

**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:** September 6, 2013

**SUBJECT:** 2012 Audited Financial Statements

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**RECOMMENDATION**

It is recommended that:

1. The audited financial statements for the year ended December 31, 2012, 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.

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<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 6, 2013)

### Audit Policy Committee

The Audit Policy Committee met on September 5, 2013 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 2012 Audited Financial Statements and recommend the approval of the statements to Council.**

### Reported 2012 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.

	2012	2011
Revenues	\$305,332,389	\$315,955,787
Expenses	\$293,131,477	\$285,589,562
Excess revenues over expenses before other items	\$12,200,912	\$30,366,225
Income from subsidiary	\$2,917,305	\$1,989,835
<b>Excess revenues over expenses</b>	<b>\$15,118,217</b>	<b>\$32,356,060</b>

The Municipal 2012 year-end cash basis surplus is \$3,031,075 (\$289,501 in 2011). Budget and Performance Services will provide in a separate 2012 final variance report where the surplus originated and recommendations on its use. This figure is included as part of the \$15,118,217 (\$32,356,060 in 2011) excess revenue over expenses reported on the Consolidated Statement of Operations and Accumulated Surplus. The \$15 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 \$15 million accrual accounting surplus in the financial statements to the \$3 million surplus as per the balanced cash budget approved by Council during the 2012 budget deliberations.

	2012	2011
<b>Accrual basis surplus as per Financial Statements</b>	<b>\$15,118,217</b>	<b>\$32,356,060</b>
Adjustments:		
Amortization	\$33,560,879	\$31,867,506
Taxation, grant, other Tangible Capital Assets funding	\$(31,102,563)	\$(45,968,673)
Long-term debt repayment	\$(15,024,750)	\$(14,334,922)
Income from subsidiary	\$(2,917,305)	\$(1,989,835)
Other	\$(3,396,597)	\$(1,640,635)
<b>Cash basis surplus as previously reported to Council</b>	<b>\$3,031,075</b>	<b>\$289,501</b>

Total Municipal and PUC expenses, excluding hydro operations, in 2012 were \$293,131,477, (\$285,589,562 in 2011). Entegrus Inc. (formerly CK 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 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. Entegrus Incorporated 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 Entegrus 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.

	2012	2011
Financial assets	\$177,538,979	\$164,029,172
Liabilities	\$211,679,520	\$222,341,358
Net financial assets	\$(34,140,541)	\$(58,312,186)
Non-financial assets	\$823,678,817	\$832,732,245
<b>Accumulated surplus</b>	<b>\$789,538,276</b>	<b>\$774,420,059</b>

### Accumulated Surplus

The new financial statement format along with recording the tangible capital assets in the statement results in a \$789,538,276 accumulated surplus for 2012. The accumulated surplus represents Chatham-Kent's net financial position. This figure consists of the net investments in tangible capital assets, the investment in Entegrus 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 12 (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 11 (see page 16 of the financial statement attachment) lists the net book value of Chatham-Kent's assets.

	2012	2011
Land and land improvements	\$52,823,682	\$47,576,588
Buildings	\$141,032,930	\$132,197,181
Equipment	\$56,871,724	\$57,596,654
Vehicles	\$22,077,445	\$21,374,884
Underground Linear	\$225,286,569	\$229,639,801
Plants and facilities	\$21,127,008	\$21,984,914
Bridges	\$117,391,287	\$107,608,487
Transportation	\$173,465,142	\$175,129,637
Other assets	\$3,594,951	\$3,287,773
	\$813,670,738	\$796,395,919
Assets under construction	\$7,825,896	\$34,236,248
<b>Total tangible capital assets</b>	<b>\$821,496,634</b>	<b>\$830,632,167</b>

Entegrus Inc., net equity is the Municipality's 90% share of the 2012 Entegrus Inc. net income of \$3,241,450 (\$2,210,928 in 2011) plus the value of the shares and long-term note payable to the Municipality for consideration of the original transfer of net assets to Entegrus<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 12 of the audited financial statements. Reserve balances include amounts encumbered.

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 3.75% (4.5% in 2011)
- Estimated future liabilities as provided by Workplace Safety & Insurance Board

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

	2012	2011
Service Revenue	\$106,258,273	\$101,219,653
Cost of Power	\$88,648,371	\$83,785,228
Gross Margin	\$17,609,902	\$17,434,425
Operating Income	\$22,766,496	\$21,624,751
Net Earnings (100%)	\$3,241,450	\$2,210,928
Retained Earnings (End of Year)	\$17,074,798	\$16,293,348
Dividends Paid to C-K	\$2,214,000	\$2,088,000
Dividends Paid to Corix Utilities	\$246,000	\$232,000

- 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:

	2012	2011
Employee future benefits	\$21,261,199	\$19,780,058
WSIB obligation	\$2,850,314	\$3,022,412
Vacation pay	\$2,954,748	\$2,625,519
<b>Total unfunded employee future benefits</b>	<b>\$27,066,261</b>	<b>\$25,427,989</b>
Interest on long-term liabilities	\$988,385	\$1,115,619

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 were no new debt issues in 2012. The "Funded By" columns identify the sources of future funding to service the debt payments. The tax funded obligation is currently approximately \$23 million.

**Figure 1 Chatham-Kent Long Term Debt as at December 31, 2012**

				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>							
2003-01	5.39	10	12,000,000 (A)		12,000,000		
2004-01	2.55	10	10,864,650 (B)			1,862,229	9,002,421
2004-02	2.73	20	43,400,000 (C)	43,400,000			
2004-03	5.19	10	10,000,000 (D)			2,653,000	7,347,000
2005-01	4.94	20	43,000,000 (E)			13,299,000	29,701,000
2005-02	2.53	20	22,128,742 (F)	22,128,742			
2006-01	2.50	10	6,137,771 (G)			6,137,771	
2007-01	2.52	20	2,800,000 (H)	2,800,000			
2007-02	4.94	20	5,170,000 (I)				5,170,000
2010-01	4.22	10	12,533,100 (J)			12,533,100	
2010-02	4.88	20	24,244,728 (K)	24,244,728			
2010-03	2.00	20	2,000,000 (L)	2,000,000			
Subtotal			194,278,991	94,573,470	12,000,000	36,485,100	51,220,421
Less Principal amounts repaid by Dec 31, 2012			(67,463,742)	(23,835,594)	(9,071,585)	(13,296,489)	(21,260,074)
Chatham-Kent Issued Debt Outstanding at Dec 31, 2012			\$126,815,249	\$70,737,876	\$2,928,415	\$23,188,611	\$29,960,347
<b>Other Debt assumed by Chatham-Kent</b>							
Social Housing download Dec 31, 2012	Various	Various	5,381,961 (M)				5,381,961
<b>Total Debt Outstanding Dec 31, 2012</b>			<b>\$132,197,210</b>	<b>\$70,737,876</b>	<b>\$2,928,415</b>	<b>\$23,188,611</b>	<b>\$35,342,308</b>

(A) CIBC Bank Loan: Ratepayer Waterlines \$12,000,000

(B) OMEIFA Debenture: Bridges \$1,862,229, Bloomfield Business Park \$9,002,421

(C) OMEIFA Debenture: Water \$17,125,000, Wastewater \$25,675,000

(D) 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

(E) OSIFA Debenture: Riverview Gardens \$40,300,000 33% tax funded, Bloomfield Business Park \$2,700,000

(F) OMEIFA Debenture: Water \$19,253,236, Wastewater \$2,875,506

(G) OMEIFA Debenture: Bridges \$6,137,771

(H) OMEIFA Debenture: Wastewater \$2,800,000

(I) OSIFA Debenture: Social Housing – Wallaceburg Housing Corporation purchase \$5,170,000

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

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

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

(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.

<b>Figure 2      Development Charges Reserve Fund</b>						
	<b>2012</b>			<b>2011</b>		
	Roads	Water	Sewer	Roads	Water	Sewer
Opening Balance	\$0	\$0	\$0	\$0	\$0	\$0
Contribution from developers	\$0	\$272,292	\$169,285	\$0	\$211,866	\$223,158
Interest Earned	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	\$0	\$272,292	\$169,285	\$0	\$211,866	\$223,158
Use of funds:						
Investment in Capital	<u>\$0</u>	<u>\$272,292</u>	<u>\$169,285</u>	<u>\$0</u>	<u>\$211,866</u>	<u>\$223,158</u>
<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 2012 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 2012 is presented below along with the 2011 comparison.

As at December 31	Water		Wastewater	
	2012	2011	2012	2011
Revenues	\$18,770,459	\$18,309,539	\$14,218,730	\$17,387,022
Expenditures	\$18,180,235	\$19,729,189	\$13,380,146	\$18,492,669
Net Income	\$590,224	\$(1,419,650)	\$838,584	\$(1,105,647)

<b>Reserve Fund Balance (End of Year)</b>	<u>\$(1,444,971)</u>	<u>\$(2,075,973)</u>	<u>\$443,558</u>	<u>\$(1,610,302)</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.

<b>Materiality Calculations</b>	
Annual Debt Limit (December 31, 2012)	<sup>3</sup> \$29,076,879
2% of this limit (established by policy)	\$581,538
Financial Lease Payments 2012	
Fleet	\$201,354
Copiers	<u>\$136,058</u>
<b>Total</b>	<b>\$337,412</b>

The Municipality does not often use financial leases, as the cost of other forms of indebtedness is more advantageous. Because 2012 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 2012.

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

<sup>3</sup> 2012 Annual Debt Limit Calculation

1 Gross Debt Charges		
	Principal	\$15,514,277
	Interest	\$5,935,547
	<b>Subtotal</b>	<b>\$21,449,824</b>
2 OCWA		-
3 Long term commitments		\$100,000
4 Debt Charges for Lease Purchases		-
5 <b>SUBTOTAL DEBT CHARGES</b>		<b>\$21,521,501</b>
6 Debt Charges for Utilities		-
7 Downtown Revitalization Loans		-
8 Tile Drainage & Shoreline Assistance		\$652,080
9 <b>SUBTOTAL TO BE EXCLUDED</b>		<b>-</b>
10 <b>NET DEBT CHARGES</b>		<b>\$20,897,744</b>

11 Total Revenue Fund Revenues	\$303,346,643
12 Downtown Revitalization Loan payments from above	-
13 Drainage/shoreline fees	\$119,890
14 Grants from other governments	
Ontario	\$98,946,369
Canada	\$7,984,280
Other Municipalities, other items	\$1,397,611
Total Grants from Governments	\$108,328,260
15 Joint Board Fees	-
Amounts to be deducted from revenue	\$108,448,150
16 Net Revenue Fund Funds	\$199,898,493
17 25% of net revenue fund	\$49,974,623
18 Annual Repayment Limit	\$29,076,879
25% of item #17 less net debt charges #10	

At 4% interest, the Municipality has the capacity to borrow an additional \$395 million with repayment amortized over 20 years.

**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 \$3,031,075 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 2012 audit was the fifth in a five year term.

Prepared by:

Reviewed by:

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

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

Attachment(s):

Appendix A – Consolidated Financial Statements-Municipality of Chatham-Kent

Appendix B – Chatham-Kent Summary of Reserves

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## APPENDIX B

CHATHAM-KENT SUMMARY OF RESERVES			
As At December 31, 2012			
		Actuals Dec 31 2012	Actuals Dec 31 2011
<b>Per Audited Financial Statements</b>			
	Reserves	75,000,523	62,937,232
	Reserve Funds	3,759,615	3,236,760
	Deferred Revenue - Obligatory Reserve Funds	14,165,924	11,390,138
		<u>92,926,062</u>	<u>77,564,130</u>
<b>Details</b>			
	Assigned	78,704,823	66,106,078
	Mandated	14,221,239	11,458,051
		<u>92,926,062</u>	<u>77,564,130</u>
<b>MANDATED:</b>			
<u>Dept</u>	<u>Division</u>	<u>Details</u>	
HFS	Day Nursery (fundraising)	Chatham	3,106 3,846
HFS	Day Nursery (fundraising)	Wallaceburg	873 281
CDS	Building Code Act	Bill 124	832,179 334,074
CDS	Parkland		153,390 146,365
CDS	Library	Bequests	0 8,178
CDS	Library	Donations...general	6,294 10,564
CDS	Municipal Properties	Wheatley pool	45,043 45,043
IES	Transit	Prov Gas Tax	4,231,895 3,846,701
IES	Infrastructure	Fed Gas Tax	8,948,460 7,062,998
<b>TOTAL MANDATED:</b>		14,221,239	11,458,051

**CHATHAM-KENT SUMMARY OF RESERVES**

As At December 31, 2012

			<b>Actuals</b>	<b>Actuals</b>
			<b>Dec 31</b>	<b>Dec 31</b>
			<b>2012</b>	<b>2011</b>
<b>ASSIGNED:</b>				
<u>Dept</u>	<u>Division</u>	<u>Details</u>		
Corp	Community Investment Fund		3,538,799	3,014,067
Corp	All Depts	Encumbrances	1,441,812	1,943,473
Corp	In camera	Contract issues	10,710,392	10,014,329
Corp	Insurance Risk	Insurance Risk	1,320,569	1,584,887
Corp	Strategic	Master Plan Implementation	0	219,900
Corp	All Depts	Lifecycle - Computer Hardware	1,070,744	1,311,851
Corp	All Depts	Green Energy Initiatives	925,102	701,331
Corp	All Depts	Energy Price Fluctuation	925,103	701,332
Corp	All Depts	Fuel Price Fluctuation	595,460	711,460
Corp	All Depts	Misc. other	135,198	135,707
Corp	All Depts	Future Matching Infrastructure	0	1,201,879
Corp	All Depts	OMPF Stabilization	0	-633,226
Corp	Elections	Lifecycle - Elections	238,309	131,057
Corp	WSIB Risk Reserve	WSIB Risk Reserve	590,259	495,544
Corp	Strategic Mgmt Fund	Community Investment	0	71,953
Corp	Strategic	Strategic Development	1,738,959	831,003
Corp	Strategic	Community Improvement	197,184	300,186
Corp	Strategic	Reserve for Future Years	0	176,279
Corp	Strategic	Community Partnerships	142,691	133,188
Corp	Strategic	Property Dispositions	310,477	310,477
Corp	Strategic	Corporate Strategic Directions	0	30,591
Corp	Strategic	Investing in Ontario Act	548,589	1,883,100
Corp	Strategic	Corp Strat Directive	694,676	688,468
CDS	Rec Facilities	Lifecycle - Recreation Arena	725,037	597,941
CDS	Rec Facilities	Recreation - other	67,968	58,580
CDS	Rec Facilities	Lifecycle - Recreation Indoor Pools		
CDS	Rec Facilities	Replace	159,509	122,977
CDS	Rec Facilities	Lifecycle - Halls	93,705	68,578
CDS	Rec Facilities	Lifecycle Splashpads	15,000	15,000
CDS	Parks, Cemetery, Horticulture	Lifecycle - Recreation Playground		
CDS	Parks, Cemetery, Horticulture	Replace/mtce	284,455	140,197
CDS	Municipal buildings	Recreation - Kinsmen Auditorium	0	253,059
CDS	Parks, Cemetery, Horticulture	Lifecycle - Parks	499,204	422,778
CDS	Parks, Cemetery, Horticulture	Clearville Park	25,000	20,000
CDS	Parks, Cemetery, Horticulture	Lifecycle - Outdoor Pools	203,502	160,453
CDS	Parks, Cemetery, Horticulture	Lifecycle - Reforestation	144,366	143,281
CDS	Parks, Cemetery, Horticulture	Lifecycle - Trails	1,854,706	1,492,271
CDS	Parks, Cemetery, Horticulture	CASO Rail Trail	100,800	0
CDS	Parks, Cemetery, Horticulture	Cemetery	88,210	72,285
CDS	Parks, Cemetery, Horticulture	Lifecycle-Cemetery	135,591	98,251
CDS	Parks, Cemetery, Horticulture	Columbaria	18,943	0
CDS	Building Enforcement & Licensing Services	Computer software	0	157,305

**CHATHAM-KENT SUMMARY OF RESERVES**

As At December 31, 2012

			Actuals Dec 31 2012	Actuals Dec 31 2011
	<b>Building Enforcement &amp; Licensing</b>			
CDS	Services	Building Dept operation	250,500	250,500
CDS	Municipal Buildings	Building lifecycle	1,905,421	2,260,128
CDS	Planning	Planning Special Projects	-39,665	-37,401
CDS	Planning	Communit Leadership-Brownfld	183,679	3,796
FES	Ambulance	General	1,915,656	1,676,742
CS	Finance	Financial Software - Project Delta	3,584,066	561,322
CS	Human Resources	Software Development	0	158,890
CS	Info Tech	Lifecycle ITS - GIS system	332,353	259,342
CS	Info Tech	ITS, Strategic Plan	180,167	107,351
CS	Info Tech	Lifecycle ITS - Web Lifecycle	302,370	322,132
CS	Info Tech	Lifecycle ITS - Copy/Printing Equipment	388,320	362,613
CS	Info Tech	Lifecycle ITS - Computer Hardware	522,024	-385
CS	Info Tech	Lifecycle ITS - Computer Software	2,450,967	2,215,769
CS	Info Tech	Lifecycle ITS - Computer Network	664,485	565,781
CS	Info Tech	Lifecycle ITS - Telecommunications	1,357,560	1,014,722
CS	Info Tech	Lifecycle ITS - Applications	461,867	334,423
CS	Info Tech	Lifecycle ITS - Corporate Technology	15,792	11,844
CS	Info Tech	Lifecycle ITS - GIS Data	45,994	37,294
CS	Info Tech	ITS/PUC Lifecycle Workstation	79,560	65,408
CS	Budget	Performance Track Software	0	517,170
HFS	Senior Services	Homes Operational	2,137,646	2,071,746
HFS	Senior Services	RVG Vending Machines	19,464	19,464
HFS	Senior Services	Senior Centre Contingency	11,579	11,469
HFS	Ontario Works	OW Corporate Initiatives	1,818,258	821,794
HFS	Ontario Works	Future Economic Downturns	2,487,683	2,151,042
HFS	Ontario Works	OW Computer Lifecycle	467,569	0
HFS	Health Unit	CK portion	675,860	664,026
HFS	Health Unit	Lifecycle - Wish Centre building	296,555	223,853
HFS	Social Housing	Social Housing Operation	3,579,401	3,327,744
HFS	Social Housing	Lifecycle - Social Housing Buildings	2,241,188	2,416,392
HFS	Social Housing	Lifecycle - Social Housing DOOR	62,700	62,700
HFS	Social Housing	Social Housing IAH	189,194	0
HFS	Children Services	Children's Services	11,839	102,961
IES	Public Works	Gravel pit	62,680	25,120
IES	Public Works	Lifecycle - Gravel	60,207	762
IES	Public Works	Lifecycle - Roads	1,247,124	214,816
IES	Public Works	Lifecycle - Bridges	-3,628,720	-3,727,570
IES	Public Works	Lifecycle - Sidewalks	85,803	95,843
IES	Public Works	Lifecycle - Railways Crossing	447,499	394,199

**CHATHAM-KENT SUMMARY OF RESERVES**

As At December 31, 2012

			<b>Actuals Dec 31 2012</b>	<b>Actuals Dec 31 2011</b>
IES	Public Works	Winter Control	1,525,400	1,525,400
IES	Public Works	Lifecycle - Storm Sewers	4,731,657	4,680,402
IES	Public Works	Lifecycle - Active Communities	323,206	255,126
IES	Public Works	Lifecycle - Streetlight Poles	157,768	95,651
IES	Public Works	Grass Tender	28,980	0
IES	Engineering	Transit	1,310,136	1,433,675
IES	Engineering	Lifecycle - AM/FM	114,653	114,653
IES	Engineering	Capital Budget unfinished projects	6,371,329	5,460,924
IES	Engineering	Future Capital Projects	1,366,084	0
IES	Environmental	Agriculture Hazardous Waste Days	23,689	24,367
IES	Environmental	Waste Diversion Ontario	666,879	654,264
IES	Environmental	Haul Route Road MTCE	65,259	50,000
IES	Fleet	Lifecycle - Fleet Shop Eqpt	54,262	93,175
IES	Parking	Chatham Downtown	220,816	222,693
Police	Police	Mandatory Policing Issues	259,000	259,000
Police	Police	Police Litigation	449,447	279,481
Police	Police	Police Services Board	14,013	15,119
Police	Police	Police Lifecycle Reserve	50,372	242,593
Police	Police	Police Communication Centre	80,000	80,000
Police	Police	Police Business Plan	10,880	32,471
PUC	Water		-1,444,971	-2,075,973
PUC	Wastewater		443,558	-1,610,302
Fleet(Ambulance, Police, Fire, Public works, other) :			5,487,439	4,927,767
<b>TOTAL ASSIGNED:</b>			<b>78,704,824</b>	<b>66,106,079</b>



Consolidated financial statements of

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

December 31, 2012

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

December 31, 2012

## 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.....	7-19
Consolidated schedule of segment disclosure.....	20



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## **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, 2012, 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, 2012 and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**Other Matter**

Without modifying our opinion, we draw attention to budget figures which are provided for comparative purposes only. They have not been subject to audit procedures. Accordingly, we do not express an opinion on budget figures.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
September 23, 2013

# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of financial position  
as at December 31, 2012

	2012	2011
	\$	\$
<b>Financial assets</b>		
Cash	49,431,983	36,766,228
Taxes receivable	13,065,917	12,212,869
Accounts receivable	30,180,894	29,978,157
Investment in Entegrus Inc. (Note 2)	40,316,705	39,613,400
Notes receivable from Entegrus Inc. (Notes 2, 3)	23,523,326	23,523,326
Land held for resale	4,731,288	5,561,429
Other assets	1,999,200	2,396,838
Local improvements receivable (Note 10)	14,289,666	13,976,925
	<b>177,538,979</b>	<b>164,029,172</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	27,012,399	26,979,242
Accrued interest (Note 9)	1,341,671	1,575,515
Accrued employee benefits (Note 5)	28,431,902	26,748,638
Current note payable (Note 8)	100,000	100,000
Deferred revenue (Note 7)	22,596,338	19,616,003
Debentures outstanding (Note 8)	132,197,210	147,221,960
Long-term note payable (Note 8)	-	100,000
	<b>211,679,520</b>	<b>222,341,358</b>
<b>Net debt</b>	<b>(34,140,541)</b>	<b>(58,312,186)</b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 11)	821,496,634	830,632,167
Inventory	623,734	737,755
Prepaid expenses	1,558,449	1,362,323
	<b>823,678,817</b>	<b>832,732,245</b>
<b>Accumulated surplus (Note 12)</b>	<b>789,538,276</b>	<b>774,420,059</b>

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of operations and accumulated surplus  
year ended December 31, 2012

	2012 Budget (Unaudited)	2012 Actual	2011 Actual
	\$	\$	\$
<b>Revenues</b>			
Taxation and user charges			
Property taxation	156,055,474	156,055,474	154,709,366
Payments in lieu of taxes from other governments	3,536,329	3,536,329	3,495,775
User charges	56,865,602	59,481,444	56,825,483
	216,457,405	219,073,247	215,030,624
Deduct amounts received or receivable for			
School Boards	(30,168,365)	(30,168,365)	(32,051,012)
	186,289,040	188,904,882	182,979,612
Grants			
Government of Canada	9,462,153	7,984,280	16,045,746
Province of Ontario	99,808,062	98,946,369	106,296,766
	109,270,215	106,930,649	122,342,512
Other			
Investment income	2,549,082	2,899,955	2,795,135
Penalties and interest on taxes	1,500,000	1,990,080	1,508,711
Contributions from landowners and developers	-	966,529	2,773,456
Sale of land and equipment	53,000	224,449	180,478
Provincial offences administration	2,082,500	2,376,945	2,175,207
Other	774,862	1,038,900	1,200,676
	6,959,444	9,496,858	10,633,663
<b>Total revenue</b>	<b>302,518,699</b>	<b>305,332,389</b>	<b>315,955,787</b>
<b>Expenses</b>			
General government	4,154,667	3,442,063	3,130,740
Protection of persons and property	50,364,413	51,164,970	49,060,814
Transportation services	29,460,885	42,932,958	42,432,053
Environmental services	33,097,016	44,844,369	43,904,676
Health services	21,688,817	21,851,249	21,111,507
Social and family services	85,982,068	85,864,275	84,836,142
Social housing	13,157,560	12,495,536	11,767,519
Recreation and cultural services	19,398,976	22,303,393	22,090,521
Planning and development	5,291,468	6,207,742	5,835,732
Loss on disposal of tangible capital assets	-	2,024,922	1,419,858
<b>Total expenses</b>	<b>262,595,870</b>	<b>293,131,477</b>	<b>285,589,562</b>
Excess revenues over expenses before other items	39,922,829	12,200,912	30,366,225
Other items			
Income from subsidiary	-	2,917,305	1,989,835
Excess of revenues over expenses	39,922,829	15,118,217	32,356,060
Accumulated surplus, beginning of year	-	774,420,059	742,063,999
<b>Accumulated surplus, end of year</b>	<b>39,922,829</b>	<b>789,538,276</b>	<b>774,420,059</b>

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of change in net debt  
year ended December 31, 2012

	2012	2011
	\$	\$
<b>Excess of revenues over expenses</b>	<b>15,118,217</b>	32,356,060
Acquisition of tangible capital assets	(52,970,131)	(75,014,945)
Decrease in tangible capital assets construction in progress	26,410,352	19,449,029
Amortization of tangible capital assets	33,560,879	31,867,506
Loss on sale of tangible capital assets	2,024,922	1,419,858
Proceeds of sale of tangible capital assets	101,066	57,064
Write-downs of tangible capital assets	8,445	172,542
Change in inventory	114,021	79,516
Change in prepaids	(196,126)	517,680
Change in net debt	24,171,645	10,904,310
Net debt, beginning of year	(58,312,186)	(69,216,496)
<b>Net debt, end of year</b>	<b>(34,140,541)</b>	(58,312,186)

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

# The Corporation of the Municipality of Chatham-Kent

Consolidated statement of cash flows  
year ended December 31, 2012

	2012	2011
	\$	\$
<b>Operating transactions</b>		
Excess of revenues over expenses	15,118,217	32,356,060
Items not involving cash		
Amortization	33,560,879	31,867,506
Loss on sale of tangible capital assets	2,024,922	1,419,858
Write-down of tangible capital asset	8,445	172,542
Income from subsidiary	(2,917,305)	(1,989,835)
Change in non-cash working capital items	(107,590)	(6,033,396)
Change in obligations to be funded from future revenues	1,449,420	(757,924)
Decrease in inventory	114,021	79,516
Increase in prepaid expenses	(196,126)	517,680
	49,054,883	57,632,007
<b>Financing transactions</b>		
Note payable repayment	(100,000)	(100,000)
Long-term debt repayment	(15,024,750)	(14,334,922)
Deferred revenue	2,980,335	(220,257)
	(12,144,415)	(14,655,179)
<b>Capital transactions</b>		
Acquisition of tangible capital assets	(26,559,779)	(55,565,915)
Proceeds of sale of tangible capital assets	101,066	57,064
	(26,458,713)	(55,508,851)
<b>Investing transaction</b>		
Dividends received from Chatham-Kent Energy Inc.	2,214,000	2,088,000
Net increase (decrease) in cash	12,665,755	(10,444,023)
Cash, beginning of year	36,766,228	47,210,251
<b>Cash, end of year</b>	<b>49,431,983</b>	<b>36,766,228</b>

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.



# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2012

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### 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*

Entegrus 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 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, 2012

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### 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.

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

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2012

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### 2. Investment in Entegrus Inc.

Entegrus 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.

Effective January 1, 2012 CKH and MPDC amalgamated to continue as Chatham Kent Hydro Inc. Effective January 19, 2012 the names of CKE and its wholly-owned subsidiaries were amended as follows:

<u>Former name</u>	<u>Amended name</u>
Chatham-Kent Energy Inc.	Entegrus Inc. ("the Company")
Chatham-Kent Hydro Inc.	Entegrus Power Lines Inc. ("EPI")
Chatham-Kent Utility Services Inc.	Entegrus Services Inc. ("ESI")
Chatham-Kent Transmission Inc.	Entegrus Transmission Inc. ("EFT")

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

The principal activity of Entegrus and its' subsidiaries is to distribute electricity to customers within the Municipality of Chatham-Kent, Middlesex County and the County of Elgin under the license issued by the Ontario Energy Board ("OEB"). Other activities of Entegrus, 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, 2012

## 2. Investment in Entegrus Inc. (continued)

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

	2012	2011
	\$	\$
Financial position		
Assets		
Current	28,115,564	26,088,845
Capital	69,241,765	61,487,022
Other	13,392,233	14,837,324
<b>Total assets</b>	<b>110,749,562</b>	<b>102,413,191</b>
Liabilities		
Current	29,963,693	25,851,613
Notes payable to Municipality of Chatham-Kent	23,523,326	23,523,326
Other	13,305,595	9,862,754
<b>Total liabilities</b>	<b>66,792,614</b>	<b>59,237,693</b>
Equity		
Share capital	26,882,150	26,882,150
Retained earnings	17,074,798	16,293,348
<b>Total equity</b>	<b>43,956,948</b>	<b>43,175,498</b>
<b>Total liabilities and equity</b>	<b>110,749,562</b>	<b>102,413,191</b>
	2012	2011
	\$	\$
Financial activities		
Revenue	111,414,867	105,409,979
Expenses	106,896,466	102,479,613
	4,518,401	2,930,366
Payment in lieu of taxes	1,276,951	719,438
Dividends paid	2,460,000	2,320,000
<b>Change in retained earnings</b>	<b>781,450</b>	<b>(109,072)</b>
Municipality of Chatham-Kent's investment represented by:		
Investment in shares of CKE	23,855,798	23,855,798
Accumulated profit less dividends received	16,460,907	15,757,602
	40,316,705	39,613,400
Corix Utilities' investment represented by:		
Investment in shares of CKE	3,026,352	3,026,352
Accumulated profit less dividends received	613,891	535,746
	3,640,243	3,562,098

# The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2012

## 2. Investment in Entegrus Inc. (continued)

### (a) Equity in Entegrus Inc.

	2012	2011
	\$	\$
Balance, beginning of year	63,136,726	63,234,891
Changes during the year		
Net earnings for the year	2,917,305	1,989,835
Dividends paid	2,214,000	2,088,000
Balance, end of year	63,840,031	63,136,726

	2012	2011
	\$	\$
Investment in Entegrus Inc.	40,316,705	39,613,400
Notes receivable from Entegrus Inc.	23,523,326	23,523,326
Balance, end of year	63,840,031	63,136,726

### (b) Related party transactions and balances

The following summarizes the Municipality's related party transactions with Entegrus for the year ended December 31, 2012 and CKE for the year ended December 31, 2011 with balances as at December 31, 2012 and December 31, 2011:

	2012	2011
	\$	\$
Transactions		
Revenue		
Administrative services	615,112	591,455
Asset management	226,406	219,169
Interest on promissory note	1,380,819	1,382,634
Expenses		
Energy purchases (at commercial rates)	5,346,067	5,085,907
Billing and collection services - water/wastewater	2,407,631	2,358,993
Streetlight maintenance	190,764	203,571
	(5,722,125)	(5,455,213)
Balances		
Amounts due from Entegrus Inc.		
Promissory note receivable	23,523,326	23,523,326
Accounts receivable	14,801,943	9,946,721

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2012

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### 3. Notes receivable

Notes receivable are due from Entegrus 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 \$1,380,819 (2011 - \$1,382,634).

### 4. Trust funds

Trust funds administered by the Municipality amounting to \$4,887,014 (2011 - \$4,729,837) 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:

	2012	2011
	\$	\$
Employee future benefits	22,036,990	20,567,697
Workplace safety and insurance obligations	2,850,314	3,022,412
Vested sick leave	58,081	57,700
Vacation credits	3,486,517	3,100,829
	<u>28,431,902</u>	<u>26,748,638</u>

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, 2012 of \$22,036,990 (2011 - \$20,567,697) was determined by actuarial valuation using a discount rate of 3.75% (2011 - 4.5%).

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

	\$
Accrued benefit liability as at January 1, 2012	20,567,697
Expense for the period	2,416,123
Benefits paid during the period	(946,830)
Estimated accrued benefit liability as at December 31, 2012	<u>22,036,990</u>

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 2012 and thereafter.

#### (ii) Interest (discount) rate

The present value as at December 31, 2012 of the future benefits was determined using a discount rate of 3.75%. The expense for the year ended December 31, 2012, was determined using a discount rate of 4.50%.

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2012

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### 5. Accrued employee benefits (continued)

#### (a) *Employee future benefits (continued)*

##### (iii) Health costs

Drug costs were assumed to increase at 8.5% per year grading down to 3.5% over 10 years.

##### (iv) Dental costs

Dental costs were assumed to increase at 3.5% annually.

#### (b) *Workplace safety and 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 \$2,850,314 (2011 - \$3,022,412) and an accrual has been booked for 2012. 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 \$780,365 (2011 - \$673,969). 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 \$58,081 (2011 - \$57,700) at the end of the year and is reported as an accrued liability on the Consolidated statement of financial position. An amount of \$0 (2011 - \$0) 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, 2012 is \$3,486,517 (2011 - \$3,100,829) 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 1,298 (2011 - 1,314) 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 2012 calendar year at rates ranging from 8.3% to 13.9% (2011 7.4% to 14.1%) depending on the member's designated retirement age and level of earnings. The amount contributed to OMERS for 2012 was \$7,684,859 (2011 - \$6,832,303) 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, 2012

### 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:

	2012	2011
	\$	\$
For building code act	832,179	334,074
For parkland purposes	153,390	146,365
For Federal gas tax	8,948,460	7,062,998
For Provincial gas tax	4,231,895	3,846,701
Deferred revenue - obligatory reserve funds	14,165,924	11,390,138
Other deferred revenue		
Deferred taxes	1,615,354	901,856
Deferred grants	5,524,362	6,059,943
Other	1,290,698	1,264,066
Total deferred revenue	22,596,338	19,616,003

### 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:

	2012	2011
	\$	\$
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.	135,085,792	150,116,069
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.	(2,788,582)	(2,794,109)
Total long-term liabilities at the end of the year	132,297,210	147,321,960
Current note payable	(100,000)	(100,000)
Debentures outstanding	132,197,210	147,221,960



# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2012

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

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

	2013 to 2017	2018 to 2022	2023 and thereafter
	\$	\$	\$
From general municipal revenue	20,535,927	16,032,918	7,427,193
From benefiting landowners	9,737,363	4,607,869	3,218,064
From benefiting water ratepayers	10,890,517	12,640,982	10,286,615
From benefiting wastewater ratepayers	11,090,783	13,030,600	12,798,379
	52,254,590	46,312,369	33,730,251

(c) Included in the principal amount in a) is \$9,688,080 (2011 - \$10,222,921) 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 \$2,928,415 (2011 - \$4,281,278), \$2,423,763 (2011 - \$3,546,711) and \$0 (2011 - \$325,047), respectively.

(g) Included in the principal amount listed in a) above is \$100,000 (2011 - \$200,000) of a non-interest bearing note payable due to St. Joseph Health Services Association of Chatham. 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:

	2012	2011
	\$	\$
Beginning balance	147,421,960	161,756,882
Principal payments	(15,124,750)	(14,334,922)
Ending balance	132,297,210	147,421,960

Net interest payments related to long-term liabilities in the current year were \$5,900,229 (2011 - \$6,550,069) and are reported in the Consolidated statement of operations and accumulated surplus.

#### *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 \$1,341,671 (2011 - \$1,575,515) 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, 2012

### 10. 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.

	2012	2011
	\$	\$
Local improvements receivable for capital projects on tax roll		
Wastewater	1,225,249	1,375,037
Water	2,553,616	2,786,400
Drainage	10,286,041	9,533,684
Other	224,760	281,804
	<b>14,289,666</b>	<b>13,976,925</b>

### 11. Tangible capital assets

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

	2012	2011
	\$	\$
Land and land improvements	52,823,682	47,576,588
Buildings	141,032,930	132,197,181
Equipment	56,871,724	57,596,654
Vehicles	22,077,445	21,374,884
Underground linear	225,286,569	229,639,801
Plants and facilities	21,127,008	21,984,914
Bridges	117,391,287	107,608,487
Transportation	173,465,142	175,129,637
Other assets	3,594,951	3,287,773
	<b>813,670,738</b>	<b>796,395,919</b>
Assets under construction	7,825,896	34,236,248
	<b>821,496,634</b>	<b>830,632,167</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, 2012

## 12. Accumulated surplus

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

	2012	2011
	\$	\$
Surplus		
Invested in tangible capital assets	686,177,955	655,775,170
Entegrus, net equity	63,840,032	63,136,726
BIA	(11,599)	26,958
Prelevies for benefitting landowners	166,854	209,813
Other	(4,122,239)	29,422,075
Obligations to be funded from future years	(7,218,221)	(13,781,068)
Unfunded		
Employee future benefits, workplace safety and vacation	(27,066,261)	(25,427,989)
Accrued interest on long-term liabilities	(988,385)	(1,115,619)
	710,778,136	708,246,066
Surplus allocated to reserves		
For acquisition of capital assets	36,501,702	32,600,038
For public liability insurance	1,320,569	1,584,887
For various programs, facilities	35,242,478	30,159,497
For strategic and community development	2,937,189	2,279,085
For water	(1,444,971)	(2,075,973)
For wastewater	443,558	(1,610,302)
	75,000,525	62,937,232
Surplus allocated to reserve funds		
For community investment	3,538,799	3,014,067
For parking purposes	220,816	222,694
	3,759,615	3,236,761
Total accumulated surplus	789,538,276	774,420,059

## 13. 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, 2012 amounted to \$1,320,569 (2011 - \$1,584,887) and is reported on the Consolidated Statement of Financial Position under reserves. The provision for the year of \$720,073 (2011 - \$749,457) has been reported as an expenditure on the Consolidated statement of operations and accumulated surplus and \$0 (2011 - \$191,037) was transferred in from other Reserves.

Claims settled during the year amounted to \$984,391 (2011 - \$845,444) and have been provided from the reserve.

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2012

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### 14. 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 2012 were \$2,376,945 (2011 - \$2,175,207) and net revenue was \$854,959 (2011 - \$737,256).

### 15. 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.

#### *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.

# The Corporation of the Municipality of Chatham-Kent

## Notes to the consolidated financial statements

December 31, 2012

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### 16. Commitments

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

	\$
2013	39,250
2014	39,250
2015	13,083
	<u>91,583</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:

	\$
2013	12,958,742
2014	12,192,751
2015	9,240,182
2016	9,433,812
2017 to 2018	25,404
	<u>43,850,891</u>

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

	\$
2013	514,000
2014	514,000
2015	516,000
	<u>1,544,000</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 \$4,000,000 and will be finalized in 2013.

### 17. 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.

### 18. 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, 2012

	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	2012 Consolidated	2011 Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>														
Taxation	2,759,429	48,100,944	37,002,533	9,179,036	7,128,038	18,034,289	6,204,844	18,423,333	4,764,402	-	-	(23,143,163)	129,453,684	126,154,129
Sales of service	180,311	724,598	1,234,102	2,909,266	920,019	7,905,623	2,338,963	4,832,660	837,534	32,876,203	4,922,165	-	59,481,444	56,825,483
Government transfers	475,160	1,318,289	5,289,669	(26,350)	13,803,192	59,936,754	3,951,729	506,931	605,927	397,748	20,871,600	-	106,930,649	122,342,512
Other	-	-	-	-	-	-	-	-	-	-	12,414,163	-	12,414,163	12,623,498
	3,414,900	51,143,831	43,526,304	12,061,951	21,851,249	85,876,666	12,495,536	23,762,924	6,207,863	33,073,951	38,007,928	(23,143,163)	308,279,940	317,945,622
<b>Expenses</b>														
Salaries and benefits	14,273,677	39,384,191	9,265,292	1,664,873	8,290,310	29,920,807	1,546,325	10,218,840	2,803,572	6,864,087	-	-	124,151,984	119,956,559
Goods and services	13,276,732	3,278,658	13,385,272	7,489,908	10,862,431	5,780,834	3,652,331	6,002,199	1,595,512	11,642,869	-	-	77,090,746	75,305,132
Interest	79,086	5,014	588,489	-	23,239	1,488,262	577,688	-	400,745	2,793,024	-	-	5,938,547	6,636,752
Transfers (to) from other segments	(24,796,925)	5,988,802	5,505,437	908,041	2,154,683	5,730,023	(104,221)	2,742,826	438,144	1,432,190	-	-	-	-
External transfers	(2,577)	745,911	-	1,500	100,500	41,405,206	6,427,685	891,645	837,529	-	-	-	50,407,399	50,403,755
Amortization	611,070	1,842,394	14,208,468	2,024,101	420,086	1,539,143	395,728	2,447,883	28,240	10,043,766	-	-	33,560,879	31,867,506
Loss on disposal of tangible capital assets	(27,163)	(21,139)	593,346	(6,472)	-	12,391	-	1,459,531	121	14,307	-	-	2,024,922	1,419,858
	3,414,900	51,143,831	43,526,304	12,061,951	21,851,249	85,876,666	12,495,536	23,762,924	6,207,863	32,790,253	38,007,928	(23,143,163)	15,148,463	32,356,060
<b>Net surplus (deficit)</b>	-	-	-	-	-	-	-	-	-	283,698	-	-	-	-