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AUDITORS' REPORT

To the Members of the Essex-Windsor Solid Waste Authority

We have audited the statement of financial position of the Essex-Windsor Solid Waste Authority as at December 31, 2008 and the statements of financial activities and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2008 and the results of its financial activities and cash flows for the year then ended in accordance with the accounting principles prescribed by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The current year's supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chartered Accountants, Licensed Public Accountants

Windsor, Canada
March 31, 2009

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ESSEX - WINDSOR SOLID WASTE AUTHORITY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2008, WITH COMPARATIVE FIGURES FOR 2007

	<u>2008</u>	<u>2007</u>
	\$	\$
FINANCIAL ASSETS		
Cash	19,036,406	17,223,816
Accounts receivable	2,436,731	3,352,071
Due from City of Windsor (Note 2)	11,956,717	12,312,276
Prepaid expenses and deposit	85,637	478,562
Other current assets	10,135	10,135
TOTAL ASSETS	<u>33,525,626</u>	<u>33,376,860</u>
 LIABILITIES		
Due to County of Essex	153,382	481,141
Accounts payable and accrued liabilities	3,075,187	3,083,812
Holdbacks payable	88,896	199,012
Employee benefits payable (Note 4)	265,700	279,300
Regional landfill post closure costs (Note 5)	1,473,000	1,758,000
Net long term liability (Note 6)	67,121,980	66,396,307
Total Liabilities	<u>72,178,145</u>	<u>72,197,572</u>
 AUTHORITY POSITION		
Fund balances		
Reserve funds (Note 7)	42,350,257	38,897,939
Capital fund (Note 8)	<u>(13,615,096)</u>	<u>(11,043,044)</u>
	28,735,161	27,854,895
Amounts to be recovered (Note 9)	<u>(67,387,680)</u>	<u>(66,675,607)</u>
	<u>(38,652,519)</u>	<u>(38,820,712)</u>
Contingency (Note 11)		
TOTAL LIABILITIES AND AUTHORITY POSITION	<u>33,525,626</u>	<u>33,376,860</u>

The accompanying notes are an integral part of this financial statement.

ESSEX - WINDSOR SOLID WASTE AUTHORITY

**STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008, WITH COMPARATIVE FIGURES FOR 2007**

	Budget 2008 \$ (unaudited)	Actual 2008 \$	Actual 2007 \$
Revenue			
Tipping fees	14,422,768	15,193,518	13,756,499
Sale of recyclable materials	3,842,700	4,006,192	3,846,708
Recovery of perpetual care costs	772,971	772,971	874,719
Rent	79,000	78,982	78,982
Interest income	1,309,208	1,690,700	1,535,317
Sale of scrap metal - public drop-off depots	150,000	151,062	144,861
Other	317,700	331,204	449,240
Stewardship Ontario - recycling operating funding	964,300	939,994	1,098,556
Stewardship Ontario - recycling capital funding	475,092	194,400	-
Stewardship Ontario - municipal household and special waste	-	178,000	-
Sale of blue boxes	58,000	48,876	58,527
Sale of organic material	100,000	162,511	109,979
Insurance proceeds	-	9,256	-
Sale of equipment - recycling	-	900,000	-
Sale of equipment - landfill	243,000	243,000	-
Total Revenue	22,734,739	24,900,666	21,953,388
Expenditures			
Operating			
Administration	1,058,920	1,085,931	1,028,409
Realty	21,500	14,412	13,359
Recycling	5,127,620	5,562,855	5,016,850
Household Hazardous Waste Program	276,900	442,794	295,297
Waste reduction and reuse	866,620	844,911	856,440
Advertising and public education	349,850	334,027	282,658
Perpetual Care - Landfill Site # 2	220,740	195,741	190,625
Perpetual Care - Landfill Site # 3	714,265	594,043	549,119
Regional landfill	2,406,550	2,228,457	1,981,776
Windsor Transfer Station #1	1,233,730	1,378,362	1,446,075
Kingsville Transfer Station #2	528,150	543,889	520,050
Windsor Public Depot	787,969	825,263	744,184
Regional landfill debenture/rental payments	3,551,200	3,451,879	3,258,745
Regional landfill cell #2 north & south construction interest charges	12,100	3,100	13,100
Town of Essex compensation	1,297,000	1,409,696	1,249,680
Residents compensation	36,300	34,850	35,180
Post employment/retirement employee benefits	-	(13,600)	11,600
Regional landfill post closure costs (Note 5)	-	(285,000)	(266,000)
Total Operating	18,489,414	18,651,610	17,227,147
Capital			
Administration	-	9,417	3,817
Recycling	5,195,960	3,987,662	4,876,536
Waste reduction	10,000	49,292	406,721
Perpetual Care - Landfill Site # 2	-	-	37,500
Regional Landfill - equipment/other	1,248,700	1,228,007	265,078
Regional Landfill - initial construction and future cell development	-	725,673	870,853
Windsor Transfer Station #1	-	69,091	2,105,571
Kingsville Transfer Station #2	-	7,385	19,414
Windsor Public Depot	-	2,816	47,977
Household Hazardous Waste Program	-	1,520	6,000
Total Capital	6,454,660	6,080,863	8,639,467
Total expenditures	24,944,074	24,732,473	25,866,614
Net (expenditures) revenue	(2,209,335)	168,193	(3,913,226)
Increase in amounts to be recovered		712,073	882,453
Change in fund balances		880,266	(3,030,773)
Fund balance, beginning of year		27,854,895	30,885,668
Fund balance, end of year		28,735,161	27,854,895

ESSEX - WINDSOR SOLID WASTE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2008, WITH COMPARATIVE FIGURES FOR 2007

	<u>2008</u> \$	<u>2007</u> \$
Cash provided by (used in):		
Operations		
Net revenue (expenditures)	168,193	(3,913,226)
Decrease (increase) in accounts receivable	915,340	(921,172)
Decrease in due from City of Windsor	355,559	2,705,157
Decrease (increase) in prepaid expenses and deposits	392,925	(393,414)
(Decrease) increase in due to County of Essex	(327,759)	110,599
(Decrease) increase in accounts payable and accrued liabilities	(8,625)	747,188
(Decrease) increase in holdbacks payable	(110,116)	174,032
(Decrease) in regional landfill post closure costs	(285,000)	(266,000)
	<u>1,100,517</u>	<u>(1,756,836)</u>
Financing		
(Decrease) increase in employee benefits payable	(13,600)	11,600
Increase in net long term liability	725,673	870,853
	<u>712,073</u>	<u>882,453</u>
Increase (decrease) in cash	1,812,590	(874,383)
Cash, beginning of year	<u>17,223,816</u>	<u>18,098,199</u>
Cash, end of year	<u>19,036,406</u>	<u>17,223,816</u>

The accompanying notes are an integral part of this financial statement.

ESSEX - WINDSOR SOLID WASTE AUTHORITY

RESERVE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Balance, Beginning of Year</u>	<u>Interest Earned</u>	<u>Appropriations to Current Operations</u>	<u>Appropriations from Current Operations</u>	<u>Balance, End of Year</u>
	\$	\$	\$	\$	\$
Equipment Replacement	6,083,839	193,440	(781,440)	971,750	6,467,589
Rate Stabilization	2,123,896	49,312	-	109,312	2,282,520
Working Capital	650,000	-	-	-	650,000
Regional Landfill	1,208,058	35,675	-	64,570	1,308,303
Regional Landfill Perpetual Care	5,528,037	171,569	-	500,000	6,199,606
Regional Landfill Debt Retirement	11,979,767	319,284	(3,451,879)	3,551,200	12,398,372
Regional Landfill Future Cell Construction	11,082,879	873,838	-	-	11,956,717
Landfill 2 Perpetual Care	(16,761)	-	(195,741)	245,051	32,549
Landfill 3 Perpetual Care	258,224	-	(594,043)	527,920	192,101
Recycling	-	-	(37,500)	900,000	862,500
	38,897,939	1,643,118	(5,060,603)	6,869,803	42,350,257

The Essex-Windsor Solid Waste Authority (the "Authority") is a Joint Board of Management created by the Corporation of the County of Essex (the "County") and the Corporation of the City of Windsor (the "City") pursuant to an agreement dated May 18, 1994, (the "EWSWA Agreement") to establish, operate and manage, among other things, the Regional Landfill, recycling and waste diversion programs.

1. Summary of Significant Accounting Policies and Reporting Practices:

The financial statements of the Authority are prepared in accordance with accounting policies prescribed by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

Basis of accounting:

(i) **Accrual:**

The accrual basis of accounting recognizes revenue as it becomes available and is measurable. Expenditures are recognized as they are incurred and are measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

(ii) **Capital assets:**

The historical cost and accumulated depreciation of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the statement of financial activities in the year of acquisition. The amount of these expenditures which are financed from long term debt and remain outstanding is included in the amounts to be recovered in future years on the statement of financial position.

The Authority adopted Public Sector Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants 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 by way of a note to the financial statements until Section 3150 – Tangible Capital Assets comes into effect on January 1, 2009. These provisions require local governments to report and capitalize tangible capital assets at historical cost and amortize these assets over their estimated useful lives.

During 2008, the Authority has worked towards compliance with the new standards. A complete listing and valuation of all tangible assets is currently underway and expected to be completed by December 31, 2009. Asset categories and useful life have been determined for the following asset types:

Asset Classification & Amortization Schedule

Classification	Useful Life (Years)
Land	Infinite
Landfill	50
Buildings	20-40
Machinery & Equipment	4-30
Vehicles	7-15
Furniture & Fixtures	15
Computers	5

Valuation of Assets

Capital Assets are to be recorded at historic cost and include all amounts that are directly attributed to the development, acquisition and set up of the asset. Where historic cost is not available, costs are estimated by determining discounted reproduction, discounted replacement or other valuation methodology.

Amortization

Amortization will be calculated on a straight-line basis for all assets except for land, which has an infinite estimated life. Residual values are deemed to be zero for all assets.

(iii) **Use of Estimates:**

The preparation of the financial statements in conformity 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the valuation of accounts receivable, the valuation of employee future benefits and the carrying value of Regional Landfill post-closure costs. Actual results could differ from those estimates.

(iv) **Regional Landfill closure and post closure liability:**

The liability for closure and post closure care of the Regional Landfill is recognized over the term of operation of the landfill, beginning when the site first accepts waste and will be fully recognized when the site stops accepting waste. The change in the liability and annual expenditure is determined pro-ratably based on the percentage of cumulative cubic metres used over total estimated cubic metres of capacity, to estimated total closure and post-closure expenditures, less expenditures previously recognized.

(v) **Employee future benefit obligations**

The Authority has adopted the accrued method of accounting for employee future benefits as required by the Canadian Institute of Chartered Accountants. 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 rate.

2. Due from City of Windsor:

As more fully described in note 6, the Authority received certain proceeds and investments in settlement of certain litigation. These investments are held in trust by the City on behalf of the Authority and consist of the following:

	<i>Market Value 2008</i>	<i>Market Value 2007</i>
	\$	\$
Government of Canada Stripped Coupon Bond Maturing December 1, 2009 - \$4,797,000	4,748,550	4,468,885
Province of Ontario Stripped Coupon Bond Maturing December 12, 2016 - \$5,961,150	4,271,760	3,989,202
Government of Canada Stripped Coupon Bond Maturing December 1, 2024 - \$5,317,650	2,936,407	2,624,792
Windsor Family Credit Union Term Deposit Certificate – \$7,146,880 Maturing January 15, 2008 – 4.03%	-	1,229,397
	\$11,956,717	\$12,312,276

3. Pension Agreements

The Authority contributes to the Ontario Municipal Employees Retirement System (OMERS) on behalf of 27 employees. OMERS is a multi-employer, defined benefit plan which specifies the amount of the retirement benefit to be received by employees based on their length of service and earnings.

The amount contributed to OMERS for 2008 was \$107,856 (2007 - \$107,232) for current service. Contributions in the current year have been included as an expenditure within the statement of financial activities.

4. Employee Benefits Payable

Employee future benefit obligations are future liabilities of the Authority to its employees and retirees for benefits earned but not taken as at December 31, 2008 and consists of the following:

	2008	2007
	\$	\$
Post retirement benefits	217,600	197,500
Post employment benefits	48,100	81,800
	\$265,700	\$279,300

The Authority measures its post retirement and post employment benefit obligation for accounting purposes as at December 31 each year. A valuation date of December 31, 2008 has been used. The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations are as follows:

	2008	2007
Discount rate	5.25%	5.25%
<i>Medical trend rate</i>		
Initial	10%	12%
Ultimate	6%	6%
Dental trend rate	4%	4%

Information about the Authority's future obligation with respect to post retirement and employment benefits are as follows:

	2008	2007
	\$	\$
Accrued benefit liability at the beginning of the year	279,300	267,700
Current service cost	12,100	13,000
Interest	13,000	15,200
Amortization of net actuarial gains	(29,300)	(8,300)
Benefits paid	(9,400)	(8,300)
Accrued benefit liability at the end of the year	265,700	279,300
Unamortized net actuarial losses (gains)	(27,500)	(26,000)
Accrued benefit obligations at the end of the year	238,200	253,300

5. Regional Landfill Post-Closure Costs:

The Statement of Financial Position reflects a balance of \$1,473,000 (2007 - \$1,758,000) for Regional Landfill closure and post-closure care expenditures, representing an estimate of expenditures that would otherwise be incurred had the Regional Landfill ceased receiving waste as of December 31, 2008. This liability for perpetual care is to be recognized over the term of the Regional Landfill operation, the balance of which is currently estimated to be 37 years, based on past and projected waste levels. The site has an approximate capacity of 12.2 million cubic metres, of which 3.1 million has been consumed to December 31, 2008. The nature of closure and post-closure expenditures will relate to final cover and vegetation; monitoring, hauling and treating leachate; monitoring ground and surface water; monitoring gas and maintenance of drainage system and final cover.

It is being estimated that by the time the Regional Landfill ceases operating in 2045, \$142 million will be required for closure and post-closure care for a period of 40 years subsequent to its closure, which is management's current best estimate of the period such care will be necessary.

The Authority has established a reserve to fund these future expenditures, and at December 31, 2008, the balance in this reserve fund approximated \$6.2 million.

6. Net Long-Term Liability:

In July 2005, the County, City and Authority (the "Plaintiff") settled a legal action commenced in the Ontario Superior Court of Justice against MFP Financial Services, Leasing-Infrastructure Financing Trust 1 ("LIFT") and others in which the Plaintiffs had alleged that certain of the defendants had fraudulently and negligently misrepresented the rate of interest payable by the Plaintiffs in respect of a head lease and sublease intended to be a loan to finance certain costs incurred by the Authority to develop the Regional Landfill and pay the costs of future landfill expansions.

Under the terms of the mediated and Court approved settlement, LIFT assigned its rights under the original head lease which the Court ruled was a loan from LIFT to the County and City, to Sun Life Assurance Company Limited ("Sun Life"). Sun Life restructured the loan, in favour of the debenture in the amount of \$62,808,331, bearing interest at 6.427% per annum, issued by the County, on behalf of the County and the Authority. The County and the City are jointly liable for the debenture, which provides for principal and interest payments on January 15 and July 15 of each year, commencing January 15, 2006 and maturing on July 31, 2031. Total interest over the term of the debenture will aggregate \$88,454,959. Other significant terms and conditions of the settlement are as follows:

- (a) Cash proceeds of \$5,728,000 held by LIFT on account of a payment previously owing under the head lease were distributed to the County and City and used to retire certain indebtedness incurred in prior years by the Authority with respect to Regional Landfill expenditures.
- (b) Investments held by another defendant with a book value of \$10,195,743 at the date of settlement were distributed to the County and the Authority. At their respective maturity dates, these investments will be considered as further advances by LIFT as provided under the original head lease agreement.
- (c) Payment of \$7,146,880 by LIFT to the County and City, which was used, along with interest earned thereon, towards payments otherwise due with respect to the Sun Life debenture during the period commencing January 15, 2006 and ending on January 15, 2008. Those proceeds are intended to effectively reduce the original cost of borrowing included in the head lease and sub-lease during this period. As part of the agreement, no other payments with respect to the debenture are payable during this timeframe.

The investments noted in paragraph (b) above are currently being held by the Authority in trust.

- (d) Payment of \$2,400,000 by MFP Financial Services Limited on account of costs of the legal action incurred by the Plaintiffs.

Net Long term liability consists of:

	2008	2007
	\$	\$
Debenture payable	65,182,292	64,477,590
Accrued Interest	1,939,688	1,918,717
	\$67,121,980	\$66,396,307

Under the terms of the debenture agreement, no principal repayments are required until July 2012 and the excess of interest otherwise payable over

the actual amount of the debenture payments due annually is capitalized as part of the debenture payable.

7. Reserve Funds (See Schedule 1):

The year end balance of the reserve funds of \$ 42,350,257 (2007 - \$38,897,939) is comprised of the following:

	2008	2007
	\$	\$
Equipment Replacement	6,467,589	6,083,839
Rate Stabilization	2,282,520	2,123,896
Working Capital	650,000	650,000
Regional Landfill	1,308,303	1,208,058
Regional Landfill Perpetual Care	6,199,606	5,528,037
Regional Landfill Debt Retirement	12,398,372	11,979,767
Regional Landfill Future Cell Construction	11,956,717	11,082,879
Recycling	862,500	-
Landfill 2 Perpetual Care	32,549	(16,761)
Landfill 3 Perpetual Care	192,101	258,224
	<u>\$42,350,257</u>	<u>\$38,897,939</u>

8. Capital Fund:

The capital fund balance is comprised of:

	2008	2007
	\$	\$
Regional Landfill Heavy Equipment	1,951,701	1,361,251
Regional Landfill Cell #2 - North	-	268,705
Container Recycling Centre Building	3,544,789	4,395,819
Fibre Recycling Centre Orig. Processing Line	157,910	221,310
Fibre and Container Processing Equipment	3,132,404	-
Fibre Building Addition	556,200	-
Transfer Station #2 – Kingsville	53,917	131,217
Compost Pad – Regional Landfill	62,113	122,113
Transfer Station #1 – Windsor	2,263,088	2,367,247
Compost Pad – Windsor Depot	419,974	417,382
Regional Landfill Post Closure	1,473,000	1,758,000
	<u>\$13,615,096</u>	<u>\$11,043,044</u>

9. Amounts to be Recovered:

Amounts to be Recovered are comprised of:

	2008	2007
	\$	\$
Employee Post Employment/Retirement Benefits	265,700	279,300
Regional Landfill Initial Construction and Future Cell Development	67,121,980	66,396,307
	<u>\$67,387,680</u>	<u>\$66,675,607</u>

10. Expenditures by Object:

	2008	2007
	\$	\$
Operating goods and services	11,721,992	10,664,921
Regional Landfill financing costs	3,454,979	3,271,845
Municipal and residential compensation	1,444,546	1,284,860
Salaries, wages and employees benefits	2,030,093	2,005,521
Capital	6,080,863	8,639,467
	<u>\$24,732,473</u>	<u>\$25,866,614</u>

11. Contingency:

During the normal course of operations, the Authority may be subject to various legal actions. The settlement of these actions, if any, is not expected to have a material effect on the financial statements of the Authority.