

**MUNICIPALITY OF CHATHAM-KENT**

**CORPORATE SERVICES**

**FINANCIAL SERVICES**

**TO:** Mayor and Members of Council

**FROM:** Gord Quinton, BA, CGA  
Acting Director, Financial Services / Treasurer

**DATE:** October 22, 2012

**SUBJECT:** 2011 Audited Financial Statements

---

**RECOMMENDATION**

It is recommended that:

1. The audited financial statements for the year ended December 31, 2011, be approved.

**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. The senior audit partner meets directly with the Audit Policy Committee in closed session at least annually, with Municipal staff absent, to obtain comments and instructions. In addition to the standard audit report, the auditor conducts extra tests and examinations based on the Audit Policy Committee's concerns. Results of the audit are shared directly with the Audit Policy Committee and ultimately the statements are approved by Council in this report.

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 conducted<sup>1</sup>.

Copies of the draft audited financial statements are attached as Appendix "A" and a final signed version will be presented on the municipal website once approved by Council. 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.

---

<sup>1</sup> 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. Contributing factors were the "budget performance, manageable debt and satisfactory liquidity". (September 12, 2012)

### Audit Policy Committee

The Audit Policy Committee met on October 9, 2012 with the Audit Partner and Lead Auditor from Deloitte and received the Year-End Communication Report detailing their findings. The committee reviewed the financial statements in detail. The committee passed the following motion:

**That the Audit Policy Committee receive the 2011 Audited Financial Statements and recommend the approval of the statements to Council.**

### Reported 2011 results

The following are additional comments regarding the financial statements.

This excerpt from the Consolidated Statement of Operations and Accumulated Surplus (see page 4 of the financial statement attachment) lists the total revenues, expenses, and the resulting excess revenues over expenses.

	2011	2010
Revenues	\$315,955,787	\$321,757,905
Expenses	\$285,589,562	\$285,400,963
Excess revenues over expenses before other items	\$30,366,225	\$36,356,942
Income from subsidiary	\$1,989,835	\$3,132,090
<b>Excess revenues over expenses</b>	<b>\$32,356,060</b>	<b>\$39,489,032</b>

The Municipal 2011 year-end cash basis surplus is \$289,501 (\$1,339,755 in 2010). Budget and Performance Services will provide in a separate 2011 final variance report where the surplus originated and recommendations on its use. This figure is included as part of the \$32,356,060 (\$39,489,032 in 2010) excess revenue over expenses reported on the Consolidated Statement of Operations and Accumulated Surplus. The \$32 million surplus (under the new accounting rules introduced in 2009) 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, the cost of capital assets is to be written off against tax revenues over the useful life of the asset. Some of the assets have a useful life of 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 \$32 million accrual accounting surplus in the financial statements to the \$289,501 surplus as per the balanced cash budget approved by Council during the 2011 budget deliberations.

	2011	2010
<b>Accrual basis surplus as per Financial Statements</b>	<b>\$32,356,060</b>	<b>\$37,217,288</b>
Adjustments:		
Amortization	\$31,867,506	\$30,592,496
Taxation, grant, other Tangible Capital Assets funding	\$(45,968,673)	\$(57,822,370)
Long-term debt repayment	\$(14,334,922)	\$(12,211,049)
Income from subsidiary	\$(1,989,835)	\$(3,132,090)
Other	\$(1,640,635)	\$6,695,480
<b>Cash basis surplus as previously reported to Council</b>	<b>\$289,501</b>	<b>\$1,339,755</b>

Total Municipal and PUC expenses, excluding hydro operations, in 2011 were \$285,589,562, (\$285,400,963 in 2010). C-K Energy (now Entegrus) 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 Services Board, along with all other municipal services. Separate audits for the Public Health Division, Library, 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 are done 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 3 of the financial statement attachment) lists the total assets, liabilities, and the resulting accumulated surplus.

	2011	2010
Financial assets	\$164,029,172	\$176,428,308
Liabilities	\$222,341,358	\$245,644,804
Net financial assets	\$(58,312,186)	\$(69,216,496)
Non-financial assets	\$832,732,245	\$811,280,495
<b>Accumulated surplus</b>	<b>\$774,420,059</b>	<b>\$742,063,999</b>

### Accumulated Surplus

The new financial statement format along with recording the tangible capital assets in the statement results in a \$774,420,059 accumulated surplus for 2011. 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 18 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 17 of the financial statement attachment) lists the net book value of Chatham-Kent's assets.

	2011	2010
Land and land improvements	\$47,576,588	\$43,522,343
Buildings	\$132,197,181	\$134,059,092
Equipment	\$57,596,654	\$56,135,256
Vehicles	\$21,374,884	\$22,010,543
Underground Linear	\$229,639,801	\$210,712,689
Plants and facilities	\$21,984,914	\$22,629,242
Bridges	\$107,608,487	\$97,666,162
Transportation	\$175,129,637	\$164,825,706
Other assets	\$3,287,773	\$3,336,910
	\$796,395,919	\$754,897,943
Assets under construction	\$34,236,248	\$53,685,278
<b>Total tangible capital assets</b>	<b>\$830,632,167</b>	<b>\$808,583,221</b>

Chatham-Kent Energy Inc. net equity is the Municipality's 90% share of the 2011 Chatham-Kent Energy (CKE) net income of \$2,210,928 (\$3,480,101 in 2010) plus the value of the shares and long-term note payable to the Municipality for consideration of the original transfer of net assets to CKE<sup>2</sup>.

Reserves and Reserve Funds are the reserve balances at year-end. A breakdown of Reserves and Reserve Funds is attached as Appendix "B". A more comprehensive breakdown of Reserves and Reserve Funds will be included as a separate report to Council prior to budget deliberations. Also see Note 13 of the audited financial statements. Reserve balances include amounts encumbered. The amount in reserves is only slightly increased from 2010.

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 4.5% (5.0% in 2010)

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

	2011	2010
Service Revenue	\$101,219,653	\$97,587,499
Cost of Power	\$83,785,228	\$80,400,078
Gross Margin	\$17,434,425	\$17,187,421
Operating Income	\$21,624,751	\$21,655,305
Net Earnings (100%)	\$2,210,928	\$3,480,101
Retained Earnings (End of Year)	\$16,293,348	\$16,402,240
Dividends Paid to C-K	\$2,088,000	\$1,719,000
Dividends Paid to Corix Utilities	\$232,000	\$191,000

- 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 to be funded by tax dollars is found below:

	2011	2010
Employee future benefits	\$19,780,058	\$19,184,725
WSIB obligation	\$3,022,412	\$4,289,283
Vacation pay	\$2,625,519	\$2,612,246
<b>Total unfunded employee future benefits</b>	<b>\$25,427,989</b>	<b>\$26,086,254</b>
Interest on long-term liabilities	\$1,115,619	\$1,187,182

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 15 and 16 of the financial statement attachment) provide details of the long-term liabilities. Debenture detail is provided in figure 1; there were no new debt issues in 2011. The "Funded By" columns identify the sources of future funding to service the debt payments. The tax funded obligation is currently approximately \$26 million.

**Figure 1 Chatham-Kent Long Term Debt as at December 31, 2011**

				Funded by:			
Debt Issue #	Rate %	Term	Total	PUC rates	PUC locals	Mun.Tax	Mun. Other
<b>Debt Issued by the Municipality of Chatham-Kent</b>							
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
2010-01	4.22	10	12,533,100 (L)			12,533,100	
2010-02	4.88	20	24,244,728 (M)	24,244,728			
2010-03	2.00	20	2,000,000 (N)	2,000,000			
Subtotal			215,706,991	111,273,470	12,000,000	37,734,100	54,699,421
Less Principal amounts repaid by Dec 31, 2011			(74,762,796)	(34,463,718)	(7,718,722)	(11,503,021)	(21,077,335)
Chatham-Kent Issued Debt Outstanding at Dec 31, 2011			\$140,944,195	\$76,809,752	\$4,281,278	\$26,231,079	\$33,622,086
<b>Other Debt assumed by Chatham-Kent</b>							
Former Entities Dec 31, 2011	various	Various	551,000 (O)	499,757		51,243	
Social Housing download Dec 31, 2011	Various	Various	5,726,765 (P)				5,726,765
<b>Total Debt Outstanding Dec 31, 2011</b>			<b>\$147,221,960</b>	<b>\$77,309,509</b>	<b>\$4,281,278</b>	<b>\$26,282,322</b>	<b>\$39,348,851</b>

(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) OSIFA Debenture: Bridges \$10,533,100, Lifecycle Roads \$1,700,000, Lifecycle Buildings \$300,000

(M) OSIFA Debenture: Water \$9,200,151, Wastewater \$15,044,577

(N) Federation of Canadian Municipalities Debenture \$2,000,000

(O) Included are Wallaceburg Wastewater \$499,757, Wallaceburg Fire \$51,243

(P) 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.

<b>Figure 2      Development Charges Reserve Fund</b>						
	<b>2011</b>			<b>2010</b>		
	Roads	Water	Sewer	Roads	Water	Sewer
Opening Balance	\$0	\$0	\$0	\$0	\$0	\$0
Contribution from developers	\$0	\$211,866	\$223,158	\$0	\$123,874	\$110,863
Interest Earned	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	\$211,866	\$223,158	\$0	\$123,874	\$110,863
Use of funds:						
Investment in Capital	\$0	\$211,866	\$223,158	\$0	\$123,874	\$110,863
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### Budget Figures

Budget figures provided as part of the Consolidated Statement of Operations and Accumulated Surplus (see page 4 of the financial statement attachment) do not reflect the balanced 2011 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 2011 is presented below along with the 2010 comparison.

As at December 31	Water		Wastewater	
	2011	2010	2011	2010
Revenues	\$18,309,539	\$16,301,012	\$17,387,022	\$12,205,143
Expenditures	\$19,729,189	\$18,206,640	\$18,492,669	\$13,220,327
Net Income	\$(1,419,650)	\$(1,905,628)	\$(1,105,647)	\$(1,015,184)

<b>Reserve Fund Balance (End of Year)</b>	<u>\$ (2,075,973)</u>	<u>\$297,806</u>	<u>\$ (1,610,302)</u>	<u>\$553,310</u>
---	-----------------------	------------------	-----------------------	------------------

### 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.

<b>Materiality Calculations</b>	
Annual Debt Limit (December 31, 2011)	<sup>3</sup> \$27,176,641
2% of this limit (established by policy)	\$543,533
Financial Lease Payments 2011	
Fleet	\$226,807
Copiers	<u>\$138,881</u>
<b>Total</b>	<b>\$365,688</b>

The Municipality does not often use financial leases, as the cost of other forms of indebtedness is more advantageous. Because 2011 financial lease payments are less 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 2011.

## **COUNCIL STRATEGIC DIRECTIONS**

The recommendations in this report support the following Council Directions:

- ☐ Healthy, Active Citizens
- ☐ Growth Through Variety of Post-Secondary Institutions
- ☐ High Quality Environment Through Innovation
- ☐ Destination Chatham-Kent!
- ☐ Magnet for Sustainable Growth

<sup>3</sup> 2011 Annual Debt Limit Calculation

1 Gross Debt Charges	Principal Interest	\$14,784,749
		\$6,636,752
<b>Subtotal</b>		<b>\$21,421,501</b>
2 OCWA		-
3 Long term commitments		\$100,000
4 Debt Charges for Lease Purchases		-
<b>5 SUBTOTAL DEBT CHARGES</b>		<b>\$21,521,501</b>
6 Debt Charges for Utilities		-
7 Downtown Revitalization Loans		-
8 Tile Drainage & Shoreline Assistance		\$608,073
9 SUBTOTAL TO BE EXCLUDED		-
<b>10 NET DEBT CHARGES</b>		<b>\$20,913,428</b>

11 Total Revenue Fund Revenues	\$317,962,648
12 Downtown Revitalization Loan payments from above	-
13 Drainage/shoreline fees	\$165,115
14 Grants from other governments	
Ontario	\$106,296,766
Canada	\$16,045,746
Other Municipalities, other items	\$3,094,744
Total Grants from Governments	\$125,437,256
15 Joint Board Fees	-
Amounts to be deducted from revenue	\$125,272,141
16 Net Revenue Fund Funds	\$192,360,277
17 25% of net revenue fund	\$48,090,069
18 Annual Repayment Limit	\$27,176,641
25% of item #17 less net debt charges #10	

At 6% interest, the Municipality has the capacity to borrow an additional \$312 million with repayment amortized over 20 years.

- ☒ Prosperous and Thriving Community  
☐ Has the potential to support **all** Council Directions  
☐ Neutral issues (does not support negatively or positively)

**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. The Audit Policy Committee has reviewed the statements.

**FINANCIAL IMPLICATIONS**

The accumulated Municipal surplus of \$289,501 will be addressed in a separate Budget & Performance Services report 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 2011 audit was the fourth in a five year term.

Prepared by:

Reviewed by:

---

Gord Quinton, BA, CGA  
Acting Director, Financial Services/Treasurer

---

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

Attachment(s):

Appendix A – Consolidated Financial Statements-Municipality of Chatham-Kent  
Appendix B – Chatham-Kent Summary of Reserves

P:\RTC\F&PS\Finance\2012\RTC021- 2011 Audited Financial Statements.docx

Consolidated financial statements of

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

December 31, 2011

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

December 31, 2011

Table of contents

Independent Auditor's Report .....	1-2
Consolidated statement of financial position.....	3
Consolidated statement of operations and accumulated surplus.....	4
Consolidated statement of change in net debt.....	5
Consolidated statement of cash flows.....	6
Notes to the consolidated financial statements.....	7-20
Consolidated schedule of segment disclosure.....	21



Deloitte & Touche LLP  
One London Place  
255 Queens Avenue  
Suite 700  
London ON N6A 5R8  
Canada

Tel: 519-679-1880  
Fax: 519-640-4625  
[www.deloitte.ca](http://www.deloitte.ca)

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of The Corporation of the Municipality of Chatham-Kent, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the Municipality of Chatham-Kent as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
November 5, 2012

# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of financial position  
as at December 31, 2011

	2011	2010
	\$	\$
<b>Financial assets</b>		
Cash	36,766,228	47,210,251
Taxes receivable	12,212,869	10,928,453
Accounts receivable	29,978,157	32,063,172
Investment in Chatham-Kent Energy Inc. (Note 2)	39,613,400	39,711,565
Notes receivable from Chatham-Kent Energy Inc. (Notes 2,3)	23,523,326	23,523,326
Land held for resale	5,561,429	5,587,979
Other assets	2,396,838	2,915,560
Local improvements receivable (Note 11)	13,976,925	14,488,002
	<b>164,029,172</b>	<b>176,428,308</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	26,979,242	34,869,585
Accrued interest (Note 10)	1,575,515	1,748,297
Accrued employee benefits (Note 5)	26,748,638	27,333,780
Current note payable (Note 8)	100,000	100,000
Deferred revenue (Note 7)	19,616,003	19,836,260
Debentures outstanding (Note 8)	147,221,960	161,556,882
Long-term note payable (Note 8)	100,000	200,000
	<b>222,341,358</b>	<b>245,644,804</b>
<b>Net debt</b>	<b>(58,312,186)</b>	<b>(69,216,496)</b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 12)	830,632,167	808,583,221
Inventory	737,755	817,271
Prepaid expenses	1,362,323	1,880,003
	<b>832,732,245</b>	<b>811,280,495</b>
<b>Accumulated surplus (Note 13)</b>	<b>774,420,059</b>	<b>742,063,999</b>



# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of operations and accumulated surplus  
year ended December 31, 2011

	2011 Budget (unaudited)	2011 Actual	2010 Actual
	\$	\$	\$
<b>Revenues</b>			
Taxation and user charges			
Property taxation	154,709,366	154,709,366	152,532,882
Payments in lieu of taxes from other governments	3,495,775	3,495,775	3,499,435
User charges	53,809,947	56,825,483	53,840,081
	212,015,088	215,030,624	209,872,398
Deduct amounts received or receivable for School Boards	(32,051,012)	(32,051,012)	(33,291,855)
	179,964,076	182,979,612	176,580,543
Grants			
Government of Canada	16,085,457	16,045,746	22,665,795
Province of Ontario	105,124,933	106,296,766	108,785,317
	121,210,390	122,342,512	131,451,112
Other			
Investment income	2,649,582	2,795,135	3,145,394
Penalties and interest on taxes	1,500,000	1,508,711	1,643,966
Contributions from landowners and developers	2,338,432	2,773,456	234,737
Sale of land and equipment	108,015	180,478	249,423
Provincial offences administration	2,082,500	2,175,207	1,902,025
Other	1,624,324	1,200,676	6,550,705
	10,302,853	10,633,663	13,726,250
<b>Total revenue</b>	<b>311,477,319</b>	<b>315,955,787</b>	<b>321,757,905</b>
<b>Expenses</b>			
General government	4,507,453	3,130,740	5,283,201
Protection of persons and property	49,855,590	49,060,814	49,137,700
Transportation services	40,994,557	42,432,053	40,836,816
Environmental services	45,038,034	43,904,676	40,877,193
Health services	21,796,726	21,111,507	20,276,049
Social and family services	85,734,655	84,836,142	86,810,380
Social housing	12,473,157	11,767,519	14,222,321
Recreation and cultural services	22,034,174	22,090,521	21,130,284
Planning and development	5,740,662	5,835,732	6,666,131
Loss on disposal of tangible capital assets	-	1,419,858	160,888
<b>Total expenses</b>	<b>288,175,008</b>	<b>285,589,562</b>	<b>285,400,963</b>
Excess revenues over expenses before other items	23,302,311	30,366,225	36,356,942
Other items			
Income from subsidiary (Note 2(a))	-	1,989,835	3,132,090
Excess of revenues over expenses	23,302,311	32,356,060	39,489,032
Accumulated surplus, beginning of year	-	742,063,999	702,574,967
<b>Accumulated surplus, end of year</b>	<b>23,302,311</b>	<b>774,420,059</b>	<b>742,063,999</b>

# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of change in net debt  
year ended December 31, 2011

	2011	2010
	\$	\$
<b>Excess of revenues over expenses</b>	<b>32,356,060</b>	39,489,032
Acquisition of tangible capital assets	(75,014,945)	(67,772,225)
Decrease (increase) in tangible capital assets - construction in progress	19,449,029	(7,856,676)
Amortization of tangible capital assets	31,867,506	30,592,496
Loss on sale of tangible capital assets	1,419,858	160,888
Proceeds of sale of tangible capital assets	57,064	143,203
Write-downs of tangible capital assets	172,542	
Change in inventory	79,516	84,012
Change in prepaids	517,680	(36,913)
Change in net debt	10,904,310	(5,196,183)
Net debt, beginning of year	(69,216,496)	(64,020,313)
<b>Net debt, end of year</b>	<b>(58,312,186)</b>	(69,216,496)

# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of cash flows  
year ended December 31, 2011

	2011	2010
	\$	\$
<b>Operating transactions</b>		
Excess of revenues over expenses	32,356,060	39,489,032
Items not involving cash		
Amortization	31,867,506	30,592,496
Loss on sale of tangible capital assets	1,419,858	160,888
Write-down of tangible capital asset	172,542	
Income from subsidiary	(1,989,835)	(3,132,090)
Change in non-cash working capital items	(6,033,396)	(12,050,862)
Change in obligations to be funded from future revenues	(757,924)	1,953,589
Increase in inventory	79,516	84,012
Increase in prepaid expenses	517,680	(36,913)
	<b>57,632,007</b>	<b>57,060,152</b>
<b>Financing transactions</b>		
New debt issued	-	38,777,828
Note payable repayment	(100,000)	(100,000)
Long-term debt repayment	(14,334,922)	(12,111,049)
Deferred revenue	(220,257)	4,280,383
	<b>(14,655,179)</b>	<b>30,847,162</b>
<b>Capital transactions</b>		
Acquisition of tangible capital assets	(55,565,915)	(75,628,901)
Proceeds of sale of tangible capital assets	57,064	143,203
	<b>(55,508,851)</b>	<b>(75,485,698)</b>
<b>Investing transaction</b>		
Dividends received from Chatham-Kent Energy Inc.	2,088,000	1,719,000
Net increase (decrease) in cash	(10,444,023)	14,140,616
Cash, beginning of year	47,210,251	33,069,635
<b>Cash, end of year</b>	<b>36,766,228</b>	<b>47,210,251</b>

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2011

---

### 1. Significant accounting policies

The consolidated financial statements of The Corporation of the Municipality of Chatham-Kent (the "Municipality") have been prepared by management in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Municipality are as follows:

#### *Basis of consolidation*

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity 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; and
- 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. ("CKE") 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 and accumulated surplus, but with no effect on Municipal Fund 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 financial statements except to the extent that any overlevies 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 Balance sheet.

#### *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, and 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.

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2011

---

### 1. Significant accounting policies (continued)

#### *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 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 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.

#### *Management estimates*

The preparation of these financial statements in conformity with Canadian public sector accounting standards 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Employee future benefit obligations*

The cost of future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and assumptions of mortality and termination rates, retirement age and expected inflation rates.

# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements  
December 31, 2011

---

**1. Significant accounting policies (continued)**

*Employee future benefit obligations (continued)*

Actuarial gains and losses are amortized linearly over the Expected Average Remaining Service Lifetime (EARSL) of active employees.

**2. Investment in Chatham-Kent Energy Inc.**

Chatham-Kent Energy Inc. 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)*.

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

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

The principal activity of CKE 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 CKE, and its subsidiaries, are to provide energy services, meter services, and street lighting services.

Under a municipal 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 CKE at October 1, 2000 was \$47,379,124. In consideration for the transfer, CKE 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 CKE issued 222 common shares to Corix which represents a 10% ownership.

# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements  
December 31, 2011

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

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

	2011	2010
	\$	\$
Financial position		
Assets		
Current	26,088,845	25,553,235
Capital	61,487,022	60,345,827
Other	14,837,324	11,393,167
Total assets	102,413,191	97,292,229
Liabilities		
Current	25,851,613	20,426,334
Notes payable to Municipality of Chatham-Kent	23,523,326	23,523,326
Other	9,862,754	10,057,999
Total liabilities	59,237,693	54,007,659
Equity		
Share capital	26,882,150	26,882,150
Retained earnings	16,293,348	16,402,420
Total equity	43,175,498	43,284,570
Total liabilities and equity	102,413,191	97,292,229
	2011	2010
	\$	\$
Financial activities		
Revenue	105,409,979	102,065,383
Expenses	102,479,613	96,916,799
	2,930,366	5,148,584
Payment in lieu of taxes	719,438	1,668,483
Dividends paid	2,320,000	1,910,000
Change in retained earnings	(109,072)	1,570,101
Municipality of Chatham-Kent's investment represented by:		
Investment in shares of CKE	23,855,798	23,855,798
Accumulated profit less dividends received	15,757,602	15,855,767
	39,613,400	39,711,565
Corix Utilities' investment represented by:		
Investment in shares of CKE	3,026,352	3,026,352
Accumulated profit less dividends received	535,746	546,653
	3,562,098	3,573,005

# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements  
December 31, 2011

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

### (a) Equity in Chatham-Kent Energy Inc.

	2011	2010
	\$	\$
Balance, beginning of year	63,234,891	61,821,801
Changes during the year		
Net earnings for the year	1,989,835	3,132,090
Dividends paid	2,088,000	1,719,000
Balance, end of year	63,136,726	63,234,891

### (b) Related party transactions and balances

The following summarizes the Municipality's related party transactions with CKE for the year ended December 31, 2011 and December 31, 2010 and the balances as at December 31, 2011 and December 31, 2010:

	2011	2010
	\$	\$
<i>Transactions</i>		
Revenue		
Administrative services	591,455	651,418
Asset management	219,169	152,560
Interest on promissory note	1,382,634	1,654,320
Expenses		
Energy purchases (at commercial rates)	5,085,907	4,475,114
Billing and collection services - water/wastewater	2,358,993	2,359,043
Streetlight maintenance	203,571	200,162
	(5,455,213)	(4,576,021)

### *Balances*

Amounts due from CKE		
Promissory note receivable	23,523,326	23,523,326
Accounts receivable	9,946,721	5,547,835

## 3. Notes receivable

Notes receivable are due from Chatham-Kent Hydro Inc. with no set repayment terms and interest payable monthly at 5.87%. Prior to January 1, 2011, the interest rate on this note was 7.04%. The Municipality received an interest payment in the current year of \$1,382,634 (2010 - \$1,654,320).



# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements  
December 31, 2011

## 4. Trust funds

Trust funds administered by the Municipality amounting to \$4,729,837 (2010 - \$4,604,281) 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.

## 5. Accrued employee benefits

The Municipality has accrued employee benefits as follows:

	2011	2010
	\$	\$
Employee future benefits	20,567,697	19,925,704
Workplace safety and insurance obligations	3,022,412	4,289,283
Vested sick leave	57,700	57,312
Vacation credits	3,100,829	3,061,481
	<b>26,748,638</b>	<b>27,333,780</b>

The accrued benefits above are described as follows:

### (a) 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, 2011 of \$20,567,697 (2010 - \$19,925,704) was determined by actuarial valuation using a discount rate of 4.5% (2010 - 5.0%).

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

	\$
Accrued benefit liability as at January 1, 2011	19,925,704
Expense for the period	1,289,993
Benefits paid during the period	(648,000)
Estimated accrued benefit liability as at December 31, 2011	<b>20,567,697</b>

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

### (i) General inflation

Future inflation levels, as measured by changes in the Consumers Price Index ("CPI"), were assumed to be 2.5% in 2011 and thereafter.

### (ii) Interest (discount) rate

The present value as at December 31, 2011 of the future benefits was determined using a discount rate of 4.5%. The expense for the year ended December 31, 2011, was determined using a discount rate of 5.0%. This corresponds to the assumed CPI rate plus an assumed rate of return of 3%.

### (iii) Health costs

Drug costs were assumed to increase at CPI + 7.5% per year grading down to CPI + 1% over 10 years. Other health costs were assumed to increase at the CPI rate plus 1% for 2011 and thereafter.

### (iv) Dental costs

Dental costs were assumed to increase at the CPI rate plus 1% for 2011 and thereafter.

# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements  
December 31, 2011

---

## 5. Accrued employee benefits (continued)

### *(b) Workplace safety & insurance obligations*

Effective January 1, 2010, the Municipality became a Schedule I employer under the Workplace Safety and Insurance Act for most of its divisions. The Municipality remits payments to the Workplace Safety & Insurance Board (WSIB) as required to fund and administer disability payments.

For the period of January 1, 2001 to December 31, 2009, the Municipality was a Schedule II employer for most of its divisions. The estimated future liability relating to WSIB for this time period amounted to \$3,022,412 (2010 - \$4,289,283) and an accrual has been booked for 2011. A Workplace Safety and Insurance Reserve relating to Schedule II claims has also been established to protect against any unknown future liability, and has a balance of \$495,544 (2010 - \$1,038,060). The Municipality also maintained an insurance policy, which protects the Municipality against financial exposure to a catastrophic loss in excess of \$1,000,000 while Schedule II was in place.

### *(c) 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 \$57,700 (2010 - \$57,312) at the end of the year and is reported as an accrued liability on the Consolidated statement of financial position. An amount of \$0.00 (2010 - \$18,028) was paid to employees who left the Municipality's employment during the current year.

### *(d) 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, 2011 is \$3,100,829 (2010 - \$3,061,481) 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 1,314 (2010 - 1,287) 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 2011 calendar year at rates ranging from 7.4% to 14.1% depending on the member's designated retirement age and level of earnings. The amount contributed to OMERS for 2011 was \$6,832,303 (2010 - \$5,996,697) 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, 2011

## 7. Deferred revenue - obligatory reserve funds

A requirement of the public sector accounting standards 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:

	2011	2010
	\$	\$
For building code act	334,074	474,968
For parkland purposes	146,365	136,734
For Federal gas tax	7,062,998	6,296,992
For Provincial gas tax	3,846,701	3,380,062
Deferred revenue - obligatory reserve funds	11,390,138	10,288,756
Other deferred revenue		
Deferred taxes	901,856	856,685
Deferred grants	6,059,943	7,179,801
Other	1,264,066	1,511,018
Total deferred revenue	19,616,003	19,836,260

## 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:

	2011	2010
	\$	\$
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.	150,116,069	164,447,518

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.

	(2,794,109)	(2,690,636)
Net long-term liabilities at the end of the year	147,321,960	161,756,882

# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements  
December 31, 2011

## 8. Net long-term liabilities (continued)

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

	2012 to 2016	2017 to 2021	2022 and Thereafter
	\$	\$	\$
From general municipal revenue	21,510,583	16,795,380	10,153,471
From benefiting landowners	12,875,021	4,510,033	4,167,962
From benefiting water ratepayers	12,540,437	12,268,005	12,968,822
From benefiting wastewater ratepayers	11,340,727	12,614,815	15,576,704
	<b>58,266,768</b>	<b>46,188,233</b>	<b>42,866,959</b>

(c) Included in the principal amount in a) is \$10,222,921 (2010 - \$10,727,488) 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 \$4,281,278 (2010 - \$5,564,951), \$3,546,711 (2010 - \$4,614,253) and \$325,047 (2010 - \$593,667), respectively.

(g) Included in the principal amount listed in a) above is \$100,000 (2010 - \$200,000) of a non-interest bearing note payable due to St. Joseph Health Services Association of Chatham in the amount of \$200,000 (2010 - \$300,000). 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 is as follows:

	2011	2010
	\$	\$
Beginning balance	161,756,882	135,190,103
Principal payments	(14,334,922)	(12,211,049)
New debt issued	-	38,777,828
Ending balance	<b>147,421,960</b>	<b>161,756,882</b>

Net interest payments related to long-term liabilities in the current year were \$6,550,069 (2010 - \$6,244,658) 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 \$1,575,515 (2010 - \$1,748,297) 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, 2011

## 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.

	2011	2010
	\$	\$
Local improvements receivable for capital projects		
on tax roll		
Wastewater	1,375,037	1,745,411
Water	2,786,400	3,590,154
Drainage	9,533,684	8,893,791
Other	281,803	258,646
	<b>13,976,925</b>	<b>14,488,002</b>

## 12. Tangible capital assets

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

	2011	2010
	\$	\$
Land and land improvements	47,576,588	43,522,343
Buildings	132,197,181	134,059,092
Equipment	57,596,654	56,135,256
Vehicles	21,374,884	22,010,543
Underground linear	229,639,801	210,712,689
Plants and facilities	21,984,914	22,629,242
Bridges	107,608,487	97,666,162
Transportation	175,129,637	164,825,706
Other assets	3,287,773	3,336,910
	<b>796,395,919</b>	<b>754,897,943</b>
Assets under construction	34,236,248	53,685,278
	<b>830,632,167</b>	<b>808,583,221</b>

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, 2011

## 13. Accumulated surplus

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

	2011	2010
	\$	\$
Surplus		
Invested in tangible capital assets	655,775,170	601,727,828
Chatham-Kent Energy Inc., net equity	63,136,726	63,234,891
BIA	26,958	23,698
Prelevies for benefitting landowners	209,813	202,944
Other	29,422,075	50,971,698
Obligations to be funded from future years	(13,781,068)	(11,292,071)
Unfunded		
Employee future benefits, workplace safety and vacation	(25,427,989)	(26,086,254)
Accrued interest on long-term liabilities	(1,115,619)	(1,187,182)
	<b>708,246,066</b>	<b>677,595,552</b>
Surplus allocated to reserves		
For acquisition of capital assets	32,600,038	33,477,856
For public liability insurance	1,584,887	1,489,837
For various programs, facilities	30,159,497	23,995,412
For strategic and community development	2,279,085	1,743,551
For water	(2,075,973)	297,806
For wastewater	(1,610,302)	553,310
	<b>62,937,232</b>	<b>61,557,772</b>
Surplus allocated to reserve funds		
For community investment	3,014,067	2,693,432
For parking purposes	222,694	217,243
	<b>3,236,761</b>	<b>2,910,675</b>
Total accumulated surplus	<b>774,420,059</b>	<b>742,063,999</b>

## 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, 2011 amounted to \$1,584,887 (2010 - \$1,489,837) and is reported on the Consolidated Statement of Financial Position under reserves. The provision for the year of \$749,457 (2010 - \$755,691) has been reported as an expenditure on the Consolidated statement of operations and accumulated surplus and \$191,037 (2010 - \$181,455) was transferred from Reserves.

Claims settled during the year amounted to \$845,444 (2010 - \$1,058,534) and have been provided from the reserve.

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements December 31, 2011

---

### 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 2011 were \$2,175,207 (2010 - \$1,902,025) and net revenue was \$853,055 (2010 - \$467,509).

### 16. 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.

#### *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.

# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements  
December 31, 2011

---

## 16. Segmented information (continued)

### *Water and Wastewater Services*

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

### *Other Items and Corporations*

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

## 17. Commitments

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

	\$
2012	39,250
2013	39,250
2014	39,250
2015	13,083
	<u>130,833</u>

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

	\$
2012	12,731,029
2013	8,865,632
2014	9,050,820
2015	9,240,182
2016 to 2017	9,459,216
	<u>49,346,879</u>

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

	\$
2012	514,000
2013	514,000
2014	514,000
2015	516,000
	<u>2,058,000</u>

- (d) 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 2012.



# **The Corporation of the Municipality of Chatham-Kent**

Notes to the consolidated financial statements

December 31, 2011

---

**18. 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 fund operations 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.

**19. 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.

# The Corporation of the Municipality of Chatham-Kent

Consolidated schedule of segment disclosure

year ended December 31, 2011

	General government	Protection services	Transportation services	Environmental services	Health services	Social and family services	Social housing	Recreation and cultural services	Planning and development services	Water and wastewater services	Other items and corporations	Eliminations	2011 Consolidated	2010 Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>														
Taxation	2,815,516	47,349,770	28,518,135	7,545,661	7,478,278	16,938,106	4,444,539	14,331,049	3,918,429	-	-	(7,185,354)	126,154,129	122,740,462
Sales of service	179,883	605,196	1,169,051	3,178,148	972,381	7,679,328	2,244,525	5,549,033	899,450	29,852,669	4,495,619	-	56,825,483	53,840,081
Government transfers	132,639	1,091,523	13,129,054	1,720,526	12,660,846	60,218,708	5,062,809	2,250,350	1,017,853	4,406,802	20,631,300	-	122,342,512	131,451,112
Other	-	-	-	-	-	-	-	-	-	-	12,623,498	-	12,623,498	16,858,340
	3,128,038	49,046,489	42,816,240	12,444,335	21,111,507	84,836,142	11,771,973	22,130,432	5,835,732	34,259,471	37,750,617	(7,185,354)	317,945,622	324,889,595
<b>Expenses</b>														
Salaries and benefits	15,300,159	37,000,632	9,086,632	1,586,428	7,567,446	28,597,166	1,399,498	9,978,565	2,776,389	6,663,634	-	-	119,956,559	119,024,610
Goods and services	11,848,293	3,584,397	13,763,649	7,224,603	10,900,340	5,335,722	3,892,205	6,181,887	1,556,606	11,017,430	-	-	75,305,132	73,530,640
Interest	101,855	9,553	657,982	-	33,930	1,583,281	613,912	-	471,259	3,164,980	-	-	6,636,752	6,487,914
Transfers (to) from other segments	(24,805,359)	5,888,128	5,904,209	804,814	2,010,775	5,090,497	104,965	2,515,484	735,526	1,750,961	-	-	-	-
External transfers	86,930	674,737	-	1,500	199,500	42,671,482	5,382,862	1,118,449	268,295	-	-	-	50,403,755	55,604,415
Amortization	598,862	1,903,367	13,019,581	1,865,627	399,516	1,557,994	374,077	2,296,136	27,647	9,804,699	-	-	31,867,506	30,592,496
Loss on disposal of tangible capital assets	(2,702)	(14,325)	364,187	941,363	-	-	4,454	39,911	-	66,970	-	-	1,419,858	160,889
	3,128,038	49,046,489	42,816,240	12,444,335	21,111,507	84,836,142	11,771,973	22,130,432	5,835,732	32,468,674	37,750,617	(7,185,354)	285,589,562	285,400,963
<b>Net surplus (deficit)</b>	-	-	-	-	-	-	-	-	-	1,790,797	-	-	32,356,060	39,488,632

## APPENDIX B

### CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2011

			Actuals Dec 31 2011	Actuals Dec 31 2010
<b>Per Audited Financial Statements</b>				
	Reserves		62,937,232	61,557,772
	Reserve Funds		3,236,760	2,910,675
	Deferred Revenue - Obligatory Reserve Funds		11,390,138	10,288,756
			<u>77,564,130</u>	<u>74,757,203</u>
<b>Details</b>				
		Assigned	66,106,078	64,399,888
		Mandated	11,458,051	10,357,315
			<u>77,564,130</u>	<u>74,757,203</u>
<b>MANDATED:</b>				
<u>Dept</u>	<u>Division</u>	<u>Details</u>		
HFS	Day Nursery (fundraising)	Chatham	3,846	4,717
HFS	Day Nursery (fundraising)	Wallaceburg	281	59
CDS	Building Code Act	Bill 124	334,074	474,968
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	3,846,701	3,380,061
IES	Infrastructure	Fed Gas Tax	7,062,998	6,296,992
<b>TOTAL MANDATED:</b>			<u>11,458,051</u>	<u>10,357,315</u>

# CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2011

			Actuals	Actuals
			Dec 31	Dec 31
			2011	2010
<b>ASSIGNED:</b>				
<u>Dept</u>	<u>Division</u>	<u>Details</u>		
Corp	Community Investment Fund		3,014,067	2,693,432
Corp	All Depts	Encumbrances	1,943,473	969,465
Corp	In camera	Contract issues	10,014,329	7,827,090
Corp	Insurance Risk	Insurance Risk	1,584,887	1,489,837
Corp	Strategic	Master Plan Implementation	219,900	219,900
Corp	All Depts	Lifecycle - Computer Hardware	1,311,851	1,108,704
Corp	All Depts	Green Energy Initiatives	701,331	174,905
Corp	All Depts	Energy Price Fluctuation	701,332	870,118
Corp	All Depts	Fuel Price Fluctuation	711,460	711,460
Corp	All Depts	Misc. other	135,707	436,752
Corp	All Depts	Future Matching Infrastructure	1,201,879	4,207,741
Corp	All Depts	OMPF Stabilization	(633,226)	1,967,100
Corp	Elections	Lifecycle - Elections	131,057	29,789
Corp	WSIB Risk Reserve	WSIB Risk Reserve	495,544	1,038,060
Corp	Strategic Mgmt Fund	Community Investment	71,953	71,953
Corp	Strategic	Strategic Development	831,003	1,000,247
Corp	Strategic	Community Improvement	300,186	269,672
Corp	Strategic	Reserve for Future Years	176,279	203,878
Corp	Strategic	Community Partnerships	133,188	151,189
Corp	Strategic	Property Dispositions	310,477	310,477
Corp	Strategic	Corporate Strategic Directions	30,591	30,591
Corp	Strategic	Investing in Ontario Act	1,883,100	3,372,005
Corp	Strategic	Corp Strat Directive	688,468	0
CDS	Rec Facilities	Lifecycle - Recreation Arena	597,941	565,309
CDS	Rec Facilities	Recreation - other	58,580	49,193
CDS	Rec Facilities	Lifecycle - Recreation Indoor Pools	122,977	166,740
CDS	Rec Facilities	Replace	68,578	98,236
CDS	Rec Facilities	Lifecycle - Halls	15,000	0
CDS	Rec Facilities	Lifecycle Splashpads		
CDS	Parks, Cemetery, Horticulture	Lifecycle - Recreation Playground	140,197	29,470
CDS	Municipal buildings	Replace/mtce	253,059	260,071
CDS	Parks, Cemetery, Horticulture	Recreation - Kinsmen Auditorium	422,778	435,749
CDS	Parks, Cemetery, Horticulture	Lifecycle - Parks	20,000	15,000
CDS	Parks, Cemetery, Horticulture	Clearville Park	160,453	189,768
CDS	Parks, Cemetery, Horticulture	Lifecycle - Outdoor Pools	143,281	141,851
CDS	Parks, Cemetery, Horticulture	Lifecycle - Reforestation	1,492,271	1,335,290
CDS	Parks, Cemetery, Horticulture	Lifecycle - Trails	72,285	28,030
CDS	Parks, Cemetery, Horticulture	Cemetery	98,251	68,311
CDS	Parks, Cemetery, Horticulture	Lifecycle-Cemetery		
CDS	Building Enforcement & Licensing			
CDS	Services	Computer software	157,305	157,305

# CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2011

			Actuals Dec 31 2011	Actuals Dec 31 2010
	Building Enforcement & Licensing			
CDS	Services	Building Dept operation	250,500	270,500
CDS	Municipal Buildings	Building lifecycle	2,260,128	2,148,107
CDS	Planning	Planning Special Projects	(37,401)	120,434
CDS	Planning	Communit Leadership-Brwnfld	3,796	0
FES	Ambulance	General	1,676,742	1,558,398
CS	Finance	Financial Software	561,322	526,508
CS	Human Resources	Software Development	158,890	141,417
CS	Info Tech	Lifecycle ITS - GIS system	259,342	204,439
CS	Info Tech	ITS, Strategic Plan	107,351	(62,164)
CS	Info Tech	Lifecycle ITS - Web Lifecycle	322,132	340,557
CS	Info Tech	Lifecycle ITS - Copy/Printing Equipment	362,613	342,077
CS	Info Tech	Lifecycle ITS - Computer Hardware	(385)	10,407
CS	Info Tech	Lifecycle ITS - Computer Software	2,215,769	1,894,607
CS	Info Tech	Lifecycle ITS - Computer Network	565,781	455,138
CS	Info Tech	Lifecycle ITS - Telecommunications	1,014,722	694,034
CS	Info Tech	Lifecycle ITS - Applications	334,423	252,020
CS	Info Tech	Lifecycle ITS - Corporate Technology	11,844	7,896
CS	Info Tech	Lifecycle ITS - GIS Data	37,294	32,257
CS	Info Tech	ITS/PUC Lifecycle Workstation	65,408	0
CS	Budget	Performance Track Software	517,170	517,170
HFS	Senior Services	Homes Operational	2,071,746	731,177
HFS	Senior Services	RVG Vending Machines	19,464	29,233
HFS	Senior Services	Senior Centre Contingency	11,469	18,128
HFS	Ontario Works	OW Corporate Initiatives	821,794	0
HFS	Ontario Works	Future Economic Downturns	2,151,042	621,248
HFS	Health Unit	CK portion	664,026	676,271
HFS	Health Unit	Lifecycle - Wish Centre building	223,853	124,904
HFS	Social Housing	Social Housing Operation	3,327,744	2,925,596
HFS	Social Housing	Lifecycle - Social Housing Buildings	2,416,392	2,022,320
HFS	Social Housing	Lifecycle - Social Housing DOOR	62,700	62,700
HFS	Children Services	Children's Services	102,961	0
IES	Public Works	Gravel pit	25,120	(12,440)
IES	Public Works	Lifecycle - Gravel	762	24,431
IES	Public Works	Lifecycle - Roads	214,816	174,131
IES	Public Works	Lifecycle - Bridges	(3,727,570)	(4,351,302)
IES	Public Works	Lifecycle - Sidewalks	95,843	81,834
IES	Public Works	Lifecycle - Railways Crossing	394,199	341,399
IES	Public Works	MTO - Roads & Bridges grant	0	141,296

**CHATHAM-KENT SUMMARY OF RESERVES**

As At December 31, 2011

			<b>Actuals</b>	<b>Actuals</b>
			<b>Dec 31</b>	<b>Dec 31</b>
			<b>2011</b>	<b>2010</b>
IES	Public Works	MTO - Move Ontario, Lifecycle phase-in	0	53,787
IES	Public Works	Winter Control	1,525,400	525,400
IES	Public Works	Lifecycle - Storm Sewers	4,680,402	3,618,356
IES	Public Works	Lifecycle - Active Communities	255,126	667,061
IES	Public Works	Lifecycle - Streetlight Poles	95,651	15,551
IES	Engineering	Transit	1,433,675	1,498,222
IES	Engineering	Lifecycle - AM/FM	114,653	368,773
IES	Engineering	Capital Budget unfinished projects	5,460,924	6,066,839
IES	Environmental	Agriculture Hazardous Waste Days	24,367	30,000
IES	Environmental	Waste Diversion Ontario	654,264	0
IES	Environmental	Haul Route Road MTCE	50,000	0
IES	Fleet	Lifecycle - Fleet Shop Eqpt	93,175	70,321
IES	Parking	Chatham Downtown	222,693	217,243
Police	Police	Mandatory Policing Issues	259,000	259,000
Police	Police	Police Litigation	279,481	324,672
Police	Police	Police Services Board	15,119	(4,605)
Police	Police	Police Lifecycle Reserve	242,593	171,000
Police	Police	Police Communication Centre	80,000	80,000
Police	Police	Police Business Plan	32,471	0
PUC	Water		(2,075,973)	297,805
PUC	Wastewater		(1,610,302)	553,310
Fleet(Ambulance, Police, Fire, Public works, other) :			4,927,767	3,827,737
<b>TOTAL ASSIGNED:</b>			<b>66,106,079</b>	<b>64,399,888</b>