

July 15, 2009

Township of Warwick
6332 Nauvoo Road
R.R. #8
Watford, Ontario
N0M 2S0

Dear Mayor Todd Case and Members of Council:

Re: 2008 Financial Report

We have completed our audit of the December 31, 2008 Financial Report of the Township of Warwick. The purpose of this letter is to provide a brief overview of the financial results for the year ending December 31, 2008. Attached to the letter is Appendix A that gives a more detailed review of the financial statements and Appendix B that highlights some of the Township's performance measurements.

- For the year ending December 31, 2008, the Township had a deficit for the year of \$34,720. On expenditures of \$5,910,000, this represents a shortfall of .58%. As has been done in prior years when there was a surplus, funds were transferred out of reserves to cover the shortfall, leaving an operating deficit of nil.
- Again the Township has ended the year in excellent financial position and this is reflected in the working capital ratio (cash and receivables divided by payables, plus accrued interest, deferred revenue and next year's debt payment) of 12.90 to 1 and the quick ratio (cash divided by payables, accrued interest and next year's debt payment) of 11.09 to 1. This compares with 2007 where these ratios were 8.79 to 1 and 7.15 to 1 respectively.
- The Township has ample reserves and reserve funds to provide the cash and allow the Township the flexibility in undertaking capital projects and pursuing any other opportunities that may arise during the year and at the same time allow the Township to avoid any sharp increases in tax rates.

- In the area of debt and reserves, the Township has a ratio of .07, which means that for every \$1.00 of reserves, there is \$.07 of debt. This compares to 2007 when the ratio was .11.
- The Township's borrowing capacity is in an excellent position and the end of the year the Township has the capacity to undertake a further \$783,795 in annual debt payments, which were \$88,144 in 2008. For 2007, these numbers were \$803,835 with annual debt payments of \$104,206.
- The change in the Township investment in Bluewater Power Corporation of \$27,602 is the result of the Township's 2.17% share of the net income of Bluewater Power Corporation less the dividends received by the Township from Bluewater Power Corporation.

Yours truly,

A handwritten signature in black ink that reads "Collins Barrow". The signature is written in a cursive, flowing style.

COLLINS BARROW
Per: David S. Coles B.A., C.A.

c.c. Mr. Don Bruder Administrator/Treasurer

APPENDIX A

FINANCIAL STATEMENTS

Page 2, which is the first statement, is the Statement of Financial Position.

This statement reports the assets and liabilities of the Township and the Watford Cemetery Board but does not include any assets or liabilities of any Trust Funds.

At the end of the year, the cash has increased by \$888,973, mainly to the receipt of grants received late in the year and put into reserves to offset the related expenditures that will probably occur during 2009 and surplus in water and sewer operations and landfill money received being greater than budgeted for.

Taxes and tax interest receivable has increased from \$375,446 at the end of 2007 to \$392,256. These taxes and interest are broken down as follows:

	2008		2007	
Current	\$253,966	62.4%	\$237,200	60.7%
1 year	102,880	25.3%	102,111	26.2%
2 year	38,435	9.4%	35,761	9.2%
3 plus years	<u>11,975</u>	<u>2.9%</u>	<u>15,374</u>	<u>3.9%</u>
	\$407,256	100.0%	\$412,155	100.0%
Allowance for write offs	<u>(15,000)</u>		<u>(15,000)</u>	
Taxes & interest receivable	<u>\$392,226</u>		<u>\$397,155</u>	

The allowance for write offs is to cover the Township share of any of the outstanding taxes that may be uncollectible in future years or for any tax refunds on these taxes that may be required in future years.

Accounts receivable have decreased from \$394,113 to \$302,075 due mainly to a decrease in accounts receivable from Waste Management.

Accounts payable and accrued liabilities have increased, but not significantly over 2007. As the working capital ratio of the Township is excellent there is more than enough cash to pay the accounts payable and accrued liabilities as they come due.

The interest on debt is the accrued interest on outstanding debentures from the date of the last interest payment to the end of the year.

The deferred revenue in 2008 consists of the Township's share of the Federal Gas Tax money that has been received during the year, but not yet spent.

Municipal debt decreased during the year by the principal payments made plus a reduction of \$39,764 in the Township's share of the Lambton Area Water Supply System debt.

In the Municipal Position section of the balance sheet, we have a deficit in the operating fund of \$(8,363). This consists of a Township surplus of \$nil, a surplus in the street light areas of \$10,981 and a deficit in the garbage area of (\$3,024), a surplus in the library program of \$134 and a surplus in the Watford Cemetery Board of \$4,660 and drain maintenance deficits of (\$21,114).

The Capital Fund deficit of (\$155,624) represents money spent on capital projects and not yet recovered from affected ratepayers or donations or grants. This amount is from drain construction projects (\$55,962) and will be recovered from prepaid charges from affected landowners, government grants and debt to be issued on behalf of the affected landowners and recovered from these landowners through special charges on their property tax bills, the sewage lagoon project (\$71,064) which will be recovered through grants and issuance of debt which will ultimately be recovered through user fees and the soccer field project (\$28,598) which will be recovered through donations.

The next item is reserves and reserve funds. This has increased from \$3,827,551 to \$4,635,434 and was the result of the following transfers.

A total of \$487,944 was transferred to the capital fund of which the major transfers were \$395,168 to fund road projects, \$153,807 was to fund water projects and \$116,695 to finance parks and recreation projects. \$91,896 was transferred from reserves to the operating fund.

\$1,387,722 was transferred into reserves during the year, of which \$751,378 was budgeted, and the balance coming from the year-end surplus in landfill money, water and sewer surplus and unspent capital grants.

Reserves and reserve funds at the end of the year are comprised of:

	2008	2007
Working funds	\$425,000	\$176,000
Moving Forward	183,480	200,000
Water		
Warwick water	985,542	864,572
Watford water	254,916	301,556
Sewer	184,779	134,198

Environmental		
Landfill	----	117,323
Recycling	----	40,000
Planning		
G.I.S.	----	32,063
Industrial promotion	----	50,906
Disaster relief	----	1,668
Hydro	190,358	153,530
Watford drainage	29,027	18,432
Provincial I.O.A.	171,668	----
History Book	26,276	-----
Deferred capital projects	287,635	370,824
Capital projects	<u>1,896,753</u>	<u>1,366,479</u>
	<u>\$4,635,434</u>	<u>\$3,827,551</u>

Page 3, which is the second statement, is the Statement of Financial Activities My comments here will be between the actual results and the budgeted amounts.

The first item is net taxation. The main items in this category are the Township share of taxes and local improvement charges. \$1,411,476 was budgeted and \$1,384,640 was raised, a difference of \$26,836. This difference was supplementary taxation and drainage were both under budget.

User charges consists mainly of landfill money and arena revenue. \$1,031,924 was budgeted and \$1,135,481 was received, a difference of \$103,557. This was result of more money from landfill and planning and zoning.

Water and sewer revenue was close to budget. Although water sales and sewer charges were down by \$28,900, this was offset by increased revenue from water connections. Billings were down due to wet summer in 2008 and this decrease follows the pattern in the other municipalities our firm audits.

Transfer payments consist of grants from the provincial government and other municipalities. \$7,436,021 was budgeted and \$3,026,477 was received, a difference of \$4,409,544. This difference was mainly the sewage grant of \$4,700,000 that was included in the budget and for which he Township did not receive. This is offset by a

Provincial grant of \$270,739 from the Investing in Ontario Act that was received late in the year. The remaining difference is from drainage grants that were not budgeted for.

Other income is income from dog tags, permits, interest, penalty and interest on taxes, fines, donations and rents. \$337,377 was budgeted and \$527,026 was received. The difference is mostly from interest income \$97,644, history book sales \$35,956 and prepaid drainage charges of \$39,722.

The share of earnings of Bluewater Power Corporation was the Township's 2.17% of the 2008 earnings of Bluewater Power Corporation less dividends declared but not received until 2009.

Expenditures are divided between current and capital expenditures.

Overall operating expenditures were budgeted to be \$3,462,669 and actual expenditures were \$3,480,761, an over expenditure of \$18,092, or .52% on the budget of \$3,734,082. Transportation services exceeded budget by \$61,836, due to mostly to winter control, recreation was over by \$32,241, mostly in part-time wages and planning and development was under by \$48,998, as money was not spent on the strategic plan and economic development. This was offset by increased expenditures on an OMB hearing and Waste Management site plan.

In capital expenditures, \$9,668,115 was budgeted for and only \$2,429,945 was spent. This is a difference of \$7,238,170. Of this, \$7,048,000 was budgeted for the sewage project that did not proceed. The balance of \$330,171 was mainly from Birnam Line, Warwick Village paving, St. Clair Street and Warwick Street projects. Some of the savings were applied to other roads that were over budget and savings after that were transferred to reserves for future capital projects. Recreation capital project savings were from the old fire hall project and history project, again with the savings being transferred to reserves.

Accompanying these statements and attached after the notes to the financial statements are schedules for the operating fund, capital fund and reserves. These statements are what make up the consolidated statement of financial activities. Also included are the statements for the trust funds managed by the Township.

APPENDIX B

PERFORMANCE MEASUREMENTS

This program has now been in effect for several years and the following is a comparison between 2008, 2007 and 2006.

	2008	2007	2006
General Government expense as % of total operating expenses	6.40%	6.60%	6.70%
Fire operating costs per 1,000 of assessment	\$.52	\$.49	\$.46
Operating costs for police services household	\$475.95	\$431.98	\$457.68
Operating costs for paved roads per lane kilometre	\$264.08	\$357.45	\$393.19
Operating costs for unpaved roads per lane kilometre	\$886.36	\$875.93	\$842.14
Operating costs for winter control per lane kilometre	\$709.40	\$432.42	\$201.96