



The City of Kenora, Ontario, Canada.

Annual Report
2007

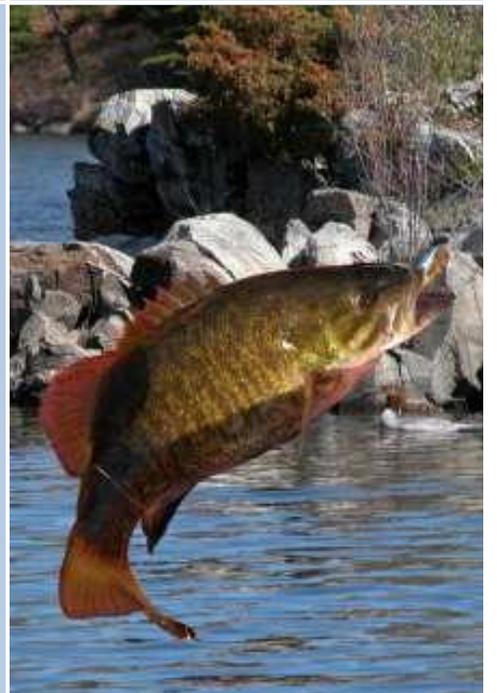


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City Council

From Left to Right:

- ❑ Councillor Chris VanWalleghem, Chair of Community Services
- ❑ Councillor Charito Drinkwalter, Chair of Emergency Services
- ❑ Councillor Andrew Poirier, Chair of Utilities and Communications
- ❑ Mayor Len Compton
- ❑ Councillor Rory McMillan, Chair of Finance and Administration
- ❑ Councillor Wendy Cuthbert, Chair of Property and Community Planning
- ❑ Councillor David McCann, Chair of Operations

City CAO and Managers

Not Shown:

- ❑ Bill Preisentanz, CAO
- ❑ Karen Brown, Manager, Finance & Administration
- ❑ Warren Brinkman, Manager, Emergency Services
- ❑ Sharen McDowall, Manager, Human Resources
- ❑ Colleen Neil, Manager, Recreation
- ❑ Rick Perchuk, Manager, Operations

Introductory Information

City Council

City CAO and Managers

City's Strategic Plan

Since its inception, under Council direction, the new City has actively pursued continued improvements, enhancements and growth, working to position itself as a regional leader.

During the years shortly after amalgamation, and as part of Council's direction, Council and senior staff undertook a strategic planning exercise, resulting in the development of a City strategic plan, Kenora Vision 2007. The intent of the Plan was to provide focus and direction to the City in its journey into the future. The plan lays the foundation for the City's future, sets out the City's guiding principles, as well as provides the strategic directions for the City.

It is recognized, however, that the strategic plan does not end simply with the development of a planning document. In fact, one of the key points noted in the introduction portion of the City's strategic plan was that "...the corporate strategic plan is a dynamic document, one that can be adapted as conditions change. As such, it requires regular review and revision."

Based on this, during late 2004, Council and senior staff met to review and update the City's Strategic Plan. The City's new strategic plan, Kenora Vision 2009, was unveiled during 2005. The updated plan was intended to recognize new challenges facing the City, and set out related goals as appropriate to help the City meet those challenges. The City will continue to both work towards the directions as outlined within its strategic planning document and amend the plan as appropriate to more accurately reflect new challenges and opportunities as we move into the future.

Guiding Principles for the Corporation

Kenora Vision 2009 sets out guiding principles for the City. These principles provide the City with guidelines for evaluating and determining its actions, and have become the cornerstone for major Council decisions, as well as a primary component of the budget setting process.

These principles are:

- Kenora will provide fairness in taxation
- Kenora will provide value for service to the ratepayer
- Kenora will ensure sound fiscal management
- Kenora will provide quality of life amenities and services for citizens and visitors
- Kenora will explore and pursue new opportunities
- Kenora will value and be responsible to its employees
- Kenora will understand and respect its citizens
- Kenora will inform and engage its citizens
- Kenora will be a steward of the environment

Introductory Information

City's Strategic Plan

Guiding Principles
For the Corporation

City Council and Committee Structure

City Council represents the elected decision making authority for the City. Council is comprised of the Mayor and six Councillors, all elected at large within the City. Council exercises its legislative authority through the passing of City By-laws and resolutions.

The City operates through a standing committee structure. Each standing committee is comprised of three Members of Council. These committees meet on a monthly basis, and are responsible for making recommendations to Council within their respective mandates. Standing committees currently include:

- ❑ Community Services Committee
- ❑ Emergency Services Committee
- ❑ Finance and Administration Committee
- ❑ Operations Committee
- ❑ Property and Community Planning Committee
- ❑ Utilities and Communications Committee

In addition, the City has various boards, commissions and committees responsible for various components of its overall operations, as well as independent boards and committees. These include:

- ❑ Kenora Police Services Board
- ❑ Lake of the Woods Development Commission
- ❑ KMTS Commission (KMTS Entities sold January 31, 2008)
- ❑ Kenora Hydro Electric Corporation Ltd. Board
- ❑ Other Boards and Committees, such as, but not limited to:
 - Kenora Handi Transit Board
 - Kenora Public Library Board
 - Lake of the Woods Museum Board
 - Leisure Services Committee

The City of Kenora also has an Audit Committee, comprised of three Members of Council, as well as two citizen representatives. This Committee is responsible for making recommendations directly to Council regarding the following:

- ❑ Internal Audit Function
- ❑ Corporate Control Framework
- ❑ Performance Measures / Benchmarking
- ❑ External Audit Function
- ❑ Financial and Other Reporting
- ❑ General and Administrative

Ultimately Council is responsible for City direction, policy and decisions. The City CAO, Bill Presentanz, is directly responsible for the City's operations. The CAO oversees a team of Managers who are also responsible to work directly with their respective standing committees. Together, the CAO and Managers work with the 300 plus City employees who maintain City operations and provide front line customer service to our residents and visitors.

Introductory Information

City Council and Committee Structure

2007 Financial Information

The financial statements, and all other financial information provided herein, are the responsibility of the management of the City of Kenora, and have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The 2007 statements outline the financial position and operations of the City of Kenora. They are presented both on a consolidated basis, as well as on an individual fund basis, including an operating fund, a capital fund and a reserve fund. Various boards and municipal enterprises have also been consolidated into the City's financial statements, as outlined in the significant accounting policies (note 1 to the consolidated financial statements). In addition, the City statements also reflect the City's significant investment in government business enterprises.

Current Fund

The current fund operations are broken into eight main functional areas. These areas, together with some examples of the types of expenditures that are incurred in these areas are as follows:

- ❑ General government (Mayor and Council, City administration)
- ❑ Protection to persons and property (Fire, Police, By-law enforcement, 911 Services)
- ❑ Transportation services (Roads, Transit)
- ❑ Environmental services (Water and Sewer, Garbage, Recycling)
- ❑ Health services (Northwestern Health Unit, Cemeteries, Ambulance)
- ❑ Social and family services (Ontario Works, Day Care, District of Kenora Home for the Aged, Social Housing)
- ❑ Recreation and cultural services (Parks, Recreation Facilities, Library, Museum)
- ❑ Planning and development (Planning, Northwest Business Centre, Tourism, Economic Development)

The 2007 current fund revenues were \$35.5 million before transfers from government business enterprises. These transfers represented an additional \$2.0 million in current fund revenues to the City, resulting in total combined current revenue of \$37.5 million, before contributions from reserves and reserve funds. Taxation continues to be the primary income source for the City's current fund, representing 47.0% of all total current revenues. Fees and user charges represent an additional 25.6% of total current revenues. An analysis of current revenues by source plus related financing and transfers has been included on the following page.

Overall current fund expenditures in the various functional areas listed above were \$31.1 million in 2007. The consolidated current fund deficit increased slightly in 2007. An analysis of the current fund expenditures by function, as well as debt repayment, net transfers to capital and reserve funds and the final current fund balance change has also been included on the next page. The page following that contains some overall variance analysis of the 2007 actual operating results as compared to the original budget estimates.

Financial Highlights

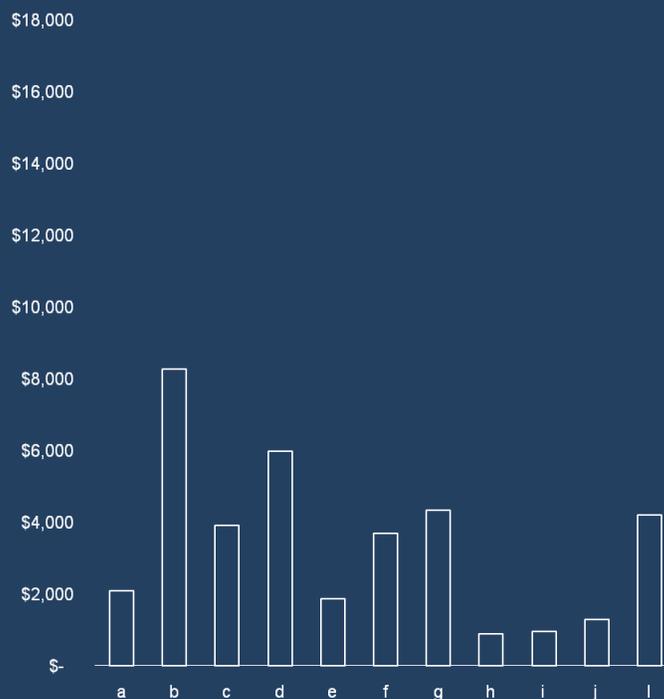
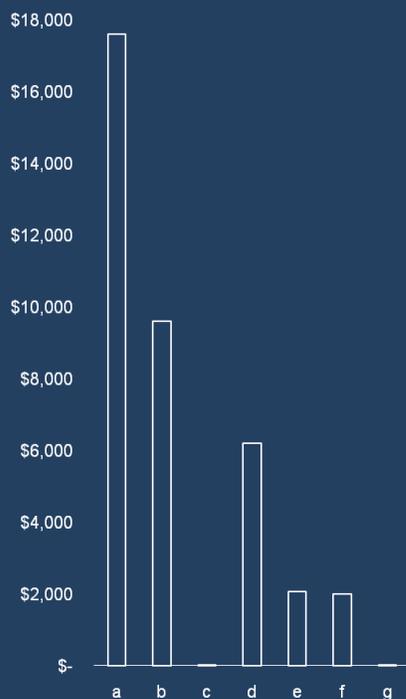
2007 Financial Information

Current Fund

Current Fund

Revenues, Expenditures, Financing and Transfers
2007 Actual Results (in thousands of dollars)

Financial Highlights



Revenues, Financing and Transfers

a Taxation	\$ 17,596	46.9%
b Fees and user charges	9,589	25.6%
c Canada grants	24	0.1%
d Ontario grants	6,199	16.5%
e Other	2,060	5.5%
	<hr/>	
	35,468	94.6%
f Government business enterprises	1,990	5.3%
g Change in current fund balance	29	0.1%
	<hr/>	
	\$ 37,487	100.0%

Expenditures, Financing and Transfers

a General government	\$ 2,096	5.6%
b Protection services	8,275	22.1%
c Transportation services	3,922	10.5%
d Environmental services	5,970	15.9%
e Health services	1,876	5.0%
f Social and family services	3,694	9.9%
g Recreational and cultural services	4,331	11.6%
h Planning and development	887	2.4%
	<hr/>	
	31,051	83.0%
i Debt principal repayment	953	2.5%
j Net transfers to / from capital	1,292	3.4%
l Net transfers to / from reserves and reserve funds	4,191	11.1%
	<hr/>	
	\$ 37,487	100.0%

City of Kenora
Current Fund Operations
Comparison of Actual to Budget
(in thousands of dollars)

Category	2007 Budget	2007 Actual	Variance Fav. (Unfav.)	% Variance Fav. / -Unfav.	Variance Explanation Favourable (Unfavourable)
Revenues	\$ 34,588	\$ 35,468	\$ 880	2.5%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - Higher than anticipated user fees from police court fines, metered parking, sold waste tipping fees and day care fees. These higher fees were partially offset by lower than anticipated fees from fire operations, building inspection, provincial offences, sewer & water and recreation facilities. Conventional bus fares were also lower than expected. - Unbudgeted revenues related to programs offered through the Kenora Assembly of Resources. - Business Enterprise Centre. Program revenues exceeded budgeted amounts, however, actual expenditures exceeded budget as well. - The sale of recyclables & non-government funding exceeded what was anticipated. - Significantly higher than budgeted interest and investment income on City investments.
Expenditures	\$ 30,074	\$ 31,051	\$ (977)	-3.1%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - All departments with vehicles experienced an unbudgeted increase in fuel costs. - Kenora Police Services (KPS). Higher than anticipated wages & benefits, training and vehicle costs. These were partially offset by lower than anticipated OPP costs. - Roads Maintenance. Winter control expenditures were higher than budget specifically with respect to sanding & salting and sidewalk plowing & removal. - Streetlighting. Higher than anticipated general maintenance & utility costs for streetlighting. - Sewer & Water. Increased costs experienced in pumping station maintenance, sewage treatment plant repairs & maintenance and storm sewer repairs & maintenance. - Solid Waste. The transfer facility expenditures were over budget largely due to wage & benefit costs. This was offset by a reduction in expenditures for blue box collection & landfill costs. - Health Services. Budget exceeded due to increases in the ambulance levy from the District Services Board & an increase in cemetery costs. - Social & Family Services. This category is under budget mainly due to a reduction in the social housing levy from the District Services Board. - Recreation & Cultural Services. Kenora Assembly of Resources programs are over budget by almost \$100,000. Unbudgeted revenues for almost \$100,000 offsets this amount. The Kenora Recreation Centre experienced higher than anticipated maintenance & cleaning costs of almost \$40,000 & the Keewatin Arena experienced higher than anticipated utility costs of almost \$30,000. - Business Enterprise Centre. Program costs exceeded the budget by \$50,000, however revenues were higher than budget as well.

Capital Fund

The City’s capital fund represents significant expenditures related to tangible capital assets or large projects for the City. These expenditures generally provide the City with a long-term benefit, either through the purchase of new capital assets, improvement to existing City capital assets, or the extension of the life of existing capital assets. These expenditures are also broken out based on the same functional areas as outlined under Current Fund.

Overall capital fund expenditures in the various functional areas were \$4.7 million in 2007. Major capital works for 2007 included:

- ❑ **Municipal Paving Program - \$.4 million** – The municipal paving program relates to the reconstruction and paving of various roads throughout the City.
- ❑ **Rain Damage – Roads - \$.5 million** – From May 29 to June 26, 2007, the City of Kenora experienced a total of four (4) storms: May 29, June 5, June 28 and June 26. The May 29th and June 26th storms created the most damage, causing three rural road closures (Coker Road, East Mellick and Beggs Road) of which two roads remained closed for nine days. Numerous rural and urban areas received damage and required repair works as a result of these storms. The City was fortunate to receive partial assistance towards this unanticipated spending through Disaster Relief Funding from the Ministry of Municipal Affairs and Housing.
- ❑ **Keewatin Bridge - \$.5 million** – Works on the Keewatin Bridge included the repaving and waterproofing of the bridge deck.
- ❑ **PW Yard – Retail Development - \$.3 million** – This project represents the completion and final clean up resulting from the tear down of the old public works facility to make room for new retail development in the City, including required soil remediation.
- ❑ **Downtown Revitalization - \$.3 million** – The downtown revitalization project represents the initiation of the design for the downtown revitalization project. Phase I downtown revitalization works commenced in 2008.

The chart on this page shows gross capital fund expenditures for the City over the past five years.

City Capital Fund Expenditures (in thousands of dollars)



Financial Highlights

Capital Fund

Reserves and Reserve Funds

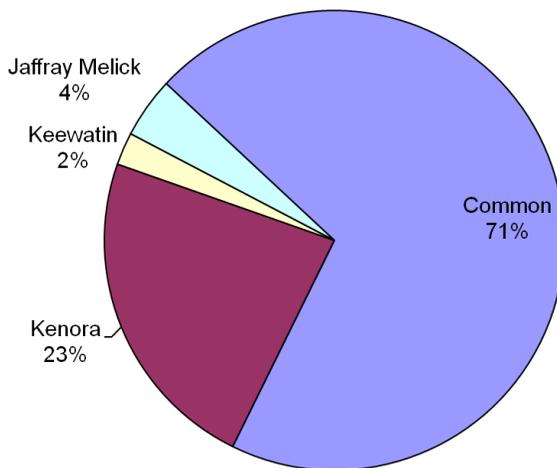
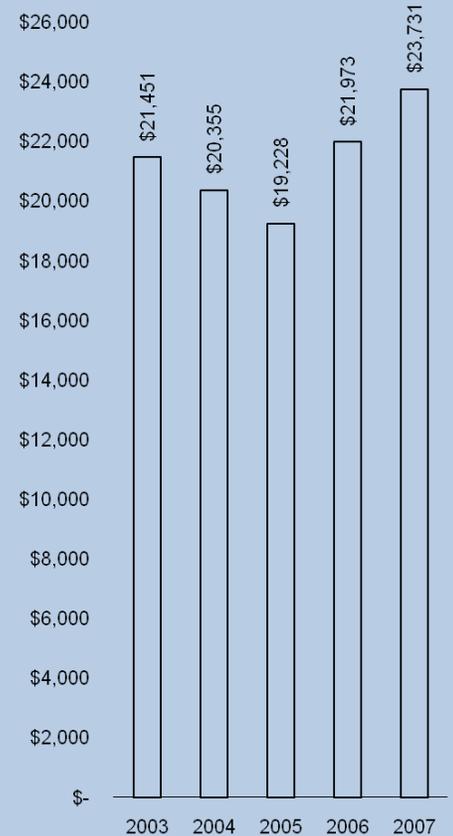
The City maintains reserves and reserve funds designed to offset future costs related to specific expenditures, as approved by Council. While these reserves are primarily intended for capital expenditures, the City also holds significant working capital (\$2.5 million) and consolidated contingency (\$4.3 million) reserves.

As part of the terms of the amalgamation agreement, reserves and reserve funds existing at 1 January 2000 were protected by geographic boundaries of the former Towns of Kenora, Keewatin and Jaffray Melick. This protection remained in effect until 31 December 2004. Despite the expiration of this requirement, the City continues to track any pre-amalgamation reserve monies by the separate geographic areas to which they relate. Any new reserves or reserve funds that have accumulated since the date of amalgamation are considered common reserves, and can be used throughout the new City boundaries.

The consolidated reserve and reserve fund balance as at the end of 2007 was \$23.7 million. This chart to the right outlines the consolidated reserve and reserve fund combined balances for the last five years. These balances exclude any equity related to the Kenora Hydro Electric Corporation Ltd., KMTS, KMTS Net and KMTS Mobility. This equity is reflected separately as net equity in government business enterprises.

The unconsolidated, combined reserve and reserve fund balances for the City before including consolidated entities was \$23.2 million at the end of 2007. The following pie chart shows the current allocation between common reserves accumulated since City inception, and remaining balances of pre-amalgamation reserves still tracked by the geographic boundaries of the former Towns of Kenora, Keewatin and Jaffray Melick.

City Reserves and Reserve Funds
(in thousands of dollars)



Financial Highlights

Reserves and Reserve Funds

Government Business Enterprises

Government business enterprises (GBE's) are separate municipal operations or legal entities that report independently to a separate Board or Commission and do not rely on the City for funding.

This page includes a chart outlining the City's comparative net equity in government business enterprises for the past five years. This amount is comprised of consolidated net equity from the following:

- ❑ Kenora Hydro Electric Corporation Ltd.
- ❑ Kenora Municipal Telephone System (KMTS) Entities, specifically:
 - KMTS
 - KMTS Mobility
 - KMTS Net

The City's combined net equity in government business enterprises as at the end of 2007 was \$33.9 million. This represents a significant reduction in equity of \$12.9 million related to the City's GBE's. This reduction occurred as a result of the liquidation of the long term debt owing from the City of Kenora to KMTS Mobility. The \$12.9 million reduction represents the net impacts of this liquidation less net operations for these combined entities. The liquidation of debt is discussed further under the KMTS Entities section on this page.

Kenora Hydro Electric Corporation Ltd.

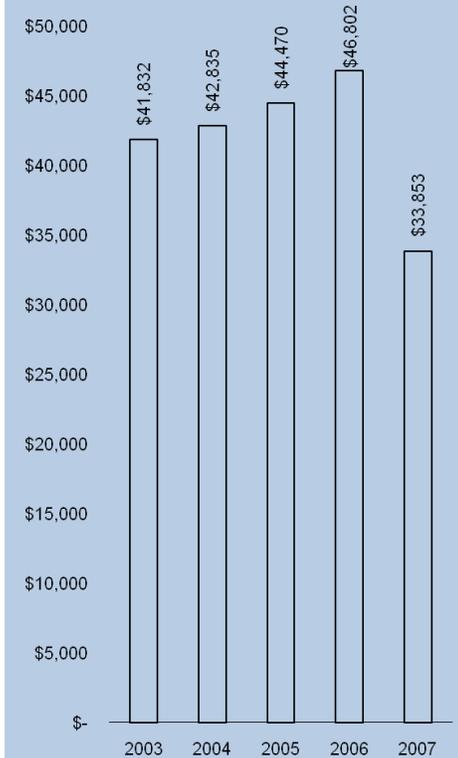
The Kenora Hydro Electric Corporation Ltd. (Kenora Hydro) is a Local Distribution Company (LDC), incorporated under the Ontario Business Corporation Act in compliance with Hydro Deregulation. Kenora Hydro provides hydro distribution services to residents within the boundaries of the former Towns of Kenora and Keewatin. Kenora Hydro operates as an independent corporation under a Board of Directors appointed by the City as the sole shareholder.

KMTS Entities

KMTS also operates independently under a separate commission. The KMTS Commission is responsible for the operations of KMTS, KMTS Mobility and KMTS Net. These KMTS organizations provide local, long distance, fibre, wireless, mobility and internet services.

The City sold its KMTS operations to Bell Aliant on January 31, 2008. More detailed information on the impacts of the sale of the KMTS entities is outlined in Note 21 – Subsequent Events, in the City's audited financial statements. In conjunction with this transaction, City Council approved the liquidation of all long term debt owing by the City to KMTS Mobility at the end of 2007, a total of \$15.3 million. As a result of this liquidation, the City's investment in GBE's reflects a significant reduction at the end of 2007.

Government Business Enterprises
(in thousands of dollars)



Financial Highlights

Government Business Enterprises

Kenora Hydro Electric Corporation Ltd.

KMTS Entities

Martin R. Nelson
Professional Corporation
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

TO THE MEMBERS OF COUNCIL, INHABITANTS & RATEPAYERS OF THE CORPORATION OF THE CITY OF KENORA

We have audited the consolidated statement of financial position of **The Corporation of the City of Kenora** as at **31 December 2007** and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Kenora as at 31 December 2007 and the results of its financial activities and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.



MARTIN R. NELSON, C.A., PROFESSIONAL CORPORATION,
Authorized to practice public accounting by The Institute of Chartered Accountants of Ontario

Kenora, Ontario
2 June 2008

For this communication, together with the work done to prepare this communication and for this opinion we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2007

(in thousands of dollars)

	2007	2006
Financial Assets		
Cash (Note 2)	\$ 8,551	\$ 9,747
Temporary investments (Note 3)	17,419	11,948
Taxes receivable	714	712
Trade and other receivables	5,462	8,672
Inventory held for resale	27	22
Long term investments (Note 4)	2,791	1,629
Investment in government business enterprises (Note 5)	33,853	46,802
	68,817	79,532
Non Financial Assets		
Inventories of consumables and prepaids	724	856
	\$ 69,541	\$ 80,388
Liabilities		
Accounts payable and accrued liabilities	\$ 6,210	\$ 7,352
Deferred revenue (Note 6)	3,422	2,434
Long term liabilities (Note 7)	-	16,299
Employee benefits payable (Note 17)	2,357	1,960
	11,989	28,045
Municipal Position		
Current fund	(63)	(34)
Capital fund	31	(99)
Reserves and reserve funds	23,731	21,973
Net equity in government business enterprises (Note 5)	33,853	46,802
	57,552	68,642
Amounts to be recovered (Note 8)	-	(16,299)
	57,552	52,343
	\$ 69,541	\$ 80,388

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

for the year ended 31 December 2007

(in thousands of dollars)

	2007 Budget	2007 Actual	2006 Actual
Revenues			
Taxation	\$ 17,218	\$ 17,596	\$ 17,504
Fees and user charges	9,720	9,589	9,915
Canada grants	2,093	235	423
Ontario grants	6,481	6,753	6,613
Other income (Note 9)	1,734	2,364	2,351
	37,246	36,537	36,806
Expenditures			
Current Operations (Note 10)			
General government	2,076	2,096	1,636
Protection to persons and property	8,292	8,274	7,776
Transportation services	3,594	3,922	3,959
Environmental services	5,805	5,970	5,812
Health services	1,817	1,876	1,948
Social and family services	3,803	3,694	3,747
Recreation and cultural services	3,841	4,332	4,005
Planning and development	848	887	978
	30,076	31,051	29,861
Capital			
General government	459	288	334
Protection to persons and property	80	160	268
Transportation services	3,128	2,021	2,285
Environment services	6,895	838	682
Health services	138	-	-
Recreational and cultural services	1,043	576	737
Planning and development	1,427	769	313
	13,170	4,652	4,620
	43,246	35,703	34,481
Net revenue (expenditure) for the year before financing and transfers	(6,000)	834	2,325
Financing and transfers			
New debt issued	2,200	-	-
Debt principal repayments	(953)	(953)	(1,031)
Net transfer from government business enterprises	1,990	1,990	1,450
	3,237	1,037	419
Net revenue (expenditure) for the year	<u>\$ (2,763)</u>	1,871	2,744
Surplus/net income for the year of government business enterprises		2,396	2,550
Liquidation of Long Term Liabilities (Note 7)		(15,345)	-
		(12,949)	2,550
Change in fund balances for the year		\$ (11,078)	\$ 5,294
Fund Balances, beginning of the year		68,642	63,366
Adjustments			
PSAB recommendations - local improvement receipts		(12)	(18)
Fund Balances, end of the year		\$ 57,552	\$ 68,642

See Accompanying Notes

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended 31 December 2007

(in thousands of dollars)

	2007	2006
Cash flows from operating activities		
Net change in fund balances for the year	\$ (11,078)	\$ 5,294
Decrease (increase) in amounts to be recovered	16,299	1,031
Decrease in local improvements receivable	(13)	(18)
	<u>5,208</u>	<u>6,307</u>
Change in non-cash working capital balances		
(Increase) in taxes receivable	(2)	(60)
Decrease (increase) in trade and other receivables	3210	(1,112)
Decrease (Increase) in other assets	128	(127)
(Decrease) in accounts payable and accrued liabilities	(1,142)	(15)
Increase in employee benefits payable	397	74
Increase (decrease) in deferred revenue	988	(70)
	<u>8,787</u>	<u>4,997</u>
Cash flows from financing activities		
(Decrease) in long term liabilities	(16,299)	(1,031)
Cash flows from investing activities		
Increase in long term investments	(1,162)	(1,400)
Decrease (increase) in investment in government business enterprises	12,949	(2,550)
	<u>11,787</u>	<u>(3,950)</u>
Net change in cash and equivalents	4,275	16
Cash and equivalents, beginning of year	21,695	21,679
Cash and equivalents, end of year	\$ 25,970	\$ 21,695
Represented by		
Cash	\$ 8,551	\$ 9,747
Temporary Investments	17,419	11,948
	<u>\$ 25,970</u>	<u>\$ 21,695</u>

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation of the City of Kenora are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the City are as follows:

a) Basis of Accounting

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

b) Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the current fund, capital fund, reserves and reserve funds of all municipal organizations, committees and boards which are owned or controlled by the Municipality. All interfund assets, liabilities, revenues and expenditures have been eliminated on consolidation.

The following boards and municipal enterprises owned or controlled by the Municipality have been consolidated:

- Kenora Handi Transit
- Kenora Public Library
- Lake of the Woods Cemetery
- Lake of the Woods Museum

The Provincial Offences Fund is a government partnership where the municipality has shared control over the board / entity. The municipality's pro rata share of the assets, liabilities, revenues and expenditures are reflected in the financial statements using the proportionate consolidation method. The municipality's proportionate interest of 72.22% of the Provincial Offences Fund is reflected in the consolidated financial statements.

Government business enterprises and partnerships are separate legal entities which do not rely on the municipality for funding. Investments in government business enterprises are accounted for using the modified equity method. The following government business enterprises are reflected in the consolidated financial statements:

- Kenora Hydro Electric Corporation Ltd.
- Kenora Municipal Telephone System
- KMTS Mobility
- KMTS Net

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 management's best estimates as additional information becomes available in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Temporary Investments

Temporary investments are recorded at the lower of cost and market value.

e) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on the average cost basis.

f) Capital Assets

The historical cost and accumulated amortization of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the period of acquisition.

g) Amounts to be Recovered

Amounts to be recovered are reported in the municipal position on the consolidated statement of financial position. The balance represents the outstanding principal portion of unmatured long term liabilities, liabilities not yet due, and other future expenditures not yet levied on the ratepayers.

h) School Boards

The municipality collects taxation revenue on behalf of the school boards. The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards are not reflected in these financial statements.

i) Trust Funds

Funds held in trust by the municipality, and their related operations, are not included in these financial statements. The financial activity and position of the trust funds are reported separately.

j) Deferred Revenue

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the completion of specific work. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

2. CASH

	2007	2006
Unrestricted	\$ 5,039	\$ 6,909
Restricted	3,512	2,838
	\$ 8,551	\$ 9,747

3. TEMPORARY INVESTMENTS

	Market Value	2007	2006
Unrestricted	\$ 13,718	\$ 13,718	\$ 8,039
Restricted	3,701	3,701	3,909
	\$ 17,419	\$ 17,419	\$ 11,948

Investments have been recorded at the lower of cost and market value at the end of the year.

4. LONG TERM INVESTMENTS

	2007	2006
Loan receivable, Kenora Health Care Centre, interest at 4.05% per annum, repayable interest only until 2010, principal repayments to commence in 2010, secured by land, buildings and equipment, loan approved to a maximum of \$2,800.	\$ 2,591	\$ 1,429
Nothern Ontario Grow Bond, at cost. Interest earned at 4% per annum, receivable annually, maturing April 11, 2010.	200	200
	\$ 2,791	\$ 1,629

5. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

The Kenora Hydro Electric Corporation Ltd., the Kenora Municipal Telephone System, KMTS Mobility and KMTS Net are owned and controlled by the City of Kenora and as business enterprises of the City, are accounted for on a modified equity basis in these consolidated financial statements. The following information provides condensed supplementary information for the enterprises for the year ended 31 December 2007.

i) Financial Position, Results of Operations and Changes in Net Assets

	2007	2006
Current assets	\$ 19,886	\$ 18,190 (restated)
Long term investments	593	16,180
Capital assets	14,476	14,654
Goodwill	2,794	2,794
Total Assets	37,749	51,818
Current liabilities	3,036	4,172
Long term liabilities	860	844
Total Liabilities	3,896	5,016
Net Assets	33,853	46,802

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

5. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES - continued**i) Financial Position, Results of Operations and Changes in Net Assets - continued**

	2007	2006
Revenues	\$ 25,239	\$ 22,857
Expenses	20,853	18,857
Net Income	4,386	4,000
Contribution to City of Kenora	(1,990)	(1,450)
	2,396	2,550
Liquidation of Long Term Investments (Note 7)	(15,345)	-
Net assets, beginning of year	46,802	44,252
Net assets, end of year	\$ 33,853	\$ 46,802

ii) Balances with other organizations

Due from/(to) City of Kenora Revenue Fund	\$ 1,415	\$ (401)
Long term investments		
Debentures - City of Kenora Capital Fund	\$ -	\$ 16,299

iii) Transactions with other organizations

Administration charges by City of Kenora	\$ 1,063	\$ 1,643
Interest charged by KMTS Mobility	(566)	(598)
Interest charged to Kenora Hydro	188	177

Purchases from and sales to the City of Kenora and its business enterprises in the normal course of operations are recorded at amounts approximating those charged to unrelated parties.

See Note 21.

6. DEFERRED REVENUE

	2007	2006
Government of Canada - Wharf Maintenance	\$ 1,311	\$ 1,331
Other deferred revenue	2,111	1,103
	\$ 3,422	\$ 2,434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

7. LONG TERM LIABILITIES

	2007	2006
3.3% debenture payable, maturing 2025	\$ -	\$ 8,719
3.55% debenture payable, maturing 2015	-	5,695
4.05% debenture payable, maturing 2025	-	1,885
	\$ -	\$ 16,299

The long term liabilities have been liquidated by the holder of the debentures, a government business enterprise, as at December 31, 2007.

8. AMOUNTS TO BE RECOVERED

	2007	2006
Capital outlay financed by long term liabilities and to be recovered in future years	\$ -	\$ 16,299

9. OTHER INCOME

	2007	2006
Penalties and interest on taxation	\$ 238	\$ 232
Investment income	1,476	1,348
Donations	166	133
Sale of land and miscellaneous	484	638
	\$ 2,364	\$ 2,351

10. CURRENT OPERATIONS EXPENDITURES BY OBJECT

	2007	2006
Salaries, wages and employee benefits	\$ 15,912	\$ 14,936
Materials	7,213	6,844
Contracted services	4,119	4,291
Rents and financial expenses	220	203
Interest on long term debt	566	600
Contributions to other organizations	3,021	2,987
	\$ 31,051	\$ 29,861

11. PENSION AGREEMENTS

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 218 members of its staff. This 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. The amount contributed to OMERS for 2007 was \$828 (2006 - \$847).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

12. PUBLIC SECTOR SALARY DISCLOSURE

For 2007, the following employees were paid a salary, as defined in the Public Sector Salary Disclosure Act 1996, of \$100 or more:

Name	Position	Salary Paid	Taxable Benefits
William Preisentanz	City Chief Administrative Officer	\$ 118	\$ 1
Karen Brown	Manager of Finance and Administration	\$ 101	\$ 1

13. BUDGET AMOUNTS

Budget data for 2007 included in these consolidated financial statements represents budgets approved by Council.

14. OPERATIONS OF SCHOOL BOARDS

During the year, taxation revenue of \$6,685 was raised and remitted to the school boards.

15. TRUST FUNDS

The trust funds administered by the municipality have not been included in the statement of financial position nor have the operations been included in the consolidated statement of financial activities. At December 31, 2007, the trust funds balances are as follows:

	2007	2006
Lake of the Woods Cemetery		
Land Fund	\$ 19	\$ 18
Perpetual Care Fund	433	417
Langford Estate	50	48
	\$ 502	\$ 483

16. EMPLOYEE FUTURE BENEFITS

The City of Kenora pays certain health and dental benefits on behalf of its retired employees. The City recognizes post-retirement costs in the period in which the employees rendered the services. The expense for the twelve months ended 31 December 2007 was \$99 (2006 - \$62), and the resulting future employee benefit liability was \$2,097 at 31 December 2007.

The main assumptions employed for the calculation of employee future benefits are as follows:

1 Interest (Discount) Rate

The interest (discount) rate used for fiscal 31 December 2007 expense and accrued obligation is 6%.

2 Medical Costs

Medical costs were assumed to increase 9% in 2008 grading down by .5% per annum to 5% in 2016 and thereafter.

3 Dental Costs

Dental costs were assumed to increase 4% per year.

The opening balance of employee future benefits was increased by \$351 to reflect the revised assumptions of the actuary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

17. EMPLOYEE BENEFITS PAYABLE

	2007	2006
Employee Future Benefits (Note 16)	\$ 2,097	\$ 1,646
Vested sick leave	126	149
Lieu time accrual	134	165
	\$ 2,357	\$ 1,960

18. CONTINGENT LIABILITIES

At 31 December 2007, the Corporation of the City of Kenora has guaranteed bank indebtedness of the Kenora Golf and Country Club in the amount of \$405. The maximum amount of the guarantee is \$600.

The Corporation of the City of Kenora is liable for its pro-rata share totalling \$3,108 (2006 - \$3,285) of the cumulative operating deficit of the District of Kenora Home for the Aged. The Home's management expects to recover this deficit from projected future operating surpluses. A billing to municipalities for their respective share of the deficit is not anticipated.

The Corporation of the City of Kenora and Kenora Police Service have several claims pending against it. The outcome of these claims is not yet determined and no amounts have been recorded in the accounts relating to these claims and possible claims.

The Corporation of the City of Kenora and one of its labour unions are negotiating a collective agreement which had expired 31 December 2006. As of the date of the audit report, the potential liability to the City of Kenora is not determinable and therefore no provision has been made in these financial statements. Any adjustments will be recorded at the time they are determined.

19. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES

The Ontario Environmental Protection Act set out regulatory requirements for the closure and maintenance of landfill sites. Under this Act, the City is required to provide for closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided over the estimated remaining life of active landfill sites based upon usage.

The City has one inactive landfill site. It has previously incurred all costs relating to the closure and retains responsibility for all costs relating to post-closure care which are recorded annually as they are incurred. The present value of the estimated total expenditures for closure & post-closure care has been estimated at \$35 at December 31, 2007. This amount has been accrued in the financial statements.

The City maintains one active landfill site which has an estimated remaining useful life of approximately 60 years. Based on an environmental assessment performed by consultants no amounts are required to be accrued relating to the closure & post-closure care for this landfill site.

20. TANGIBLE CAPITAL ASSETS

For the year ended December 31, 2009 the City of Kenora will be required to comply with Section 3150, Tangible Capital Assets of the Public Sector Accounting Board Handbook. Section 3150 requires the capitalization and amortization of tangible capital assets in the financial statements. As a transitional provision, Public Sector Guideline-7, Tangible Capital Assets of Local Governments, requires disclosure of information for each major class of tangible capital assets for which all the relevant information can be provided for the complete stock of tangible capital assets of that category. Such information is not yet available for any major category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

(in thousands of dollars)

21. SUBSEQUENT EVENTS**SALE OF GOVERNMENT BUSINESS ENTERPRISES**

Effective February 1, 2008, the City of Kenora sold a portion of its Investments in Government Business Enterprises relating to the operations of the Kenora Municipal Telephone System (KMTS), KMTS Mobility and KMTS Net.

The Sale will have the following estimated pro-forma impact on the City of Kenora's 2008 consolidated financial statements:

On the Statement of Financial Activities:

- i) Surplus/net income for the year of government business enterprises will decline by an undetermined amount related to the net income of the KMTS operations earned subsequent to February 1, 2008;
- ii) Net Transfer from government business enterprises will decrease by approximately \$1,824.
- iii) Current operations expenditure will increase by approximately \$802 related to administration charges no longer charged to KMTS;
- iv) Current operations expenditure will decrease by approximately \$566 related to interest on the liquidated long term debt;
- v) Debt principal repayments will decrease by approximately \$953 related to the liquidation of the long term debt;
- vi) Other income will increase by an undetermined amount related to investment income earned on the sale proceeds and the cash and investments of KMTS assumed by the City;
- vii) An undetermined gain on disposal of KMTS will be reflected;
- viii) Net revenue (expenditure) for the year will be affected by each of the above noted;

On the Statement of Financial Position:

- i) Cash and temporary and long term investments will increase by the proceeds of sale and the assumption of KMTS's cash and investments;
- ii) Investment in government business enterprises will decrease by approximately \$24,000;
- iii) Net equity in government business enterprises will decrease by approximately \$24,000;
- iv) Current fund and/or reserve fund balances will be affected by each of the above noted.

KENORA POLICE SERVICE

On February 1, 2008 the City of Kenora accepted the proposal of the Ontario Provincial Police to provide city-wide policing thereby replacing the existing Kenora Police Service. An estimate of the future financial effect of this event cannot be made.

SCHEDULE OF CURRENT FUND OPERATIONS

for the year ended 31 December 2007

(in thousands of dollars)

	2007 Budget	2007 Actual	2006 Actual
Revenues			
Taxation	\$ 17,218	\$ 17,596	\$ 17,504
Fees and user charges	9,720	9,589	9,914
Canada grants	56	24	117
Ontario grants	6,049	6,199	5,411
Other	1,545	2,060	1,796
	34,588	35,468	34,742
Expenditures			
General government	2,075	2,096	1,636
Protection services	8,292	8,275	7,776
Transportation services	3,594	3,922	3,959
Environmental services	5,804	5,970	5,812
Health services	1,817	1,876	1,948
Social and family services	3,803	3,694	3,747
Recreation and cultural services	3,841	4,331	4,004
Planning and development	848	887	977
	30,074	31,051	29,859
Net revenue for the year	4,514	4,417	4,883
Financing and transfers			
Debt principal repayments	(953)	(953)	(1,031)
Transfers to capital fund	(1,937)	(1,292)	(969)
Transfers to reserves and reserve funds	(3,657)	(4,256)	(4,627)
Transfers from reserves and reserve funds	16	65	317
Net transfer from government business enterprises	1,990	1,990	1,450
	(4,541)	(4,446)	(4,860)
Change in fund balance for the year	\$ (27)	(29)	23
Current fund, beginning of year		(34)	(57)
Current fund, end of the year		\$ (63)	\$ (34)
Analyzed as follows:			
City of Kenora	\$ 17	\$ 14	
Kenora Handi Transit	(14)	1	
Lake of the Woods Museum	(2)	22	
Kenora Public Library	(64)	(71)	
	\$ (63)	\$ (34)	

See Accompanying Notes

SCHEDULE OF CAPITAL FUND OPERATIONS

for the year ended 31 December 2007

(in thousands of dollars)

	2007 Budget	2007 Actual	2006 Actual
Revenues			
Canada grants	\$ 2,037	\$ 211	\$ 305
Ontario grants	432	555	1,202
Other	7	123	381
	2,476	889	1,888
Expenditures			
General government	458	288	334
Protection services	79	160	268
Transportation services	3,129	2,021	2,285
Environmental services	6,895	838	682
Health services	138	-	-
Recreation and cultural services	1,044	576	737
Planning and development	1,427	769	313
	13,170	4,652	4,619
Net expenditures for the year	(10,694)	(3,763)	(2,731)
Financing and transfers			
New debt issued	2,200	-	-
Transfers from current fund operations	1,937	1,292	969
Transfers from reserves and reserve funds	6,557	2,614	1,739
	10,694	3,906	2,708
Change in fund balance for the year	\$ -	143	(23)
Capital fund, beginning of the year		(410)	(386)
Adjustment for Public Sector Accounting Recommendations			
Opening balances - local improvements receivable		311	329
Activity for the year - local improvements receipts		(13)	(19)
		298	310
Adjusted capital fund balance, beginning of year		(112)	(76)
Capital fund, end of the year		\$ 31	\$ (99)

See Accompanying Notes

SCHEDULE OF RESERVES AND RESERVE FUNDS

for the year ended 31 December 2007

(in thousands of dollars)

	2007 Budget	2007 Actual	2006 Actual
Revenue	\$ 183	\$ 183	\$ 175
Expenditures	2	2	1
	181	181	174
Net transfers from (to) other funds			
Transfer from current fund operations	3,657	4,256	4,627
Transfer to capital fund operations	(6,557)	(2,614)	(1,739)
Transfer to current fund operations	(15)	(65)	(317)
	(2,915)	1,577	2,571
Change in balance for the year	<u>\$ (2,734)</u>	1,758	2,745
Reserves and reserve funds, beginning of the year		21,973	19,228
Reserves and reserve funds, end of year		\$ 23,731	\$ 21,973

Analyzed as follows:

Reserves and reserve funds set aside for specific purpose by Council

Working capital	\$ 2,511	\$ 2,312
Contingencies	4,313	4,032
Capital expenditure purposes	14,422	13,735
Replacement of equipment	1,824	1,222
Library	27	34
Museum	357	364
Handi Transit	6	58
Cemetery Columbarium	100	76
Current expenditure purposes	171	140
Reserves and reserve funds, end of year	\$ 23,731	\$ 21,973

See Accompanying Notes