

Audited Financial Statements of

**CORPORATION OF THE  
TOWNSHIP OF SOUTH FRONTENAC**

Year ended December 31, 2012

Audited Financial Statements

# **CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC**

Year ended December 31, 2012

## **TOWNSHIP OF SOUTH FRONTENAC**

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### **Management's Responsibility for the Consolidated Financial Statements**

The accompanying consolidated financial statements of the Corporation of the Township of South Frontenac (the "Township") are the responsibility of the Township's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards. A summary of the significant accounting policies are described in Note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Township's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The Council meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the Township. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Township's consolidated financial statements.

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Wayne Orr  
Chief Administrative Officer

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Louise Fragnito  
Treasurer



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## INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Township of South Frontenac

We have audited the accompanying consolidated financial statements of the Corporation of the Township of South Frontenac, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations and accumulated municipal surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising 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.

### *Auditors' 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 our 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, we consider 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 consolidated financial position of Corporation of the Township of South Frontenac as at December 31, 2012, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*KPMG LLP*

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Chartered Accountants, Licensed Public Accountants

October 15, 2013

Kingston, Canada

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

## Consolidated Statement of Financial Position

December 31, 2012, with comparative figures for 2011

	2012	2011
Financial assets:		
Cash	\$ 12,452,353	\$ 13,217,933
Taxes receivable	2,422,269	2,487,712
Accounts receivable	890,459	999,110
Long-term investments (note 4)	557,750	554,180
Tile drainage loan receivable (note 16)	7,156	8,700
Sydenham Water Works debenture receivable (note 17)	372,610	386,514
Long-term receivable	111,846	76,071
Total financial assets	16,814,443	17,730,220
Liabilities:		
Accounts payable and accrued liabilities	1,874,697	3,175,878
Deferred revenue	552,111	489,556
Deferred revenue – obligatory reserve funds (note 6)	4,271,706	3,315,302
Tile drainage loan payable (note 16)	7,156	8,700
Sydenham Water Works debenture (note 17)	372,610	386,514
Landfill closure and post-closure liabilities (note 9)	1,438,972	1,352,258
Employee post employment benefit liability (note 7)	110,495	119,783
Total financial liabilities	8,627,747	8,847,991
Net financial assets	8,186,696	8,882,229
Non-financial assets:		
Tangible capital assets (note 18)	81,425,976	81,287,827
Inventory and prepaid expenses	344,904	280,996
Total non-financial assets	81,770,880	81,568,823
Contingent liabilities (note 11)		
Commitments (note 12)		
Accumulated municipal surplus (note 10)	\$ 89,957,576	\$ 90,451,052

The accompanying notes are an integral part of these consolidated financial statements.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

## Consolidated Statement of Operations and Accumulated Municipal Surplus

Year ended December 31, 2012, with comparative figures for 2011

	Budget (Unaudited, note 14)	2012	2011
<b>Revenue:</b>			
Property taxation	\$ 12,391,852	\$ 13,953,221	\$ 12,562,723
User charges	2,014,861	646,247	1,192,332
Licenses, permits and rents	605,837	750,475	727,005
Government grants	2,554,005	2,749,134	3,341,799
Grants from other municipalities	740,000	693,365	942,178
Investment income	69,000	165,394	158,962
Penalties and interest on taxes	370,000	417,003	415,169
Donations	7,400	25,194	71,255
Gain on sale of capital assets	—	120,090	45,375
Other	12,565	141,468	111,184
<b>Total revenue</b>	<b>18,765,520</b>	<b>19,661,591</b>	<b>19,567,982</b>
<b>Expenses (note 13):</b>			
General government	1,418,379	1,327,453	1,165,095
Fire	1,253,103	1,236,315	1,254,729
Police	2,410,145	2,356,164	2,321,806
Conservation authority	176,782	180,373	168,657
Protective inspections and control	507,184	384,670	410,337
Emergency measures	1,300	233	150
Roadways and winter control	9,866,651	10,936,920	11,281,383
Street lighting	87,100	4,456	72,336
Waterworks	321,524	382,405	411,348
Garbage collection and disposal	2,179,021	2,180,072	1,919,841
Landfill closure and post-closure costs	—	86,714	416,774
Cemeteries	5,300	63,426	58,454
Parks, recreation and cultural services	622,739	758,636	727,338
Planning and development	232,963	257,230	175,327
<b>Total expenses</b>	<b>19,082,191</b>	<b>20,155,067</b>	<b>20,383,575</b>
<b>Annual deficit</b>	<b>(316,671)</b>	<b>(493,476)</b>	<b>(815,593)</b>
Accumulated municipal surplus, beginning of year		90,451,052	91,266,645
<b>Accumulated municipal surplus, end of year</b>		<b>\$ 89,957,576</b>	<b>\$ 90,451,052</b>

The accompanying notes are an integral part of these consolidated financial statements.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

## Consolidated Statement of Changes in Net Financial Assets

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Annual deficit	\$ (493,476)	\$ (815,593)
Amortization of tangible capital assets	6,359,980	7,297,013
Acquisition of tangible capital assets	(6,489,655)	(7,366,916)
Proceeds on disposal of tangible capital assets	-	(2,825)
Change in inventories, prepaid expenses	(63,909)	(15,437)
Gain on sale of tangible capital assets	(8,473)	-
	(202,057)	(88,165)
Change in net financial assets	(695,533)	(903,758)
Net financial assets, beginning of year	8,882,229	9,785,987
Net financial assets, end of year	\$ 8,186,696	\$ 8,882,229

The accompanying notes are an integral part of these consolidated financial statements.



# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

## Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
<b>Operations:</b>		
Annual deficit	\$ (493,476)	\$ (815,593)
Items not involving cash:		
Amortization	6,359,980	7,297,013
Gain on sale of tangible capital assets	(8,472)	-
Change in landfill liability	86,714	416,774
Change in employee benefit obligations	(9,288)	(147)
	5,935,458	6,898,047
Change in non-financial assets:		
Increase in prepaid expenses	(63,909)	(15,436)
Change in non-cash assets and liabilities:		
Decrease in taxes receivable	65,443	118,426
Decrease in accounts receivable	108,650	2,730,700
Increase (decrease) in accounts payable and accrued liabilities	(1,301,181)	1,084,034
Increase (decrease) in deferred revenue	62,555	(75,820)
Increase in deferred revenue – obligatory reserve funds	956,404	221,962
	(172,038)	4,063,866
Net change in cash from operations	5,763,420	10,961,913
<b>Investing transactions:</b>		
Purchase of long-term investments	(3,570)	(2,545)
Decrease (increase) in long-term receivable	(35,775)	12,319
	(39,345)	9,774
<b>Capital transactions:</b>		
Proceeds on disposal of tangible capital assets	-	(2,825)
Cash used to acquire tangible capital assets	(6,489,655)	(7,366,916)
	(6,489,655)	(7,369,741)
Increase (decrease) in cash	(765,580)	3,601,946
Cash, beginning of year	13,217,933	9,615,987
Cash, end of year	\$ 12,452,353	\$ 13,217,933

The accompanying notes are an integral part of these consolidated financial statements.

# CORPORATION OF THE TOWNSHIP OF OUTH FRONTENAC

Notes to Consolidated Financial Statements

Year ended December 31, 2012

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## 1. Significant accounting policies:

The consolidated financial statements of the Corporation of the Township of South Frontenac (the "Township") are prepared by management in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Township are as follows:

(a) Basis of consolidation:

- (i) The consolidated financial statements reflect the assets, liabilities, revenue and expenses of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Township and which are owned or controlled by the Township. Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

These consolidated financial statements include:

Sydenham Cemetery Board  
Sandhill Cemetery Board  
Portland Cemetery Board  
Frontenac Community Arena (proportionately consolidated)

Proportionate consolidation:

The Frontenac Community Arena is accounted for using the proportionate consolidation method of accounting and reporting, whereby the municipality's pro-rata share of each of the assets, liabilities, revenue and expenses is combined on a line-by-line basis in the financial statements.

- (ii) The charges for long-term liabilities assumed by consolidated entities or by individuals in the case of the drainage and shoreline property assistance loans are reflected in the financial statements.

(iii) Accounting for school board and county transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards and county are not reflected in the municipal fund balances of these consolidated financial statements.

- (iv) Trust funds and their related operations administered by the Township are not included in these financial statements but are reported on separately on the "Trust Fund Statements of Continuity and Statements of Financial Position".

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 1. Significant accounting policies (continued):

### (b) Basis of accounting:

Revenue and expenses are reported on the accrual basis of accounting. Revenue is recognized as it is earned and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

### (c) Deferred revenue – obligatory reserve funds:

The Township receives restricted contributions under the authority of provincial legislation and Township by-laws. These funds by their nature are restricted in their use and until applied to applicable costs are recorded as deferred revenue. Amounts applied to qualifying expenses are recorded as revenue in the fiscal period they are expended.

### (d) Investments:

Long-term investments are recorded at cost plus accrued interest, which approximates market value. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

### (e) Government transfers:

Government transfers are recognized in the financial statements 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.

### (f) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 revenue and expenses during the period. Significant items subject to such estimates and assumptions include the valuation for landfill closure and past-closure costs and the useful lives of tangible capital assets.

Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 1. Significant accounting policies (continued):

### (g) Landfill closure and post-closure liabilities:

The Township accrues landfill closure and post-closure care requirements that have been defined in accordance with Ministry standards and include final covering and landscaping of the landfill, ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a period of up to fifty years using the best information available to management.

Future events may result in significant changes to the estimated total expenses, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

### (h) Deferred revenue:

The Township receives contributions pursuant to legislation, regulations or agreement that may only be used for certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed.

### (i) Employee future benefits:

The Township accrues its obligations for the employee benefit plan. The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued benefit obligation, are amortized over the average remaining service life of the related employee groups, which is estimated to be 10 years for the actuarial loss in 2008.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 1. Significant accounting policies (continued):

(j) Non-financial assets:

Non financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Land improvements	15 - 20
Buildings and building improvements	20 - 50
Vehicles	8 - 20
Machinery and equipment	3 - 25
Water infrastructure	50 - 70
Roads and bridges infrastructure	7 - 50

Annual amortization is charged in the year of acquisition. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets:

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

(iii) Natural resources:

Natural resources that have not been purchased are not recognized as assets in the financial statements.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 1. Significant accounting policies (continued):

### (j) Non-financial assets (continued):

#### (iv) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

#### (v) Inventories of supplies:

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

## 2. Operations of school boards and the County of Frontenac:

During 2012, the Township collected property taxes and payments in lieu of property taxes on behalf of the school boards and the County of Frontenac. The amounts collected and remitted are summarized below:

	School Boards		County of Frontenac	
	2012	2011	2012	2011
Amounts collected and remitted	\$ 5,868,877	\$ 5,654,047	\$ 4,847,969	\$ 4,885,697

## 3. Contributions to consolidated joint board:

The following contributions were made by the Township to this board:

	2012	2011
North Frontenac Community Arena	\$ 46,297	\$ 50,134

The Township is contingently liable for its share, which is approximately 59% of any accumulated deficits as at the end of the year for this board. The Township's share of the accumulated surpluses (or deficits) of this joint board is as follows:

North Frontenac Community Arena	\$ 568,530	\$ 576,274
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The Township paid \$490,643 on behalf of North Frontenac Community Arena for expenses relating to Project End Zone. In the current year, \$6,811 has been repaid leaving a receivable balance of \$192,612 at year end.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

#### 4. Long-term investments:

Total long-term investments of \$557,750 (2011 - \$554,180) reported on the "Consolidated Statement of Financial Position" at cost plus accrued interest, have a market value of \$594,769 (2011 - \$591,189) at the end of the year.

#### 5. Trust funds:

Trust funds administered by the Township amounting to \$578,775 (2011 - \$561,066) 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 Municipal Surplus".

#### 6. Deferred revenue – obligatory reserve funds:

A requirement of the public sector accounting principles of the Canadian Institute of Chartered Accountants is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial and municipal legislation restricts how these funds may be used. The balances in the obligatory reserve funds of the Township are summarized below:

	2012	2011
Balance, beginning of year	\$ 3,315,302	\$ 3,093,340
Department surplus	155,132	–
Development contributions	268,698	231,794
Subdivider contributions	180,186	136,119
Investment income	64,695	59,811
Gasoline tax	916,212	851,181
Transfer from other reserve funds	401,083	–
Grant utilized	(666,508)	(736,047)
Other revenue utilized	(363,094)	(320,896)
	<b>\$ 4,271,706</b>	<b>\$ 3,315,302</b>
Analyzed as follows:		
Gasoline tax	\$ 682,337	\$ 425,213
Investment in Ontario	300,950	297,162
Development charges	1,700,899	1,602,618
Cash in lieu of parkland	901,512	863,760
Subdivider contributions	166,612	126,549
Building department	190,330	–
Water reserve fund	329,066	–
	<b>\$ 4,271,706</b>	<b>\$ 3,315,302</b>

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 7. Employee post employment benefit liability:

(a) Employee non-pension retirement benefits (extended health care for early retirees):

Effective January 1, 2008, the Township began to provide extended health care to its employees. Extended health care continues to be available to early retirees up to the age of 65, with the retiree generally being responsible for paying 50% of the benefit premiums.

An independent actuarial study of the employee non-pension retirement benefit has been undertaken. The most recent valuation of the employee future benefits was completed for 2011 and will be applied effective January 1, 2011.

The accrued benefit obligation relating to employee non-pension retirement benefits has been actuarially determined using the projected benefit method pro-rated on services. At December 31, 2012, based on an actuarial update, the accrued benefit obligation was \$118,120 (2011 - \$128,409).

The significant actuarial assumptions adopted in estimating the Township's accrued benefit obligation are as follows:

Discount rate	4.25% per annum
Health benefits escalation	6.67% per annum, scaling down over 8 years to 4.0% thereafter

Information with respect to the Township's non-pension retirement obligations is as follows:

	2012	2011
Accrued benefit liability, beginning of year	\$ 119,793	\$ 119,930
Expense recognized for the year	4,036	6,941
Interest cost	5,130	7,250
Increase due to plan amendment	—	2,490
Benefits paid for the year	(18,464)	(16,828)
<b>Accrued benefit liability, end of year</b>	<b>\$ 110,495</b>	<b>\$ 119,783</b>

The accrued benefit liability at December 31 includes the following components:

	2012	2011
Accrued benefit obligation, end of year	\$ 118,120	\$ 128,409
Unamortized actuarial loss	(7,625)	(8,626)
<b>Accrued benefit liability, end of year</b>	<b>\$ 110,495</b>	<b>\$ 119,783</b>



# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## **8. Pension agreements:**

The Township makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of forty-two 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.

The amount contributed to OMERS for 2012 was \$205,828 (2011 - \$172,807) for current service and is included as an expense on the "Consolidated Statement of Operations and Accumulated Municipal Surplus".

## **9. Landfill closure and post-closure liabilities:**

The Environmental Protection Act sets out the regulatory requirements to properly close and maintain all active and inactive landfill sites. Under environmental law, there is a requirement for closure and post-closure care of solid waste landfill sites. This requirement is to be provided for over the estimated remaining life of the landfill site based on usage.

Landfill closure and post-closure care requirements have been defined in accordance with Ministry standards and include final covering and landscaping of the landfill, ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a period of up to fifty years using the best information available to management. Future events may result in significant changes to the estimated total expenses, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

The Township currently has five active and five inactive landfill sites. The estimated remaining capacity of the active landfill sites ranges from 4.0% to 51% of the total estimated capacity and the estimated remaining life of the active landfill sites ranges from twelve years to thirty-two years. The period for post-closure care for all sites is estimated to be fifteen years.

Estimated total expenses represent the sum of the discounted future cash flows for closure and post-closure care activities using an estimated inflation rate of 2% and discounted at the Township's average long-term borrowing rate of 6% (2011 - 6%). The estimated total landfill closure and post-closure care expenses are calculated to be approximately \$1,903,999 (2011 - \$1,822,645). For sites that are still active, the estimated liability for these expenses is recognized as the landfill site's capacity is used. For sites that are inactive, the estimated liability for these expenses is recognized immediately. Included in liabilities at December 31, 2012 is an amount of \$1,438,972 (2011 - \$1,352,258) with respect to landfill closure and post-closure liabilities recognized to date.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 10. Accumulated municipal surplus:

Accumulated municipal surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2012	2011
Surplus (deficit)	\$ 224,748	\$ (199,424)
Cemetery boards	3,666	3,665
North Frontenac Community Arena	(27,347)	(21,854)
Invested in tangible capital assets:		
Tangible capital assets	81,425,976	81,287,827
Unfinanced capital expense	(1,137,870)	(1,018,886)
Landfill closure and post-closure to be recovered	(1,438,972)	(1,352,258)
<b>Total surplus</b>	<b>79,050,201</b>	<b>78,699,070</b>
Reserves set aside for specific purposes by Council:		
Fiscal:		
Working funds	2,998,373	3,025,343
Equipment and infrastructure:		
Global	832,002	275,000
Vertical	934,461	1,271,347
Rolling	844,954	839,096
Linear	1,184,396	1,477,085
Stabilization	2,290,850	2,424,049
General government capital	-	128,892
	9,085,036	9,440,812
Reserve funds set aside for specific purposes by Council:		
Election	63,027	44,460
General government capital	-	451,759
Roadways capital	701,792	692,957
Future landfill closing	1,057,520	1,091,010
Accessibility	-	25,832
Other capital	-	5,152
	1,822,339	2,311,170
<b>Total accumulated municipal surplus</b>	<b>\$ 89,957,576</b>	<b>\$ 90,451,052</b>

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 11. Contingent liabilities:

The nature of the Township's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at December 31, 2012, management believes that the Township has valid defences and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Township's financial position. As a result, no provision has been made in these financial statements for any settlement which may arise as a result of these claims.

## 12. Commitments:

- (a) The Township has entered into an agreement with the Ontario Provincial Police for the provision of police services. The term of the agreement is five years, commencing April 1, 2008 at an annual cost of approximately \$2.3 million.
- (b) The Township entered into an Agreement with 1425445 Ontario Limited operating as Utilities Kingston for the operation and maintenance of the water system. The term of the Agreement that expired on April 1, 2009 was renegotiated on April 23, 2012 for a term ending December 31, 2014. The annual cost as at December 31, 2012 was \$118,427 (2011 - \$112,360).

## 13. Supplementary information:

	2012	2011
Expenses by object:		
Salaries, wages and employee benefits	\$ 3,940,554	\$ 3,378,767
Materials, services, rents and financial expenses	9,594,565	9,477,310
Transfers to others	259,969	230,485
Amortization	6,359,979	7,297,013
	<u>\$ 20,155,067</u>	<u>\$ 20,383,575</u>

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 14. Budget figures:

The unaudited budget data presented in these consolidated financial statements is based upon the 2012 operating and capital budgets approved by Council on May 21, 2013. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements. An amount for amortization expense has been added and is based on management's best estimate. Amortization expense was not included in the original council-approved budget. The approved budget to the budget figures reported in these consolidated financial statements is listed below:

	2012 Budget
Reported on statement of operations:	
Revenue	\$ 18,765,520
Expenses	19,082,191
Less: amortization	(6,359,980)
	12,722,211
Annual surplus before transfers	\$ 6,043,309
Budget not reported on statements:	
Transfer to capital	\$ (6,889,500)
Transfer from reserve and reserve fund	846,191
Total budget transfers not reported on statement	\$ (6,043,309)

## 15. Fair value of financial assets and financial liabilities:

The carrying value of taxes receivable, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

The market value of long-term investments is disclosed in note 4.

## 16. Tile drainage loan receivable and payable:

The loan payable bears annual interest at 6% and is repayable in 10 equal instalments of principal and interest of \$2,065 commencing December 1, 2006. The responsibility for payment of principal and interest for the loan has been assumed by individuals and therefore has been shown in the financial statements as both a loan receivable and payable.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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**17. Sydenham Water Works debenture receivable and payable:**

The debenture was issued on December 1, 2008, bears annual interest at 5.75% and is repayable in forty equal bi-annual instalments of blended principal and interest of \$17,966 commencing June 1, 2009. The responsibility for payment of principal and interest for the loan has been assumed by individuals and therefore has been shown in the financial statements as both a loan receivable and payable.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 18. Tangible capital assets:

Cost	Balance at December 31, 2011 (note 2)	Additions	Disposals, adjustments	Balance at December 31, 2012
Land	\$ 3,071,503	\$ —	\$ 4,249	\$ 3,067,254
Land improvements	297,075	—	—	297,075
Buildings and building improvements	6,992,460	456,043	—	7,448,503
Vehicles, machinery and equipment	11,307,248	986,131	423,252	11,870,127
Roads and bridges infrastructure	127,400,340	4,408,675	—	131,809,015
Sidewalks	72,643	—	—	72,643
Water infrastructure	9,253,960	—	—	9,253,960
Assets under construction	141,903	792,071	141,903	792,071
North Frontenac Community Arena	711,562	3,386	—	714,948
<b>Total</b>	<b>\$ 159,248,694</b>	<b>\$ 6,646,306</b>	<b>\$ 569,404</b>	<b>\$ 165,325,596</b>

Accumulated amortization	Balance at December 31, 2011 (note 2)	Amortization expense	Disposals, adjustments	Balance at December 31, 2012
Land improvements	\$ 20,511	\$ 14,854	\$ —	\$ 35,365
Buildings and building improvements	2,151,902	184,797	—	2,336,699
Vehicles, machinery and equipment	5,554,444	728,467	421,226	5,861,685
Roads and bridges infrastructure	69,354,882	5,246,022	—	74,600,904
Sidewalks	61,573	1,818	—	63,391
Water infrastructure	633,099	165,423	—	798,522
North Frontenac Community Arena	184,456	18,598	—	203,054
<b>Total</b>	<b>\$ 77,960,867</b>	<b>\$ 6,359,979</b>	<b>\$ 421,226</b>	<b>\$ 83,899,620</b>

	Net book value December 31, 2011	Net book value December 31, 2012
Land	\$ 3,071,503	\$ 3,067,254
Land improvements	276,564	261,710
Buildings and building improvements	4,840,558	5,111,804
Vehicles, machinery and equipment	5,752,804	6,008,442
Roads and bridges infrastructure	58,045,458	57,208,111
Sidewalks	11,070	9,252
Water infrastructure	8,620,861	8,455,438
Assets under construction	141,903	792,071
North Frontenac Community Arena	527,106	511,894
<b>Total</b>	<b>\$ 81,287,827</b>	<b>\$ 81,425,976</b>

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 18. Tangible capital assets (continued):

### (a) Assets under construction

Assets under construction having a value of \$729,832 (2011 - \$141,903) have not been amortized. Amortization of these assets will commence when the asset is put into service.

### (b) Tangible capital assets disclosed at nominal values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

## 19. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

## 20. Segmented information:

The Township is a municipal government institution that provides a range of services to its citizens, including police, fire, transportation, recreational and environmental. For management reporting purposes the Township's operations and activities are organized and reported by department. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

Municipal services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

### (a) Administration:

Includes corporate services and governance of the Township. Administration as a segment includes human resource management, support to Council for policy development, by-law development in compliance with the Municipal Act, tax billing and collection responsibilities, financial management reporting, monitoring and overall budget status as well as frontline reception and customer service.

### (b) Protection Services:

Includes policing, fire protection, conservation authority, protective inspection and control and emergency measures. The mandate of the police services contract is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. Fire protection includes inspection, extinguishing and suppression services; emergency medical first response; and prevention education and training programs. Inspection and control includes building inspection, by-law enforcement and dog control services.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 20. Segmented information (continued):

(c) Transportation Services:

This department provides the winter and summer maintenance, the repair and the construction of the municipal roads system including bridges and culverts.

(d) Environmental Services:

Includes the management and maintenance of water treatment and distribution.

(e) Cemetery Boards:

Includes the management and maintenance of municipal cemeteries.

(f) Parks, Recreation and Culture:

Provides services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure programs and facilities including community halls, libraries, parks, recreation fields and the proportionate share of North Frontenac Community Arena.

(g) Planning and Development:

Manages development for business interests, environmental concerns, heritage matters, local neighbourhoods and community development. It facilitates economic development by providing services for the approval of all land development plans, the application and enforcement of the zoning by-law and official plan, and the provision of geomatics services.

For each segment separately reported, the segment revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. These municipal services are funded primarily by property tax revenue. Taxation is apportioned to these services based on the funding requirement. Certain government transfers, transfer from other funds, and other revenue have been apportioned based on a percentage of budgeted expenses.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.



# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Consolidated Schedule of Segment Information

Year ended December 31, 2012

	Administration	Protection Services	Transportation Services	Environmental Services	Health Services	Parks, Recreation and Culture	Planning and Development	Total
<b>Revenue:</b>								
Taxation	\$ 13,953,221	-	-	-	-	-	-	\$ 13,953,221
Penalties and interest	417,003	-	-	-	-	-	-	417,003
Government unconditional Grants	1,545,300	322,500	-	-	-	-	-	1,867,800
Government conditional grants	-	21,412	-	829,025	-	23,834	-	874,271
Other municipalities	-	-	625,320	-	-	68,045	-	693,365
Licenses, permits and rents	209,090	342,295	17,968	15,188	-	124,663	-	709,204
User fees and service charges	13,661	23,280	4,350	332,624	33,957	107,683	75,167	590,722
Other	201,396	(359,969)	340,220	162,588	7,531	193,111	11,128	556,005
	16,339,671	349,518	987,858	1,339,425	41,488	517,336	86,295	19,661,591
<b>Expenses:</b>								
Salaries, wages and employee benefits	751,318	706,455	1,869,467	223,417	-	229,745	160,152	3,940,554
Interest on long-term debt	-	-	-	22,028	-	1,562	519	24,109
Materials	252,088	270,576	2,528,141	247,843	3,656	187,471	24,685	3,514,460
Contracted services	199,638	2,690,670	738,261	1,978,860	59,770	312,777	71,871	6,051,847
Rents and financial expenses	4,149	-	-	-	-	-	-	4,149
External transfers	42,542	191,946	21,070	-	-	4,411	-	259,969
Amortization	77,718	298,109	5,784,437	177,044	-	22,671	-	6,359,979
Total expenses	1,327,453	4,157,756	10,941,376	2,649,192	63,426	758,637	257,227	20,155,067
Excess of revenue over expenses (expenses over revenue)	\$ 15,012,218	\$ (3,808,238)	\$ (9,953,518)	\$ (1,309,767)	\$ (21,938)	\$ (241,301)	\$ (170,932)	\$ (493,476)



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## INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the  
Corporation of the Township of South Frontenac

We have audited the accompanying financial statements of Corporation of the Township of South Frontenac, which comprise the statement of the statements of financial position of trust funds as December 31, 2012, the statements of continuity of trust funds for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Corporation of the Township of South Frontenac as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*KPMG LLP*

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Chartered Accountants, Licensed Public Accountants

October 15, 2013

Kingston, Canada

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Trust Funds

Statements of Financial Position

December 31, 2012, with comparative figures for 2011

Name of Fund	Fire trust	Cemetery perpetual care	Monument perpetual care	Muriel Burns	Ontario home renewal program	Grant family memorial endowment	Total 2012	Total 2011
<b>Assets</b>								
<b>Current assets:</b>								
Cash	\$ 9,914	\$ 387,276	\$ 70,165	\$ -	\$ 55	\$ 25,374	\$ 492,784	\$ 476,300
Investments at cost, which approximates market value:								
Term deposits	-	32,500	-	25,000	-	-	57,500	57,500
	9,914	419,776	70,165	25,000	55	25,374	550,284	533,800
Long-term notes receivable	-	-	-	-	28,491	-	28,491	28,491
	\$ 9,914	\$ 419,776	\$ 70,165	\$ 25,000	\$ 28,546	\$ 25,374	\$ 578,775	\$ 562,291
<b>Liabilities and Capital</b>								
<b>Current liabilities:</b>								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,224
Capital (note 3)	9,914	419,776	70,165	25,000	28,546	25,374	578,775	561,067
	\$ 9,914	\$ 419,776	\$ 70,165	\$ 25,000	\$ 28,546	\$ 25,374	\$ 578,775	\$ 562,291

## Statements of Continuity

Year ended December 31, 2012, with comparative figures for 2011

Balance, beginning of year	\$ -	\$ 400,576	\$ 66,197	\$ 25,000	\$ 28,540	\$ 29,684	\$ 549,997	\$ 547,083
Sales of perpetual care	-	19,200	3,100	-	-	-	22,300	12,620
Transfer from reserve	14,339	-	-	-	-	-	14,339	-
Donations	2,631	-	-	-	-	-	2,631	-
Interest earned	239	4,639	868	313	6	374	6,439	6,192
	17,209	23,839	3,968	313	6	374	45,709	18,812
<b>Expenses:</b>								
Transfer to operating fund	7,295	4,639	-	313	-	4,684	16,931	4,829
Capital donations	-	-	-	-	-	-	-	-
Transfer to revenue fund	-	-	-	-	-	-	-	-
Refund to province	-	-	-	-	-	-	-	-
	7,295	4,639	-	313	-	4,684	16,931	4,829
Balance, end of year	\$ 9,914	\$ 419,776	\$ 70,165	\$ 25,000	\$ 28,546	\$ 25,374	\$ 578,775	\$ 561,066

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

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Trust Funds

Notes to Financial Statements

Year ended December 31, 2012

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## 1. Significant accounting policies:

The financial statements of the Corporation of the Township of South Frontenac Trust Funds are prepared by management in accordance with Canadian public sector accounting standards.

(a) Basis for accounting:

These statements reflect the assets, liabilities, revenue and expenses of the Trusts.

(b) Revenue recognition:

Revenue and expenses are recorded on an accrual basis.

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

(c) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 revenue and expenses during the period.

Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

## 2. Ontario Home Renewal Program:

The Ontario Home Renewal Program was established by the Ontario Ministry of Housing in 1973 to provide grants for municipalities to make loans to assist owner occupants to repair, rehabilitate and improve their homes to local property standards. Individual loans are limited to \$7,500 of which the maximum forgivable portion is \$4,000.

Ontario Home Renewal Program loans receivable at December 31, 2012 are comprised of repayable loans of \$28,492 (2011 - \$28,492) and forgivable loans of \$400 (2011 - \$400). Loan forgiveness is earned and recorded at a rate of up to \$600 per year of continued ownership and occupancy. In the event of the sale or lease of the home or in the event of the homeowner ceasing to occupy the home, the balances of the repayable loan and the unearned forgivable loan immediately become due and payable by the homeowner.

# CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Trust Funds

Notes to Financial Statements (continued)

Year ended December 31, 2012

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**3. Monument perpetual care:**

The capital balance of monument perpetual care includes the original capital contributions received as well as accumulated unspent income on the capital contributions received. The unspent income of \$868 (2011 - \$808) is available for future expenses related to monument perpetual care.

**4. Statement of cash flows:**

A statement of cash flows has not been included in these financial statements as it would not provide additional meaningful information.