

Consolidated Financial Statements of

**THE CORPORATION OF THE COUNTY
OF MIDDLESEX**

Year ended December 31, 2007



KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London ON N6A 5P2
Canada

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

AUDITORS' REPORT

To the Shareholder of The Corporation of the County of Middlesex

We have audited the consolidated statement of financial position of The Corporation of the County of Middlesex as at December 31, 2007 and the consolidated statements of operations and retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 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 consolidated 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 Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative amounts were audited by another firm of chartered accountants.

Chartered Accountants, Licensed Public Accountants

London, Canada

April 13, 2008

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Consolidated Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006
Financial Assets		
Cash	\$ 6,264,019	\$ 7,566,621
Investments (note 4)	15,626,593	15,121,910
Accounts receivable	3,889,342	3,661,871
Loans receivable (note 5)	8,791,223	10,495,032
Total financial assets	34,571,177	36,845,434
Liabilities		
Liabilities:		
Accounts payable and accrued liabilities	6,636,011	5,908,751
Employee future benefit liability	2,983,891	567,287
Deferred revenue	1,056,366	1,337,417
Long-term debt (note 7)	16,465,000	17,355,000
Total liabilities	27,141,268	25,168,455
Net financial assets	7,429,909	11,676,979
Non-financial assets:		
Prepaid expenses	261,490	-
Net assets	\$ 7,691,399	\$ 11,676,979

Municipal Position

Amounts to be recovered from future revenues (note 9)	\$ (19,965,192)	\$ (17,922,287)
Municipal position:		
Fund balances:		
Current fund	747,380	729,653
Capital fund	42,000	-
Reserves (Schedule - Reserve and Reserve Fund)	15,013,865	18,138,599
Reserve funds (Schedule - Reserve and Reserve Fund)	11,853,346	10,731,014
Total fund balances	27,656,591	29,599,266
Total municipal position	\$ 7,691,399	\$ 11,676,979

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Consolidated Statement of Operations and Retained Earnings

Year ended December 31, 2007, with comparative figures for 2006

	Budget 2007	Actual 2007	Actual 2006
	(unaudited)		
Revenues:			
Requisition on local municipalities	\$ 23,602,710	\$ 23,526,545	\$ 23,606,456
User charge	1,228,930	1,532,704	1,449,247
Government grants	34,444,100	33,720,185	34,853,670
Investment income	1,095,000	858,582	1,025,720
Lodge resident maintenance	2,834,580	2,939,925	2,739,020
Sale of land, building and equipment	185,100	161,787	450,917
Other (note 10)	47,405	52,645	48,556
	63,437,825	62,792,373	64,173,586
Expenditures:			
Current:			
General government	3,396,371	3,464,970	3,000,176
Protection to persons and property	353,377	337,950	296,438
Transportation services	5,525,958	6,376,157	4,159,512
Environmental	63,500	59,985	63,897
Health services	21,370,999	20,344,028	20,700,064
Social and family services	17,085,953	18,959,565	16,602,529
Social housing	3,470,548	3,346,412	3,307,536
Recreation and cultural development	2,443,327	2,547,023	2,221,586
Planning and development	721,750	661,988	694,894
	54,431,783	56,098,078	51,046,632
Capital:			
General government	567,148	723,382	166,510
Protection to persons and property	-	15,229	76,640
Transportation services	9,473,000	9,407,492	9,259,556
Health services	540,000	614,872	604,957
Social and family services	106,713	129,951	1,615,656
Planning and development	70,000	70,000	70,000
	10,756,861	10,960,926	11,793,319
Total expenditures	65,188,644	67,059,004	62,839,951
Net revenues (expenditures)	(1,750,819)	(4,266,631)	1,333,635
Financing and transfers:			
Decrease (increase) in deferred revenue		281,051	(694,685)
Increase in amounts to be recovered		2,042,905	16,410,315
Appropriations from reserves and reserve funds		2,002,402	-
Appropriation to capital fund		(42,000)	-
		4,284,358	15,715,630
Increase for the year		17,727	17,049,265
Current fund, beginning of year		729,653	(16,319,612)
Current fund, end of year		\$ 747,380	\$ 729,653

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Consolidated Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ (4,266,631)	\$ 1,333,635
Change in non-cash operating working capital:		
Investments	(504,683)	1,706,847
Accounts receivable	(227,471)	928,406
Loans receivable	1,703,809	(7,707,914)
Accounts payable and accrued liabilities	727,260	(1,389,834)
Employee future benefit liability	2,416,604	-
Prepaid expenses	(261,490)	-
	(412,602)	(5,128,860)
Financing activities:		
Long-term debt	(890,000)	4,241,947
Decrease in cash	(1,302,602)	(886,913)
Cash, beginning of year	7,566,621	8,453,534
Cash, end of year	\$ 6,264,019	\$ 7,566,621

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements

Year ended December 31, 2007

The Corporation of the County of Middlesex (the "County") is an upper-tier municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. Significant accounting policies:

The consolidated financial statements of the County are prepared by management in accordance with generally accepted accounting principles for organizations operating in the local government sector as recommended by the Public Sector Accounting Board ("PSAB") of The Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the Authority are as follows:

(a) Basis of consolidation:

These consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances of all committees of Council and the Middlesex County Library Board. All interfund assets, liabilities, revenues and expenditures have been eliminated.

(b) Non-consolidated entities:

The Middlesex-London Health Unit has not been consolidated in the County's consolidated financial statements.

(c) Trust funds:

Trust funds and their related operations administered by the municipality are not consolidated, but are reported separately.

(d) Basis of presentation:

Revenues and expenditures are recorded on the accrual basis of accounting. Revenues are recognized as they are earned and measurable. Expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(e) Investments:

Investments are recorded at amortized cost less any amounts written off to reflect a permanent decline in value. Investments consist of authorized investments pursuant to provisions of the Municipal Act and comprise government and corporate bonds, debentures and short-term instruments of various financial institutions.

Investment income earned on available funds is reported as revenue in the period earned.

(f) Capital assets:

The cost of acquiring capital assets is reported as expenditures on the Consolidated Statement of Operations and Retained Earnings in the year of acquisition.

(g) Reserve and reserve funds:

Certain amounts, as approved by Council, are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to and/or from reserves and reserve funds are an adjustment to the respective fund when approved.

(h) Deferred revenue:

The County receives certain amounts, from the federal government, of which the proceeds may only be used in the conduct of certain programs or completion of specific work. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred or services performed.

(i) Pension plan:

The County provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi employer pension plan which operates as the Ontario Municipal Employees Retirement Fund, and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is a contributory defined benefit pension plan. As this is a multi-employer plan, no liability is recorded on the County's books.

The contributions to a multi-employer, defined benefit plan are expensed when contributions are due.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(j) Employee benefits payable:

The cost of termination benefits and compensated absences are recognized when the event that obligates the County occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

The costs of other employee benefits are determined using the projected benefits method pro-rated on service and management's best estimate of retirement ages of employees and expected health costs.

Employee future benefit liabilities are discounted using the current interest rates on long-term bonds. The costs of workplace safety and insurance obligations are actuarially determined and are expensed.

(k) Budget figures:

Budget figures have been provided for comparison purposes. Given differences between the funding model and generally accepted accounting principles for local governments established by PSAB, certain budgeted amounts have been reclassified to reflect the presentation adopted under PSAB. The budget figures are unaudited.

(l) Use of estimates:

The preparation of these consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 year. These estimates and assumptions, including employee future benefits are based on management's best information and judgment and may differ from future actual results.

2. Contributions to unconsolidated joint boards:

Further to note 1(b), the County made contributions for the year ended December 31, 2007 in the amount of \$861,082 (2006 - \$997,346) to the Middlesex-London Health Unit.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

3. Trust funds:

Trust funds administered by the County for the year ended December 31, 2007 amounting to \$97,197 (2006 - \$77,234) have not been included in the consolidated financial statements.

4. Investments:

The total investments of \$15,626,593 (2006 - \$15,121,910) reported on the Consolidated Statement of Financial Position at cost, have a market value of \$15,734,757 (2006 - \$15,180,748). At the end of the year, these investments are comprised of:

	2007	2006
Investments:		
Cash	\$ 2,019,934	\$ 1,701,468
Fixed income securities	12,970,781	13,420,442
Mutual funds	143,256	-
Foreign securities	492,622	-
	<hr/>	<hr/>
	\$ 15,626,593	\$ 15,121,910

5. Loans receivable:

Included in accounts receivable are interest free loans to lower tier municipalities for the year ended December 31, 2007 in the amount of \$8,791,223 (2006 - \$10,495,032). The amounts to be received in the next five years and thereafter are as follows:

2008	\$ 1,616,521
2009	1,414,292
2010	1,414,292
2011	1,414,292
2012	1,050,887
Thereafter	1,880,939
	<hr/>
	\$ 8,791,223

6. Pension plan:

The County contributed to OMERS in 2007 \$661,304 (2006 - \$606,621) on behalf of its employees for current service and is included as an expenditure on the Consolidated Statement of Operations and Retained Earnings.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

7. Long-term debt:

	2007	2006
Term loan payable, bearing interest at 4.64%, repayable in bi-yearly instalments of \$465,000 of principal plus interest	\$ 16,465,000	\$ 17,355,000

Interest paid on this loan during 2007 was \$772,179 (2006 - \$820,837).

Principal and interest payments to be made in the next five years and thereafter are:

	Principal	Interest
2008	\$ 890,000	\$ 734,956
2009	890,000	695,357
2010	890,000	650,214
2011	890,000	607,391
2012	890,000	567,792
Thereafter	12,015,000	3,625,619
	\$ 16,465,000	\$ 6,881,329

The long term liabilities issued in the name of the municipality 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.

8. Compensation for annexed lands:

The City of London, under section 474.18 of the Middlesex Act, 2001, will pay the County of Middlesex, as compensation for the reduction in income due the dissolution of the London-Middlesex Suburban Roads Commission, the proceeds in accordance with the prescribed formula within Section 474.18. In 2007, the amount of \$1,163,133 (2006 - \$1,133,631) was received and is included in government grants.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

9. Amounts to be recovered:

	2007	2006
Long-term liabilities	\$ 16,465,000	\$ 17,355,000
Future benefit cost liability	2,983,891	567,287
Accrued interest on long-term liabilities	380,941	-
Vacation payable	135,360	-
	<u>\$ 19,965,192</u>	<u>\$ 17,922,287</u>

10. Other revenue:

Other revenue from operations is comprised of:

Fines and lost books	\$	33,444
Fire dispatch service		7,406
Donations		6,316
Library fees		4,946
Transfer from trust		533
	<u>\$</u>	<u>52,645</u>

11. Employee future benefits:

(a) Future benefit cost liability:

The County has undertaken the risk which would normally be covered by the Workplace Safety and Insurance Board ("WSIB"). The County became self-insured for injured worker benefits with WSIB administering the benefits on behalf of the municipality as a schedule II employer. Payments to WSIB during the year were \$101,910 (2006 - \$112,666)

The estimate of the future benefit costs for WSIB claims was provided by WSIB and was determined based on benefits currently in force with provision for benefits not yet awarded as follows:

Accidents prior to 1990 and survivor pensions	11.01%
Accidents from 1990 to 1997 and non-economic loss pensions	18.93%
Accidents after 1997	0.25%
Health care and non-income benefits and ILAs	21.97%

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

11. Employee future benefits (continued):

(a) Future benefit cost liability (continued):

Reserves in the amount of \$681,292 (2006 - \$712,301) have been established to provided for this liability and for self-insurance, respectively, and are included in the reserves and reserve funds on the consolidated Statement of Financial Position.

(b) Health, dental and life insurance:

Due to negotiated changes in employee contracts, the County now provides certain employee benefits such as health, dental and life insurance to qualified retirees until they reach 65 years of age that will require funding in future periods. No future employee benefit liability was recorded in 2006.

The County pays certain health, dental and life insurance benefits on behalf of its retired employees.

(c) Other:

Retirement and other employee future benefit expenses included in total expenditures consist of the following:

	Retirement benefits	WSIB	2007	2006
Employee future benefits, beginning of year	\$ -	\$ 567,287	\$ 567,287	\$ 292,882
Current year benefit cost	2,266,202	252,312	2,518,514	387,071
Total payments made during the year	-	(101,910)	(101,910)	(112,666)
Employee future benefits, end of year	\$ 2,266,202	\$ 717,689	\$ 2,983,891	\$ 567,287

12. Land ambulance:

The County has estimated its liability for cross border ambulance services for 2001 – 2007. Based on the estimated liability a reserve has been established with funding at an amount deemed adequate to cover the estimated liability. However, the Province of Ontario and other ambulance providers have not finalized this calculation and the actual liability may differ from the estimates provided for in these consolidated financial statements.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

13. Financial instruments:

The County's financial instruments include cash, short-term investments, accounts receivable, accounts payable and accrued liabilities, deferred revenue, and other liabilities.

The fair values of these financial instruments approximate their carrying value due to the expected short-term maturity of these instruments.

The long-term liabilities approximate their fair value as interest is equivalent to market rates available to the County.

Unless otherwise noted, it is management's opinion that the County is not exposed to significant interest, currency or credit risks arising from these financial instruments.

14. Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

15. Future changes to accounting policies:

(a) Tangible capital assets:

Effective January 1, 2007, the County adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting handbook of the Canadian Institute of Chartered Accountants ("CICA") with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 - *Tangible Capital Assets of the Public Sector Accounting* handbook comes into effect on January 1, 2009. The adoption of this standard did not impact January 1, 2007 opening balances of the County.

Tangible capital assets are significant economic resources managed by local government and a key component of cost in the delivery of many local government programs and services. Tangible capital assets include such diverse items as roads, building, vehicles, equipment, computer hardware and software, and bridges.

The County continued to work to record tangible capital assets at cost in the year they were acquired on the Statement of Financial Position and as expenditures within the capital fund. This will change when the new recommendations for accounting for tangible capital assets are adopted.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

15. Future changes to accounting policies (continued):

(a) Tangible capital assets (continued):

During 2007, the County continued to work towards compliance with the new recommendations for accounting for tangible capital assets.

(b) Capital disclosures.

In December 2006, the CICA issued a new handbook section 1535, *Capital Disclosures*, which requires an entity to disclose its objectives, policies, and processes for managing capital. This new standard is effective for the County beginning January 1, 2008.

THE CORPORATION OF THE COUNTY OF MIDDLESEX

Consolidated Schedule - Reserve and Reserve Funds

Year ended December 31, 2007, with comparative figures for 2006

	2007	Appropriations (to) from reserves	2006
Reserves:			
Working capital	\$ 339,623	\$ -	\$ 339,623
Insurance	775,429	17,782	793,211
Acquisition of fixed assets	2,183,893	948,936	3,132,829
Ambulatory services	6,444,484	615,864	7,060,348
Tax rate stabilization	4,925,738	1,642,945	6,568,683
Woodlands	54,000	-	54,000
Library Literary Fund	261,542	(100,267)	161,275
Tree bank	1,326	(526)	800
Planning studies	27,830	-	27,830
Total reserves	15,013,865	3,124,734	18,138,599
Reserve funds set aside for specific purposes by legislation, regulation or agreement:			
Future road construction	59,679	(2,622)	57,057
Senior services	562,905	(24,731)	538,174
Sewer and water capital works	11,114,163	(1,105,632)	10,008,531
Strathroy Library branch	-	13,270	13,270
Chapel fund (Strathmere Lodge)	5,654	(5,654)	-
Gifts and donations (Strathmere Lodge)	110,945	3,037	113,982
Total reserve funds	11,853,346	(1,122,332)	10,731,014
Total reserves and reserve funds	\$ 26,867,211	\$ 2,002,402	\$ 28,869,613