

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 3, 2011

SUBJECT: 2010 Audited Financial Statements

RECOMMENDATION

It is recommended that:

1. The audited financial statements for the year ended December 31, 2010, 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 Council in closed session at least annually, with Municipal staff absent, to obtain comments and instructions from Council. In addition to the standard audit report, the auditor conducts extra tests and examinations based on the Audit Committee's concerns. Beginning this year, results of the audit are shared directly with the Audit 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 conducted¹.

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.

¹ Standard & Poors conducts an annual financial review and ranks the Municipality in accordance with its findings. Chatham-Kent currently has a rating of A with a stable outlook. Contributing factors were the "budget performance, manageable debt and reasonable economic prospects". (June 28, 2011)

Audit Requirement Changes in 2010

A change in audit requirements in 2010 requires the acceptance of the draft financial statements by Council prior to the auditors issuing signed statements. Therefore, the statements attached to this report are in draft form only and will be signed after this report is approved.

Audit Committee

At the September 26, 2011 meeting, Council approved delegating the review of the financial statements to the Audit Committee. The committee met on October 20 with an Audit Partner and the Lead Auditor from Deloitte and reviewed the statements in detail. The audit committee passed the following motion:

That the Audit Committee receives the 2010 Audited Financial Statements and recommends the approval of the statements to Council.

Reported 2010 results

The following are additional comments regarding the financial statements.

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

	2010	2009
Revenues	\$319,486,161	\$301,504,987
Expenses	\$285,400,963	\$274,320,697
Excess revenues over expenses before other items	\$34,085,198	\$27,184,290
Income from subsidiary	\$3,132,090	\$3,705,063
Excess revenues over expenses	\$37,217,288	\$30,889,353

The Municipal 2010 year-end cash basis surplus is \$1,339,755 (\$414,028 in 2009) as was reported by Budget and Performance Services at the September 26, 2011, Council meeting. This figure is included as part of the \$37,217,288 (\$30,889,353 in 2009) excess revenue over expenses reported on the Consolidated Statement of Operations and Accumulated Surplus. The \$37 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 \$37 million accrual accounting surplus in the financial statements to the \$1,339,755 surplus as per the balanced cash budget approved by Council during the 2010 budget deliberations.

	2010	2009
Accrual basis surplus as per Financial Statements	\$37,217,288	\$30,889,353
Adjustments:		
Amortization	\$30,592,496	\$29,192,870
Taxation, grant, other Tangible Capital Assets funding	\$(57,822,370)	\$(42,745,255)
Long-term debt repayment	\$(12,211,049)	\$(12,190,182)
Income from subsidiary	\$(3,132,090)	\$(3,705,063)
Other	\$6,695,480	\$(1,027,695)
Cash basis surplus as previously reported to Council	\$1,339,755	\$414,028

Total Municipal and PUC expenses, excluding hydro operations, in 2010 were \$285,400,963, (\$274,320,697 in 2009). C-K Energy is audited separately and is not consolidated in this report.

The attached consolidated municipal financial statements include the PUC (Water/Wastewater), the Library, Museums, Board of Health and Police 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.

	2010	2009
Financial assets	\$176,428,308	\$147,040,212
Liabilities	\$245,644,804	\$211,060,525
Net financial assets	\$(69,216,496)	\$(64,020,313)
Non-financial assets	\$811,280,495	\$768,867,024
Accumulated surplus	\$742,063,999	\$704,846,711

Accumulated Surplus

The new financial statement format along with recording the tangible capital assets in the statement results in a \$742,063,999 accumulated surplus for 2010. 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 16 of the financial statement attachment) lists the net book value of Chatham-Kent's assets.

	2010	2009
Land and land improvements	\$43,522,343	\$41,010,607
Buildings	\$134,059,092	\$109,782,144
Equipment	\$56,135,256	\$48,705,416
Vehicles	\$22,010,543	\$21,997,281
Underground Linear	\$210,712,689	\$213,315,385
Plants and facilities	\$22,629,242	\$23,416,410
Bridges	\$97,666,162	\$91,632,822
Transportation	\$164,825,706	\$165,023,546
Other assets	\$3,336,910	\$3,138,696
	\$754,897,943	\$718,022,307
Assets under construction	\$53,685,278	\$48,100,344
Total tangible capital assets	\$808,583,221	\$766,122,651

Chatham-Kent Energy Inc, net equity is the Municipality's 90% share of the 2010 Chatham-Kent Energy (CKE) net income of \$3,480,101 (\$4,116,737 in 2009) plus the value of the shares and long-term note payable to the Municipality for consideration of the original transfer of net assets to CKE².

Reserves and Reserve Funds are the reserve balances at year-end. A breakdown of Reserves and Reserve funds is attached as Appendix "B". Also see Note 13 of the audited financial statements. Reserve balances include amounts encumbered. The amount in reserves is only slightly reduced from 2009 due to the use of some grant money parked in reserves along with various other changes.

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

- Post-employment benefits such as life insurance and medical benefits that will be incurred and will potentially be due at some future time. The discount rate used by the actuarial consultant in determining the net present value of future benefits was 5.0% (5.5% in 2009)
- Estimated future liabilities as provided by Workplace Safety & Insurance Board

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

	2010	2009
Service Revenue	\$97,587,499	\$86,255,583
Cost of Power	\$80,400,078	\$70,974,461
Gross Margin	\$17,187,421	\$15,281,122
Operating Income	\$21,655,305	\$19,857,934
Net Earnings (100%)	\$3,480,101	\$4,116,737
Retained Earnings (End of Year)	\$16,402,240	\$14,832,319
Dividends Paid to C-K	\$1,719,000	\$2,034,000
Dividends Paid to Corix Utilities	\$191,000	\$226,000

- 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 is found below:

	2010	2009
Employee future benefits	\$19,184,725	\$18,575,250
WSIB obligation	\$4,289,283	\$3,401,733
Vacation pay	\$2,612,246	\$2,226,363
Total unfunded employee future benefits	\$26,086,254	\$24,203,346
Interest on long-term liabilities	\$1,187,182	\$1,076,498

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 three new debt issues in 2010. The "Funded By" columns identify the sources of future funding to service the debt payments. The tax funded obligation is currently approximately \$29 million.

Figure 1 Chatham-Kent Long Term Debt as at December 31, 2010

Debt Issue #	Rate %	Term	Total	Funded by:			
				PUC rates	PUC locals	Mun.Tax	Mun. Other
Debt Issued by the Municipality of Chatham-Kent							
2002-01	5.375	10	20,000,000 (A)	16,700,000		1,249,000	2,051,000
2003-01	5.39	10	12,000,000 (B)		12,000,000		
2004-01	2.55	10	10,864,650 (C)			1,862,229	9,002,421
2004-02	2.73	20	43,400,000 (D)	43,400,000			
2004-03	5.19	10	10,000,000 (E)			2,653,000	7,347,000
2005-01	4.94	20	43,000,000 (F)			13,299,000	29,701,000
2005-02	2.53	20	22,128,742 (G)	22,128,742			
2006-01	2.50	10	6,137,771 (H)			6,137,771	
2007-01	2.52	20	2,800,000 (I)	2,800,000			
2007-02	4.94	20	5,170,000 (J)				5,170,000
2007-03	5.38	5	1,428,000 (K)				1,428,000
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, 2010			(61,251,456)	(28,623,383)	(6,435,049)	(8,697,083)	(17,495,941)
Chatham-Kent Issued Debt Outstanding at Dec 31, 2010			154,455,535	82,650,087	\$5,564,951	29,037,017	37,203,480
Other Debt assumed by Chatham-Kent							
Former Entities Dec 31, 2010	various	various	1,051,000 (O)	953,257		97,743	
Social Housing download Dec 31, 2010	Various	various	6,050,347 (P)				6,050,347
Total Debt Outstanding Dec 31, 2010			\$161,556,882	\$83,603,344	\$5,564,951	\$29,134,760	\$43,253,827

(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 \$953,257, Wallaceburg Fire \$97,743

(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.

Figure 2 Development Charges Reserve Fund						
	2010			2009		
	Roads	Water	Sewer	Roads	Water	Sewer
Opening Balance	\$0	\$0	\$0	\$0	\$0	\$0
Contribution from developers	\$0	\$123,874	\$110,863	\$0	\$119,844	\$91,443
Interest Earned	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	\$0	\$123,874	\$110,863	\$0	\$119,844	\$91,443
Use of funds:						
Investment in Capital	<u>\$0</u>	<u>\$123,874</u>	<u>\$110,863</u>	<u>\$0</u>	<u>\$119,884</u>	<u>\$91,443</u>
Ending Balance	\$0	\$0	\$0	\$0	\$0	\$0

Budget Figures

Budget figures provided as part of the Consolidated Statement of Operations and Accumulated Surplus (see page 4 of the financial statement attachment) do not reflect the balanced 2010 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 2010 is presented below along with the 2009 comparison.

As at December 31	Water		Wastewater	
	2010	2009	2010	2009
Revenues	\$16,301,012	\$17,885,600	\$12,205,143	\$13,292,936
Expenditures	\$18,206,640	\$19,799,694	\$13,220,327	\$13,760,710
Net Income	\$(1,905,628)	\$(1,914,094)	\$(1,015,184)	\$(467,774)

Reserve Fund Balance (End of Year)	<u>\$297,805</u>	<u>\$1,014,536</u>	<u>\$553,310</u>	<u>\$3,153,555</u>
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Municipal Leasing

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

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

Under the leasing policy:

Section 1. Any lease or cumulative group of leases that exceeds a term of one year that is entered into by the Municipality, being in effect at any one time, shall be considered material if collectively all leasing payments incurred in any calendar year exceeds 2% of the Municipal Annual Debt Repayment Limit as determined by the Treasurer.

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

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

- Capital items leased as a form of financing
- Like equipment with a leased value exceeding \$10,000 annually
- Goods or services only available through lease where collectively lease payments exceed \$20,000 annually

- Leases entered into following a buy verses lease analysis for any property and for any amount

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

<u>Materiality Calculations</u>	
Annual Debt Limit (December 31, 2010)	³ \$28,239,373
2% of this limit (established by policy)	\$564,787
Financial Lease Payments 2010	
Fleet	\$180,767
Copiers	\$103,134
Total	\$283,901

The Municipality does not often use financial leases, as the cost of other forms of indebtedness is more advantageous. Because 2010 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 2010.

COMMUNITY STRATEGIC PLAN

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

B: Economy – We are a prosperous community

B1: Promote and market Chatham-Kent

³ 2010 Annual Debt Limit Calculation

1 Gross Debt Charges		
	Principal	\$12,473,887
	Interest	\$6,487,914
	Subtotal	\$18,961,801
2 OCWA		-
3 Long term commitments		\$100,000
4 Debt Charges for Lease Purchases		-
5 SUBTOTAL DEBT CHARGES		\$19,061,801
6 Debt Charges for Utilities		-
7 Downtown Revitalization Loans		-
8 Tile Drainage & Shoreline Assistance		\$515,559
9 SUBTOTAL TO BE EXCLUDED		-
10 NET DEBT CHARGES		\$18,546,242

11 Total Revenue Fund Revenues	\$324,729,107
12 Downtown Revitalization Loan payments from above	-
13 Drainage/shoreline fees	\$152,721
14 Grants from other governments	
Ontario	\$108,785,317
Canada	\$22,665,795
Other Municipalities, other items	\$5,982,814
Total Grants from Governments	\$137,433,926
15 Joint Board Fees	-
Amounts to be deducted from revenue	\$137,586,647
16 Net Revenue Fund Funds	\$187,142,460
17 25% of net revenue fund	\$46,785,615
18 Annual Repayment Limit	\$28,239,373
25% of item #17 less net debt charges #10	

At 6% interest, the Municipality has the capacity to borrow an additional \$324 million with repayment amortized over 20 years.

Desired Outcomes/Proposed Activities

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

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

CONSULTATION

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

FINANCIAL IMPLICATIONS

The accumulated Municipal surplus of \$1,339,755 was addressed in a separate Budget & Performance Services report presented to Council. The cost of the external audit is part of the approved annual budget.

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

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

A Request for Proposal for Auditing Services was awarded in 2008. The 2010 audit was the third 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 of the Corporation of the Municipality of Chatham-Kent
– Appendix “B” – Chatham-Kent Summary of Reserves

Consolidated financial statements of

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

December 31, 2010

The Corporation of the Municipality of Chatham-Kent

December 31, 2010

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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

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, 2010, and the consolidated statements of operations and accumulated surplus, changes 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, 2010 and the results of its operations, changes in net debt 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
October 24, 2011

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of financial position
as at December 31, 2010

	2010	2009
	\$	\$
Financial assets		
Cash	47,210,251	33,069,635
Taxes receivable	10,928,453	10,890,717
Accounts receivable	32,063,172	17,868,539
Investment in Chatham-Kent Energy Inc. (Note 2)	39,711,565	38,298,474
Notes receivable from Chatham-Kent Energy Inc. (Note 3)	23,523,326	23,523,326
Land held for resale	5,587,979	5,585,279
Other assets	2,915,560	3,280,577
Local improvements receivable (Note 11)	14,488,002	14,523,665
	176,428,308	147,040,212
Liabilities		
Accounts payable and accrued liabilities	34,869,585	33,086,057
Accrued interest (Note 10)	1,748,297	1,733,713
Accrued employee benefits (Note 5)	27,333,780	25,394,775
Current note payable	100,000	100,000
Deferred revenue (Note 7)	19,836,260	15,555,877
Debentures outstanding (Note 8)	161,556,882	134,890,103
Long-term note payable (Note 8)	200,000	300,000
	245,644,804	211,060,525
Net debt	(69,216,496)	(64,020,313)
Non-financial assets		
Tangible capital assets (Note 12)	808,583,221	763,850,907
Inventory	817,271	901,283
Prepaid expenses	1,880,003	1,843,090
	811,280,495	766,595,280
Accumulated surplus (Note 13)	742,063,999	702,574,967

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of operations and accumulated surplus
year ended December 31, 2010

	2010 Budget (unaudited)	2010 Actual	2009 Actual
	\$	\$	\$
Revenues			
Taxation and user charges			
Property taxation	152,861,360	152,532,882	150,143,956
Payments in lieu of taxes from other governments	3,430,150	3,499,435	3,455,986
User charges	52,379,265	53,840,081	53,868,430
	208,670,775	209,872,398	207,468,372
Deduct amounts received or receivable for School Boards	(33,291,855)	(33,291,855)	(32,849,987)
	175,378,920	176,580,543	174,618,385
Grants			
Government of Canada	27,828,304	22,665,795	17,088,535
Province of Ontario	109,669,050	108,785,317	99,032,016
	137,497,354	131,451,112	116,120,551
Other			
Investment income	3,006,785	3,145,394	2,851,040
Penalties and interest on taxes	1,500,000	1,643,966	1,591,323
Contributions from landowners and developers	2,448,144	234,737	211,287
Sale of land and equipment	175,775	249,423	2,261,178
Provincial offences administration (Note 15)	2,082,500	1,902,025	2,124,657
Other	945,661	6,550,705	1,726,566
	10,158,865	13,726,250	10,766,051
Total revenue	323,035,139	321,757,905	301,504,987
Expenses			
General government	5,023,006	5,283,201	3,646,374
Protection of persons and property	50,085,784	49,137,700	46,422,040
Transportation services	41,399,119	40,836,816	40,882,501
Environmental services	44,387,765	40,877,193	41,907,083
Health services	21,286,724	20,276,049	20,107,445
Social and family services	86,098,459	86,810,380	83,111,708
Social housing	15,032,138	14,222,321	11,429,250
Recreation and cultural services	21,298,259	21,130,284	20,070,836
Planning and development	5,946,633	6,666,131	6,386,293
Loss on disposal of tangible capital assets	-	160,888	357,167
Total expenses	290,557,887	285,400,963	274,320,697
Excess revenues over expenses before other items	32,477,252	36,356,942	27,184,290
Other items			
Income from subsidiary	-	3,132,090	3,705,063
Excess revenues over expenses	32,477,252	39,489,032	30,889,353
Accumulated surplus, beginning of year	-	702,574,967	673,957,358
Adjustments (Note 20)	-	-	(2,271,744)
Accumulated surplus, end of year	32,477,252	742,063,999	702,574,967

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of change in net debt
year ended December 31, 2010

	2010	2009
	\$	\$
Excess revenues over expenses	39,489,032	30,889,353
Acquisition of tangible capital assets	(67,772,225)	(39,309,205)
Increase in tangible capital assets construction in progress	(7,856,676)	(29,564,080)
Amortization of tangible capital assets	30,592,496	29,192,870
Loss on sale of tangible capital assets	160,888	357,167
Proceeds of sale of tangible capital assets	143,203	113,009
Change in inventory	84,012	(831,153)
Change in prepaids	(36,913)	(191,606)
Change in net debt	(5,196,183)	(9,343,645)
Net debt, beginning of year	(64,020,313)	(54,676,668)
Net debt, end of year	(69,216,496)	(64,020,313)

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of cash flows
year ended December 31, 2010

	2010	2009
	\$	\$
Operating transactions		
Excess of revenues over expenses	39,489,032	30,889,353
Items not involving cash		
Amortization	30,592,496	29,192,870
Loss on sale of tangible capital assets	160,888	357,167
Income from subsidiary	(3,132,090)	(3,705,063)
Change in non-cash working capital items	(12,050,862)	(3,931,551)
Change in obligations to be funded from future revenues	1,953,589	272,904
Decrease (increase) in inventory	84,012	(831,153)
Increase in prepaid expenses	(36,913)	(191,606)
	57,060,152	52,052,921
Financing transactions		
New debt issued	38,777,828	-
Note payable repayment	(100,000)	(100,000)
Long-term debt repayment	(12,111,049)	(12,090,182)
Deferred revenue	4,280,383	(1,896,655)
	30,847,162	(14,086,837)
Capital transactions		
Acquisition of tangible capital assets	(75,628,901)	(68,873,285)
Proceeds of sale of tangible capital assets	143,203	113,009
	(75,485,698)	(68,760,276)
Investing transaction		
Dividends received from Chatham-Kent Energy Inc.	1,719,000	2,034,000
Net increase (decrease) in cash	14,140,616	(28,760,192)
Cash, beginning of year	33,069,635	61,829,827
Cash, end of year	47,210,251	33,069,635

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2010

1. Significant accounting policies

The consolidated financial statements of The Corporation of the Municipality of Chatham-Kent (the "Municipality") are the representation of management prepared in accordance with Canadian 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
- 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 "Accounts payable and accrued 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; 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, 2010

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.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2010

2. Investment in Chatham-Kent Energy Inc.

CKE 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 \$47,379,123. 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 following table provides condensed supplementary consolidated financial information for CKE and its subsidiaries for the year ended December 31:

	2010	2009
	\$	\$
Financial position		
Assets		
Current	25,553,235	26,860,709
Capital	60,345,827	55,724,565
Other	11,393,167	11,173,025
Total assets	97,292,229	93,758,299
Liabilities		
Current	20,426,334	17,612,823
Notes payable to Municipality of Chatham-Kent	23,523,326	23,523,326
Other	10,057,999	10,907,681
Total liabilities	54,007,659	52,043,830
Equity		
Share capital	26,882,150	26,882,150
Retained earnings	16,402,420	14,832,319
Total equity	43,284,570	41,714,469
Total liabilities and equity	97,292,229	93,758,299

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2010

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

	2010	2009
	\$	\$
Financial activities		
Revenue	102,065,383	90,832,395
Expenses	96,916,799	86,080,786
	5,148,584	4,751,609
Payment in lieu of taxes	1,668,483	1,421,241
Adjustment for future income taxes	-	(786,369)
Dividends paid	1,910,000	2,260,000
Change in retained earnings	1,570,101	1,856,737
Municipality of Chatham-Kent's investment represented by:		
Investment in shares of CKE	23,855,798	23,855,798
Accumulated profit and loss less dividends received	15,855,767	14,442,676
	39,711,565	38,298,474
Corix Utilities' investment represented by:		
Investment in shares of CKE	3,026,352	3,026,352
Accumulated profit and loss less dividends received	546,653	389,642
	3,573,005	3,415,994

(a) Equity in Chatham-Kent Energy Inc.

	2010	2009
	\$	\$
Balance, beginning of year	61,821,801	60,150,738
Changes during the year		
Net earnings for the year	3,132,090	3,705,063
Dividends paid	1,719,000	2,034,000
Balance, end of year	63,234,891	61,821,801

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2010

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

(b) Related party transactions and balances

The following summarizes the Municipality's related party transactions with CKE for the years ended December 31, 2010 and December 31, 2009 and the balances as at December 31, 2010 and December 31, 2009:

	2010	2009
	\$	\$
Transactions		
Revenue		
Administrative services	651,418	634,860
AM-FM	152,560	152,146
Interest on promissory note	1,654,320	1,654,320
Expenses		
Energy purchases (at commercial rates)	4,475,114	4,069,792
Billing and collection services - water/wastewater	2,359,043	2,202,671
Streetlight maintenance	200,162	168,042
	(4,576,021)	(3,999,179)
Balances		
Amounts due from CKE		
Promissory note receivable	23,523,326	23,523,326
Accounts receivable	5,547,835	3,903,233

3. Notes receivable from Chatham-Kent Energy Inc.

Notes receivable are due from Chatham-Kent Energy Inc. with no set repayment terms and interest payable monthly at 7.04%. The Municipality received an interest payment in the current year of \$1,654,320 (2009 - \$1,654,320).

4. Trust funds

Trust funds administered by the Municipality amounting to \$4,604,281 (2009 - \$4,477,077) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations and Accumulated Surplus.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2010

5. Accrued employee benefits

The Municipality has accrued employee benefits as follows:

	2010	2009
	\$	\$
Employee future benefits	19,925,704	19,299,018
Workplace safety and insurance obligations	4,289,283	3,401,733
Vested sick leave	57,312	75,340
Vacation credits	3,061,481	2,618,684
	27,333,780	25,394,775

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, 2010 of \$19,925,704 (2009 - \$19,299,018) was determined by actuarial valuation using a discount rate of 5.00% (2009 - 5.50%).

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

	\$
Accrued benefit liability as at January 1, 2010	19,299,018
Expense for the period	1,308,686
Benefits paid during the period	(682,000)
Estimated accrued benefit liability as at December 31, 2010	19,925,704

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 2010 and thereafter.

(ii) Interest (discount) rate

The present value as at December 31, 2010 of the future benefits was determined using a discount rate of 5.0%. The expense for the year ended December 31, 2010, was determined using a discount rate of 5.50%. 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 2010 and thereafter.

(iv) Dental costs

Dental costs were assumed to increase at the CPI rate plus 1% for 2010 and thereafter.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2010

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 \$4,289,283 (2009 - \$3,401,733) and an accrual has been booked for 2010. 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 \$1,038,060 (2009 - \$1,657,882). 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 \$57,312 (2009 - \$75,340) at the end of the year and is reported as an accrued liability on the Consolidated Statement of Financial Position. An amount of \$18,028 (2009 - \$77,819) 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, 2010 is \$3,061,481 (2009 - \$2,618,684) 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 1,287 (2009 - 1,298) 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 2010 calendar year at rates ranging from 6.3% to 12.8% depending on the member's designated retirement age and level of earnings. The amount contributed to OMERS for 2010 was \$5,996,697 (2009 - \$5,903,495) 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, 2010

7. Deferred revenue - obligatory reserve funds

A requirement of Canadian public sector 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:

	2010	2009
	\$	\$
For building code act	474,968	219,279
For parkland purposes	136,734	123,885
For Federal gas tax	6,296,992	3,172,906
For Federal transit gas tax	-	64,855
For Provincial gas tax	3,380,062	3,086,688
Deferred revenue - obligatory reserve funds	<u>10,288,756</u>	<u>6,667,613</u>
Other deferred revenue		
Deferred taxes	856,685	657,916
Deferred grants	7,179,801	7,103,116
Other	1,511,018	1,127,232
Total deferred revenue	<u>19,836,260</u>	<u>15,555,877</u>

8. Net long-term liabilities

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

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2010

	2010	2009
	\$	\$
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 amount to _____.	164,247,518	137,346,176
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.	(2,690,636)	(2,456,073)
Net long-term liabilities at the end of the year	161,556,882	134,890,103
Long-term note payable		
Non-interest bearing note payable due to St. Joseph Health Services Association of Chatham. The note has fixed annual payments of \$100,000.	200,000	300,000
Net long-term liabilities at the end of the year	200,000	300,000

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2010

8. Net long-term liabilities (continued)

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

	2011 to 2015	2016 to 2020	2021 and thereafter
	\$	\$	\$
From general municipal revenue	21,866,892	18,215,265	12,549,869
From benefiting landowners	15,831,472	4,422,382	5,067,657
From benefiting water ratepayers	14,094,563	11,906,873	15,571,528
From benefiting wastewater ratepayers	11,551,050	12,213,458	18,265,873
	63,343,977	46,757,978	51,454,927

(c) Included in the principal amount in a) is \$10,727,488 (2009 - \$11,207,283) 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 \$5,564,951 (2009 - \$6,782,973), \$4,614,253 (2009 - \$5,629,124) and \$593,667 (2009 - \$848,248), respectively.

9. Charges for net long-term liabilities

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

	2010	2009
	\$	\$
Beginning balance	135,190,103	147,380,285
Principal payments	(12,211,049)	(12,190,182)
New debt issued	38,777,828	-
Ending balance	161,756,882	135,190,103

Net interest payments related to long-term liabilities in the current year were \$6,244,658 (2009 - \$5,889,691) 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 \$1,748,297 (2009 - \$1,733,713) 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, 2010

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.

	2010	2009
	\$	\$
Local improvements receivable for capital projects on tax roll		
Wastewater	1,745,411	2,157,702
Water	3,590,154	4,661,340
Drainage	8,893,791	7,408,247
Other	258,646	296,376
	14,488,002	14,523,665

12. Tangible capital assets

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

	2010	2009
	\$	\$
Land and land improvements	43,522,343	41,010,607
Buildings	134,059,092	109,782,144
Equipment	56,135,256	48,705,416
Vehicles	22,010,543	21,997,281
Underground linear	210,712,689	213,315,385
Plants and facilities	22,629,242	23,416,410
Bridges	97,666,162	91,632,822
Transportation	164,825,706	165,023,546
Other assets	3,336,910	3,138,696
	754,897,943	718,022,307
Assets under construction	53,685,278	45,828,600
	808,583,221	763,850,907

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, 2010

13. Accumulated surplus

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

	2010	2009
	\$	\$
Surplus		
Invested in tangible capital assets	601,727,828	582,745,900
Chatham-Kent Energy Inc., net equity	63,234,891	61,821,801
BIA	23,698	13,907
Prelevies for benefitting landowners	202,944	183,902
Other	50,971,698	18,805,536
Obligations to be funded from future years	(11,292,071)	(5,668,186)
Unfunded		
Employee future benefits, workplace safety and vacation	(26,086,254)	(24,203,346)
Accrued interest on long-term liabilities	(1,187,182)	(1,076,498)
	677,595,552	632,623,016
Surplus allocated to reserves		
For acquisition of capital assets	33,477,856	28,535,218
For public liability insurance	1,489,837	1,611,225
For various programs, facilities	23,995,412	30,211,299
For strategic and community development	1,743,551	2,129,982
For water	297,806	1,014,536
For wastewater	553,310	3,153,555
	61,557,772	66,655,814
Surplus allocated to reserve funds		
For community investment	2,693,432	3,082,844
For parking purposes	217,243	213,293
	2,910,675	3,296,137
Total accumulated surplus	742,063,999	702,574,967

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 Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2010

14. Self-insurance (continued)

The Municipality has made a provision for a reserve for self-insurance which as at December 31, 2010 amounted to \$1,489,837 (2009 - \$1,611,225) and is reported on the Consolidated statement of financial position under accumulated surplus. The provision for the year of \$755,691 (2009 - \$1,454,100) has been reported as an expenditure on the Consolidated statement of operations and accumulated surplus and \$181,455 (2009 - \$177,997) was transferred from reserves.

Claims settled during the year amounted to \$1,058,534 (2009 - \$921,607) and have been provided from the reserve.

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 2010 were \$1,902,025 (2009 - \$2,124,657) and net revenue was \$467,509 (2009 - \$681,076).

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.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2010

16. Segmented information (continued)

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.

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:

	\$
2011	39,250
2012	39,250
2013	39,250
2014	39,250
2015	13,083
	<hr/> 170,083

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

	\$
2011	13,119,090
2012	4,126,075
2013	78,435
2014	77,847
2015 to 2017	179,421
	<hr/> 17,580,868

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2010

17. Commitments (continued)

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

	\$
2011	814,000
2012	514,000
2013	514,000
2014	514,000
2015	516,000
	2,872,000

(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 2011.

18. Budget figures

The approved budget is reflected on the Consolidated statement of operations and accumulated surplus for municipal projects. Capital projects benefiting and assessed to landowners and developers, for example water, wastewater, drainage, and industrial lands, are not budgeted for by the Municipality. The budgets established for capital 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 financial statements.

20. Restatement of 2009 comparative figures

During the 2010 year, it was found that a certain tangible capital asset was included in both the "assets under construction" as well as the specific asset category and has been adjusted retroactively. The impact of correcting this item in the 2009 comparative figures is as follows:

	As previously reported	Adjustment	2009 as restated
	\$	\$	\$
Tangible capital asset	766,122,651	(2,271,744)	763,850,907
Accumulated surplus, beginning of year	673,957,358	(2,271,744)	671,685,614
Accumulated surplus, end of year	704,846,711	(2,271,744)	702,574,967

The Corporation of the Municipality of Chatham-Kent
 Consolidated schedule of tangible capital assets
 year ended December 31, 2010

	Land and land improvements	Buildings	Equipment	Vehicles	Underground linear	Plants and facilities	Bridges	Transportation	Other assets	Total 2010	Total 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Municipal											
Cost											
Balance, beginning of the year	40,968,880	110,780,799	24,273,567	45,677,907	98,156,073	3,272,370	140,159,816	372,748,810	5,179,489	841,217,711	811,447,039
Add: additions during the year	3,109,081	16,641,291	3,066,093	2,977,241	1,348,409	-	7,917,868	9,413,204	848,972	45,322,159	34,836,325
Less: disposals during the year	154,853	86,822	499,358	3,765,093	5,512	-	315,787	2,872,342	380,003	8,099,770	5,065,653
Balance, end of the year	43,923,108	127,335,268	26,840,302	44,870,055	99,498,970	3,272,370	147,761,897	379,289,672	5,648,458	878,440,100	841,217,711
Accumulated amortization											
Balance, beginning of the year	6,832,550	40,938,572	10,238,568	24,315,719	43,487,507	997,296	48,526,994	207,725,264	2,040,793	385,103,263	369,244,234
Add: amortization for the year	467,156	2,573,061	1,729,822	2,993,834	1,835,223	102,353	1,881,121	9,568,588	650,758	21,801,916	20,455,114
Less: accumulated amortization on disposals	6,544	86,822	482,900	3,695,906	3,850	-	312,380	2,829,886	380,003	7,798,291	4,596,085
Balance, end of the year	7,293,162	43,424,811	11,485,480	23,613,647	45,318,880	1,099,649	50,095,735	214,463,966	2,311,548	399,106,888	385,103,263
Net book value of municipal assets	36,629,946	83,910,457	15,354,812	21,256,408	54,180,090	2,172,721	97,666,162	164,825,706	3,336,910	479,333,212	456,114,448
Waterworks											
Cost											
Balance, beginning of the year	2,232,112	24,902,526	28,022,639	914,376	150,545,513	25,462,274	-	-	-	232,079,440	230,166,456
Add: additions during the year	-	13,400	3,084,056	59,368	835,620	-	-	-	-	3,992,444	2,011,313
Less: disposals during the year	-	-	16,579	149,103	75,693	-	-	-	-	241,275	98,329
Balance, end of the year	2,232,112	24,915,926	31,090,116	824,641	151,305,540	25,462,274	-	-	-	235,830,609	232,079,440
Accumulated amortization											
Balance, beginning of the year	-	9,915,877	7,390,620	503,172	44,325,552	6,510,707	-	-	-	68,645,928	64,193,738
Add: amortization for the year	-	608,781	1,131,653	88,560	2,099,021	622,058	-	-	-	4,550,073	4,550,519
Less: accumulated amortization on disposals	-	-	16,579	148,589	75,341	-	-	-	-	240,509	98,329
Balance, end of the year	-	10,524,658	8,505,694	443,143	46,349,232	7,132,765	-	-	-	72,955,492	68,645,928
Net book value of waterworks assets	2,232,112	14,391,268	22,584,422	381,498	104,956,308	18,329,509	-	-	-	162,875,117	163,433,512
Wastewater											
Cost											
Balance, beginning of the year	4,642,165	46,997,695	29,965,964	854,792	84,793,031	8,505,980	-	-	-	175,759,627	173,550,076
Add: additions during the year	18,120	12,101,699	5,373,490	185,089	686,077	93,148	-	-	-	18,457,623	2,461,567
Less: disposals during the year	-	-	130,241	302,480	8,206	-	-	-	-	440,927	252,016
Balance, end of the year	4,660,285	59,099,394	35,209,213	737,401	85,470,902	8,599,128	-	-	-	193,776,323	175,759,627
Accumulated amortization											
Balance, beginning of the year	-	22,044,427	15,927,566	630,903	32,366,173	6,316,211	-	-	-	77,285,280	73,349,452
Add: amortization for the year	-	1,297,600	1,215,866	36,341	1,534,795	155,905	-	-	-	4,240,507	4,187,238
Less: accumulated amortization on disposals	-	-	130,241	302,480	6,357	-	-	-	-	439,078	251,410
Balance, end of the year	-	23,342,027	17,013,191	364,764	33,894,611	6,472,116	-	-	-	81,086,709	77,285,280
Net book value of wastewater assets	4,660,285	35,757,367	18,196,022	372,637	51,576,291	2,127,012	-	-	-	112,689,614	98,474,347
Assets under construction											
Balance, beginning of the year	-	-	-	-	-	-	-	-	-	53,685,278	45,828,600
Add: additions during the year	43,522,343	134,059,092	56,135,256	22,010,543	210,712,689	22,629,242	97,666,162	164,825,706	3,336,910	808,583,221	763,850,907
Total value of tangible capital assets											

The Corporation of the Municipality of Chatham-Kent
 Consolidated schedule of segment disclosure
 year ended December 31, 2010

	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	2010 Consolidated	2009 Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues														
Taxation	4,681,887	46,134,940	39,955,580	(2,447,814)	6,872,655	22,772,909	5,138,714	13,005,209	5,249,032	-	-	(9,622,650)	122,740,462	120,749,955
Sales of service	292,914	798,453	1,338,710	2,308,705	822,746	7,484,572	2,207,742	4,514,606	1,390,383	28,292,527	4,288,723	-	53,840,081	53,968,430
Government transfers	296,525	2,195,033	8,866,790	10,493,726	12,579,534	56,565,455	6,875,865	3,529,231	162,057	6,319,396	23,868,500	-	131,451,112	116,120,951
Other	5,271,326	49,128,426	40,861,080	10,354,617	20,274,935	86,822,936	14,222,321	21,148,046	6,801,472	34,511,923	45,015,563	(9,622,650)	324,689,995	305,210,050
Expenses														
Salaries and benefits	15,283,550	37,082,035	6,935,213	1,625,498	7,316,572	27,933,814	1,411,704	10,036,659	2,735,696	6,663,669	-	-	119,024,610	111,895,278
Goods and services	13,416,611	3,411,345	12,728,033	6,064,935	10,587,261	3,727,200	5,941,616	4,962,910	2,415,390	10,273,139	-	-	73,530,640	73,113,553
Interest	119,694	14,027	486,546	-	44,994	1,708,499	633,620	-	542,905	2,937,429	-	-	6,487,914	5,947,714
Transfers (to) from other segments	(24,157,755)	6,092,121	5,359,915	810,440	1,828,194	3,999,844	314,614	3,160,695	751,728	1,640,206	-	-	-	-
External transfers	(2,212)	650,304	-	1,250	177,747	47,889,801	5,562,056	1,135,247	190,122	-	-	-	55,604,415	53,814,115
Amortization	621,313	1,887,868	13,127,109	1,850,831	321,281	1,551,122	386,311	1,834,573	30,292	9,009,796	-	-	30,592,496	29,192,870
Loss on disposal of tangible capital assets	(11,875)	(9,274)	24,264	1,663	(1,114)	12,656	-	17,762	135,341	(8,435)	-	-	160,888	357,167
	5,271,326	49,128,426	40,861,080	10,354,617	20,274,935	86,822,936	14,222,321	21,148,046	6,801,472	30,515,804	45,015,563	(9,622,650)	285,400,963	274,320,697
Net surplus (deficit)													39,489,032	30,869,353

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2010

			Actuals	Actuals
			Dec 31	Dec 31
			2010	2009
Per Audited Financial Statements				
	Reserves		61,557,772	66,655,815
	Reserve Funds		2,910,675	3,296,137
	Deferred Revenue - Obligatory Reserve Funds		10,288,756	6,667,613
			<u>74,757,203</u>	<u>76,619,565</u>
Details		Assigned	64,399,888	69,876,894
		Mandated	10,357,315	6,742,671
			<u>74,757,203</u>	<u>76,619,565</u>
MANDATED:				
<u>Dept</u>	<u>Division</u>	<u>Details</u>		
HFS	Day Nursery (fundraising)	Chatham	4,717	6,220
HFS	Day Nursery (fundraising)	Wallaceburg	59	59
HFS	Ontario WorkS	Ontario Enhancement Fund	0	4,994
CDS	Building Code Act	Bill 124	474,968	219,279
CDS	Parkland		136,734	123,885
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	3,380,061	3,086,688
IES	Infrastructure	Fed Gas Tax	6,296,992	3,172,906
IES	Transit	Fed public transit	0	64,855
TOTAL MANDATED:			10,357,315	6,742,671

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2010

			Actuals	Actuals
			Dec 31	Dec 31
			2010	2009
ASSIGNED:			APPENDIX B	
<u>Dept</u>	<u>Division</u>	<u>Details</u>		
Corp	Community Investment Fund		2,693,432	3,082,844
Corp	All Depts	Encumbrances	969,465	1,138,847
Corp	In camera	Contract issues	7,827,090	10,828,856
Corp	Insurance Risk	Insurance Risk	1,489,837	1,611,225
Corp	Strategic	Master Plan Implementation	219,900	219,900
Corp	All Depts	Lifecycle - Computer Hardware	1,108,704	904,123
Corp	All Depts	Green Energy Initiatives	174,905	0
Corp	All Depts	Energy Price Fluctuation	870,118	531,900
Corp	All Depts	Fuel Price Fluctuation	711,460	409,690
Corp	All Depts	Misc. other	436,752	130,000
Corp	All Depts	Future Matching Infrastructure	4,207,741	5,970,000
Corp	All Depts	OMPF Stabilization	1,967,100	0
Corp	Elections	Lifecycle - Elections	29,789	260,351
Corp	WSIB Risk Reserve	WSIB Risk Reserve	1,038,060	1,657,882
Corp	Strategic Mgmt Fund	Community Investment	71,953	279,627
Corp	Strategic	Strategic Development	1,000,247	944,776
Corp	Strategic	Community Improvement	269,672	493,417
Corp	Strategic	Reserve for Future Years	203,878	2,531,098
Corp	Strategic	Community Partnerships	151,189	161,670
Corp	Strategic	Property Dispositions	310,477	97,803
Corp	Strategic	Corporate Strategic Directions	30,591	30,591
Corp	Strategic	Investing in Ontario Act	3,372,005	5,345,320
CDS	Rec Facilities	Lifecycle - Recreation Arena	565,309	239,363
CDS	Rec Facilities	Recreation - other	49,193	39,807
CDS	Rec Facilities	Lifecycle - Recreation Indoor Pools		
CDS	Rec Facilities	Replace	166,740	124,946
CDS	Rec Facilities	Lifecycle - Halls	98,236	0
CDS	Parks, Cemetery, Horticulture	Lifecycle - Recreation Playground		
CDS	Parks, Cemetery, Horticulture	Replace/mtce	29,470	10,070
CDS	Municipal buildings	Recreation - Kinsmen Auditorium	260,071	310,347
CDS	Parks, Cemetery, Horticulture	Lifecycle - Parks	435,749	321,671
CDS	Parks, Cemetery, Horticulture	Clearville Park	15,000	10,000
CDS	Parks, Cemetery, Horticulture	Lifecycle - Outdoor Pools	189,768	125,311
CDS	Parks, Cemetery, Horticulture	Lifecycle - Reforestation	141,851	157,071
CDS	Parks, Cemetery, Horticulture	Lifecycle - Trails	1,335,290	924,517
CDS	Parks, Cemetery, Horticulture	Cemetery	28,030	26,067
CDS	Parks, Cemetery, Horticulture	Lifecycle-Cemetery	68,311	38,253
CDS	Building Enforcement & Licensing Services	Computer software	157,305	157,305

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2010

			Actuals	Actuals
			Dec 31	Dec 31
			2010	2009
	Building Enforcement & Licensing			
CDS	Services	Building Dept operation	270,500	270,500
CDS	Municipal Buildings	Building lifecycle	2,148,107	1,775,323
CDS	Planning	Planning Special Projects	120,434	109,975
FES	Ambulance	General	1,558,398	1,795,802
CS	Finance	Financial Software	526,508	313,876
CS	Human Resources	Software Development	141,417	123,692
CS	Info Tech	Lifecycle ITS - GIS system	204,439	134,779
CS	Info Tech	ITS, Strategic Plan	(62,164)	501,143
CS	Info Tech	Lifecycle ITS - Web Lifecycle	340,557	143,002
CS	Info Tech	Lifecycle ITS - Copy/Printing Equipment	342,077	295,927
CS	Info Tech	Lifecycle ITS - Computer Hardware	10,407	(102,731)
CS	Info Tech	Lifecycle ITS - Computer Software	1,894,607	1,249,619
CS	Info Tech	Lifecycle ITS - Computer Network	455,138	327,820
CS	Info Tech	Lifecycle ITS - Telecommunications	694,034	377,102
CS	Info Tech	Lifecycle ITS - Applications	252,020	148,146
CS	Info Tech	Lifecycle ITS - Corporate Technology	7,896	3,948
CS	Info Tech	Lifecycle ITS - GIS Data	32,257	45,000
CS	Budget	Performance Track Software	517,170	0
HFS	Senior Services	Homes Operational	731,177	957,511
HFS	Senior Services	RVG Vending Machines	29,233	29,233
HFS	Senior Services	Senior Centre Contingency	18,128	18,128
HFS	Senior Services	Homes WSIB	0	102,900
HFS	Ontario Works	Future Economic Downturns	621,248	2,351,042
HFS	Health Unit	CK portion	676,271	643,461
HFS	Health Unit	Lifecycle - Wish Centre building	124,904	60,800
HFS	Social Housing	Social Housing Renovate & Retrofit	0	559,527
HFS	Social Housing	Social Housing Operation	2,925,596	2,676,139
HFS	Social Housing	Lifecycle - Social Housing Buildings	2,022,320	1,340,529
HFS	Social Housing	Lifecycle - Social Housing DOOR	62,700	115,000
HFS	Social Housing	Social Housing Capital Repair Fund	0	157,846
HFS	Social Housing	Lifecycle - Social Housing - WHC	0	178,344
IES	Public Works	Gravel pit	(12,440)	(80,481)
IES	Public Works	Lifecycle - Gravel	24,431	0
IES	Public Works	Lifecycle - Roads	174,131	(509,329)
IES	Public Works	Lifecycle - Bridges	(4,351,302)	(4,958,614)
IES	Public Works	Lifecycle - Sidewalks	81,834	85,506
IES	Public Works	Lifecycle - Railways Crossing	341,399	368,932
IES	Public Works	MTO - Roads & Bridges grant	141,296	1,224,896

CHATHAM-KENT SUMMARY OF RESERVES

As At December 31, 2010

			Actuals Dec 31 2010	Actuals Dec 31 2009
		MTO - Move Ontario, Lifecycle phase-in	53,787	53,787
IES	Public Works	Winter Control	525,400	580,242
IES	Public Works	Lifecycle - Storm Sewers	3,618,356	1,725,909
IES	Public Works	Lifecycle - Active Communities	667,061	703,531
IES	Public Works	Lifecycle - Streetlight Poles	15,551	176,378
IES	Engineering	Transit	1,498,222	1,474,727
IES	Engineering	Lifecycle - AM/FM	368,773	360,448
IES	Engineering	Capital Budget unfinished projects	6,066,839	5,142,304
IES	Environmental	Agriculture Hazardous Waste Days	30,000	30,000
IES	Fleet	Lifecycle - Fleet Shop Eqpt	70,321	40,401
IES	Parking	Chatham Downtown	217,243	213,293
Police	Police	Mandatory Policing Issues	259,000	259,000
Police	Police	Police Litigation	324,672	303,350
Police	Police	Police Services Board	(4,605)	59,212
Police	Police	Police Lifecycle Reserve	171000	0
Police	Police	Police Communication Centre	80000	0
PUC	Water		297,805	1,014,536
PUC	Wastewater		553,310	3,153,555
		Fleet(Ambulance, Police, Fire, Public works, other) :	3,827,737	2,637,279
TOTAL ASSIGNED:			64,399,888	69,876,894