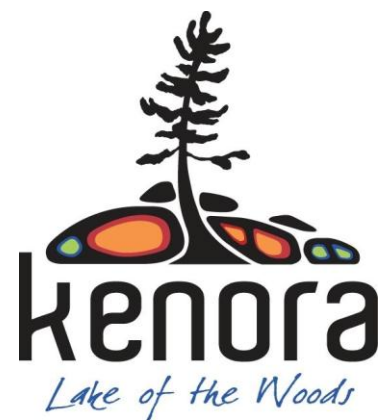




Annual Report
2009

The City of Kenora, Ontario, Canada





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The City of Kenora 2009 Annual Report



City Council

From Left to Right:

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

City CAO and Managers

Not Shown:

- Karen Brown, CAO
- 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

The City of Kenora 2009 Annual Report



Introductory Information

Mayor's Message

Mayor's Message

While the City has been faced with some difficult economic times, as well as many communities in Ontario, we continue to work towards building on our natural attraction for business and tourism in our area.

In 2009 the City completed Phase I of the Downtown Revitalization Project and our downtown area is now more appealing than ever. This important initiative has been successful with the various business partnerships and has been a vast economic impact for Tourism. The Business Attraction Committee has worked hard to find alternate uses for the Abitibi Bowater property and we are optimistic about next steps for that property. The most rewarding observation for any community is to see development and construction in your neighbourhood. When you look around the City it is exciting to watch new schools, condominiums and businesses being built. It is a sure sign that our City is growing and building. Our greatest asset in our City is the beautiful lake we live around. The City recognizes this and has been working diligently on our Tourism strategies to make Kenora a destination City and one that people will return to year after year, and someday choose to retire to.

This term of Council has had to make some very difficult decisions to ensure the financial security of the City for years to come. City management, staff and various Commissions and Boards continue to strive to accomplish the best results for the citizens and visitors of the City of Kenora. We truly have the best interest of this area at heart and want to see the City continue to flourish and prosper for many years to come. On behalf of Council, I would like to thank all City staff and volunteers for their commitment to our beautiful City!

A handwritten signature in black ink, appearing to read "L. P. Compton".

Mayor Len P. Compton



CAO's Message

The much hoped for economic relief for Kenora and area did not materialize in 2009. The local Forestry Industry continued to reel from the downturn in that sector, with every major local player affected. Compounding this was the downturn in the global economy, with its far reaching impacts.

During this time, Kenora continued to actively look for opportunities to move forward, despite the economic climate. We have continued our active focus on economic development, including an updated Economic Development Plan (2009), which also incorporated the City's new Tourism Strategy as well as the Economic Recovery and Diversification Package, both created in 2008. This updated plan will help achieve a new economic destiny for the City through diversification of our economy by turning Kenora into a destination community for business investment, active retirees, youth, professionals, seasonal residents and visitors. In addition, in early 2009 the City actively commenced a Community Strategic Planning Process, which was followed by an update to our corporate strategic plan in 2010. In doing these things, 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. Of note, there is a significant change to our City's financial statements in 2009. As of 2009, municipalities were required to implement tangible capital assets. As a result, the City's statements now reflect assets never before included – things like roads, bridges, water and sewer networks, and City facilities and equipment to name just a few. The offsetting net investment in these assets is shown as a surplus on the City's balance sheet. Overall, the resulting changes to the City's financial statements are significant, and I would invite readers to review the "Tangible Capital Asset Accounting" section of this report in detail in conjunction with any review of the City's financial statements.

On behalf of City administration, it is our pleasure to present highlights of our activities for 2009.

A handwritten signature in blue ink, appearing to read "Karen Brown".

Karen Brown
CAO

Introductory Information

CAO's Message

The City of Kenora 2009 Annual Report

Introductory Information

City's Strategic Plan

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, in January through April 2009, a City consultant led Kenora through a Community Strategic Planning Process. This 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.

Subsequent to the community strategic planning process, in 2010 the City also updated its corporate strategic plan to reflect the changes within the City, including information and opportunities as well as the realities faced by the City in 2010. The resulting Kenora Vision 2015 was approved in the fall of 2010. Updating the City's corporate plan each term of Council was one of the recommendations that was made during the community strategic planning process. With the impending municipal election in late 2010, the updated plan provided the opportunity for City Council to provide both leadership and direction to the new Council who will be sworn in during December 2010.

Introductory Information

City's Strategic Plan

The City of Kenora 2009 Annual Report

Guiding Principles for the Corporation

The City's current corporate strategic plan, Kenora Vision 2015, 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 component of the City's economic base, despite the significant challenges currently facing this sector. The City currently is home to a Weyerhaeuser iLevel Mill, one of the largest value added facilities 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

The City of Kenora 2009 Annual Report



Interesting Statistics – “2009 by the Numbers”

Kenora's Population	13,414	
Household Count	7,324	
Total Hectares in the Municipality	24,939	hectares
Total Property Assessment	\$ 1.23	billion
City Employees (excluding Volunteer Fire Fighters)	247	
Employees Receiving First Aid / CPR Training	6	
City Business Licences on Record	685	
Business Licences Issued in 2009	101	
Fire Calls for Services	648	
Losses due to Structural Fires	\$ 0.43	million
AED Usage in Rescue Attempts (Fire Department) *	1	
Dogs Licensed	471	
Bears Trapped & Released	7	
Bears Tranquilized	1	
Kilometers of Roads (Excluding Privately Maintained Roads)		
Asphalt	132.1	km
Surface Treatment	37.9	km
Gravel	148.8	km
Kilometers of Sewer Main	136.5	km
Wastewater Treated	3.19	megalitres
Backed Up Wastewater Mains	62	
Kilometers of Water Main	131.2	km
Drinking Water Treated	2.69	megalitres
Water Main Breaks	10	
Tonnes of Garbage Processed	22,983.2	tonnes
Tonnes of Recycling Processed	1,845.4	tonnes
Trees & Shrubs Planted		
Trees	84	
Shrubs	598	

*AED = Automated External Defibrillator
Used to shock the heart when someone is in cardiac arrest

Introductory Information

Interesting Statistics – “2009 by the Numbers”

The City of Kenora 2009 Annual Report

Introductory Information

City Council and Committee Structure

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

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 was 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 transition date was 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 Preisenz (in 2009) and presently Karen Brown, 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 247 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

The City of Kenora 2009 Annual Report



Financial Highlights

2009 Financial Report

2009 Financial Report

The financial report for the City of Kenora includes financial information and analysis as well as financial statements for the year ended December 31, 2009. These financial statements are prepared in accordance with the Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The preparation and presentation of the financial statements and related information contained in this report is the responsibility of the management of the City of Kenora. Included in the consolidated financial statements are those entities that are accountable to or controlled by the City of Kenora and are outlined in the significant accounting policies in the audited financial statements.

City Council appointed the accounting firm of BDO Canada LLP to perform an independent audit of the City's 2009 financial statements, and their report is included herein. The accuracy and reliability of the financial information is ensured by the City's system of internal controls. The Audit Committee ensures corrective action is taken for weaknesses identified in the City's internal control system.



Tangible Capital Asset Accounting

PSAB Accounting Standard 3150 requires municipalities to report tangible capital assets (TCA) beginning with their 2009 financial statements. In order to comply with this requirement, the City of Kenora had to develop TCA inventories, apply initial dollar values to those TCA inventories and amortize the TCA over their remaining useful lives. The City established a TCA policy as a guideline to determine the parameters of TCA reporting. TCA include land, buildings, equipment, vehicles, water and wastewater plants, water and wastewater networks, storm water drainage networks, road networks, waste management facilities and landfill sites and information technology software and hardware.

The 2008 financial statements have been restated to reflect TCAs recorded at a cost which includes all amounts that are directly attributed to the acquisition, construction, development or betterment of the asset. The cost of the TCAs are amortized on a straight line basis over their estimated useful lives. Prior to this change, the City expensed TCAs in the years of purchase. The 2008 opening accumulated surplus has increased by \$104 million (\$159 million in cost less accumulated amortization of \$55 million). The 2008 expenses have been restated to include amortization in the amount of just over \$4 million.

Accumulated surplus is comprised of all the accumulated surpluses and deficits of the funds, reserves and organizations that are included in the statements. Accumulated surplus primarily consists of the City's investment in TCAs. The investment in TCAs represents the unamortized cost of the TCAs which will be reported as an expense in the future accounting periods, except for land. Land is not readily accessible for use in funding future obligations.

The adoption of Public Sector Accounting Handbook section PS 3150 is the first step in the City's plan to develop a capital asset management system. An asset management system would enable the City to manage infrastructure assets to optimize their use while minimizing costs and delivering service levels taxpayers require.

***Financial
Highlights***

***Tangible
Capital Asset
Accounting***

The City of Kenora 2009 Annual Report

Financial Highlights

Current Operations

Current Operations

The current operations (which excludes funding for capital projects) 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)

Total current operations revenues were \$37.1 million in 2009. Transfers from the government business enterprise and the Kenora Citizen's Prosperity Trust Fund were an additional \$1.15 million. The City also utilized \$6.11 million in reserves and reserve funds in 2009. As in previous years, taxation accounts for the largest source of current operation revenue, providing 51.0% of current revenues. Fees and user charges represent another 23.8% in current operations revenue. An analysis of current revenues by source in graph form can be found on page 16 of this report.

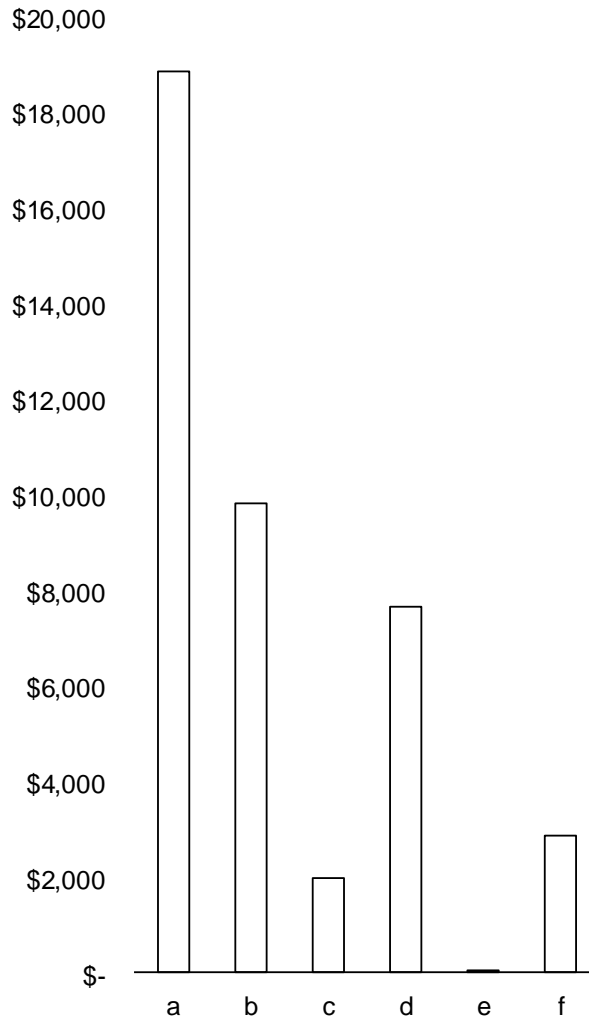
Overall current operations expenditures in the various functional areas listed above were \$39.4 million in 2009, before changes in City surplus. An analysis of current expenditures by functions in graph form can be found on page 17 of this report. In addition, an overall variance analysis of the 2009 current expenditures is on the opposite page.

This discussion does not include capital activity of the City.

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

Category	2009 Budget	2009 Actual v.	Variance (Unfav.)	% Variance / -Unfav.	Variance Explanation Favourable (Unfavourable)
Revenues	\$ 40,089	\$ 41,287	\$ 1,198	3.0%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - Higher than anticipated user fees from business licences, provincial offences fines, metered parking, docking fees, and ice rentals at the Keewatin arena. These higher fees were offset by lower than anticipated fees for building permits, water & sewer charges and transit. - Higher than anticipated combined investment income and interest on property tax arrears.
Expenditures	\$ 31,982	\$ 39,420	\$ (7,438)	-19.0%	<p>Main impacts include:</p> <ul style="list-style-type: none"> - Kenora Police Services (KPS). Higher than anticipated wages & benefits costs. In addition costs relating to the KPS disbandment were not included in the budget. The largest portion of the disbandment costs were for wages and severances but also included consulting and legal costs. The impact of these cost overages was offset by lower than anticipated OPP contract costs. - Roads Maintenance. Loosetop roads maintenance was over budget with respect to culvert maintenance and grading. Winter control expenditures were higher than budget for plowing, sanding and salting. - Sanitary Sewer Operations. Lift station repairs and maintenance in 2009 were considerably over budget. - Waterworks. Water main repairs were higher than anticipated in 2009. The water treatment plant operations exceeded budget for wages and benefits and for chemical purchases. - Garbage Collection. These expenditures continued to be under budget in 2009 due to a further reduction in wages and rental of own equipment. - Transfer Facility and Blue Box Collection. In both of these cost areas expenditures were over budget for wages and benefits and internal equipment charges. - Health Services. Health service costs were over the budget amount due to an additional requisition from the Kenora District Services Board for land ambulance. Total land ambulance costs were \$230 over budget. Cemetery cost increases have also contributed to the budget overage. - Recreation & Cultural Services. The Kenora Recreation Centre operations exceeded budget in the areas of wages and benefits and repairs and maintenance while the pool and Keewatin arena had higher than budgeted repairs and maintenance costs.

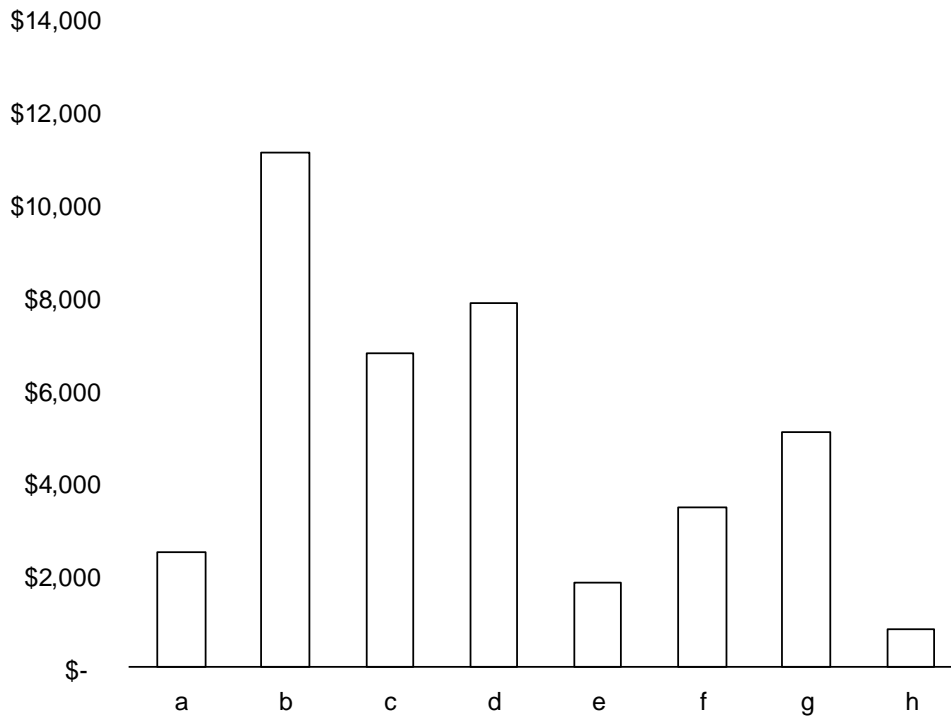
Revenues, Financing and Transfers



Revenues, Financing and Transfers

a Taxation	\$ 18,891	45.8%
b Fees and user charges	9,824	23.8%
c Canada grants	1,993	4.8%
d Ontario grants	7,672	18.6%
e Government business enterprise	51	0.1%
f Other	2,856	6.9%
	\$ 41,287	100.0%

Expenditures, Financing and Transfers



Expenditures, Financing and Transfers

a General government	\$ 2,474	6.3%
b Protection services	11,113	28.2%
c Transportation services	6,772	17.2%
d Environmental services	7,881	20.0%
e Health services	1,833	4.6%
f Social and family services	3,440	8.7%
g Recreational and cultural services	5,092	12.9%
h Planning and development	815	2.1%
	\$ 39,420	100.0%



Capital Projects

The City's significant expenditures relating to major projects are now described in the balance sheet as tangible capital assets as described previously in the financial report. These expenditures generally provide the City with a long-term benefit, either through the purchase of capital assets, improvements to existing capital assets, or the extension of the life of existing capital assets.

Overall tangible capital asset purchases in 2009 were \$12.53 million. Major capital projects for 2009 included:

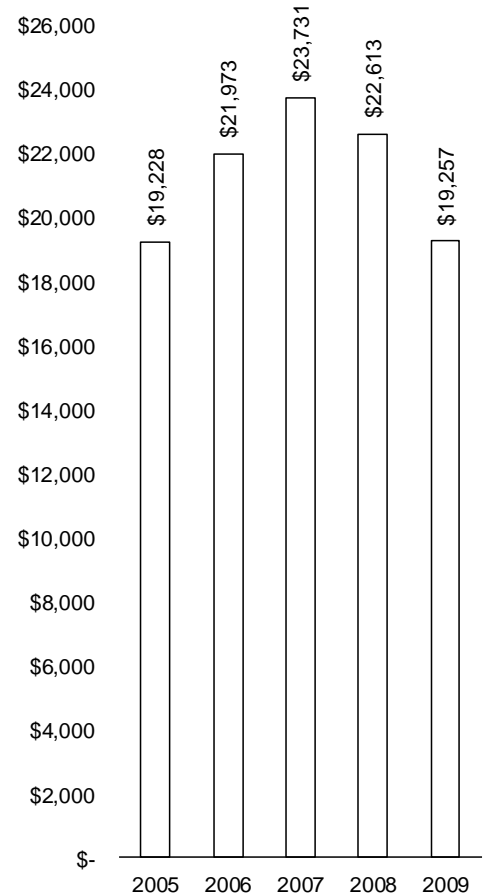
- **Municipal Paving Program** – \$1.8 million – The municipal paving program relates to the reconstruction and paving of various roads throughout the City. In 2009, road works done included Donbrock Drive, Brinkman Road, Ninth Street North, Sedesky Road and Highway 17 West. Funding from the Infrastructure Stimulus Fund was received for Highway 17 West for two thirds of the cost of the project.
- **Downtown Revitalization – Phase I** - \$1.6 million – Most of Phase 1 of the Downtown Revitalization project was completed in 2008 however expenditures for streetscaping and traffic signals were incurred in 2009.
- **Downtown Revitalization – Phase II** - \$.5 million spent in 2009 – Phase II includes the redevelopment of the Harbourfront area, including a new venue for special events, refurbishment of the Thistle Pavilion, improvements to Bernier Drive, waterfront landscaping and improvements to the public wharfs. The total value of the contract is \$5.45 million.
- **Fire Hall** - \$2.2 million spent in 2009 – The construction of the fire hall commenced in 2009 with completion in 2010. The total value of the contract is \$6 million.
- **Marine Water Line** - \$2.5 million – This project involved improvements to the marine trunk line from downtown Kenora to the Norman booster station and the provision of water and sewer to an 80 unit condominium development. The majority of the work has been completed on this project in 2009 and \$.4 million remains to be completed.
- **UV Disinfection System** - \$1.5 million – An ultraviolet disinfection system was installed to disinfect wastewater at the sewage treatment plant.

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 the reserves are primarily intended for capital expenditures, the City also holds significant working capital (\$2.9 million) and consolidated contingency (\$3.2 million) reserves.

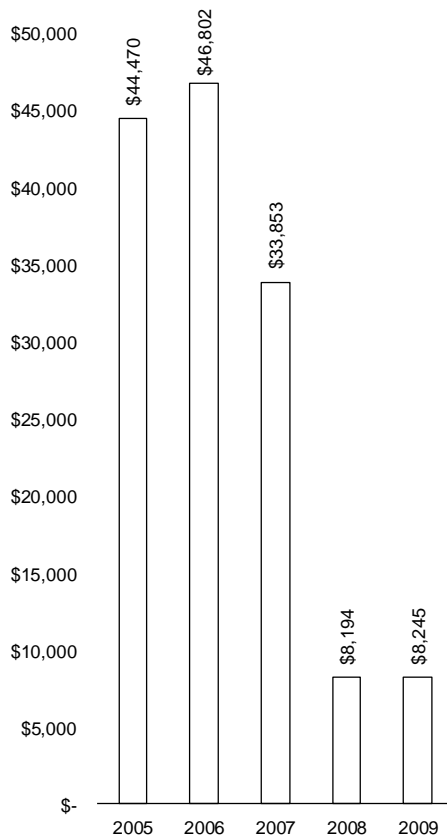
As part of the terms of the amalgamation agreement, reserves and reserve funds existing at 1 January 2000 were protected by geographic boundaries of the former Towns of Kenora, Keewatin and Jaffray Melick. This protection remained in effect until 31 December 2004. Despite the expiration of this requirement, 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 2009 was \$19.3 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.



Financial Highlights

The City of Kenora, Ontario, Canada



Government Business Enterprise

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.

Commencing in 2008, 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 net equity in government business enterprises as at the end of 2009 was \$8.2 million. Over the past three 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).

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.

In an effort to ensure there was no impact to property taxes as a result of the sale of KMTS entities, 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 taxpayer.

City of Kenora



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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 judgments, 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 Canada 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, appearing to read "Karen Brown".

Karen Brown, CAO

Kenora, Ontario
August 3, 2010



Tel: 807 468 5531
Fax: 807 468 9774
www.bdo.ca

BDO Canada LLP
300 - 301 First Avenue S
Kenora ON P9N 4E9 Canada

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, 2009 and the consolidated statements of operations, changes in net financial assets and 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.

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 December 31, 2009 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Kenora, Ontario
June 23, 2010

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

31 December 2009

(in thousands of dollars)

	2009	2008
		Restated (see Note 1)
Financial Assets		
Cash (Note 2)	\$ 3,766	\$ 11,645
Temporary investments (Note 3)	7,732	11,235
Taxes receivable	741	876
Trade and other receivables	7,333	6,745
Inventory held for resale	46	44
Notes receivable and long term investments (Note 4)	6,703	2,800
Citizens' Prosperity Trust Fund Investments (Note 5)	41,297	41,288
Investment in government business enterprises (Note 6)	8,245	8,194
	75,863	82,827
Liabilities		
Accounts payable and accrued liabilities	\$ 4,726	\$ 4,767
Deferred revenue (Note 7)	3,757	4,048
Employee benefits payable (Note 17)	2,128	2,541
	10,611	11,356
NET FINANCIAL ASSETS	65,252	71,471
Non Financial Assets		
Tangible capital assets (Note 9)	119,610	111,497
Inventories of consumables and prepaids	979	1,006
	120,589	112,503
ACCUMULATED SURPLUS (Note 8)	\$ 185,841	\$ 183,974

See Accompanying Notes

City Financial Statements

The City of Kenora, Ontario, Canada

THE CORPORATION OF THE CITY OF KENORA CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended 31 December 2009
(in thousands of dollars)

	2009 Budget (Note 13)	2009 Actual	2008 Actual Restated (see Note 1)
Revenues			
Taxation	\$ 18,910	\$ 18,891	\$ 18,308
Fees and user charges	9,539	9,824	9,861
Canada grants	1,596	1,993	3,085
Ontario grants	7,849	7,672	8,530
Net transfer from government business enterprises (Note 6)	-	-	166
Net income (loss) from government business enterprises (Note 6)	51	51	(114)
Other (Note 10)	2,144	2,856	3,995
	<u>40,089</u>	<u>41,287</u>	<u>43,831</u>
Expenses			
General government	2,422	2,474	2,684
Protection services	9,234	11,113	9,340
Transportation services	4,323	6,772	6,084
Environmental services	5,856	7,881	7,436
Health services	1,523	1,833	1,930
Social and family services	3,470	3,440	3,854
Recreation and cultural services	4,290	5,092	4,593
Planning and development	864	815	1,005
	<u>31,982</u>	<u>39,420</u>	<u>36,926</u>
Annual surplus before undernoted item	8,107	1,867	6,905
Gain on sale of government business enterprise (Note 20)	-	-	17,325
Annual surplus	<u>8,107</u>	<u>1,867</u>	<u>24,230</u>
Accumulated surplus , beginning of year, as previously stated		183,974	57,551
Prior period adjustment, Note 1, change in accounting policy		-	104,164
Prior period adjustment, Note 1, government business enterprise		-	(1,980)
Prior period adjustment, Note 1, Kenora Handi Transit beginning balance		-	9
		-	<u>102,193</u>
Accumulated surplus , beginning of year, restated		183,974	159,744
Accumulated surplus , end of year		\$ 185,841	\$ 183,974

See Accompanying Notes

**THE CORPORATION OF THE CITY OF KENORA
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS**

For the year ended 31 December 2009

(in thousands of dollars)

	2009 Budget (Note 13)	2009 Actual	2008 Actual Restated (see Note 1)
Annual surplus	\$ 8,107	\$ 1,867	\$ 24,230
Acquisition of tangible capital assets	(11,734)	(12,527)	(11,561)
Amortization of tangible capital assets	-	4,379	4,042
Loss on sale of tangible capital assets	-	15	14
Proceeds on sale of tangible capital assets	-	20	200
	(3,627)	(6,246)	16,925
Acquisition of prepaid expenses and inventory of supplies	(979)	(979)	(1,006)
Use/consumption of inventories of consumables and prepaids	1006	1,006	723
	27	27	(283)
Net change in net financial assets (debt)	(2,621)	(6,219)	16,642
Net financial assets, beginning of year	73,393	71,471	56,800
Prior period adjustment, government business enterprise, Note 1	0	-	(1,980)
Adjustment for Kenora Handi Transit beginning balance	0	-	9
	73,393	71,471	54,829
Net financial assets, end of year	\$ 70,772	\$ 65,252	\$ 71,471

See Accompanying Notes

City Financial Statements

The City of Kenora, Ontario, Canada

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

For the year ended 31 December 2009

(in thousands of dollars)

	2009	2008
		Restated (see Note 1)
Operating transactions		
Annual surplus	\$ 1,867	\$ 24,230
Items not involving cash		
Amortization	4,379	4,042
Loss on disposal of tangible capital assets	15	14
(Income) loss from government business enterprise	(51)	114
Gain on sale of government business enterprise	-	(17,325)
	6,210	11,075
Change in non-cash working capital balances		
Decrease (increase) in taxes receivable	135	(162)
(Increase) in trade and other receivables	(288)	(1,284)
Decrease (increase) in other assets	25	(299)
(Decrease) in accounts payable and accrued liabilities	(341)	(1,396)
Increase (decrease) in deferred revenue	(291)	550
Increase (decrease) in employee benefits payable	(413)	185
	5,037	8,669
Capital transactions		
Acquisition of tangible capital assets	(12,527)	(11,561)
Proceeds on sale of tangible capital assets	20	200
	(12,507)	(11,361)
Investing transactions		
(Increase) in long term investments	(3,903)	(9)
Proceeds on disposal of government business enterprise	-	40,890
(Increase) in Citizens' Prosperity Trust Fund	(9)	(41,287)
	(3,912)	(406)
Net change in cash and equivalents	(11,382)	(3,098)
Cash and equivalents, beginning of year	22,880	25,970
Adjustment for Kenora Handi Transit beginning balance	-	8
Cash and equivalents, end of year	\$ 11,498	\$ 22,880
Represented by		
Cash	\$ 3,766	\$ 11,645
Temporary investments	7,732	11,235
	\$ 11,498	\$ 22,880

See Accompanying Notes

THE CORPORATION OF THE CITY OF KENORA SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2009
(in thousands of dollars)

The consolidated financial statements of the City are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The City provides municipal services such as fire, public works, planning, parks, recreation and other government services. Significant aspects of the accounting policies adopted by the City are as follows:

a) Basis of Accounting

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

b) Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses 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 expenses 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 expenses are reflected in the financial statements using the proportionate consolidation method. The municipality's proportionate interest of 71.29% 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. Under this method, the government business enterprise's accounting policies, which follow Canadian generally accepted accounting principles for publicly accountable enterprises, are not adjusted to conform with Public Sector Accounting Standards and inter-entity transactions and balances are not eliminated. 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 2009 the Kenora Hydro Electric Corporation Ltd. is the only remaining government business enterprise (Note 6).

THE CORPORATION OF THE CITY OF KENORA SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2009
(in thousands of dollars)

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.

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.
- iv Grants for the acquisition of tangible capital assets are recognized in the period in which the eligible expenditures are made.

f) Investments

Temporary investments are recorded at the lower of cost or market. Portfolio investments are recorded at cost unless there has been a decline in the market value which is other than temporary in nature in which case the investments are written down to 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) Collection of Taxes on Behalf of Other Taxation Authorities

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

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.

j) Deferred Revenue

Funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes are accounted for as deferred revenue on the consolidated statement of financial position. The revenue is recognized in the consolidated statement of operations in the year in which it is used for the specified purpose.

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

For the year ended 31 December 2009
(in thousands of dollars)

Pension and Other Post-Employment Benefits

The City accounts for its participation in the Ontario Municipal Employee 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.

Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital assets including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital assets commencing once the asset is available for productive use as follows:

Site Improvements	25 years
Buildings	10 to 125 years
Equipment	3 to 25 years
Fleet	7 to 25 years
Docks and wharfs	10 to 50 years
Roads and bridges	10 to 50 years
Water	15 to 75 years
Sewer	15 to 100 years
Other	5 to 75 years

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

For the year ended 31 December 2009

(in thousands of dollars)

1. CHANGE IN ACCOUNTING POLICY AND PRIOR PERIOD ADJUSTMENTS

On 1 January 2009, the City adopted revised Public Sector Accounting Standards: Section 1000 - Financial Statements Concepts, Section 1100 - Financial Statement Objectives, Section 1200 - Financial Statement Presentation and Section 3150 - Tangible Capital Assets. As a result of the adoption, the presentation of the financial statements changed from the prior year. The standards require the recognition of all non-financial assets including tangible capital assets, prepaid expenses and inventories of supplies as assets in the financial statements. In addition, revenue from contributed assets, and amortization of tangible capital assets were recorded in the statement of operations. This change in accounting policy has been applied retroactively with the restatement of the prior period. The impact of adopting these standards was as follows:

Statement of Financial Position

	2008
Increase in non-financial assets	\$ 111,497
Increase in trade and other accounts receivable	78
Increase in deferred revenue	(20)
Increase in accumulated surplus	\$ 111,555

Statement of Operations

	2008
Increase in revenue	\$ 73
(Increase) decrease in expenses	
General government	\$ 48
Protection to persons and property	(143)
Transportation services	(90)
Environmental services	1,857
Health services	(1)
Social and family services	-
Recreation and cultural services	88
Planning and development	5,559
Total decrease in expenses	\$ 7,318
Increase in annual surplus	\$ 7,391
Increase in opening accumulated surplus	\$ 104,164

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

For the year ended 31 December 2009
(in thousands of dollars)

1. CHANGE IN ACCOUNTING POLICY AND PRIOR PERIOD ADJUSTMENTS - Continued

In addition, in prior years, goodwill with a net book value of \$1,980 (representing goodwill of \$2,250 and accumulated amortization of \$270) was recorded as an asset of the government business enterprise. The goodwill was not tested for impairment in the prior year and accordingly, the auditors' report was qualified for the failure to test for impairment and to record any impairment liability. During 2009, in accordance with Section 3064, goodwill was tested for impairment by an independent third party. The valuation report issued determined that the value of goodwill was \$nil at the beginning of the prior year. Accordingly, a reduction to 2008 investment in government business enterprises (Note 6) and accumulated surplus, beginning of the year has been reflected as a prior period adjustment. This change is non-cash in nature and did not affect the liquidity or cash flows from operations.

In addition, in 2008 it was determined that the City of Kenora did not control Kenora Handi Transit. As a result, the financial information of Kenora Handi Transit was no longer consolidated in the financial statements. Financial statements of prior periods were not restated and the opening fund balances for 2008 were adjusted to remove the Kenora Handi Transit balances from 2007.

2. CASH

	2009		2008	
			Restated (see Note 1)	
Unrestricted	\$	700	\$	8,995
Restricted		3,066		2,650
	\$	3,766	\$	11,645

3. TEMPORARY INVESTMENTS

	Market Value		2009		2008	
					Restated (see Note 1)	
Unrestricted	\$	6,181	\$	6,108	\$	8,905
Restricted		1,626		1,624		2,330
	\$	7,807	\$	7,732	\$	11,235

96% 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 2.21% to 4.21%.

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

For the year ended 31 December 2009

(in thousands of dollars)

4. NOTES RECEIVABLE AND LONG TERM INVESTMENTS

	2009	2008
		Restated (see Note 1)
Loan receivable, Kenora Health Care Centre, interest at 4.05% per annum, repayable interest only until 2010 secured by land, buildings and equipment, blended monthly payments to commence January 1, 2011.	\$ 2,500	\$ 2,600
Loan receivable, Kenora Health Care Centre, interest free until January 1, 2011, secured by land, buildings and equipment, blended monthly payments to commence January 1, 2011.	3,842	-
Loan receivable, Ontario Power Generation, repayable \$2 monthly including interest at 5%, secured by leasehold improvements, matures 2020.	161	-
Northern Ontario Grow Bond, at cost. Interest earned at 4% per annum, receivable annually, maturing April 11, 2010.	200	200
	\$ 6,703	\$ 2,800

The loans receivable from the Kenora Health Care Centre are approved to a maximum of \$7,475.

5. CITIZENS' PROSPERITY TRUST FUND INVESTMENTS

	2009	2008
		Restated (see Note 1)
Cash	\$ 13	\$ 38
Temporary Investments	41,284	41,250
	\$ 41,297	\$ 41,288

The market value of the temporary investments is \$41,508 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 Citizens' Prosperity Trust Fund in 2008. 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.

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

For the year ended 31 December 2009

(in thousands of dollars)

6. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES

The Kenora Hydro Electric Corporation Ltd. is owned and controlled by the City of Kenora and as a business enterprise of the City, is accounted for on a modified equity basis in these consolidated financial statements. The following information provides condensed supplementary information for the enterprise for the year ended 31 December 2009. The 2008 comparative numbers reflects the activity of the Kenora Municipal Telephone System, KMTS Mobility and KMTS Net to 31 January 2008 when these enterprises were sold by the City.

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

	2009	2008
		Restated (see Note 1)
Current assets	\$ 3,055	\$ 4,054
Long term investments	1,129	613
Capital assets	6,857	5,870
Total Assets	11,041	10,537
Current liabilities	1,755	1,770
Long term liabilities	1,041	573
Total Liabilities	2,796	2,343
Net Assets	\$ 8,245	\$ 8,194
Revenues	\$ 10,175	\$ 11,016
Expenses	10,124	10,964
Net Income	51	52
Contribution to City of Kenora	-	(166)
	51	(114)
Net investment in KMTS operations (Note 20)	-	(23,565)
	51	(23,679)
Net assets, beginning of year	8,194	33,853
Prior period adjustment, Note 1	-	(1,980)
Net assets, beginning of year, restated	8,194	31,873
Net assets, end of year	\$ 8,245	\$ 8,194

City Financial Statements

The City of Kenora, Ontario, Canada

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

For the year ended 31 December 2009

(in thousands of dollars)

6. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES - Continued

ii) Balances with other organizations

Due from City of Kenora Revenue Fund	\$	449	\$	318
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iii) Transactions with other organizations

Administration charges by City of Kenora	\$	243	\$	240
Interest charged to Kenora Hydro		75		148

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 and total approximately \$1,200 in 2009.

7. DEFERRED REVENUE

	2009				
	Opening balance restated (see Note 1)	Contributions received	Externally restricted investment income	Revenue recognized	Ending balance
Federal gas tax	\$ -	\$ 1,029	\$ 5	\$ 889	\$ 145
Wharf maintenance	1,291	-	-	46	1,245
Dedicated gas tax	452	152	4	-	608
Investing in Ontario	1,444	-	-	531	913
Miscellaneous transit funding	142	-	-	12	130
Roads deposits	138	247	1	214	172
Other deferred revenue	581	103	-	140	544
	\$ 4,048	\$ 1,531	\$ 10	\$ 1,832	\$ 3,757

Federal gas tax

Gas tax revenue is provided by the Government of Canada. The use of funding is established by a funding agreement between the City and the Association of Municipalities of Ontario. Gas tax funding may be used towards designated public transit, water, wastewater, solid waste, community energy systems, roads and capacity building projects as specified in the funding agreements.

Wharf maintenance

In 2002 three federal wharfs were transferred from the Government of Canada to the City of Kenora along with \$1,500 to maintain these wharfs. Any expenditures relating to these wharfs are applied to these funds.

Dedicated gas tax

The Provincial Ministry of Transportation provided municipalities with \$.02 per litre of provincial gas tax to improve and expand transit. The funds can only be used to support municipal public transportation expenditures above a municipality's baseline spending.

Investing in Ontario

Investing in Ontario funding is provided by the Government of Ontario. The funding must be used for capital expenditures. The City elected to use the funding for two separate projects. One was completed in 2009 and one will be completed in 2010.

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

For the year ended 31 December 2009
(in thousands of dollars)

8. ACCUMULATED SURPLUS

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

	2009	2008
		Restated (see Note 1)
Current funds	\$ 183	\$ 392
Investment in tangible capital assets	119,610	111,497
Less: Capital assets to be financed by long term debt	(2,744)	-
Government business enterprises	8,245	8,194
	\$ 125,294	\$ 120,083
Reserves and Reserve Funds		
Working capital	2,911	2,711
Contingencies	3,156	4,446
Capital expenditure purposes	9,905	12,398
Replacement of equipment	2,549	2,370
Museum	403	392
Cemetery Columbarium	139	109
Current expenditures purposes	194	187
Total Reserves and Reserve Funds	19,257	22,613
Internally Restricted Entity		
Citizens' Prosperity Trust Fund	41,290	41,278
ACCUMULATED SURPLUS	\$ 185,841	\$ 183,974

The investment in tangible capital assets represents amounts already spent and invested in infrastructure and other non-financial assets.

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

For the year ended 31 December 2009

(in thousands of dollars)

9. TANGIBLE CAPITAL ASSETS

	Land	Site Improve- ments	Buildings	Equipment	Fleet	Docks and Wharfs	Roads and Bridges	Water	Sewer	Other	2009
Cost, beginning of year	\$ 10,836	\$ 1,808	\$ 14,957	\$ 2,580	\$ 10,467	\$ 166	\$ 51,269	\$ 32,332	\$ 41,700	\$ 4,713	170,828
Additions	-	873	492	215	739	-	2,617	2,741	2,010	2,840	12,527
Disposals	-	-	-	-	(45)	-	-	-	-	-	(45)
Cost, end of year	\$ 10,836	\$ 2,681	\$ 15,449	\$ 2,795	\$ 11,161	\$ 166	\$ 53,886	\$ 35,073	\$ 43,710	\$ 7,553	183,310
Accumulated amortization, beginning of year	\$ -	\$ 123	\$ 2,405	\$ 1,305	\$ 4,773	\$ 131	\$ 22,274	\$ 10,243	\$ 15,823	\$ 2,254	59,331
Amortization	-	89	250	281	641	2	1,565	485	694	372	4,379
Disposals	-	-	-	-	-10	-	-	-	-	-	(10)
Accumulated amortization, end of year	\$ -	\$ 212	\$ 2,655	\$ 1,586	\$ 5,404	\$ 133	\$ 23,839	\$ 10,728	\$ 16,517	\$ 2,626	63,700
Net carrying amounts, end of year	\$ 10,836	\$ 2,469	\$ 12,794	\$ 1,209	\$ 5,757	\$ 33	\$ 30,047	\$ 24,345	\$ 27,193	\$ 4,927	119,610

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

For the year ended 31 December 2009
 (in thousands of dollars)

9. TANGIBLE CAPITAL ASSETS (continued)

	Land	Site Improve- ments	Buildings	Equipment	Fleet	Docks and Wharfs	Roads and Bridges	Water	Sewer	Other	2008
Cost, beginning of year	\$ 10,819	\$ 599	\$ 14,062	\$ 2,360	\$ 9,924	\$ 166	\$ 47,174	\$ 30,991	\$ 40,404	\$ 3,115	\$ 159,614
Additions	17	1,209	895	220	890	-	4,095	1,341	1,296	1,598	11,561
Disposals	-	-	-	-	(347)	-	-	-	-	-	(347)
Cost, end of year	\$ 10,836	\$ 1,808	\$ 14,957	\$ 2,580	\$ 10,467	\$ 166	\$ 51,269	\$ 32,332	\$ 41,700	\$ 4,713	\$ 170,828
Accumulated amortization, beginning of year	\$ -	\$ 75	\$ 2,187	\$ 1,018	\$ 4,289	\$ 129	\$ 20,818	\$ 9,784	\$ 15,146	\$ 1,977	\$ 55,423
Amortization	-	48	218	287	618	2	1,456	459	677	277	4,042
Disposals	-	-	-	-	(134)	-	-	-	-	-	(134)
Accumulated amortization, end of year	\$ -	\$ 123	\$ 2,405	\$ 1,305	\$ 4,773	\$ 131	\$ 22,274	\$ 10,243	\$ 15,823	\$ 2,254	\$ 59,331
Net carrying amounts, end of year	\$ 10,836	\$ 1,685	\$ 12,552	\$ 1,275	\$ 5,694	\$ 35	\$ 28,995	\$ 22,089	\$ 25,877	\$ 2,459	\$ 111,497

The net book value of tangible capital assets not being amortized because they are under construction (or development or have been removed from services) is \$2,516. The municipality holds various works of art and historical treasures pertaining to the Lake of the Woods Museum. These items are not recognized as tangible capital assets in the financial statements because a reasonable estimate of the future benefits associated with such property cannot be made.

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

For the year ended 31 December 2009
(in thousands of dollars)

10. OTHER INCOME

	2009	2008
		Restated (see Note 1)
Penalties and interest on taxation	\$ 243	\$ 256
Investment income	1,955	3,032
Donations	55	174
Miscellaneous	603	533
	\$ 2,856	\$ 3,995

11. 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 254,000 active members and approximately 146,000 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 2009, the estimated accrued pension obligation for all members (including survivors) of the Plan was \$54,253 (2008 - \$50,080 million). The Plan had an actuarial value of net assets of \$52,734 million at the end of 2009 (2008 - \$49,801 million). The resulting funding deficit was \$1,519 million as at December 31, 2009 (2008 - \$279 million). The actuary does not attribute portions of the unfunded liability to individual employers. The Corporation of the City of Kenora paid \$776 for employer contributions to the plan in 2009 (2008 - \$928).

12. PUBLIC SECTOR SALARY DISCLOSURE

For 2009, 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 Preisenz	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	\$100	\$1

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

For the year ended 31 December 2009
(in thousands of dollars)

13. BUDGET

The Financial Plan (Budget) By-Law adopted by Council on April 14, 2009 was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards). The budget was prepared on a modified accrual basis while Public Sector Accounting Standards now require a full accrual basis. The budget figures anticipated use of surpluses accumulated in previous years to reduce current year expenditures in excess of current year revenues to \$nil. In addition, the budget expensed all tangible capital expenditures rather than including amortization expense. As a result, the budget figures presented in the statements of operations and changes in net financial assets (debt) represent the Financial Plan adopted by Council on April 14, 2009 with adjustments as follows:

	2009
Financial plan (budget) bylaw surplus for the year	\$ 178
Add:	
Capital expenditures	11,734
Less:	
Budgeted transfers from accumulated surplus	(2,805)
Budgeted proceeds from long-term liabilities	(1,000)
Budget surplus per statement of operations	\$ 8,107

14. COLLECTION OF TAXES ON BEHALF OF OTHER TAXATION AUTHORITIES

During the year, taxation revenue of \$5,922 (2008 - \$6,273) was raised and remitted to the school boards.

15. 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 2009, the trust funds balances are as follows:

	2009	2008
		Restated (see Note 1)
Lake of the Woods Cemetery		
Land Fund	\$ 22	\$ 21
Perpetual Care Fund	460	421
Langford Estate	52	51
	\$ 534	\$ 493

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

For the year ended 31 December 2009
(in thousands of dollars)

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 (recovery) for the twelve months ended 31 December 2009 was (\$342) (2008 - \$89), and the resulting future employee benefit liability was \$1,894 at 31 December 2009. (Note 17)

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 2009 expense and accrued obligation is 6%.

2. Medical Costs

Medical costs were assumed to increase 8.5% in 2009 grading down by .5% per annum to 5% in 2016 and thereafter.

3. Dental Costs

Dental costs were assumed to increase 4% per year.

17. EMPLOYEE BENEFITS PAYABLE

	2009	2008
		Restated (see Note 1)
Employee future benefits (Note 16)	\$ 1,894	\$ 2,236
Vested sick leave	138	134
Lieu time accrual	96	171
	\$ 2,128	\$ 2,541

18. CONTINGENT LIABILITIES AND COMMITMENTS

At 31 December 2009, the Corporation of the City of Kenora has guaranteed bank indebtedness of the Kenora Golf and Country Club in the amount of \$607. The maximum amount of the guarantee is \$650.

The Corporation of the City of Kenora's pro-rata share of the cumulative operating deficit of the District of Kenora Home for the Aged is \$2,767 (2008 - \$2,983). 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.

On 17 July 2009, the Kenora Police Services Board (KPSB) disbanded the Kenora Police Service and moved to the Ontario Provincial Police (OPP) for policing services to the City. In accordance with the provisions of the collective agreement in effect at the time of disbandment, members were entitled to elect to transfer their Ontario Municipal Employee Retirement System (OMERS) pension benefits to the applicable OPP pension plan, in accordance with the provisions of the applicable pension plans. Under this agreement, the KPSB is liable to share in the costs of any shortfall of contributions or required payment to maintain the member's full credited service for the purpose of pensions and retirement based on 70% of the total costs elected by those members. The Ontario Pension Board (OPB) has provided the KPSB with a preliminary total estimate of \$240 for all but four former KPSB employees. The final liability for all employees is not yet known and cannot be reasonably estimated, although it is expected that the final obligation will not be materially different from the original estimate received from the OPB.

The Corporation of the City of Kenora has several legal 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.

At 31 December 2009, the City of Kenora had a remaining capital project commitment of \$4,400 for the completion of the Fire Hall. A total of \$1,600 of the \$6,000 contract had been expended by year end.

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

For the year ended 31 December 2009
(in thousands of dollars)

19. 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 expenses for closure and post-closure care has been estimated at \$35 at 31 December 2009.

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. SALE OF GOVERNMENT BUSINESS ENTERPRISES

Effective 31 January 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), MKTS Mobility and KMTS Net as follows:

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

21. SUBSEQUENT EVENTS

Subsequent to the year end the City awarded various construction contracts totalling \$11,307. The work under these contracts commenced in 2010.

THE CORPORATION OF THE CITY OF KENORA SCHEDULE OF SEGMENTED INFORMATION

For the year ended 31 December 2009
(in thousands of dollars)

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.

Health Services

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

THE CORPORATION OF THE CITY OF KENORA SCHEDULE OF SEGMENTED INFORMATION

for the year ended 31 December 2009
(in thousands of dollars)

22. SEGMENTED INFORMATION (continued)

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 segment 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.

City Financial Statements

The City of Kenora, Ontario, Canada

THE CORPORATION OF THE CITY OF KENORA SCHEDULE OF SEGMENT DISCLOSURE

For the year ended 31 December 2009
(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	2009 Total
Revenues										
Taxation	\$ 2,095	\$ 6,128	\$ 3,967	\$ 336	\$ 1,071	\$ 2,388	\$ 2,426	\$ 480	\$ -	\$ 18,891
Fees and user charges	238	844	672	6,270	154	277	1,297	72	-	9,824
Government grants	555	1,875	2,448	2,108	491	614	2,234	490	(1,150)	9,665
Net government business enterprise earnings	51	-	-	-	-	-	-	-	-	51
Other	1,356	358	231	160	65	139	444	103	-	2,856
	4,295	9,205	7,318	8,874	1,781	3,418	6,401	1,145	(1,150)	41,287
Expenses										
Salaries and benefits	2,035	6,413	2,227	2,278	173	406	2,760	619	-	16,911
Materials and supplies	743	4,451	2,324	3,628	915	688	1,898	379	-	15,026
External transfer	-	-	79	-	947	2,346	883	-	(1,150)	3,105
Amortization	94	186	2,377	1,406	15	-	299	1	-	4,378
	2,872	11,050	7,007	7,312	2,050	3,440	5,840	999	(1,150)	39,420
Net surplus (deficit) before other items	\$ 1,423	\$ (1,845)	\$ 311	\$ 1,562	\$ (269)	\$ (22)	\$ 561	\$ 146	\$ -	\$ 1,867

	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	2008 Total
Revenues										
Taxation	\$ 2,008	\$ 5,814	\$ 3,714	\$ 345	\$ 1,284	\$ 2,654	\$ 2,119	\$ 370	\$ -	\$ 18,308
Fees and user charges	220	821	721	6,427	117	243	1,186	126	-	9,861
Government grants	584	2,083	5,542	1,310	440	722	1,349	372	(787)	11,615
Net government business enterprise earnings	52	-	-	-	-	-	-	-	-	52
Other	2,091	399	151	411	104	166	579	94	-	3,995
	4,955	9,117	10,128	8,493	1,945	3,785	5,233	962	(787)	43,831
Expenses										
Salaries and benefits	1,805	6,788	1,870	2,307	167	815	2,561	527	-	16,840
Materials and supplies	782	2,367	1,987	3,797	1,004	529	1,637	476	-	12,579
External transfer	-	-	64	-	834	2,510	843	-	(787)	3,464
Amortization	97	185	2,163	1,332	15	-	249	2	-	4,043
	2,684	9,340	6,084	7,436	2,020	3,854	5,290	1,005	(787)	36,926
Net surplus (deficit) before other items	\$ 2,271	\$ (223)	\$ 4,044	\$ 1,057	\$ (75)	\$ (69)	\$ (57)	\$ (43)	\$ -	\$ 6,905

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. Taxation, payments-in-lieu of taxes, certain government grants and interest income have been apportioned based on a percentage of budgeted expenditures. Taxation revenues have not been apportioned to sewer and water and solid waste activities as these revenues do not support these operations.