

Consolidated financial statements of

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

December 31, 2017

The Corporation of the Municipality of Chatham-Kent

December 31, 2017

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Independent Auditor's Report

To the Members of Council, and the Citizens of
The Corporation of the Municipality of Chatham-Kent

We have audited the accompanying consolidated financial statements of The Corporation of the Municipality of Chatham-Kent, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the Municipality of Chatham-Kent as at December 31, 2017 and the results of its operations, changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
August 13, 2018

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of financial position
as at December 31, 2017

	2017	2016
	\$	\$
Financial assets		
Cash	142,787,368	125,937,071
Taxes receivable	9,687,020	10,007,467
Accounts receivable	42,067,714	36,392,348
Investment in Entegrus Inc (Note 2)	57,980,640	43,389,512
Note receivable from Entegrus Inc. (Notes 2,4)	23,523,326	23,523,326
Note receivable from 2351839 Ontario Limited (Notes 3,5)	4,800,000	4,800,000
Land held for resale	4,194,412	4,494,019
Other assets	476,303	352,218
Local improvements receivable (Note 12)	20,911,175	23,055,452
	306,427,958	271,951,413
Liabilities		
Accounts payable and accrued liabilities	42,471,059	30,761,325
Accrued interest (Note 11)	566,068	863,931
Accrued employee benefits (Note 7)	46,984,562	44,008,794
Deferred revenue (Note 9)	29,998,234	28,143,625
Deficiency in 2351839 Ontario Limited (Note 3)	507,541	415,405
Long-term liabilities (Note 10)	86,415,078	96,192,794
	206,942,542	200,385,874
Net financial assets	99,485,416	71,565,539
Non-financial assets		
Tangible capital assets (Note 13)	838,573,519	817,739,361
Inventory	1,002,908	593,763
Prepaid expenses	410,408	240,657
	839,986,835	818,573,781
Accumulated surplus (Note 14)	939,472,251	890,139,320

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

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of operations and accumulated surplus
year ended December 31, 2017

	2017	2017	2016
	Budget	Actual	Actual
	\$	\$	\$
Revenues			
Taxation and user charges			
Property taxation (Note 15)	149,191,425	149,191,316	144,537,255
User charges	65,498,746	76,077,122	70,605,330
	214,690,171	225,268,438	215,142,585
Grants			
Government of Canada	9,180,045	8,615,322	6,520,679
Province of Ontario	110,806,674	109,404,644	104,352,140
	119,986,719	118,019,966	110,872,819
Other			
Investment income	1,403,750	3,731,732	3,631,810
Penalties and interest on taxes	1,560,000	1,425,955	1,388,338
Contributions from landowners and developers	-	484,544	559,662
Sale of land and equipment	289,332	613,987	166,562
Provincial offences administration	2,002,500	1,841,680	1,964,816
Other	845,435	5,544,913	1,439,549
Gain on disposal of tangible capital assets	-	505,247	10,739
	6,101,017	14,148,058	9,161,476
Total revenue	340,777,907	357,436,462	335,176,880
Expenses			
General government	9,811,687	6,815,651	4,283,962
Protection of persons and property	58,806,952	58,249,176	56,309,459
Transportation services	47,698,715	52,045,989	51,272,652
Environmental services	51,363,133	49,116,648	49,981,414
Health services	24,981,436	24,490,447	23,356,088
Social and family services	92,316,523	83,669,889	85,903,156
Social housing	16,434,871	14,781,975	13,237,210
Recreation and cultural services	24,274,157	23,954,416	24,939,201
Planning and development	4,491,904	4,618,332	4,780,025
Total expenses	330,179,378	317,742,523	314,063,167
Excess revenues over expenses before other items	10,598,529	39,693,939	21,113,713
Other items			
Income from subsidiaries		9,638,992	2,409,161
Excess of revenues over expenses		49,332,931	23,522,874
Accumulated surplus, beginning of year		890,139,320	866,616,446
Accumulated surplus, end of year		939,472,251	890,139,320

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

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of change in net financial assets
year ended December 31, 2017

	2017	2016
	\$	\$
Excess of revenues over expenses	49,332,931	23,522,874
Acquisition of tangible capital assets	(53,149,381)	(35,733,331)
Increase in tangible capital assets construction in progress	(6,224,744)	(4,072,806)
Amortization of tangible capital assets	37,928,036	41,210,372
Loss (gain) on sale of tangible capital assets	(505,247)	(10,739)
Proceeds of sale of tangible capital assets	1,117,177	491,215
Change in inventory	(409,145)	(216,542)
Change in prepaids	(169,748)	1,019,103
Change in net financial assets	27,919,878	26,210,145
Net financial assets, beginning of year	71,565,538	45,355,393
Net financial assets, end of year	99,485,416	71,565,538

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

The Corporation of the Municipality of Chatham-Kent

Consolidated statement of cash flows year ended December 31, 2017

	2017	2016
	\$	\$
Operating transactions		
Excess of revenues over expenses	49,332,931	23,522,873
Items not involving cash		
Amortization	37,928,036	41,210,372
Gain on sale of tangible capital assets	(505,247)	(10,739)
Income from subsidiaries	(9,638,992)	(2,409,161)
Change in Taxes Receivable	320,447	(546,355)
Change in Accounts Receivable	(5,675,366)	708,371
Change in Land Held for Resale	299,607	-
Change in Other Assets	(124,085)	108,462
Change in Local Improvements Receivable	2,144,277	(2,847,073)
Change in Accounts Payable and Accrued Liabilities	11,709,736	(818,760)
Change in obligations to be funded from future revenues	2,677,905	2,204,141
Decrease in inventory	(409,145)	(216,541)
Decrease in prepaid expenses	(169,751)	1,019,103
Deferred revenue	1,854,609	1,437,699
	89,744,961	63,362,392
Financing transactions		
New note issued	-	(150,000)
Long-term debt repayment	(9,777,716)	(9,648,791)
	(9,777,716)	(9,798,791)
Capital transactions		
Acquisition of tangible capital assets	(59,374,125)	(39,806,139)
Proceeds of sale of tangible capital assets	1,117,177	491,215
	(58,256,948)	(39,314,924)
Investing transactions		
Dividends received from Entegrus Inc.	2,880,000	2,520,000
Investment in Entegrus Inc.	(7,740,000)	-
	(4,860,000)	2,520,000
Net increase in cash	16,850,298	16,768,677
Cash, beginning of year	125,937,071	109,168,394
Cash, end of year	142,787,368	125,937,071

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

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements December 31, 2017

1. Significant accounting policies

The consolidated financial statements of The Corporation of the Municipality of Chatham-Kent (the "Municipality") have been prepared by management in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Municipality are as follows:

Basis of consolidation

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity and include the activities of all committees of Council and the following local boards and municipal entities which are under the control of Council:

- Chatham-Kent Public Libraries;
- Chatham-Kent Museums;
- Public Utilities Commission for the Municipality of Chatham-Kent - Water / Wastewater Division;
- Chatham-Kent Police Services Board; and
- Chatham-Kent Board of Health.

All interfund assets and liabilities and revenues and expenses have been eliminated with the exception of loans or advances between reserve funds and any other fund of the Municipality and the resulting interest income and expenditures.

Subsidiaries

Entegrus Inc. and 2351839 Ontario Limited are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated.

Accounting for school board transactions

The taxation and other revenues with respect to the operations of the school boards are reflected in the consolidated statement of operations and accumulated surplus, but with no effect on Municipal Fund balances since the total is shown as a deduction.

In addition, the expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these financial statements except to the extent that any overlevies are reported on the Consolidated statement of financial position as "other current liabilities".

Trust funds

Trust funds and their related operations administered by the Municipality are not consolidated, but are reported separately on the Trust Funds Statement of continuity and Balance sheet.

Basis of accounting

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

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements December 31, 2017

1. Significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of an asset. The cost, less residual value, of the tangible capital asset is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Land improvements	20-50
Buildings	15-40
Equipment	4-30
Vehicles	5-20
Underground linear	30-75
Plants and facilities	20-40
Bridges	50-75
Transportation	15-50
Other assets	5-10

Amortization is charged beginning in the month following when the asset was available for productive use and to the month of disposal if the disposal date is after the 15th day of the month. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets received as contributions are recorded at their fair market value at the date of receipt and also are recorded as revenue.

Works of art, artifacts, cultural or historic assets are not recorded as assets in the financial statements.

Land held for resale

Land held for resale is recorded at the lower of cost and net realizable value. Costs include amounts for land acquisition and improvements to prepare the land for sale or servicing.

Government transfers

Government transfers are recognized in the financial statements as revenues in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

Tax revenue

Tax Revenue is recognized on all taxable properties within the Municipality that are included in the tax roll provided by the Municipal Property Assessment Corporation, using property values included in the tax roll or property values that can be reasonably estimated by the Municipality as it relates to supplementary or omitted assessments, at tax rates authorized by Council for the Municipality's own purposes in the period for which the tax is levied.

Investment income

Investment income earned on surpluses, reserves and reserve funds (other than obligatory reserve funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of deferred revenue.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

1. Significant accounting policies (continued)

Management estimates

The preparation of these financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, accrued liabilities, obligations related to employee future benefits and the carrying value of tangible capital assets. Actual results could differ from those estimates.

Employee future benefit obligations

The cost of future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and assumptions of mortality and termination rates, retirement age and expected inflation rates.

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

2. Investment in Entegrus Inc.

Chatham-Kent Energy Inc. (CKE) and its wholly-owned subsidiaries, Chatham-Kent Hydro Inc. and Chatham-Kent Utility Services Inc., were incorporated September 22, 2000 under the *Business Corporations Act (Ontario)*.

CKE also has a wholly-owned subsidiary, Middlesex Power Distribution Corporation (MPDC), which it purchased 100% of the outstanding common shares on June 30, 2005.

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

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

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

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

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

2. Investment in Entegrus Inc. (continued)

Under a municipal by-law, dated September 5, 2000, the former Public Utilities Commission of the Municipality of Chatham-Kent – Electrical Division and the Municipality transferred the assets, liabilities and employees associated with the distribution of electricity at book value effective October 1, 2000. The book value of the net assets transferred to CKE at October 1, 2000 was \$47,379,124. In consideration for the transfer, CKE issued long-term notes payable to the Municipality in the aggregate principal amount of \$23,523,326 together with shares valued at \$23,855,798.

The incorporation and subsequent reorganization was required by provisions of Bill 35, *The Energy Competition Act, 1998* enacted by the Province of Ontario to introduce competition in the electricity market.

In 2008 CKE issued 222 common shares to Corix which represents a 10% ownership.

In 2017 Entegrus issued an additional 400 shares. 360 shares were purchased by the Municipality of Chatham-Kent at a cost of \$7,740,000. The remaining 40 shares were sold to Corix at a cost of \$860,000. This additional investment did not change the percentage of ownership for the Municipality of Chatham-Kent or Corix.

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

	2017	2016
	\$	\$
Financial position		
Assets		
Current	30,474,520	27,414,027
Capital	95,645,806	90,071,428
Other	19,877,001	5,323,166
Total assets	145,997,327	122,808,621
Liabilities		
Current	46,350,015	38,045,404
Notes payable to Municipality of Chatham-Kent	23,523,326	23,523,326
Other	11,719,559	10,662,289
Total liabilities	81,592,900	72,231,019
Equity		
Share capital	35,482,150	26,882,150
Retained earnings	27,200,392	20,489,028
Total equity	62,682,542	47,371,178
Regulatory		
Regulatory credit balances	1,721,885	3,206,424
Total regulatory	1,721,885	3,206,424
Total liabilities equity and regulatory	145,997,327	122,808,621

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

2. Investment in Entegrus Inc. (continued)

	2017	2016
	\$	\$
Financial activities		
Revenue	133,196,642	142,546,791
Expenses	130,266,715	136,934,136
	2,929,927	5,612,655
Payment in lieu of taxes	(646,852)	776,267
Net movement in regulatory balances, net of tax	(917,234)	1,234,202
Remeasurement of employee benefits	(419,351)	578,056
Unrealized gain on investment	(4,998,000)	-
Dividends paid	3,200,000	2,800,000
Change in retained earnings	6,711,364	224,130
Municipality of Chatham-Kent's investment represented by:		
Investment in shares of Entegrus	31,595,798	23,855,798
Accumulated profit less dividends received	25,573,942	19,533,714
	57,169,740	43,389,512
Corix Utilities' investment represented by:		
Investment in shares of Entegrus	3,886,352	3,026,352
Accumulated profit less dividends received	715,962	44,826

(a) Equity in Entegrus Inc.

	2017	2016
	\$	\$
Balance, beginning of year	66,912,838	66,711,121
Changes during the year		
Investment in shares of Entegrus	7,740,000	-
Net earnings for the year	8,920,228	2,721,717
Dividends paid	(2,880,000)	(2,520,000)
Prior Period Adjustment		-
	2017	2016
	\$	\$
Investment in Entegrus Inc.	57,169,740	43,389,512
Notes receivable from Entegrus Inc.	23,523,326	23,523,326
Balance, end of year	80,693,066	66,912,838

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

2. Investment in Entegrus Inc. (continued)

(b) Related party transactions and balances

The following summarizes the Municipality's related party transactions and balances with Entegrus for the year ended December 31, 2017 and December 31, 2016:

	2017	2016
	\$	\$
Transactions		
Revenue		
Administrative services	558,736	569,570
Asset management	54,153	162,631
Interest on promissory note	1,067,959	1,380,816
Expenses		
Energy purchases (at commercial rates)	5,680,455	7,131,885
Billing and collection services - water/wastewater	2,300,974	2,284,040
Streetlight maintenance	171,307	239,961
Balances		
Amounts due from Entegrus Inc.		
Promissory note receivable	23,523,326	23,523,326
Accounts receivable	23,667,835	21,449,021

3. Investment in 2351839 Ontario Limited

2351839 Ontario Limited operating as WDC Rail, incorporated November 29th, 2012 under the *Canada Business Corporations Act*, owns railway land assets and is wholly owned by the Municipality of Chatham-Kent.

On October 3, 2013, the closing date for the transfer and purchase of the railway, WDC Rail sold its future interest in the railway fixtures comprised of, among other things, the steel track materials and ties but not the land.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

3. Investment in 2351839 Ontario Limited (continued)

The following table provides condensed supplementary financial information for WDC Rail for the year ended December 31:

	2017	2016
	\$	\$
Financial position		
Assets		
Current	35,589	75,786
Capital	4,461,931	4,461,931
Total assets	4,497,520	4,537,717
Liabilities		
Current	205,061	153,122
Note payable to Municipality of Chatham-Kent	4,800,000	4,800,000
Total liabilities	5,005,061	4,953,122
Equity		
Share capital	1	1
Deficit	(507,541)	(415,406)
Total deficit	(507,540)	(415,405)
Total liabilities and equity	4,497,521	4,537,717
Financial activities		
Revenue	37,093	14,265
Expenses	129,228	130,883
	(92,135)	(116,618)
Payment in lieu of taxes	-	-
Dividends paid	-	-
Change in retained earnings	(92,135)	(116,618)
Municipality of Chatham-Kent's investment represented by:		
Balance, beginning of year	(415,406)	(298,788)
Changes during year		
Investment in shares of company		
Net Loss for the year	(92,135)	(116,618)
Dividends Paid	-	-
Balance, end of year	(507,541)	(415,406)

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

3. Investment in 2351839 Ontario Limited (continued)

(a) Equity in WDC Rail

	2017	2016
	\$	\$
Balance, beginning of year	584,595	701,213
Changes during the year		
Investment in the Company		
Note receivable issued to the Company		
Net loss for the year	(92,136)	(116,618)
Balance, end of year	492,459	584,595

	2017	2016
	\$	\$
Investment in the Company	(507,541)	(415,405)
Notes receivable from the Company	4,800,000	4,800,000
Balance, end of year	4,292,459	4,384,595

(b) Related party transactions and balances

The following summarizes the Municipality's related party transactions with WDC Rail for the year ended December 31, 2017 and December 31, 2016 with balances as at December 31, 2017 and December 31, 2016:

	2017	2016
	\$	\$
Transactions		
Revenue		
Interest on promissory note	68,000	59,063
Drainage Assessments	1,972	5,599
Expenses		
Easements	-	-
Balances		
Amounts due from the Company		
Promissory note receivable	4,800,000	4,800,000
Accounts receivable	201,897	133,897

4. Note receivable from Entegrus Inc.

Note receivable is due from Entegrus Inc. with no set repayment terms and interest payable monthly at 4.54%. The Municipality received an interest payment in the current year of \$1,067,959 (2016 - \$1,380,819).

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

5. Note receivable from 2351839 Ontario Limited

Note receivable is due from 2351839 Ontario Limited with no set repayment terms and interest payable at a rate equal to the interest amount payable by the Municipality on funds borrowed from its financial institution in the year for which the interest is charged (2017 - 1.25%). The Municipality recorded revenue for interest in the current year of \$68,000 (2016 - \$59,062).

6. Trust funds

Trust funds administered by the Municipality amounting to \$5,237,590 (2016 - \$5,141,301) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of operations and accumulated surplus.

7. Accrued employee benefits

The Municipality has accrued employee benefits as follows:

	2017	2016
	\$	\$
Employee future benefits	35,873,476	33,424,938
Workplace safety and insurance obligations	7,358,381	6,918,197
Vested sick leave	58,081	58,081
Vacation credits	3,694,624	3,607,578
	46,984,562	44,008,794

The accrued benefits above are described as follows:

(a) Employee future benefits

The Municipality pays certain medical and life insurance benefits on behalf of its retired and current employees. The accrued benefit liability at December 31, 2017 of \$35,873,476 (2016 - \$33,424,938) was determined by actuarial valuation using a discount rate of 3.5% (2016 - 3.5%). A comprehensive actuarial valuation of the future liability for employee future benefits was conducted as at December 31, 2015 and has been extrapolated to estimate the liability for the 2017 period. The next required valuation will be as of December 31, 2018.

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

	2017	2016
	\$	\$
Accrued benefit liability as at January 1, 2017	33,424,938	30,338,661
Expense for the period	3,589,325	4,135,854
Benefits paid during the period	(1,140,787)	(1,049,577)
Estimated accrued benefit liability as at December 31, 2017	35,873,476	33,424,938

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements December 31, 2017

7. Accrued employee benefits (continued)

The main actuarial assumptions employed for the valuation are as follows:

(i) General inflation

Future inflation levels, as measured by changes in the Consumers Price Index ("CPI"), were assumed to be 2.5% in 2017 and thereafter.

(ii) Interest (discount) rate

The present value as at December 31, 2017 of the future benefits was determined using a discount rate of 3.25%. The expense for the year ended December 31, 2016, was determined using a discount rate of 3.5%.

(iii) Health costs

Drug costs were assumed to increase at 8.0% per year grading down to 3.5% over 10 years.

(iv) Dental costs

Dental costs were assumed to increase at 3.5% annually.

(a) Workplace safety and insurance obligations

Effective January 1, 2010, the Municipality became a Schedule I employer under the Workplace Safety and Insurance Act for most of its divisions. The Municipality remits payments to the Workplace Safety & Insurance Board (WSIB) as required to fund and administer disability payments.

For the period of January 1, 2001 to December 31, 2009, the Municipality was a Schedule II employer for most of its divisions. The estimated future liability relating to WSIB for this time period amounted to \$7,358,381 (2016 - \$6,918,197) and an accrual has been recorded for 2017. A Workplace Safety and Insurance Reserve relating to Schedule II claims has also been established to protect against any unknown future liability, and has a balance of \$2,480,357 (2016 - \$2,340,261). The Municipality also maintained an insurance policy, which protects the Municipality against financial exposure to a catastrophic loss in excess of \$1,000,000 while Schedule II was in place.

(c) Vested sick leave

Under some of the pre-amalgamation municipal sick leave benefit plans, unused sick leave could accumulate and employees may become entitled to a cash payment when they leave the Municipality's employment. The Municipality has not offered vested sick leave and thus the amounts will no longer accumulate.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination, amounted to \$58,081 (2016 - \$58,081) at the end of the year and is reported as an accrued liability on the Consolidated statement of financial position. An amount of \$0 (2016 - \$0) was paid to employees who left the Municipality's employment during the current year.

(d) Vacation credits

Under the provisions of certain employee vacation plans, some vacation credits are earned as at December 31 but are generally unavailable for use until a later date. In addition, the provisions of certain plans allow the accumulation of vacation credits for use in future periods. The approximate value of these credits as at December 31, 2017 is \$3,694,624 (2016 - \$3,607,578) and is reported as an accrued liability on the Consolidated Statement of Financial Position.

Funding for these benefits will be provided through taxation in the year of disbursement.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

8. Pension agreement

The Municipality makes contributions to the Ontario Municipal Employees Retirement System (OMERS) which is a multi-employer plan, on behalf of 1348 (2016 1,368) members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Contributions were made in the 2017 calendar year at rates ranging from 9.0% to 15.8% (2016 - 9.0% to 15.8%) depending on the member's designated retirement age and level of earnings. The amount contributed to OMERS for 2017 was \$9,186,200 (2016 - \$9,021,141) for current service and this is included on the Consolidated Statement of Operations and Accumulated Surplus. As at December 31, 2017 the OMERS plan is in a deficit of \$5.4 (2016 - \$5.7 Billion), which will be addressed through temporary contribution rate increases, benefit reductions, and investment returns.

9. Deferred revenue - obligatory reserve funds

A requirement of the public sector accounting standards is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used and under certain circumstances these funds may possibly be refunded. The balances in the obligatory reserve funds of the Municipality are summarized as follows:

	2017	2016
	\$	\$
For building code act	1,791,543	937,514
For parkland purposes	112,505	176,810
For Federal gas tax	16,102,266	14,980,075
For Provincial gas tax	4,624,166	4,543,555
Deferred revenue - obligatory reserve funds	22,630,480	20,637,954
Other deferred revenue		
Deferred taxes	1,085,226	1,818,188
Deferred grants	3,471,084	3,332,131
Other	2,811,444	2,355,352
Total deferred revenue	29,998,234	28,143,625

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

10. Net long-term liabilities

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

	2017	2016
	\$	\$
Total long-term liabilities incurred by the Municipality including those incurred on behalf of former municipalities and municipal enterprises and outstanding at the end of the year.	88,801,289	98,942,970
Of the long-term liabilities shown above, the Municipality is contingently liable for long-term liabilities with respect to tile drainage and shoreline property assistance loans. The responsibility for payment of principal and interest charges has been assumed by individual landowners.	(2,386,211)	(2,750,176)
Net long-term liabilities at the end of the year	86,415,078	96,192,794

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

	2018 to 2022	2023 to 2027	2028 and thereafter
	\$	\$	\$
From general municipal revenue	9,430,993	4,516,060	3,068,396
From benefiting landowners	12,855,082	7,787,971	-
From benefiting water ratepayers	12,640,982	8,598,167	1,688,448
From benefiting wastewater ratepayers	13,030,600	9,684,330	3,114,049
	47,957,657	30,586,528	7,870,893

- (c) Included in the principal amount in a) is \$6,320,697 (2016 - \$7,504,887) related to the Non-Profit Social Housing division.
- (d) All net long-term liabilities on the Consolidated statement of financial position are payable in Canadian dollars.
- (e) The long-term liabilities listed in a) were issued in the name of the Municipality or former municipalities and approved by Council have received approval of the Ontario Municipal Board prior to January 1, 1993. Those issues approved by Council after December 31, 1992 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.
- (f) The municipal long-term liabilities listed in a) are repayable at rates ranging from 2.0% to 8.1%, and the tile drainage and shoreline property assistance loans are repayable at rates up to 6%.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

11. Charges for net long-term liabilities

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

	2017	2016
	\$	\$
Beginning balance	96,192,794	105,841,586
Principal payments	(9,777,716)	(9,648,791)
Ending balance	86,415,078	96,192,794

Net interest payments related to long-term liabilities in the current year were \$3,768,649 (2016 - \$4,170,843) and are reported in the Consolidated statement of operations and accumulated surplus.

Accrual of interest on net long-term liabilities

A provision for the interest on long-term debt that has been accrued but not paid in the current year is estimated to be \$566,068 (2016 - \$863,931) and is reported as an accrued liability on the Consolidated statement of financial position.

12. Local improvements receivable

Improvements to infrastructure are often requested by residents, such as extending waterlines, sewers, sidewalks, or curb and gutters to new areas, or repairs and upgrades to municipal drains. The Municipality records the outstanding ratepayer funding of these local improvements as a receivable in the Consolidated Statement of Financial Position.

	2017	2016
	\$	\$
Local improvements receivable for capital projects on tax roll		
Wastewater	568,259	651,053
Water	1,390,924	1,102,506
Drainage	18,775,346	21,148,731
Other	176,646	153,162
	20,911,175	23,055,452

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

13. Tangible capital assets

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

	2017	2016
	\$	\$
Land and land improvements	52,962,228	53,146,818
Buildings	123,382,857	127,534,344
Equipment	49,618,339	49,861,930
Vehicles	28,603,809	25,763,297
Underground linear	212,992,520	213,015,322
Plants and facilities	26,911,278	20,933,688
Bridges	134,260,809	127,221,342
Transportation	179,527,453	175,835,272
Other assets	2,339,270	2,677,136
	810,598,564	795,989,150
Assets under construction	27,974,955	21,750,211
	838,573,519	817,739,361

For additional information, see the Consolidated schedule of tangible capital assets.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

14. Accumulated surplus

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

	2017	2016
	\$	\$
Surplus		
Invested in tangible capital assets	760,153,788	727,049,633
Entegrus, net equity	80,693,066	66,912,838
WDC Rail	(507,542)	(415,406)
Business Improvement Area	-	-
Prelevies for benefitting landowners	133,504	134,129
Other	3,925,463	(597,741)
Obligations to be funded from future years	(9,490,447)	(1,911,168)
Unfunded		
Employee future benefits, workplace safety and vacation	(45,059,214)	(42,191,601)
Accrued interest on long-term liabilities	(566,068)	(863,931)
Accrued Environmental Liability	(500,000)	(500,000)
	788,782,549	747,616,753
Surplus allocated to reserves		
For acquisition of capital assets	63,967,104	60,355,856
For public liability insurance	2,780,470	2,677,875
For various programs, facilities	55,185,842	51,704,187
For strategic and community development	9,350,675	5,294,333
For water	5,269,858	7,329,357
For wastewater	5,821,204	8,414,756
	142,375,153	135,776,364
Surplus allocated to reserve funds		
For community investment	7,286,580	6,537,586
For parking purposes	217,066	208,616
	7,503,646	6,746,203
Total accumulated surplus	938,661,349	890,139,320

15. Taxation revenue

a) Taxation collected on behalf of school boards

The net taxation levies collected on behalf of the school boards are comprised of the following:

	2017	2016
	\$	\$
Taxation	27,867,702	28,556,299
Requisitions	(27,867,702)	(28,556,299)
Net levy for the year	-	-

Included in accounts receivable are levies owing from the school board totaling \$406,621.08 (2016 \$818,564.66).

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

15. Taxation revenue (continued)

b) Taxation revenue by major tax class

2017	Taxes - own purpose	Payments in lieu	Supplementary taxes	Rebates & Write-offs	2017 Total
	\$	\$	\$	\$	\$
Residential	94,995,533	752,647	515,213	(1,343,893)	94,919,500
Multi-Residential	5,794,754	-	15,480	(130,401)	5,679,833
Commercial	26,587,654	2,195,118	458,805	(1,638,401)	27,603,176
Industrial	5,876,169	5,322	72,030	(98,828)	5,854,693
Pipelines	1,672,471	-	10,900	-	1,683,371
Landfill	186,401	-	-	-	186,401
Farmlands	12,177,227	5,082	245,020	223,415	12,650,744
Managed Forests	6,107	-	-	-	6,107
Other	397,886	635,710	16,640	(340,047)	710,189
Capping program	(268,635)	-	-	165,936	(102,699)
Total tax revenue	147,425,567	3,593,879	1,334,088	(3,162,219)	149,191,316

2016	Taxes - own purpose	Payments in lieu	Supplementary taxes	Rebates & Write-offs	2016 Total
	\$	\$	\$	\$	\$
Residential	92,075,204	649,068	700,157	(739,202)	92,685,227
Multi-Residential	6,378,607	-	(41,334)	(79,032)	6,258,241
Commercial	27,682,026	2,160,299	310,651	(1,450,794)	28,702,182
Industrial	6,016,350	5,302	31,037	(545,253)	5,507,436
Pipelines	1,622,425	-	2,781	-	1,625,206
Farmlands	10,716,789	4,516	51,034	57,155	10,829,495
Managed Forests	5,165	-	-	-	5,165
Other	426,144	620,417	12,670	(618,163)	441,068
Capping program	(1,601,705)	-	-	84,939	(1,516,766)
Total tax revenue	143,321,005	3,439,602	1,066,998	(3,290,350)	144,537,255

16. Self-insurance

In recent years, there have been substantial increases in the premiums charged by the insurance industry for public liability insurance. As a result, the Municipality has undertaken some portion of the risk, which would normally have been covered by outside insurers.

The Municipality is self-insured for property damage claims up to \$100,000 and for liability claims up to \$250,000 for any individual claim. Outside coverage is in place for claims in excess of these limits.

The Municipality has made a provision for a reserve for self-insurance which as at December 31, 2017 amounted to \$3,919,962 (2016 - \$3,854,154) and is reported on the consolidated statement of financial position under reserves. The provision for the year of \$1,309,223 (2016 - \$1,318,846) less claims settled \$1,010,103 (2016 - \$432,402) has been reported as an expenditure on the Consolidated statement of operations and accumulated surplus.

Other Operating Surpluses, related to insurance, in the amount of \$70,061 (2016 - \$75,335) have been transferred to the reserve.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements December 31, 2017

17. Provincial offences administration

The Municipality cannot reliably estimate the collections of Provincial Offences Administration revenue, accordingly, revenue is recognized on the cash basis.

The Ministry of the Attorney General requires the following disclosure of all municipal partners administering Provincial Offences Administration. The gross revenues collected at the Provincial Offences Court in 2017 were \$1,841,680 (2016 - \$1,964,816) and net revenue was \$350,847 (2016 - \$401,731).

18. Segmented information

The Municipality provides a diverse range of services to its citizens. The Consolidated schedule of segment disclosure has grouped various services into segments to provide a further breakdown of the revenues and expenses attributable to each segment. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

The services included in each segment are as follows:

General government

General government is comprised of governance, corporate management and program support.

Protection services

Protection is comprised of fire, police, conservation authority, protective inspection and control, emergency measures and provincial offenses.

Transportation services

Transportation is comprised of roads, winter control, transit, parking, street lighting and air transportation.

Environmental services

Environmental is comprised of storm sewer systems, waste collection, waste disposal, and recycling.

Health services

Health is comprised of public health, hospital support, ambulance and cemeteries.

Social and family services

Social and family is comprised of Ontario Works, assistance to aged persons and child care.

Social housing

Social housing provides for a variety of housing services.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements
December 31, 2017

18. Segmented information (continued)

Recreational and cultural services

Recreation and culture is comprised of parks, recreation programs, recreation facilities, libraries and cultural services.

Planning and development services

Planning and development is comprised of planning and zoning, commercial and industrial development, residential development, agricultural and reforestation, and tile drainage and shoreline assistance.

Water and wastewater services

Water and wastewater provides safe drinking water and collects and treats wastewater.

Other items and corporations

Other items and corporations is comprised of the revenue from subsidiaries and items not related specifically to the other categories.

19. Commitments

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

	\$
2018	6,852,676
2019	6,796,390
2020	6,852,398
2021	5,731,350
	26,232,814

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

	\$
2018	660,000
2019	660,000
2020	325,000
	1,645,000

20. Budget figures

The approved operating and capital budgets are reflected on the Consolidated statement of operations and accumulated surplus for municipal projects. Those capital projects benefiting and assessed to landowners and developers, for example water, wastewater, drainage, and industrial lands, are not budgeted for. The budgets established for capital fund operations are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with the current year amounts.

The Corporation of the Municipality of Chatham-Kent

Notes to the consolidated financial statements

December 31, 2017

21. Contingent liabilities

From time to time, as is common with other municipalities, the Municipality is the subject of litigation. In the opinion of management, any litigation outstanding, if successful, would not have a material impact on the consolidated financial statement.

The Corporation of the Municipality of Chatham-Kent

Consolidated schedule of tangible capital asset
year ended December 31, 2017

	Land and land improvements	Buildings	Equipment	Vehicles	Underground linear	Plants and facilities	Bridges	Transportation	Other assets	Total 2017	Total 2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Municipal											
Cost											
Balance, beginning of the year	58,227,279	151,662,684	34,999,262	53,032,623	113,870,881	3,272,370	191,752,442	432,851,634	6,436,730	1,046,105,906	1,022,139,583
Add: Additions during the year	837,758	1,673,269	3,547,222	6,478,459	1,077,077	-	10,049,518	15,896,210	345,674	39,905,189	30,775,076
Less: Disposals during the year	109,436	503,544	706,599	5,068,392	-	-	324,769	4,219,685	18,276	10,950,702	6,808,752
Balance, end of the year	58,955,602	152,832,409	37,839,885	54,442,690	114,947,959	3,272,370	201,477,191	444,528,160	6,764,128	1,075,060,394	1,046,105,906
Accumulated amortization											
Balance, beginning of the year	11,989,929	63,088,602	17,598,063	27,887,051	56,210,776	1,681,630	64,531,100	257,016,362	3,759,594	503,763,108	481,698,276
Add: Amortization for the year	983,134	3,548,441	2,685,622	3,527,574	2,051,380	81,544	2,931,506	11,978,844	683,540	28,471,583	28,383,267
Less: Accumulated amortization on disposals	70,221	387,223	702,060	4,920,267	-	-	246,224	3,994,500	18,276	10,338,772	6,328,529
Balance, end of the year	12,902,841	66,249,820	19,581,624	26,494,357	58,262,156	1,763,174	67,216,382	265,000,706	4,424,858	521,895,919	503,753,014
Net book value of municipal assets	46,052,761	86,582,589	18,258,261	27,948,333	56,685,803	1,509,196	134,260,809	179,527,453	2,339,270	553,164,474	542,352,893
Waterworks											
Cost											
Balance, beginning of the year	2,232,112	25,692,984	32,968,391	716,519	163,376,953	29,416,533	-	-	-	254,403,493	251,632,687
Add: Additions during the year	-	-	216,214	85,773	4,147,827	3,167,866	-	-	-	7,617,678	2,804,728
Less: Disposals during the year	-	-	15,775	89,546	-	-	-	-	-	105,321	33,923
Balance, end of the year	2,232,112	25,692,984	33,168,829	712,746	167,524,780	32,584,398	-	-	-	261,915,850	254,403,493
Accumulated amortization											
Balance, beginning of the year	-	13,919,588	16,807,703	492,272	58,899,887	12,613,806	-	-	-	102,733,256	95,092,279
Add: Amortization for the year	-	557,047	978,093	45,863	2,222,887	753,802	-	-	-	4,557,691	7,674,645
Less: Accumulated amortization on disposals	-	-	15,775	89,546	-	-	-	-	-	105,321	33,668
Balance, end of the year	-	14,476,634	17,770,021	448,590	61,122,774	13,367,607	-	-	-	107,185,626	102,733,256
Net book value of waterworks assets	2,232,112	11,216,350	15,398,808	264,157	106,402,006	19,216,791	-	-	-	154,730,223	151,670,236
Wastewater											
Cost											
Balance, beginning of the year	4,677,355	60,138,637	42,328,839	750,090	94,480,612	10,021,505	-	-	-	212,397,039	210,269,987
Add: Additions during the year	-	-	1,000,513	64,220	689,951	3,871,830	-	-	-	5,626,514	2,153,529
Less: Disposals during the year	-	-	13,575	7,529	-	-	-	-	-	21,104	26,477
Balance, end of the year	4,677,355	60,138,637	43,315,777	806,782	95,170,563	13,893,335	-	-	-	218,002,449	212,397,039
Accumulated amortization											
Balance, beginning of the year	-	32,951,770	26,028,796	356,613	43,602,461	7,481,284	-	-	-	110,420,923	105,305,035
Add: Amortization for the year	-	1,602,949	1,339,287	66,378	1,663,390	226,760	-	-	-	4,898,764	5,152,460
Less: Accumulated Amortization on Disposals	-	-	13,575	7,529	-	-	-	-	-	21,104	26,477
Balance, end of the year	-	34,554,719	27,354,508	415,462	45,265,851	7,708,044	-	-	-	115,298,584	110,431,017
Net book value of wastewater assets	4,677,355	25,583,918	15,961,270	391,320	49,904,712	6,185,291	-	-	-	102,703,865	101,966,021
Assets under construction	-	-	-	-	-	-	-	-	-	27,974,955	21,750,211
Total value of tangible capital assets	52,962,228	123,382,857	49,618,339	28,603,809	212,992,520	26,911,278	134,260,809	179,527,453	2,339,270	838,573,519	817,739,361

The Corporation of the Municipality of Chatham-Kent

Consolidated schedule of segment disclosure
year ended December 31, 2017

	General government	Protection services	Transportation services	Environmental services	Health services	Social and family services	Social housing	Recreation and cultural services	Planning and development services	Water and wastewater services	Other items and corporations	Eliminations	2017 Consolidated	2016 Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues														
Taxation	5,362,011	55,802,324	37,575,599	9,966,586	8,373,925	13,223,840	8,822,924	18,054,570	(4,020)	-	-	(7,986,443)	149,191,316	144,537,255
Sales of service	743,617	702,760	3,350,923	4,228,093	895,146	8,219,024	2,569,987	5,487,300	850,893	44,276,119	4,753,260	-	76,077,122	70,605,328
Government transfers	12,566	1,656,065	11,291,591	-	15,215,918	62,215,292	3,490,927	443,148	3,771,459	-	19,923,000	-	118,019,966	110,872,819
Other											23,281,803	-	23,281,803	11,559,899
	6,118,194	58,161,149	52,218,113	14,194,679	24,484,989	83,658,156	14,883,838	23,985,018	4,618,332	44,276,119	47,958,063	(7,986,443)	366,570,207	337,575,301
Expenses														
Salaries and benefits	18,697,393	43,628,781	10,440,853	2,040,696	8,783,904	31,045,262	1,997,421	10,328,280	2,768,992	8,041,114	-	-	137,772,693	136,216,748
Goods and services	15,001,421	3,981,502	17,700,552	9,088,108	12,585,071	9,628,238	3,543,246	6,144,679	1,204,815	13,415,730	-	-	92,293,361	86,614,181
Interest	4,311	-	175,789	-	-	969,971	374,488	242,472	225,867	1,638,769	-	-	3,631,667	4,261,751
Transfers (to) from other segments	(27,751,752)	7,031,566	6,623,468	1,019,965	2,327,102	4,784,186	19,793	3,463,479	364,049	2,118,144	-	-	-	-
External transfers	-	1,140,194	1,500	-	135,000	35,970,486	8,335,366	506,279	27,941	-	-	-	46,116,766	45,760,115
Amortization	864,282	2,467,133	17,103,827	2,045,910	659,370	1,271,746	511,661	3,269,227	26,668	9,708,212	-	-	37,928,036	41,210,372
Loss (gain) on disposal of tangible capital assets	(697,459)	(88,027)	172,124	-	(5,458)	(11,733)	101,863	30,602	-	(7,160)	-	-	(505,247)	(10,739)
	6,118,196	58,161,149	52,218,113	14,194,679	24,484,989	83,658,156	14,883,838	23,985,018	4,618,332	34,914,809	-	-	317,237,276	314,052,428
Net surplus	(2)	-	-	-	-	-	-	-	-	9,361,310	47,958,063	(7,986,443)	49,332,931	23,522,873