
Notes payable to Municipality of Chatham-Kent	23,523,326	23,523,326
Other	10,907,681	8,960,487
Total liabilities	52,043,830	48,938,756
Equity		
Share capital	26,882,150	26,882,150
Retained earnings	14,832,319	12,975,582
Total equity	41,714,469	39,857,732
Total liabilities and equity	93,758,299	88,796,488

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

2. Investment in Chatham-Kent Energy Inc. (continued)

	2009	2008
	\$	\$
Financial activities		
Revenue	90,832,395	96,361,417
Expenses	86,080,786	91,327,914
	<u>4,751,609</u>	<u>5,033,503</u>
Payment in lieu of taxes	1,421,241	1,303,825
Adjustment for future income taxes	(786,369)	-
Dividends paid	2,260,000	1,690,000
Change in retained earnings	<u>1,856,737</u>	<u>2,039,678</u>
Municipality of Chatham-Kent's investment represented by		
Investment in shares of the Corporation	23,855,798	23,855,798
Accumulated profit and loss less dividends received	14,442,676	12,771,613
	<u>38,298,474</u>	<u>36,627,411</u>
Corix Utilities' investment represented by		
Investment in shares of the Corporation	3,026,352	3,026,352
Accumulated profit and loss less dividends received	389,642	203,968
	<u>3,415,994</u>	<u>3,230,320</u>
<i>Equity in Chatham-Kent Energy Inc.</i>		
	2009	2008
	\$	\$
Balance, beginning of year	60,150,738	58,315,028
Changes during the year		
Net earnings for the year	3,705,063	3,356,710
Dividends paid	2,034,000	1,521,000
Balance, end of year	<u>61,821,801</u>	<u>60,150,738</u>

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

2. Investment in Chatham-Kent Energy Inc. (continued)

Related party transactions and balances

The following summarizes the Corporation's related party transactions with Chatham-Kent Energy Inc. for the year ended December 31, 2009 and December 31, 2008 and the balances at December 31, 2009 and December 31, 2008:

	2009	2008
	\$	\$
<i>Transactions</i>		
Revenue		
Administrative services	634,860	616,694
AM-FM	152,146	119,002
Interest on promissory note	1,654,320	1,654,320
Expenses		
Energy purchases (at commercial rates)	4,069,792	4,467,487
Billing and collection services - water/wastewater	2,202,671	1,976,887
Streetlight maintenance	168,042	196,152
	(3,999,179)	(4,250,510)
<i>Balances</i>		
Amounts due from Chatham-Kent Energy Inc.		
Promissory note receivable	23,523,326	23,523,326
Accounts receivable	3,903,233	3,246,631

3. Notes receivable

Notes receivable are due from Chatham-Kent Hydro Inc. with no set repayment terms and interest payable monthly at 7.04%. The Municipality received an interest payment in the current year of \$1,654,320 (2008 - \$1,654,320).

4. Trust funds

Trust funds administered by the Municipality amounting to \$4,477,077 (2008 - \$4,489,686) have not been included in the Consolidated statement of financial position nor have their operations been included in the Consolidated statement of operations and accumulated surplus.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

5. Accrued employee benefits

The Municipality has accrued employee benefits as follows:

	2009	2008
	\$	\$
Employee future benefits	19,299,018	18,590,834
Workplace safety and insurance obligations	3,401,733	3,656,818
Vested sick leave	75,340	153,159
Vacation credits	2,618,684	2,543,617
	25,394,775	24,944,428

The accrued benefits above are described as follows:

Employee future benefits

The Municipality pays certain medical and life insurance benefits on behalf of its retired and current employees. The accrued benefit liability at December 31, 2009 of \$19,299,018 (2008 - \$18,590,834) was determined by actuarial valuation using a discount rate of 5.50% (2008 - 7.00%).

Information about the Municipality's life and health plan is as follows:

	\$
Accrued benefit liability as at January 1, 2009	18,590,834
Expense for the period	1,098,512
Benefits paid during the period	(390,328)
Estimated accrued benefit liability as at December 31, 2009	19,299,018

The main actuarial assumptions employed for the valuation are as follows:

a) *General inflation*

Future inflation levels, as measured by changes in the Consumers Price Index ("CPI"), were assumed to be 2.5% in 2009 and thereafter.

b) *Interest (discount) rate*

The present value as at December 31, 2009 of the future benefits was determined using a discount rate of 5.5%. The expense for the year ended December 31, 2009, was determined using a discount rate of 7.00%. This corresponds to the assumed CPI rate plus an assumed rate of return of 3%.

c) *Health costs*

Drug costs were assumed to increase at CPI plus 7.5% per year grading down to CPI plus 1% over 10 years. Other health costs were assumed to increase at the CPI rate plus 1% for 2009 and thereafter.

d) *Dental costs*

Dental costs were assumed to increase at the CPI rate plus 1% for 2009 and thereafter.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

5. Accrued employee benefits (continued)

Workplace safety and insurance obligations

Effective January 1, 2001, the corporation became a Schedule II employer under the Workplace Safety and Insurance Act and follows a policy of self insurance for some of its employees. The corporation remits payments to the Workplace Safety & Insurance Board (WSIB) as required to fund disability payments. The estimated future liability relating to WSIB amounted to \$3,401,733 (2008 - \$3,656,818) and an accrual has been booked for 2009. A Workplace Safety and Insurance Reserve, funded by annual contributions from operations, has also been established to protect against any unknown future liability, and has a balance of \$1,657,882 (2008 - \$1,076,117). The corporation also maintains an insurance policy, which protects the corporation against financial exposure to a catastrophic loss in excess of \$1,000,000.

Vested sick leave

Under some of the pre-amalgamation municipal sick leave benefit plans, unused sick leave could accumulate and employees may become entitled to a cash payment when they leave the municipality's employment. The Municipality has not offered vested sick leave and thus the amounts will no longer accumulate.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination, amounted to \$75,340 (2008 - \$153,159) at the end of the year and is reported as an accrued liability on the Consolidated statement of financial position. An amount of \$77,819 (2008 - \$Nil) was paid to employees who left the Municipality's employment during the current year.

Vacation credits

Under the provisions of certain employee vacation plans, some vacation credits are earned as at December 31 but are generally unavailable for use until a later date. In addition, the provisions of certain plans allow the accumulation of vacation credits for use in future periods. The approximate value of these credits as at December 31, 2009 is \$2,618,684 (2008 - \$2,543,617) and is reported as an accrued liability on the Consolidated statement of financial position.

Funding for these benefits will be provided through taxation in the year of disbursement.

6. Pension agreement

The Municipality makes contributions to the Ontario Municipal Employees Retirement System (OMERS) which is a multi-employer plan, on behalf of the 1,298 (2008 - 1,273) 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 were made in the 2009 calendar year at rates ranging from 6.3% to 12.8% depending on the member's designated retirement age and level of earnings. The amount contributed to OMERS for 2009 was \$5,903,495 (2008 - \$5,426,318) for current service and this is included on the Consolidated statement of operations and accumulated surplus.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

7. 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 restricts 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 as follows:

	2009	2008
	\$	\$
For building code act	219,279	400,324
For parkland purposes	123,885	113,051
For Federal gas tax	3,172,906	1,710,876
For Federal transit gas tax	64,855	65,463
For Provincial gas tax	3,086,688	2,693,478
Deferred revenue - obligatory reserve funds	<u>6,667,613</u>	<u>4,983,192</u>
Other deferred revenue		
Deferred taxes	657,916	873,673
Deferred grants	7,103,116	10,178,264
Other	1,127,232	1,417,403
Total deferred revenue	<u>15,555,877</u>	<u>17,452,532</u>

8. Net long-term liabilities

- a) The balance of net long-term liabilities reported on the Consolidated statement of financial position is made up of the following:

	2009	2008
	\$	\$
Total long-term liabilities incurred by the Municipality including those incurred on behalf of former municipalities and municipal enterprises and outstanding at the end of the year.	137,646,176	149,828,742
Of the long-term liabilities shown above, the Municipality is contingently liable for long-term liabilities with respect to tile drainage and shoreline property assistance loans. The responsibility for payment of principal and interest charges has been assumed by individual landowners.	(2,456,073)	(2,448,457)
Net long-term liabilities at the end of the year	<u>135,190,103</u>	<u>147,380,285</u>

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

8. Net long-term liabilities (continued)

b) Principal due on net long-term liabilities reported in a), is summarized as follows:

	2010 to 2014	2015 to 2019	2020 and thereafter
From general municipal revenue	16,031,256	12,057,959	15,222,666
From benefiting landowners	18,666,154	4,217,164	6,039,976
From benefiting water ratepayers	14,052,697	9,637,308	12,190,566
From benefiting wastewater ratepayers	8,838,800	8,223,069	10,012,488
	<u>57,588,907</u>	<u>34,135,500</u>	<u>43,465,696</u>

- c) Included in the principal amount in a) is \$11,207,283 (2008 - \$11,659,971) related to the Non-Profit Social Housing division.
- d) All net long-term liabilities on the Consolidated statement of financial position are payable in Canadian dollars.
- e) The long-term liabilities listed in a) were issued in the name of the Municipality or former municipalities and approved by Council have received approval of the Ontario Municipal Board prior to January 1, 1993. Those issues approved by Council after December 31, 1992 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.
- f) Included in the principal amount listed in a) above are three demand loans issued to the Canadian Imperial Bank of Commerce in the amount of \$6,782,973 (2008 - \$7,938,701), \$5,629,124 (2008 - \$6,593,921) and \$848,248 (2008 - \$1,089,524) respectively.
- g) Included in the principal amount listed in a) above is a non-interest bearing note payable due to St. Joseph Health Services Association of Chatham in the amount of \$300,000 (2008 - \$400,000). The note has fixed annual payments of \$100,000.

9. Charges for net long-term liabilities

Total activity for the year for net long-term liabilities are as follows:

	2009	2008
	\$	\$
Beginning balance	147,380,285	158,419,958
Principal payments	<u>(12,190,182)</u>	<u>(11,039,673)</u>
Ending balance	<u>135,190,103</u>	<u>147,380,285</u>

Net interest payments related to long-term liabilities in the current year were \$5,889,691 (2008 - \$6,362,117) and are reported in the Consolidated statement of operations and accumulated surplus.

10. Accrual of interest on net long-term liabilities

A provision for the interest on long-term debt that has been accrued but not paid in the current year is estimated to be \$1,733,713 (2008 - \$1,911,156) and is reported as an accrued liability on the Consolidated statement of financial position.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

11. Local improvements receivable

Improvements to infrastructure are often requested by residents, such as extending waterlines, sewers, sidewalks, or curb and gutters to new areas, or repairs and upgrades to municipal drains. The Municipality records the outstanding ratepayer funding of these local improvements as a receivable in the Consolidated statement of financial position.

	2009	2008
	\$	\$
Local improvements receivable for capital projects on tax roll		
Wastewater	2,157,702	2,537,351
Water	4,661,340	5,099,731
Drainage	7,408,247	6,124,425
Other	296,376	71,751
	14,523,665	13,833,258

12. Tangible capital assets

The net book value of the tangible capital assets is comprised of the following:

	2009	2008
	\$	\$
Land and land improvements	41,010,607	41,099,016
Buildings	109,782,144	110,817,843
Equipment	48,705,416	48,069,063
Vehicles	21,997,281	19,215,233
Underground linear	213,315,385	214,396,535
Plants and facilities	23,416,410	22,126,785
Bridges	91,632,822	87,861,449
Transportation	165,023,546	161,688,848
Other assets	3,138,696	3,101,375
	718,022,307	708,376,147
Assets under construction	48,100,344	18,536,265
	766,122,651	726,912,412

For additional information, see the Consolidated schedule of tangible capital assets.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2009

13. Accumulated surplus

Accumulated surplus consists of individual fund surplus (deficit) and reserves as follows:

	2009	2008
	\$	\$
Surplus		
Invested in tangible capital assets	585,017,644	564,494,552
Chatham-Kent Energy Inc., net equity	61,821,801	60,150,738
BIA	13,907	31,660
Prelevies for benefitting landowners	183,902	228,635
Other	18,805,536	9,685,717
Obligations to be funded from future years	(5,668,186)	(6,409,218)
Unfunded		
Employee future benefits, workplace safety and vacation	(24,203,346)	(23,450,677)
Accrued interest on long-term liabilities	(1,076,498)	(1,162,701)
	634,894,760	603,568,706
Surplus allocated to reserves		
For acquisition of tangible capital assets	28,535,218	28,233,676
For public liability insurance	1,611,225	900,735
For various programs, facilities	30,211,299	32,971,275
For strategic and community development	2,129,982	1,980,880
For water	1,014,536	1,088,669
For wastewater	3,153,555	2,269,494
	66,655,815	67,444,729
Surplus allocated to reserve funds		
For community investment	3,082,844	2,736,080
For parking purposes	213,293	207,843
	3,296,137	2,943,923
Total accumulated surplus	704,846,712	673,957,358

14. Self insurance

In recent years, there have been substantial increases in the premiums charged by the insurance industry for public liability insurance. As a result, the Municipality has undertaken some portion of the risk, which would normally have been covered by outside insurers.

The Municipality is self-insured for property damage claims up to \$100,000 for any individual claim. Outside coverage is in place for claims in excess of these limits.

The Municipality has made a provision for a reserve for self-insurance which as at December 31, 2009 amounted to \$1,611,225 (2008 - \$900,735) and is reported on the Consolidated statement of financial position under reserves. The provision for the year of \$1,454,100 (2008 - \$1,340,616) has been reported as an expenditure on the Consolidated statement of operations and accumulated surplus and \$177,997 (2008 - \$67,020) was transferred from Reserves.

Claims settled during the year amounted to \$921,607 (2008 - \$916,430) and have been provided from the reserve.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

15. Provincial offences administration

The Ministry of the Attorney General requires the following disclosure of all municipal partners administering Provincial Offences Administration. The gross revenues collected at the Provincial Offences Court in 2009 were \$2,124,657 (2008 - \$2,348,349) and net revenue was \$681,076 (2008 - \$893,214).

16. Rent bank program

The Ministry of Municipal Affairs and Housing requires the following disclosure of activity relating to the Rent Bank Program. The following table provides financial information for the program for the year ended December 31:

	2009	2008
	\$	\$
Assets		
Cash	36,468	29,341
Liabilities		
Deferred revenue	36,468	29,341
	2009	2008
	\$	\$
Revenues		
Provincial subsidy	32,658	27,391
Loans repaid	650	980
Interest earned	109	926
	33,417	29,297
Expenditures		
Emergency benefit grants	26,875	22,937
Emergency benefit loans	4,484	4,160
Audit fees	2,000	2,200
Office supplies	58	-
Total expenditures	33,417	29,297

17. Segmented information

The Municipality provides a diverse range of services to its citizens. The Consolidated schedule of segment disclosure has grouped various services into segments to provide a further breakdown of the revenues and expenses attributable to each segment. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

The services included in each segment are as follows:

General government

General government is comprised of governance, corporate management and program support.

Protection services

Protection is comprised of fire, police, conservation authority, protective inspection and control, emergency measures and provincial offenses.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

17. Segmented information (continued)

Transportation services

Transportation is comprised of roads, winter control, transit, parking, street lighting and air transportation.

Environmental services

Environmental is comprised of storm sewer systems, waste collection, waste disposal, and recycling.

Health services

Health is comprised of public health, hospital support, ambulance and cemeteries.

Social and family services

Social and family is comprised of Ontario Works, assistance to aged persons and child care.

Social housing

Social housing provides for a variety of housing services.

Recreational and cultural services

Recreation and culture is comprised of parks, recreation programs, recreation facilities, libraries and cultural services.

Planning and development

Planning and development is comprised of planning and zoning, commercial and industrial development, residential development, agricultural and reforestation, and tile drainage and shoreline assistance.

Water and wastewater services

Water and wastewater provides safe drinking water and collects and treats wastewater.

Other items and corporations

Other items and corporations are comprised of the revenue from subsidiaries and items not related specifically to the other categories.

18. Commitments

- a) The Municipality has entered into various contracts for equipment leases. The obligation over the remaining life of the leases are as follows:

	\$
2010	39,250
2011	39,250
2012	39,250
2013	39,250
2014 to 2015	52,333
	209,333

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2009

18. Commitments (continued)

The Municipality has entered into several contracts for the provision of various services. The obligation over the remaining life of the contracts are:

	\$
2010	13,142,269
2011	13,119,090
2012	4,126,075
2013	78,435
2014 to 2017	257,268
	<u>30,723,137</u>

The Municipality has entered into several other long-term commitments. The obligation over the remaining life of the contracts are:

	\$
2010	814,000
2011	814,000
2012	514,000
2013	514,000
2014 to 2015	1,030,000
	<u>3,686,000</u>

- b) The Municipality has entered into an agreement to purchase the portion of the CSX railway located between the community of Wallaceburg and the community of Chatham. The obligation for the purchase is estimated to be approximately \$3,500,000 and will be finalized in 2010.

19. Budget figures

The approved operating and capital budgets are reflected on the Consolidated statement of operations and accumulated surplus for municipal projects. Those capital projects benefiting and assessed to landowners and developers, for example water, wastewater, drainage, and industrial lands, are not budgeted for. The budgets established for capital projects are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with the current year amounts.

20. Contingent liabilities

From time to time, as is common with other municipalities, the Municipality is the subject of litigation. In the opinion of management, any litigation outstanding, if successful, would not have a material impact on the consolidated financial statements.

21. Comparative amounts

Comparative amounts have been reclassified from statements previously presented to conform to the presentation of the 2009 consolidated financial statements.

The Corporation of the Municipality of Chatham-Kent

Consolidated schedule of tangible capital assets as at December 31, 2009

	Land and land improvements	Buildings	Equipment	Vehicles	Underground linear	Plants and facilities	Bridges	Transportation	Other assets	Total 2009	Total 2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Municipal Cost											
Balance, beginning of the year	40,600,645	107,610,324	21,237,208	41,697,160	96,937,859	2,652,056	134,962,372	360,681,852	5,067,563	811,447,039	792,992,572
Add: Additions during the year	369,045	3,327,027	3,897,591	5,721,262	1,220,495	1,620,314	5,631,566	12,400,573	648,352	34,636,325	24,308,962
Less: Disposals during the year	810	156,552	861,232	1,740,515	2,281	1,000,000	434,222	333,615	536,428	5,065,653	5,854,495
Balance, end of the year	40,968,880	110,780,799	24,273,567	45,677,907	98,156,073	3,272,370	140,159,616	372,748,810	5,179,489	841,217,711	811,447,039
Accumulated amortization											
Balance, beginning of the year	6,374,645	36,576,379	9,741,540	23,107,921	41,676,558	1,707,076	47,100,923	198,993,004	1,966,188	369,244,234	354,828,112
Add: Amortization for the year	458,713	2,501,430	1,337,218	2,845,968	1,813,230	88,137	1,773,625	9,025,762	611,031	20,455,114	19,658,368
Less: Accumulated amortization on disposals	808	139,237	840,190	1,638,170	2,281	797,917	347,554	253,502	536,426	4,596,085	5,242,246
Balance, end of the year	6,832,550	40,938,572	10,238,568	24,315,719	43,487,507	997,256	48,526,994	207,725,264	2,040,793	385,103,263	369,244,234
Net book value of municipal assets	34,136,330	69,842,227	14,034,999	21,362,188	54,668,566	2,275,074	91,632,622	165,023,546	3,138,696	456,114,448	442,202,805
Waterworks Cost											
Balance, beginning of the year	2,230,861	24,879,456	27,759,319	838,192	149,626,301	24,832,327	-	-	-	230,166,456	227,619,311
Add: Additions during the year	1,251	23,070	274,460	94,634	987,951	629,947	-	-	-	2,011,313	2,698,306
Less: Disposals during the year	-	-	11,140	18,450	68,739	-	-	-	-	98,329	151,161
Balance, end of the year	2,232,112	24,902,526	28,022,639	914,376	150,545,513	25,462,274	-	-	-	232,079,440	230,166,456
Accumulated amortization											
Balance, beginning of the year	-	9,309,361	6,247,284	441,053	42,309,430	5,886,610	-	-	-	64,193,738	59,476,581
Add: Amortization for the year	-	606,516	1,154,476	80,569	2,084,861	624,097	-	-	-	4,550,519	4,868,078
Less: Accumulated amortization on disposals	-	-	11,140	18,450	68,739	-	-	-	-	98,329	150,921
Balance, end of the year	2,232,112	14,966,649	7,350,620	503,172	44,325,532	6,510,707	-	-	-	68,645,928	64,193,738
Net book value of waterworks assets	-	10,935,877	20,672,019	411,204	106,219,981	18,951,567	-	-	-	163,433,512	165,972,718
Wastewater Cost											
Balance, beginning of the year	4,642,155	46,986,952	29,841,325	916,958	82,805,437	8,357,259	-	-	-	173,550,076	171,577,531
Add: Additions during the year	10	10,743	165,000	22,728	2,114,365	148,721	-	-	-	2,481,567	1,972,545
Less: Disposals during the year	-	-	40,361	84,594	126,761	-	-	-	-	252,016	-
Balance, end of the year	4,642,165	46,997,695	29,965,964	854,792	84,793,031	8,505,980	-	-	-	175,759,627	173,550,076
Accumulated amortization											
Balance, beginning of the year	-	20,773,149	14,779,965	888,103	30,987,064	6,121,171	-	-	-	73,349,452	69,172,812
Add: Amortization for the year	-	1,271,278	1,187,962	27,694	1,505,264	195,040	-	-	-	4,187,236	4,176,640
Less: Accumulated amortization on disposals	-	-	40,361	84,894	126,155	-	-	-	-	251,410	-
Balance, end of the year	-	22,044,427	15,927,566	830,903	32,366,173	6,316,211	-	-	-	77,285,280	73,349,452
Net book value of wastewater assets	4,642,165	24,953,268	14,038,398	223,889	52,426,858	2,189,769	-	-	-	98,474,347	100,200,624
Total value of tangible capital assets	41,010,607	109,782,144	48,705,416	21,897,281	213,315,385	23,416,410	91,632,822	165,023,546	3,138,696	718,022,307	708,376,147

Financial statements of

**The Corporation of the
Municipality of Chatham-Kent
- Public Libraries**

December 31, 2009



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Accountants' Report

To the Members of Council and the Citizens of the
Corporation of the Municipality of Chatham-Kent

As requested by the Municipality of Chatham-Kent, we report that the schedule of Library financial activities for the Municipality of Chatham-Kent for the year ended December 31, 2009 agrees to financial information supporting the consolidated financial statements of the Municipality of Chatham-Kent for the year then ended, on which we issue our Auditors' Report dated September 3, 2010.

Our examination of the schedule for the year ended December 31, 2009 was not directed to the verification of financial information of the Libraries. We have not performed an audit of and accordingly do not express an opinion on the schedule referred to in the preceding paragraph.

This report is intended for use solely by the management of the Municipality of Chatham-Kent.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
September 3, 2010

The Corporation of the Municipality of Chatham-Kent

Schedule of Library financial activities
year ended December 31, 2009

(Unaudited)

	2009 Actual	2008 Actual
	\$	\$
Revenue		
Grants		
Ministry of Citizenship and Culture/Recreation	221,373	221,373
Other federal	1,330	1,226
Other provincial	103,668	74,570
Fees and fines	94,061	91,514
Donations	22,180	35,603
Other revenues	7,391	7,672
	450,003	431,958
Expense		
Wages and benefits	2,463,148	2,305,317
Building and maintenance costs	261,382	236,543
Materials	543,789	470,533
Miscellaneous	142,131	17,341
Supplies and equipment	213,300	203,202
Telephone charges	7,530	8,106
Travel and training	24,598	22,536
Van rental	10,892	10,520
	3,666,770	3,274,098
Excess of expense over revenue	3,216,767	2,842,140
Source of funding		
Municipality of Chatham-Kent share of expense over revenue	3,216,767	2,842,140

APPENDIX B

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2009

		Actuals Dec 31 2009	Actuals Dec 31 2008
Per Audited Financial Statements			
Reserves		66,655,815	67,444,729
Reserve Funds		3,296,137	2,943,923
Deferred Revenue - Obligatory Reserve Funds		6,667,613	4,983,192
		76,619,565	75,371,844
Details			
Assigned		69,876,894	70,306,218
Mandated		6,742,671	5,065,626
		76,619,565	75,371,844

MANDATED:

<u>Dept</u>	<u>Division</u>	<u>Details</u>		
HFS	Day Nursery (fundraising)	Chatham	6,220	5,938
HFS	Day Nursery (fundraising)	Wallaceburg	59	59
HFS	Home for the Aged	Bequests - Riverview Gardens	0	7,659
HFS	Ontario Work	Ontario Enhancement Fund	4,994	4,994
CDS	Building Code Act	Bill 124	219,279	400,325
CDS	Parkland		123,885	113,051
CDS	Library	Bequests	8,178	8,178
CDS	Library	Donations...general	10,564	10,564
CDS	Municipal Properties	Wheatley pool	45,043	45,043
IES	Transit	Prov Gas Tax:	3,086,688	2,693,479
IES	Infrastructure	Fed Gas Tax	3,172,906	1,710,876
IES	Transit	Fed public transit	64,855	65,463

TOTAL MANDATED:

6,742,671 5,065,626

ASSIGNED:

<u>Dept</u>	<u>Division</u>	<u>Details</u>		
Corp	Community Investment Fund		3,082,844	2,736,080
Corp	All Depts	Encumbrances from 06	1,138,847	865,430
Corp	In camera	Contract issues	10,828,856	14,589,838
Corp	Insurance Risk	Insurance Risk	1,611,225	900,735
Corp	Strategic	Master Plan Implementation	219,900	219,900
Corp	All Depts	Lifecycle - Computer Hardware	904,123	1,028,784
Corp	All Depts	Energy Price Fluctuation	531,900	0
Corp	All Depts	Fuel Price Fluctuation	409,690	0
Corp	All Depts	Misc. other	130,000	0
Corp	All Depts	Future Matching Infrastructure	5,970,000	0

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2009

			Actuals	Actuals
			Dec 31	Dec 31
			2009	2008
Corp	Elections	Lifecycle - Elections	260,351	174,601
Corp	WSIB Risk Reserve	WSIB Risk Reserve	1,657,882	1,076,117
Corp	Strategic Mngt Fund	Community Investment	279,627	279,627
Corp	Strategic	Strategic Development	944,776	743,377
Corp	Strategic	Community Improvement	493,417	424,467
Corp	Strategic	Reserve for Future Years	2,531,098	2,665,727
Corp	Strategic	Community Partnerships	161,670	189,465
Corp	Strategic	Property Dispositions	97,803	310,917
Corp	Strategic	Corporate Strategic Directions	30,591	87,926
Corp	Strategic	Investing in Ontario Act	5,345,320	9,704,478
CDS	Economic Development	General	0	36,116
CDS	Rec Facilities	Lifecycle - Recreation Arena	239,363	168,760
CDS	Rec Facilities	Recreation - other	39,807	30,421
CDS	Rec Facilities	Lifecycle - Recreation Indoor Pools Replace	124,946	129,439
CDS	Parks, Cemetery, Horticulture	Lifecycle - Recreation Playground Replace/mtce	10,070	40,291
CDS	Municipal buildings	Recreation - Kinsmen Auditorium	310,347	147,347
CDS	Parks, Cemetery, Horticulture	Lifecycle - Parks	321,671	337,323
CDS	Parks, Cemetery, Horticulture	Clearville Park	10,000	5,000
CDS	Parks, Cemetery, Horticulture	Lifecycle - Outdoor Pools	125,311	180,160
CDS	Parks, Cemetery, Horticulture	Lifecycle - Reforestation	157,071	190,864
CDS	Parks, Cemetery, Horticulture	Lifecycle - Trails	924,517	674,065
CDS	Parks, Cemetery, Horticulture	Cemetery	26,067	26,067
CDS	Parks, Cemetery, Horticulture	Lifecycle-Cemetery	38,253	0
CDS	Building Enforcement & Licensing Services	Computer software	157,305	157,305
CDS	Building Enforcement & Licensing Services	Building Dept operation	270,500	270,500
CDS	Municipal buildings	Building lifecycle	1,775,323	1,873,056
CDS	Planning	Planning Special Projects	109,975	0
FES	Ambulance	General	1,795,802	1,852,459
CS	Finance	Financial Software	313,876	295,731
CS	Human Resources	Software Development	123,692	107,262
CS	Info Tech	Lifecycle ITS - GIS system	134,779	142,711
CS	Info Tech	ITS, Strategic Plan	501,143	193,868
CS	Info Tech	Lifecycle ITS - Web Lifecycle	143,002	371,503
CS	Info Tech	Lifecycle ITS - Copy/Printing Equipment	295,927	262,932
CS	Info Tech	Lifecycle ITS - Computer Hardware	-102,731	144,532

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2009

			Actuals Dec 31 2009	Actuals Dec 31 2008
CS	Info Tech	Lifecycle ITS - Computer Software	1,249,619	1,045,536
CS	Info Tech	Lifecycle ITS - Computer Network	327,820	204,061
CS	Info Tech	Lifecycle ITS - Telecommunications	377,102	171,695
CS	Info Tech	Lifecycle ITS - Applications	148,146	120,275
CS	Info Tech	Lifecycle ITS - Corporate Technology	3,948	0
CS	Info Tech	Lifecycle ITS GIS Data	45,000	30,000
HFS	Senior Services	Homes Operational	957,511	403,509
HFS	Senior Services	RVG Vending Machines	29,233	29,233
HFS	Senior Services	Senior Centre Contingency	18,128	17,183
HFS	Senior Services	Homes WSIB	102,900	32,900
HFS	Ontario Works	Future Economic Downturns	2,351,042	1,851,042
HFS	Health Unit	CK portion	643,461	505,104
HFS	Health Unit	Lifecycle-Wish Centre building	60,800	0
HFS	Social Housing	Social Housing Renovate & Retrofit	559,527	0
HFS	Social Housing	Social Housing Operation	2,676,139	2,499,588
HFS	Social Housing	Lifecycle-Social Housing Buildings	1,340,529	767,352
HFS	Social Housing	Lifecycle-Social Housing DOOR	115,000	267,800
HFS	Social Housing	Social Housing Capital Repair Fund	157,846	573,887
HFS	Social Housing	Lifecycle-Social Housing -WHC	178,344	359,070
IES	Public Works	Gravel pit	-80,481	0
IES	Public Works	Lifecycle Roads	-509,329	3,397,016
IES	Public Works	Lifecycle-Bridges	-4,958,614	0
IES	Public Works	Lifecycle - Sidewalks	85,506	158
IES	Public Works	Lifecycle - Railways Crossing	368,932	331,261
IES	Public Works	MTO - Roads & Bridges grant	1,224,896	1,786,003
IES	Public Works	MTO - Move Ontario, Lifecycle phasein	53,787	98,787
IES	Public Works	Winter Control	580,242	580,242
IES	Public Works	Lifecycle- Storm Sewers	1,725,909	1,306,230
IES	Public Works	Lifecycle-Active Communities	703,531	0
IES	Public Works	Lifecycle-Streetlight Poles	176,378	0
IES	Engineering	Transit	1,474,727	1,388,167
IES	Engineering	Lifecycle-AM/FM	360,448	0
IES	Engineering	Capital Budget unfinished projects	5,142,304	0
IES	Environmental	Agriculture Hazard Waste Days	30,000	30,000
IES	Fleet	Lifecycle-Fleet Shop Eqpt	40,401	0
IES	Parking	Chatham Downtown	213,293	207,843
Police	Police	Mandatory Poicing Issues	259,000	0
Police	Police	Police Litigation	303,350	406,376

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2009

			Actuals Dec 31 2009	Actuals Dec 31 2008
Police	Police	Police Services Board	59,212	141,877
PUC	Water		1,014,536	1,043,766
PUC	Wastewater		3,153,555	2,314,397
	Fleet(Ambulance, Police, Fire, Public works, other) :		2,637,279	4,760,678
TOTAL ASSIGNED:			69,876,894	70,306,218