



The City of Kenora, Ontario, Canada.

Annual Report
2008

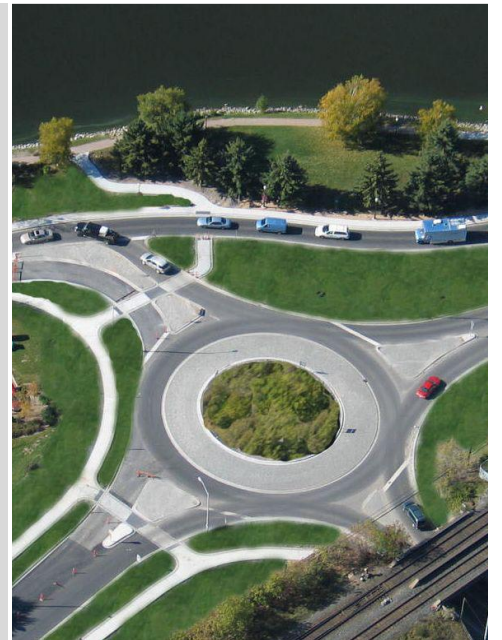


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City Council

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 Presentanz, 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

Mayor's Message

Kenora continued to face significant challenges in 2008. The crisis in the forestry industry and its impacts on our local economy, increased fiscal demands related to downloaded services and an aging infrastructure to name just a few.

In response, Kenora continued its increased focus on economic development. In 2008, the City formalized the implementation for the Economic Development Plan (2006) through the development of the City's Economic Recovery and Diversification Package. We believe that these plans, in conjunction with the Tourism Strategy (2008), will help achieve a new economic destiny for the City through the diversification of the economy by turning Kenora into a destination community for business investment, including the secondary forestry industry, active retirees, youth, professionals, seasonal residents and visitors. In addition, we remain an active participant at the table in discussions on a Sustainable Forest License for the Kenora and Whiskey Jack Forests.

City Council could not have done this alone. Our strongest asset and resource is our City team. On behalf of Council, I would like to thank each and every City staff member for the hard work they do on behalf of the City, every day. I would also like to congratulate my colleagues on Council for the commitment they have shown to the City. We as a Council continue to strive for the betterment of this City and making the right decisions to ensure that Kenora continues to move forward and becomes an ideal place for our residents, businesses and visitors alike.



Mayor Len P. Compton

CAO's Message

In 2008, Kenora continued to reel from the crisis in the forestry industry, with the long term closure of Kenora Forest Products commencing in February 2008, followed by the announcement by Abitibi Bowater Kenora Woodlands Division in the summer of 2008 that it would no longer be harvesting in the Whiskey Jack Forest.

Kenora is not standing still, however, and has continued its active focus on economic development, including the formulation of an Economic Recovery and Diversification Package in 2008. In late 2008, the City also actively commenced a Community Strategic Planning Process, with an active community consultation occurring in early 2009. In doing so, we believe we have effectively positioned the City to face the challenges, both today and in the years ahead.

The City of Kenora's annual report covers the City's fiscal year, which runs from January 01 to December 31. On behalf of City administration, it is our pleasure to present highlights of our activities for 2008.



Bill Preisenz
CAO

Introductory Information

Mayor's Message

CAO's Message

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. In 2005, Kenora unveiled its updated strategic plan, Kenora Vision 2009. 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 philosophy, and with 2009 approaching, during 2008 City Council engaged a consultant to lead Kenora through a Community Strategic Planning Process. Kenora's Community Strategic Planning Process was conducted from January to April of 2009. The process involved community-based workshops in which citizens first worked through three important steps. Over 170 people participated and citizens spent over 600 person hours working on the final consensus.

First, people identified the vision of the kind of community they wanted to build; next, people identified the obstacles that blocked our community from achieving its vision. The third step was to devise strategies that our community's decision makers could employ that would help to build the kind of Kenora community that people wanted.

The vision statement that emerged was:

"Moving forward by celebrating community spirit and diversity."

In order to achieve that sort of community, citizens concluded that all our community's decision-makers should be:

1. Organizing for change
2. Creating social capital
3. Building a positive culture
4. Investing in sustainable economic development
5. Communicating community
6. Sharing responsibility
7. Recognizing new realities

These strategic directions for building and maintaining Kenora's feeling of community are intended for all community leaders, not just our politicians. The strategies can be most fully appreciated by reviewing the thoughtful work of the many people who participated. This is available on the City's portal at www.kenora.ca.

Senior City staff members are now working collaboratively with volunteer community members on an Implementation Team that will work towards ensuring the seven community-building strategies are considered for decisions made throughout the community. In addition, City Council and administration will also be turning their sights towards updating the City's own corporate strategic plan. It is the City's intent that the updated corporate plan will recognize new challenges facing the City, and set out related goals as appropriate to help the City meet those challenges. The City will then both work towards the directions as outlined within its updated strategic planning document and continue to amend the plan as appropriate to more accurately reflect new challenges and opportunities as we move into the future.

Introductory Information

City's Strategic Plan

Guiding Principles for the Corporation

The City's current corporate strategic plan, 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

City Profile

The Towns of Kenora, Keewatin and Jaffray Melick amalgamated on 1 January 2000 to form the City of Kenora, forming the second largest center in Northwestern Ontario.

The City of Kenora is the largest municipality within the District of Kenora, and represents a commercial hub for the region. With an "open for business" approach, the City has been recognized by senior levels of government as "forward thinking", and continues to actively and aggressively pursue development opportunities as available.

The forestry sector continues to be a significant component of the City's economic base, despite the significant challenges currently facing this sector. The City currently is home to an iLevel Mill, the newest and largest value added facility in the Ontario forest industry.

Located on famous Lake of the Woods, Kenora also represents a major tourist destination, and hosts a significant number of tourism related businesses, either within the City or in the surrounding area. Kenora's population more than doubles in the summer because of tourists and seasonal residents. The retail sector is also a significant contributor to the local economy.

Introductory Information

Guiding Principles
For the Corporation

City Profile

Interesting Statistics – “2008 by the Numbers”

Kenora's Population	13,414	
Household Count	7,362	
Total Hectares in the Municipality	24,939	hectares
Total Property Assessment	\$ 1.23	billion
City Employees (excluding Volunteer Fire Fighters)	275	
Employees Receiving First Aid / CPR Training	51	
Employees Receiving AED Provider Training *	15	
City Business Licences on Record	588	
Business Licences Issued in 2008	67	
Fire Calls for Services	864	
Losses due to Structural Fires	\$ 1.67	million
AED Usage in Rescue Attempts (Fire Department) *	2	
Calls for Police Services		
Kenora Police Services	14,060	
Ontario Provincial Police	2,063	
Dogs Licensed	674	
Bears Trapped & Released	24	
Bears Tranquilized	1	
Kilometers of Roads (Excluding Privately Maintained Roads)		
Asphalt	121.9	km
Surface Treatment	36.5	km
Gravel	140.5	km
Kilometers of Sewer Main	135.2	km
Wastewater Treated	2.98	megalitres
Backed Up Wastewater Mains	54	
Kilometers of Water Main	131.2	km
Drinking Water Treated	2.86	megalitres
Water Main Breaks	22	
Tonnes of Garbage Processed	22,300.0	tonnes
Tonnes of Recycling Processed	1,710.2	tonnes
Trees & Shrubs Planted		
Trees	54	
Shrubs	33	

*AED = Automated External Defibrillator

Used to shock the heart when someone is in cardiac arrest

Introductory Information

Interesting Statistics –
“2008 by the Numbers”

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
- ❑ Kenora Hydro Electric Corporation Ltd. Board
- ❑ Other Boards and Committees, such as, but not limited to:
 - Kenora Public Library Board
 - Lake of the Woods Museum Board
 - Leisure Services Committee

The City is currently policed under a hybrid policing model by both the Kenora Police Services (KPS) and the Ontario Provincial Police (OPP). In early 2008, following an extensive RFP process and related evaluation, Council made the decision to contract the policing of the entire City to the OPP. The Kenora Police Services Board (KPSB) is actively working on the transition to OPP policing, with the intended transition date being July 17, 2009. As a result of this change, Council approved the downsizing of the KPSB from its current membership of 5 to 3 following the transition to OPP policing.

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 Preisanz, 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 265 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

2008 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 2008 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, a reserve fund and the Kenora Citizens' Prosperity Trust Fund. Various boards and municipal enterprises have also been consolidated into the City's financial statements, as outlined in the significant accounting policies as included in the audited 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 2008 current fund revenues were \$36.2 million before transfers from government business enterprises and the Kenora Citizens' Prosperity Trust fund. These transfers combined represented an additional \$1.2 million in current fund revenues to the City, resulting in total combined current revenue of \$37.4 million, before contributions from reserves and reserve funds. Taxation continues to be the primary income source for the City's current fund, representing 49.0% of all total current revenues. Fees and user charges represent an additional 26.4% 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 \$32.4 million in 2008, before net appropriations to reserves, capital spending or change in City surplus. The consolidated current fund deficit became a modest surplus in 2008. An analysis of the current fund expenditures by function, as well as 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 2008 actual operating results as compared to the original budget estimates.

Financial Highlights

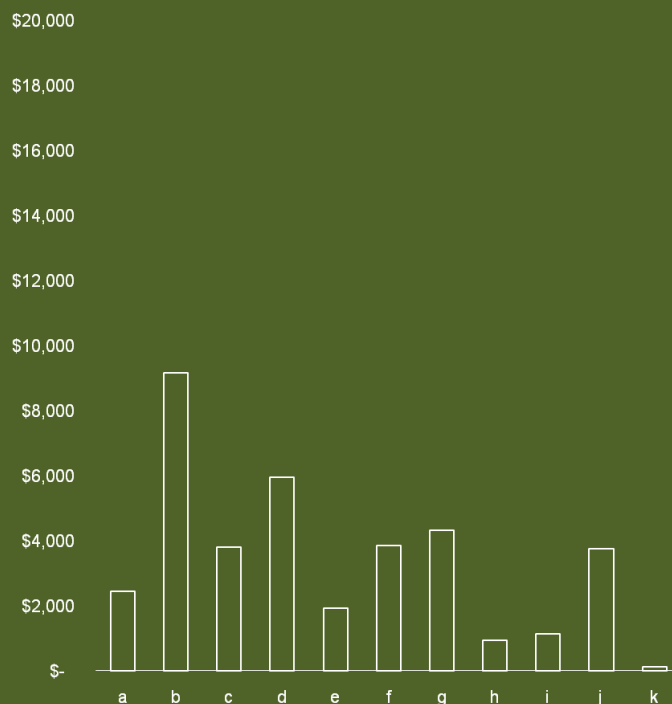
2008 Financial Information

Current Fund

Current Fund

Revenues, Expenditures, Financing and Transfers
2008 Actual Results (in thousands of dollars)

Financial Highlights



Revenues, Financing and Transfers

a Taxation	\$ 18,308	49.0%
b Fees and user charges	9,860	26.4%
c Canada grants	45	0.1%
d Ontario grants	5,819	15.6%
e Other	2,191	5.9%
	<hr/>	
	36,223	97.0%
f Government business enterprises	166	0.4%
g Kenora Citizens' Prosperity Trust Fund	1,009	2.6%
	<hr/>	
	\$ 37,398	100.0%

Expenditures, Financing and Transfers

a General government	\$ 2,435	6.5%
b Protection services	9,155	24.5%
c Transportation services	3,804	10.2%
d Environmental services	5,953	15.9%
e Health services	1,929	5.2%
f Social and family services	3,854	10.3%
g Recreational and cultural services	4,324	11.6%
h Planning and development	939	2.5%
	<hr/>	
	32,393	86.7%
i Net transfers to / from capital	1,137	3.0%
j Net transfers to / from reserves and reserve funds	3,749	10.0%
k Change in current fund balance	119	0.3%
	<hr/>	
	\$ 37,398	100.0%

The Corporation of the City of Kenora

Current Fund Operations

Comparison of Actual to Budget

(in thousands of dollars)

Category	2008 Budget	2008 Actual	Variance Fav. (Unfav.)	% Variance Fav. / -Unfav.	Variance Explanation Favourable (Unfavourable)
Revenues	\$ 35,273	\$ 36,223	\$ 950	2.6%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - Higher than anticipated user fees from the transfer facility, blue box collection and landfill charges. These higher fees were offset by lower than anticipated fees for building permits, water & sewer charges and recreation centre fees. - Business Enterprise Centre and Kenora Assembly of Resources. Program revenues exceeded budgeted amounts, however, actual expenditures exceeded budget as well. - The Kenora Police Service received more than the budget estimate with respect to Provincial funding, however expenditures increased by more than this amount. - Higher than anticipated combined investment income and interest on property tax arrears.
Expenditures	\$ 31,703	\$ 32,393	\$ (690)	-2.1%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - Kenora Police Services (KPS). Higher than anticipated wages & benefits, training and vehicle costs. These were partially offset by lower than anticipated OPP and anti-violence intervention costs. - Roads Maintenance. Winter control expenditures were lower than budget with respect to road plowing, snow removal and rental of own equipment. - Traffic Signs & Signals. Expenditures are below budget for contracted services. - Public Works Facility. Expenditures with respect to the maintenance of the PW Facility are higher than budget. - Sanitary Sewer Operations. The cost of mains and pumping station maintenance were under budget, offset by over expenditures for lift station maintenance and sewage treatment plant operations. - Storm Sewers. Overall expenditures are under budget as a result of lower catch basin maintenance costs. - Waterworks. Expenditures are higher with respect to mains connections repairs and booser station repairs. This was offset by a decrease in water treatment plant costs. - Garbage Collection. These expenditures were considerably under budget due to a decrease in wages and rental of own equipment. - Transfer Facility, Blue Box Collection and Recycling Facility. Overall expenditures are higher than budget in these areas with respect to wages and rental of own equipment. - Recreation & Cultural Services. The Kenora Recreation Centre experienced higher than budgeted wage costs which were offset by costs relating to swimming pool and fitness centre operations. The Keewatin Arena experienced higher than budgeted repairs & maintenance and utility costs. - Business Enterprise Centre. Program costs exceeded the budget by \$48, however higher revenues offset this amount. - Economic Development. Contracted services and advertising were over budget. This was offset by increased funding.

Capital Fund

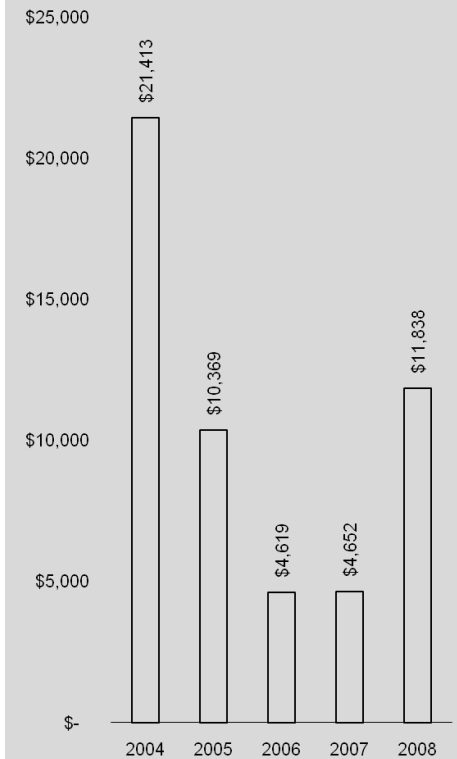
The City’s capital fund represents significant expenditures related to tangible capital assets or large projects for the City. These expenditures generally provide the City with a long-term benefit, either through the purchase of new capital assets, improvement to existing City capital assets, or the 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 \$11.8 million in 2008. Major capital works for 2008 included:

- ❑ **Municipal Paving Program - \$.8 million** – The municipal paving program relates to the reconstruction and paving of various roads throughout the City. In 2008, the City received Provincial funding totaling close to \$.5 million to offset costs related to this program. Road works done under the municipal paving program included: Highway 17 West (Keewatin Bridge to Bay Street Bridge); Seventh Street South (Robertson Street to Fourth Avenue South); Norman Drive (Parson Street to Deacon Street); Street “A” (North of Lakeview Drive); Valley Drive (Sections between Amethyst Street and Eleventh Avenue North); and McKenzie Portage Road (Highway 17 West to City limit).
- ❑ **Municipal Surface Treatment Program - \$.5 million** – The municipal paving program relates to rehabilitation of surface treated roads, including grading, drainage, granular base and surface treatment. Road works performed under the municipal surface treatment program include: Peterson Road; Coker Road; Essex Road; Anderson Branch Road; and Sunnyside Road.
- ❑ **Salted Sand Storage Building - \$.4 million** – This represents the construction of a building for storing winter salted sand to both protect the sand from rain and snow and prevent the potential of salt contamination.
- ❑ **Repainting of Zone 2 Water Standpipe - \$.4 million** – The City was required to replace the protective coating on the Zone 2 Water Standpipe as a result of the level of corrosion of the metal tank.
- ❑ **Recycle / Waste Collection Trucks - \$.4 million** – Purchase of vehicles with the ability to combine recycling and waste collection using the same vehicle in order to increase efficiencies.
- ❑ **Downtown Revitalization - \$.7.5 million** – The downtown revitalization project represents the bulk of the works related to Phase 1 of the City’s downtown revitalization project. Works included streetscaping, utility and infrastructure improvements along Main Street. Completion of Phase I works are scheduled to occur in 2009, along with the commencement of Phase II works.

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

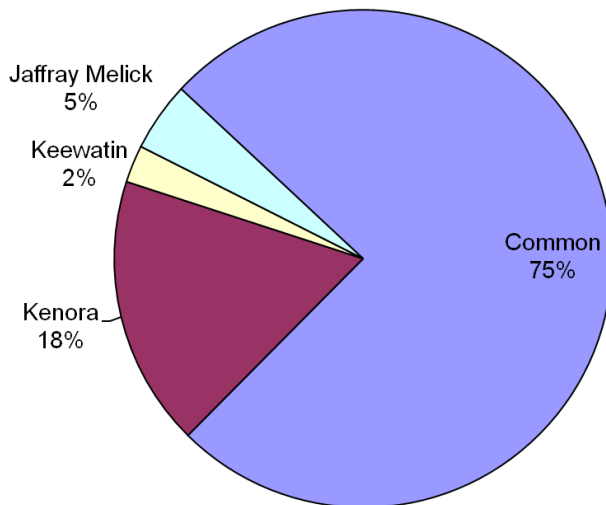
Reserves and Reserve Funds

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 (\$2.7 million) and consolidated contingency (\$4.4 million) reserves.

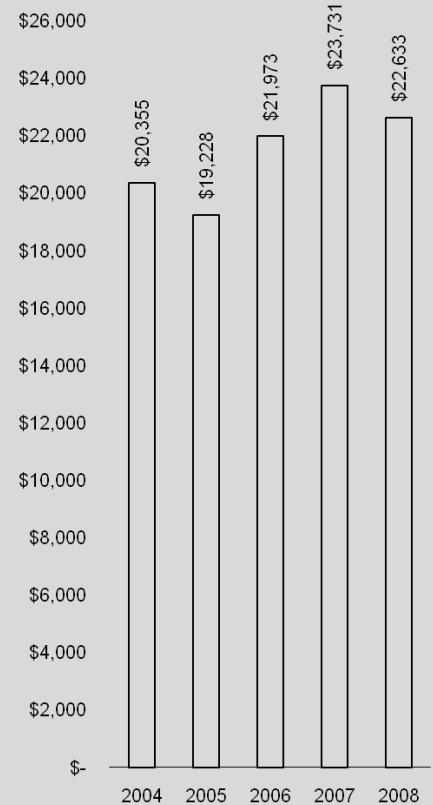
As part of the terms of the amalgamation agreement, reserves and reserve funds existing at 1 January 2000 were protected by geographic boundaries of the former Towns of Kenora, Keewatin and Jaffray Melick. This protection remained in effect until 31 December 2004. Despite the expiration of this requirement, 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 2008 was \$22.6 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. This equity is reflected separately as net equity in government business enterprises. These balances also exclude any balance related to the Kenora Citizens' Prosperity Trust Fund.

The unconsolidated, combined reserve and reserve fund balances for the City before including consolidated entities was \$22.1 million at the end of 2008. 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) 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. Historically, this amount was 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

Commencing in 2008, the balance of the GBE investment relates strictly to the Kenora Hydro Electric Corporation Ltd. This is as a result of the sale of the KMTS Entities to Bell Aliant on 31 January 2008. The City’s combined net equity in government business enterprises as at the end of 2008 was \$10.2 million. Over the past two years, the City’s investment in GBE has been reduced by a combined \$36.6 million, the first drop in 2007 as a result of the liquidation of the long term debt owing by the City to KMTS Mobility at the end of 2007 (\$12.9 million) and the balance resulting from the sale in 2008 (\$23.7 million). The sale of the KMTS Entities is discussed further under the KMTS Entities and the Kenora Citizens’ Prosperity Trust Fund section on this page.

Kenora Hydro Electric Corporation Ltd.

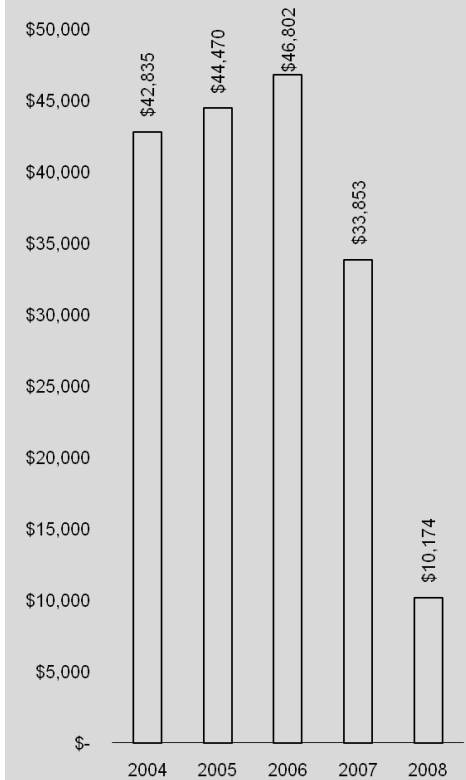
The Kenora Hydro Electric Corporation Ltd. (Kenora Hydro) is a Local Distribution Company (LDC), incorporated under the Ontario Business Corporation Act in compliance with Hydro Deregulation. Kenora Hydro provides hydro distribution services to residents within the boundaries of the former Towns of Kenora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

KMTS Entities and the Kenora Citizens’ Prosperity Trust Fund

On 31 January 2008, the City sold its KMTS operations to Bell Aliant. The decision to sell the KMTS Entities was a difficult one, and represented the loss of annual dividends and contributions from KMTS used to offset City expenditures. It was recognized, however, that the City did not have the resources to keep KMTS competitive in light of today’s rapidly changing technologies.

In an effort to ensure there was no impact to property taxes as a result of the sale, the decision was made to transfer the proceeds of disposition from the sale, together with the cash and investments that were excluded from the sale, to a trust fund that would safeguard the funds. The Kenora Citizens’ Prosperity Trust Fund was established in 2008, with a balance of \$41.3 million at the end of 2008. In order to offset lost net revenues as a result of the sale of the KMTS Entities, the City requires an annual return of \$1.1 million in income from the trust, in addition to the elimination of long term debt payments which occurred in 2007. Any erosion of the balance of the trust will result in an additional burden on City taxpayers.

Government Business Enterprises
(in thousands of dollars)



Financial Highlights

Government Business Enterprises

Kenora Hydro Electric Corporation Ltd.

KMTS Entities and the Kenora Citizens’ Prosperity Trust Fund



City of Kenora

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Kenora, ON P9N 3X2
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www.kenora.ca

Management's Responsibility for the Financial Statements

The accompanying financial statements of the Corporation of the City of Kenora are the responsibility of the City's management and have been prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in the notes to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgements, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The City Council meets with management to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by BDO Dunwoody LLP, independent external auditors appointed by City Council. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the City's financial statements.

A handwritten signature in blue ink that reads 'Bill Presentanz'.

Bill Presentanz, CAO

Kenora, Ontario
July 13, 2009



BDO Dunwoody LLP
Chartered Accountants
and Consultants

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Telefax: (807) 468-9774

Auditors' Report

To the members of Council, Inhabitants and 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 December 31, 2008 and the consolidated statements of financial activities and changes in net financial assets and consolidated statement of cash flows for the year then ended. These financial statements are the responsibility of the City'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.

The government business enterprise, Kenora Hydro Electric Corporation Ltd., has not performed impairment testing on goodwill with a net book value of \$1.98 million. In accordance with generally accepted accounting principles, goodwill should be tested for impairment on an annual basis.

In our opinion, except for the effect of the government business enterprise's failure to perform impairment testing and to provide for a write-down, if any, on goodwill as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Kenora as at December 31, 2008 and the results of its financial activities, changes in its financial position and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were audited by another Chartered Accountant.

A handwritten signature in black ink that reads "BDO Dunwoody LLP".

Chartered Accountants, Licensed Public Accountants

Kenora, Ontario
June 1, 2009

THE CORPORATION OF THE CITY OF KENORA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 31 December 2008
 (in thousands of dollars)

	2008	2007
Financial Assets		
Cash (Note 1)	\$ 11,646	\$ 8,551
Temporary investments (Note 2)	11,235	17,419
Taxes receivable	876	714
Trade and other receivables	6,667	5,462
Inventory held for resale	43	27
Long term investments (Note 3)	2,800	2,791
Kenora Citizens' Prosperity Trust Fund investments (Note 4)	41,288	-
Investment in government business enterprises (Note 5)	10,174	33,853
	84,729	68,817
Liabilities		
Accounts payable and accrued liabilities	4,815	6,211
Deferred revenue (Note 6)	3,980	3,422
Employee benefits payable (Note 15)	2,541	2,356
	11,336	11,989
NET FINANCIAL ASSETS	73,393	56,828
Non Financial Assets		
Inventories of consumables and prepaids	1,006	723
FUND BALANCES (Note 7)	\$ 74,399	\$ 57,551

See Accompanying Notes

**THE CORPORATION OF THE CITY OF KENORA
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES**

for the year ended 31 December 2008

(in thousands of dollars)

	2008 Budget	2008 Actual	2007 Actual
Revenues			
Taxation	\$ 18,039	\$ 18,308	\$ 17,596
Fees and user charges	9,676	9,860	9,589
Canada grants	3,643	3,085	235
Ontario grants	8,395	8,531	6,753
Other income (Note 8)	3,385	3,923	2,364
	43,138	43,707	36,537
Expenditures			
Current Operations			
General government	2,426	2,435	2,096
Protection to persons and property	8,900	9,155	8,275
Transportation services	3,969	3,804	3,922
Environmental services	5,911	5,953	5,970
Health services	1,891	1,929	1,876
Social and family services	3,963	3,854	3,694
Recreation and cultural services	3,928	4,324	4,332
Planning and development	715	939	886
	31,703	32,393	31,051
Capital			
General government	412	283	288
Protection to persons and property	355	42	160
Transportation services	2,517	2,190	2,020
Environmental services	6,283	3,341	838
Health services	64	-	-
Recreation and cultural services	687	357	576
Planning and development	7,365	5,625	770
	17,683	11,838	4,652
	49,386	44,231	35,703
Net revenue (expenditure) for the year before financing and transfers	(6,248)	(524)	834
Financing and transfers			
New debt issued	2,200	-	-
Debt principal repayments	-	-	(953)
Net transfer from government business enterprises (Note 5)	166	166	1,990
	2,366	166	1,037
	<u>\$ (3,882)</u>	<u>(358)</u>	1,871
Net income (loss) for the year of government business enterprises (Note 5)		(114)	2,396
Gain on sale of government business enterprises		17,325	-
Liquidation of long term liabilities		-	(15,346)
Net revenue (expenditure) for the year		16,853	(11,079)
Fund Balances, beginning of the year		57,551	68,643
Adjustments:			
Kenora Handi Transit beginning balances (Note 21)		9	-
PSAB recommendations - local improvement receipts		(14)	(13)
Fund Balances, end of the year		\$ 74,399	\$ 57,551

See Accompanying Notes

THE CORPORATION OF THE CITY OF KENORA
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
for the year ended 31 December 2008
(in thousands of dollars)

	2008	2007
Net Revenue (Expenditure) for the year	\$ 16,853	\$ (11,079)
Change in inventories of consumables and prepaids	(283)	134
Increase (decrease) in Net Financial Assets	16,570	(10,945)
Net Financial Assets, beginning of year	56,828	67,786
Adjustment for Kenora Handi Transit beginning balance (Note 21)	9	-
	56,837	67,786
Adjustment for local improvement receipts	(14)	(13)
Net Financial Assets, end of year	\$ 73,393	\$ 56,828

**THE CORPORATION OF THE CITY OF KENORA
CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 31 December 2008

(in thousands of dollars)

	2008	2007
Cash flows from operating activities		
Net change in fund balances for the year	\$ 16,853	\$ (11,079)
Decrease in amounts to be recovered	-	16,299
Decrease in local improvements receivable	(14)	(13)
	16,839	5,207
 Change in non-cash working capital balances		
(Increase) in taxes receivable	(162)	(2)
Decrease (increase) in trade and other receivables	(1,205)	3,210
Decrease (increase) in other assets	(299)	128
(Decrease) in accounts payable and accrued liabilities	(1,395)	(1,141)
Increase in employee benefits payable	184	397
Increase in deferred revenue	558	988
	14,520	8,787
 Cash flows from financing activities		
(Decrease) in long term liabilities	-	(16,299)
 Cash flows from investing activities		
Increase in long term investments	(9)	(1,162)
Decrease in investment in government business enterprises	23,679	12,950
(Increase) in Kenora Citizens' Prosperity Trust Fund	(41,288)	-
	(17,618)	11,788
 Net change in cash and equivalents	(3,098)	4,276
 Cash and equivalents, beginning of year	25,970	21,694
Adjustment for Kenora Handi Transit beginning balance (Note 21)	9	-
 Cash and equivalents, end of year	\$ 22,881	\$ 25,970
 Represented by		
Cash	\$ 11,646	\$ 8,551
Temporary investments	11,235	17,419
	\$ 22,881	\$ 25,970

See Accompanying Notes

**THE CORPORATION OF THE CITY OF KENORA
SIGNIFICANT ACCOUNTING POLICIES**

for the year ended 31 December 2008
(in thousands of dollars)

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 and internally restricted entities 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 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 71.90% 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 comparative statements:

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

As at 31 December 2008 the Kenora Hydro Electric Corporation Ltd. is the only remaining government business enterprise (Note 5).

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.

d) Government Transfers

Government transfers are recognized in the year in which events give rise to the transfer, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

**THE CORPORATION OF THE CITY OF KENORA
SIGNIFICANT ACCOUNTING POLICIES**

for the year ended 31 December 2008

(in thousands of dollars)

e) Revenue Recognition

Revenues are recognized as follows:

- i Tax revenue is recognized in the calendar year to which the tax assessment applies and the assessment is known.
- ii Fees and user charges are recognized on a monthly basis as services are provided.
- iii Other revenues are recorded when collected or when collection is reasonably assured.

f) Investments

Investment income earned on current fund, reserves and reserve funds and the trust fund are reported as revenue in the period earned. Investments are recorded at the lower of cost and market value.

g) Inventory

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

h) 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.

i) 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.

j) Trust Funds

Trust funds administered by the City for the benefit of external parties are not included in these financial statements. The financial activity and position of the trust funds are reported separately.

k) 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.

l) Pension and Other Post-Employment Benefits

The City accounts for its participation in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer public sector pension fund, as a defined contribution plan. Standards issued by the Canadian Institute of Chartered Accountants with respect to accounting for employee future benefits require the company to accrue for its obligations under other employee benefit plans and related costs, net of plan assets.

The cost of other post-employment benefits offered to employees are actuarially determined using the projected benefit method, prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on pro-rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

m) New Accounting Pronouncements

In 2008, the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB) issued new accounting standards PS1000 - Financial Statement Concepts, PS1100 - Financial Statement Objectives, PS1200 - Financial Statement Presentation and PS3150 - Tangible Capital Assets which will significantly alter financial reporting for local governments. This new reporting standard becomes applicable to local governments for fiscal years beginning on or after 1 January 2009.

THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2008
(in thousands of dollars)

1. CASH

	2008	2007
Unrestricted	\$ 8,995	\$ 5,039
Restricted	2,651	3,512
	\$ 11,646	\$ 8,551

2. TEMPORARY INVESTMENTS

	Market Value	2008	2007
Unrestricted	\$ 9,087	\$ 8,905	\$ 13,718
Restricted	2,352	2,330	3,701
	\$ 11,439	\$ 11,235	\$ 17,419

97% of the temporary investments are held in the One Fund - Public Sector Group of Funds. The investments are bond funds with interest rates ranging from 3.61% to 4.65%.

3. LONG TERM INVESTMENTS

	2008	2007
Loan receivable, Kenora Health Care Centre, interest at 4.05% per annum, repayable interest only until 2010 secured by land, buildings and equipment, loan approved to a maximum of \$7,475.	\$ 2,600	\$ 2,591
Nothern Ontario Grow Bond, at cost. Interest earned at 4% per annum, receivable annually, maturing 11 April 2010.	200	200
	\$ 2,800	\$ 2,791

4. KENORA CITIZENS' PROSPERITY TRUST FUND INVESTMENTS

	2008	2007
Cash	\$ 38	-
Temporary investments	41,250	-
	\$ 41,288	\$ -

The market value of the temporary investments is \$41,441 at the end of the year. The proceeds from the sale of the Kenora Municipal Telephone System, KMTS Mobility and KMTS Net were transferred to the Kenora Citizens' Prosperity Trust Fund. The purpose of the Fund is to safeguard the principal while using the related investment income to eliminate the negative impacts resulting from the loss of the annual dividends from the telephone operations.

32% of the temporary investments are held in the One Fund - Public Sector Group of Funds. The investments are bond funds with interest rates ranging from 3.61% to 4.65%. The remaining temporary investments are held in a short term trust security with TD Canada Trust, bearing an interest rate of 2.65%. Subsequent to year end, the City appointed MFC Global Investment Management to provide investment management services for all, or a portion of, the Kenora Citizens' Prosperity Trust Fund investments.

THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2008
(in thousands of dollars)

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 2008. The current year reflects the activity of the telephone operations to 31 January 2008. (Note 19)

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

	2008	2007
Current assets	\$ 4,054	\$ 19,886
Long term investments	613	593
Capital assets	5,870	14,476
Goodwill	1,980	2,794
Total Assets	12,517	37,749
Current liabilities	1,770	3,036
Long term liabilities	573	860
Total Liabilities	2,343	3,896
Net Assets	\$ 10,174	\$ 33,853
Revenues	\$ 11,016	\$ 25,239
Expenses	10,964	20,853
Net Income	52	4,386
Contribution to City of Kenora	(166)	(1,990)
	(114)	2,396
Liquidation of long term investments	-	(15,346)
Net investment in KMTS operations (Note 19)	(23,565)	
Net assets, beginning of year	33,853	46,803
Net assets, end of year	\$ 10,174	\$ 33,853

ii) Balances with other organizations

Due from City of Kenora Revenue Fund	\$ 318	\$ 1,415
--------------------------------------	--------	----------

iii) Transactions with other organizations

Administration charges by City of Kenora	\$ 240	\$ 1,063
Interest charged by KMTS Mobility	-	(566)
Interest charged to Kenora Hydro	148	188

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.

THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2008

(in thousands of dollars)

6. DEFERRED REVENUE

	2008	2007
Government of Canada - wharf maintenance	\$ 1,290	\$ 1,311
Other deferred revenue	2,690	2,111
	\$ 3,980	\$ 3,422

7. FUND BALANCES

Fund balances consist of individual fund surplus (deficit), reserves and reserve funds and internally restricted entities as follows:

	2008	2007
Surplus (deficit)		
Current fund operations	\$ 69	\$ (64)
Capital fund operations	245	31
Government business enterprises	10,174	33,853
Total Surplus	10,488	33,820
Reserves and Reserve Funds		
Working capital	2,711	2,511
Contingencies	4,446	4,313
Capital expenditures purposes	12,398	14,422
Replacement of equipment	2,370	1,823
Library	20	27
Museum	392	357
Handi Transit	-	6
Cemetery Columbarium	109	100
Current expenditures purposes	187	172
Total Reserves and Reserve Funds	22,633	23,731
Internally Restricted Entity		
Kenora Citizens' Prosperity Trust Fund	41,278	-
FUND BALANCES	\$ 74,399	\$ 57,551

8. OTHER INCOME

	2008	2007
Penalties and interest on taxation	\$ 256	\$ 238
Investment income	3,032	1,476
Donations	96	166
Sale of land and miscellaneous	539	484
	\$ 3,923	\$ 2,364

THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2008
(in thousands of dollars)

9. PENSION AGREEMENTS

The municipality and its employees contribute to the Ontario Municipal Employees Retirement System ("OMERS"), a jointly trusted pension plan. The Board of Trustees, representing plan members and employers, is jointly responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has approximately 248,000 active members and approximately 142,000 retired and other members.

Each year an independent actuary determines the Plan's funded status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On 31 December 2008, the estimated accrued pension obligation for all members (including survivors) of the Plan was \$50,080 million. The Plan had an actuarial value of net assets of \$49,801 million at the end of 2008. The resulting funding deficit was \$279 million as at 31 December 2008. The actuary does not attribute portions of the unfunded liability to individual employers. The Corporation of the City of Kenora paid \$928 for employer contributions to the plan in 2008 (2007 - \$828).

10. PUBLIC SECTOR SALARY DISCLOSURE

For 2008, 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	\$ 127	\$ 1
Karen Brown	Manager of Finance and Administration	\$ 112	\$ 1
Sharen McDowall	Human Resources Manager	\$ 101	\$ 1
Richard Perchuk	Operations Manager	\$ 103	\$ 1
Warren Brinkman	Fire & Emergency Services Manager	\$ 101	\$ 1
Andrew Ryan Gordon	Police Officer	\$ 104	\$ 1
Grant Lawrence	Police Sergeant	\$ 114	\$ 1
Dwight Lundgren	Police Officer	\$ 113	\$ 1
Jeffrey Poperechny	Police Officer	\$ 100	\$ 1
Christopher Ratchford	Police Sergeant	\$ 108	\$ 1
Lloyd White	Police Officer	\$ 111	\$ 1
Jeffrey Wiebe	Police Sergeant	\$ 103	\$ 1
Douglas Zroback	Police Officer	\$ 105	\$ 1
Ray Csuzdi	Deputy Police Chief	\$ 102	\$ 1
Dan Jorgensen	Police Chief	\$ 124	\$ 1

11. BUDGET AMOUNTS

Budget data for 2008 included in these consolidated financial statements represents budgets approved by Council.

THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008
(in thousands of dollars)

12. OPERATIONS OF SCHOOL BOARDS

During the year, taxation revenue of \$6,273 was raised and remitted to the school boards.

13. TRUST FUNDS

The trust funds administered by the municipality for the benefit of external parties have not been included in the statement of financial position nor have the operations been included in the statement of financial activities. At 31 December 2008, the trust funds balances are as follows:

	2008	2007
Lake of the Woods Cemetery		
Land Fund	\$ 21	\$ 20
Perpetual Care Fund	421	433
Langford Estate	51	50
	\$ 493	\$ 503

14. 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 2008 was \$89 (2007 - \$99), and the resulting future employee benefit liability was \$2,236 at 31 December 2008.

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 2008 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.

15. EMPLOYEE FUTURE BENEFITS PAYABLE

	2008	2007
Employee future benefits (Note 14)	\$ 2,236	\$ 2,096
Vested sick leave	134	126
Lieu time accrual	171	134
	\$ 2,541	\$ 2,356

**THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2008
(in thousands of dollars)

16. CONTINGENT LIABILITIES

At 31 December 2008, the Corporation of the City of Kenora has guaranteed bank indebtedness of the Kenora Golf and Country Club in the amount of \$364. The maximum amount of the guarantee is \$600. Subsequent to the year end the maximum amount of the guarantee was increased to \$650.

The Corporation of the City of Kenora is liable for its pro-rata share totalling \$2,983 (2007 - \$3,108) 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 has several claims and possible 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.

17. LANDFILL CLOSURE AND POST-CLOSURE LIABILITIES

The Ontario Environmental Protection Act sets 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 \$28 at 31 December 2008.

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.

18. TANGIBLE CAPITAL ASSETS

For the year ended 31 December 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.

19. SALE OF GOVERNMENT BUSINESS ENTERPRISES

Effective 1 February 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 as follows:

Total net sale proceeds	\$ 40,890
Net investment	23,565
Gain on sale	\$ 17,325

**THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2008
(in thousands of dollars)

20. KENORA POLICE SERVICE

On 1 February 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. The force will be officially disbanded on 17 July 2009. An estimate of the future financial effect of this event cannot be made.

21. CHANGE IN ACCOUNTING POLICY

The financial information of Kenora Handi Transit will no longer be consolidated in these financial statements. It was determined that the City of Kenora did not control Kenora Handi Transit.

Financial statements of prior periods have not been restated therefore the opening fund balances for 2008 have been adjusted to remove the Kenora Handi Transit balances from 2007.

22. SEGMENTED INFORMATION

The City of Kenora is a diversified municipal government institution that provides a wide range of services to its citizens, including police, fire, public transit, solid waste, sewer and water and recreation. For management reporting purposes the City's operations and activities are organized and reported by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

City services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

General Government

General government encompasses all the City's administration including Council, the Administrator's office, finance and administration and human resources.

Protection to Persons and Property

This segment encompasses police services, fire services and by-law enforcement. The mandate of the police services department is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce law. The fire department is responsible to provide fire suppression service; fire prevention programs; training and education related to prevention, detection or extinguishment of fires. The by-law department is responsible for animal control and for enforcing by-laws passed by council. The building inspectors ensure an acceptable quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-laws.

Transportation Services

Transportation services are the responsibility of the public works department. This department delivers municipal public works services related to the planning, development and maintenance of roadway systems, docks, wharfs and street lighting.

Environmental Services

The environmental services segment consists of three areas - water, wastewater and solid waste. The department provides drinking water and treats wastewater to a portion of the City. It also provides collection, disposal and waste minimization programs and facilities for solid waste.

**THE CORPORATION OF THE CITY OF KENORA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2008
(in thousands of dollars)

22. SEGMENTED INFORMATION (continued)

Health Services

Health services includes contributions to the Northwestern Health Unit, the Kenora District Services Board for ambulance services and to the Lake of the Woods Cemetery.

Social and Family Services

The social and family services segment provides Ontario Works services, day care services and includes contributions to the District of Kenora Home for the Aged and to the Kenora District Services Board for social housing.

Recreation and Cultural Services

Recreation and cultural services is responsible for the maintenance of parks and open space. Also included in this segment are the Kenora Recreation Centre (ice surface, swimming pools and workout facilities) and the Keewatin Memorial Arena (ice surface). The operations of the Kenora Library and the Lake of the Woods Museum are also in this segment.

Planning and Development

The planning and development department includes planning, economic development and tourism. It provides services for the approval of all land development plans and the application and enforcement of zoning by-laws.

For each reported segment, revenues and expenditures represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. The current fund reports on municipal services that are funded primarily by taxation. The exception to this would be sewer and water and solid waste operations (except recycling). Taxation, payments-in-lieu of taxes, certain government grants and interest income have been apportioned based on a percentage of expenditures.

THE CORPORATION OF THE CITY OF KENORA
SCHEDULE OF CURRENT FUND OPERATIONS

for the year ended 31 December 2008

(in thousands of dollars)

	2008 Budget	2008 Actual	2007 Actual
Revenues			
Taxation	\$ 18,039	\$ 18,308	\$ 17,596
Fees and user charges	9,676	9,860	9,589
Canada grants	25	45	24
Ontario grants	5,731	5,819	6,198
Other	1,802	2,191	2,060
	<u>35,273</u>	<u>36,223</u>	<u>35,467</u>
Expenditures			
General government	2,426	2,435	2,096
Protection services	8,900	9,155	8,275
Transportation services	3,969	3,804	3,922
Environmental services	5,911	5,953	5,970
Health services	1,891	1,929	1,876
Social and family services	3,963	3,854	3,694
Recreation and cultural services	3,928	4,324	4,331
Planning and development	715	939	887
	<u>31,703</u>	<u>32,393</u>	<u>31,051</u>
Net revenue for the year	<u>3,570</u>	<u>3,830</u>	<u>4,416</u>
Financing and transfers			
Debt principal repayments	-	-	(953)
Transfers to capital fund	(2,129)	(1,151)	(1,292)
Transfers to reserves and reserve funds	(2,728)	(3,757)	(4,256)
Transfers from reserves and reserve funds	99	8	65
Transfers from capital fund	14	14	-
Transfers from Kenora Citizens' Prosperity Trust Fund	1,008	1,009	-
Net transfer from government business enterprises	166	166	1,990
	<u>(3,570)</u>	<u>(3,711)</u>	<u>(4,446)</u>
Change in fund balance for the year	<u>\$ -</u>	<u>119</u>	<u>(30)</u>
Current fund, beginning of year		(64)	(34)
Adjustment for Kenora Handi Transit beginning balance (Note 21)		14	-
Current fund, end of the year		<u>\$ 69</u>	<u>\$ (64)</u>
Analyzed as follows:			
City of Kenora	\$	129	\$ 16
Kenora Handi Transit		-	(14)
Lake of the Woods Museum		10	(2)
Kenora Public Library		(70)	(64)
	<u>\$</u>	<u>69</u>	<u>\$ (64)</u>

See Accompanying Notes

THE CORPORATION OF THE CITY OF KENORA
SCHEDULE OF CAPITAL FUND OPERATIONS

for the year ended 31 December 2008

(in thousands of dollars)

	2008 Budget	2008 Actual	2007 Actual
Revenues			
Canada grants	\$ 3,618	\$ 3,040	\$ 211
Ontario grants	2,664	2,712	555
Other	270	44	123
	6,552	5,796	889
Expenditures			
General government	412	283	288
Protection services	355	42	160
Transportation services	2,517	2,190	2,021
Environmental services	6,283	3,341	838
Health services	64	-	-
Recreation and cultural services	687	357	576
Planning and development	7,365	5,625	769
	17,683	11,838	4,652
Net expenditures for the year	(11,131)	(6,042)	(3,763)
Financing and transfers			
New debt issued	2,200	-	-
Transfers to current fund operations	-	(14)	-
Transfers from current fund operations	2,129	1,151	1,292
Transfers from reserves and reserve funds	6,802	5,133	2,613
	11,131	6,270	3,905
Change in fund balance for the year	\$ -	228	142
Capital fund, beginning of the year		(267)	(409)
Adjustment for Public Sector Accounting Recommendations			
Opening balances - local improvements receivable		298	311
Activity for the year - local improvements receipts		(14)	(13)
		284	298
Adjusted capital fund balance, beginning of year		17	(111)
Capital fund, end of the year		\$ 245	\$ 31

See Accompanying Notes

**THE CORPORATION OF THE CITY OF KENORA
SCHEDULE OF RESERVES AND RESERVE FUNDS**

for the year ended 31 December 2008

(in thousands of dollars)

	2008 Budget	2008 Actual	2007 Actual
Revenue	\$ 291	\$ 291	\$ 182
Net transfers from (to) other funds			
Transfer from current fund operations	2,728	3,757	4,256
Transfer to capital fund operations	(6,802)	(5,132)	(2,614)
Transfer to current fund operations	(99)	(8)	(65)
	(4,173)	(1,383)	1,577
Change in balance for the year	<u>\$ (3,882)</u>	(1,092)	1,759
Reserves and reserve funds, beginning of the year		23,731	21,972
Adjustment for Kenora Handi Transit beginning balance (Note 21)		(6)	-
Reserves and reserve funds, end of year		\$ 22,633	\$ 23,731

Analyzed as follows:

Reserves and reserve funds set aside for specific purpose by Council

Working capital	\$ 2,711	\$ 2,511
Contingencies	4,446	4,313
Capital expenditure purposes	12,398	14,422
Replacement of equipment	2,370	1,823
Library	20	27
Museum	392	357
Handi Transit	-	6
Cemetery Columbarium	109	100
Current expenditure purposes	187	172
Reserves and reserve funds, end of year	<u>\$ 22,633</u>	<u>\$ 23,731</u>

See Accompanying Notes

THE CORPORATION OF THE CITY OF KENORA
KENORA CITIZENS' PROSPERITY TRUST FUND

for the year ended 31 December 2008

(in thousands of dollars)

	2008 Budget	2008 Actual	2007 Actual
Revenue	\$ 1,396	\$ 1,396	\$ -
Net transfers from (to) other funds			
KMTS net sale proceeds	40,890	40,890	-
Transfer to current fund operations	(1,008)	(1,008)	-
	39,882	39,882	-
Change in balance for the year	<u>\$ 41,278</u>	41,278	-
Kenora Citizens' Prosperity Trust Fund, beginning of the year		-	-
Kenora Citizens' Prosperity Trust Fund, end of year		\$ 41,278	\$ -
Analyzed as follows:			
Kenora Citizens' Prosperity Trust Fund			
KMTS entities net sale proceeds		\$ 40,891	\$ -
Investment income net of offsetting expenses and transfers		298	-
Investment market fluctuations recorded for accounting purposes		89	-
Kenora Citizens' Prosperity Trust Fund, end of year		\$ 41,278	\$ -

See Accompanying Notes

**THE CORPORATION OF THE CITY OF KENORA
SCHEDULE OF SEGMENT DISCLOSURE
CURRENT FUND OPERATIONS**

31 December 2008
(in thousands of dollars)

	General Government	Protection to Persons and Property	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Eliminations	Totals
Revenues										
Fees and user charges	\$ 220	\$ 821	\$ 721	\$ 6,427	\$ 117	\$ 242	\$ 1,186	\$ 126	\$ -	\$ 9,860
Government grants	21	500	21	-	90	-	761	271	(787)	877
Transfer from other funds	-	-	-	-	-	-	-	-	-	-
Other	255	6	-	155	17	-	278	54	-	765
	496	1,327	742	6,582	224	242	2,225	451	(787)	11,502
Expenditures										
Salaries and benefits	1,805	6,788	1,870	2,307	167	815	2,561	527	-	16,840
Materials and supplies	630	2,367	1,870	3,646	1,018	529	1,616	412	-	12,088
External transfer	-	-	64	-	834	2,510	844	-	(787)	3,465
Other	-	-	-	-	-	-	-	-	-	-
	2,435	9,155	3,804	5,953	2,019	3,854	5,021	939	(787)	32,393
Net segment specific revenues (expenditures)	\$ (1,939)	\$ (7,828)	\$ (3,062)	\$ 629	\$ (1,795)	\$ (3,612)	\$ (2,796)	\$ (488)	\$ -	\$ (20,891)
					*					
Unallocated revenues										
Taxation										18,308
Government grants										4,987
Other										1,426
										24,721
Net revenue for the year										3,830
Financing and transfers										
Transfer to capital fund										(1,151)
Transfers to reserves and reserve funds										(3,757)
Transfers from reserves and reserve funds										8
Transfers from capital fund										14
Transfers from Kenora Citizens' Prosperity Trust Fund										1,009
Net transfer from government business enterprises										166
										(3,711)
Change in fund balance										\$ 119

* Any net revenues resulting from the water & sewer and solid waste operations are transferred to reserves to fund future capital requirements specific to those operations.