

Consolidated Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF NORTH FRONTENAC**

Year ended December 31, 2009

Consolidated Financial Statements of

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Year ended December 31, 2009

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

| | Page |
|---|------|
| Management's Responsibility for the Consolidated Financial Statements | 1 |
| Auditors' Report | 2 |
| Consolidated Statement of Financial Position | 3 |
| Consolidated Statement of Operations | 4 |
| Consolidated Statement of Change in Net Financial Assets | 5 |
| Consolidated Statement of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Schedule of Segment Disclosure | 21 |

TRUST FUNDS

| | |
|---|----|
| Auditors' Report | 22 |
| Statement of Financial Position and Statement of Continuity | 23 |
| Notes to Financial Statements | 24 |

Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of the Corporation of the Township of North Frontenac (the "Township") are the responsibility of the Township's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. 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 audit committee 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.

Cheryl Robson
Chief Administrative Officer/Treasurer

Angela Millar
Deputy Treasurer / Administrative
Financial Coordinator



KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Fax (613) 549-6349
Internet www.kpmg.ca

AUDITORS' REPORT

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

We have audited the consolidated statement of financial position of the Corporation of the Township of North Frontenac as at December 31, 2009 and the consolidated statements of financial activities, change in net financial assets and cash flows for the year then ended. These financial statements are the responsibility of the Township'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 consolidated financial statements present fairly, in all material respects, the financial position of the Township as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

February 26, 2010

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Financial Position

December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 (Restated, note 2) |
|--|---------------|-------------------------------|
| Financial assets: | | |
| Cash | \$ 1,646,365 | \$ 1,679,389 |
| Taxes receivable | 612,171 | 597,429 |
| Trade and other receivables | 755,659 | 339,452 |
| Long-term investments (note 3) | 600,000 | 627,905 |
| | 3,614,195 | 3,244,175 |
| Financial liabilities: | | |
| Accounts payable and accrued liabilities | 642,334 | 668,381 |
| Deferred revenue – obligatory reserve funds (note 4) | 219,687 | 134,817 |
| Deferred revenue – other | 6,712 | 13,606 |
| Long-term liabilities | 84,000 | – |
| Solid waste management facility liabilities (note 5) | 537,429 | 1,006,289 |
| | 1,490,162 | 1,823,093 |
| Net financial assets | 2,124,033 | 1,421,082 |
| Non-financial assets: | | |
| Tangible capital assets (note 13) | 26,686,082 | 30,772,258 |
| Prepaid expenses | 16,986 | 18,461 |
| | 26,703,068 | 30,790,719 |
| Contingencies (note 11) | | |
| Accumulated municipal equity (note 14) | \$ 28,827,101 | \$ 32,211,801 |

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Operations

Year ended December 31, 2009, with comparative figures for 2008

| | Budget (Unaudited, note 10) | 2009 | 2008 (Restated, note 2) |
|--|-----------------------------------|---------------|-------------------------------|
| Revenue: | | | |
| Net taxation and payments-in-lieu | \$ 3,713,191 | \$ 3,749,611 | \$ 3,526,724 |
| Transfer payments | 1,304,000 | 1,304,000 | 596,800 |
| Transfers from deferred obligatory reserve funds | - | - | 70,191 |
| Government grants | 188,684 | 630,009 | 1,632,558 |
| Other | 616,033 | 522,540 | 550,871 |
| Investment income | 25,000 | 22,873 | 67,344 |
| | 5,846,908 | 6,229,033 | 6,444,488 |
| Expenses: | | | |
| Current (note 6): | | | |
| General government | 911,705 | 1,037,805 | 878,916 |
| Protection to persons and property | 926,393 | 898,265 | 957,975 |
| Transportation services | 2,231,157 | 7,041,594 | 6,994,656 |
| Environmental services | 497,616 | (62,951) | 134,339 |
| Health services | 28,765 | 20,656 | 8,494 |
| Recreation and culture | 433,837 | 420,299 | 379,800 |
| Planning and development | 275,483 | 204,374 | 209,397 |
| Transfer to obligatory reserve fund (note 4) | 73,020 | 53,691 | - |
| Total expenses | 5,377,976 | 9,613,733 | 9,563,577 |
| Annual deficit | 468,932 | (3,384,700) | (3,119,089) |
| Accumulated municipal equity, beginning of year | - | 32,211,801 | 35,330,890 |
| Accumulated municipal equity, end of year | \$ - | \$ 28,827,101 | \$ 32,211,801 |

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2009, with comparative figures for 2008

| | Budget (Unaudited, note 10) | 2009 | 2008 |
|---|-----------------------------------|----------------|----------------|
| Annual surplus | \$ 468,932 | \$ (3,384,700) | \$ (3,119,089) |
| Acquisition of tangible capital assets | (139,167) | (1,176,075) | (940,481) |
| Amortization of tangible capital assets | - | 5,262,251 | 5,443,932 |
| | 329,765 | 701,476 | 1,384,362 |
| Acquisition of prepaid expenses | - | - | (6,149) |
| Use of prepaid expenses | - | 1,475 | - |
| | - | 1,475 | (6,149) |
| Change in net financial assets | 329,765 | 702,951 | 1,378,213 |
| Net financial assets, beginning of year | - | 1,421,082 | 42,869 |
| Net financial assets, end of year | \$ - | \$ 2,124,033 | \$ 1,421,082 |

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 (Restated, note 2) |
|--|---------------|-------------------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual surplus | \$(3,384,700) | \$(3,119,089) |
| Items not involving cash: | | |
| Amortization | 5,262,251 | 5,443,932 |
| Change in landfill liability | (468,860) | (371,711) |
| Change in non-cash assets and liabilities: | | |
| Taxes receivable | (14,742) | (77,497) |
| Trade and other receivables | (416,207) | 91,606 |
| Accounts payable and accrued liabilities | (26,047) | 185,695 |
| Deferred revenue – obligatory reserve funds | 84,870 | (32,155) |
| Deferred revenue – other | (6,894) | 5,014 |
| Prepaid expenses | 1,475 | (6,149) |
| Net change in cash from operating activities | 1,031,146 | 2,119,646 |
| Capital activities: | | |
| Cash used to acquire tangible capital assets | (1,176,075) | (940,481) |
| Investing activities: | | |
| Investments | 27,905 | 281,901 |
| Financing activities: | | |
| Debt issued and assumed | 140,120 | – |
| Long-term debt repaid | (56,120) | – |
| Net change in cash from financing activities | 84,000 | – |
| Net change in cash | (33,024) | 1,461,066 |
| Cash, beginning of year | 1,679,389 | 218,323 |
| Cash, end of year | \$ 1,646,365 | \$ 1,679,389 |

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements

Year ended December 31, 2009

1. Accounting policies:

The consolidated financial statements of the Corporation of the Township of North Frontenac (the "Township") are prepared by management, in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. 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 and fund balances of the current, capital and reserves and reserve funds 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.

All interfund assets, liabilities and revenue and expenses have been eliminated.

- (ii) Accounting for upper tier and school board transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards and the County of Frontenac are not reflected in these financial statements.

- (iii) Trust funds:

Trust funds and their related operations administered by the municipality are not consolidated, but are reported separately on the Trust Fund Statement of Financial Position and Statement of Continuity.

- (b) Deferred revenue – obligatory reserve funds:

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

- (c) Deferred revenue – other:

Deferred revenue represents government transfers, service charges and user fees which have been collected but for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the services are performed.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

1. Accounting policies (continued):

(d) Solid waste management facility liabilities:

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

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

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian 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 revenue and expenses during the period. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

In addition, the Township's implementation of the Public Sector Accounting Handbook PS 3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

(f) 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.

(g) Investments:

Short-term and long-term investments are recorded at cost plus accrued interest and amortization of purchase premiums and discounts. 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.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

1. Accounting policies (continued):

(h) Accrual 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 receipt of goods or services and the creation of a legal obligation to pay.

(i) 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 - 25 |
| Buildings and building improvements | 50 |
| Vehicles, machinery and equipment | 7 - 25 |
| Roads and bridges infrastructure | 10 - 45 |

Annual amortization is charged 50% in the year of acquisition and in the year of disposal. 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) 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.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

1. Accounting policies (continued):

(i) Non-financial assets (continued):

(iv) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

2. Change in accounting policies:

The Township has implemented Public Sector Accounting Board ("PSAB") sections 1200 *Financial Statement Presentation* and 3150 *Tangible Capital Assets*. Section 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. Section 3150 requires governments to record and amortize their tangible capital assets in their financial statements. In prior years, tangible capital asset additions were expensed in the year of acquisition or construction.

Methods used for determining the cost of each major category of tangible capital assets

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The Township applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, the Consumer Price Index was used as a resource for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

2. Change in accounting policies (continued):

This change has been applied retroactively and prior periods have been restated. This change in accounting policy has changed amounts reported in the prior period as follows:

| | |
|---|----------------|
| Accumulated surplus at January 1, 2008: | |
| Current fund balance | \$ 150,000 |
| Reserves | 183,292 |
| Reserve funds | 1,099,889 |
| Amounts to be recovered | (1,378,000) |
| Accumulated surplus, as previously reported | 55,181 |
| Net book value of tangible capital assets recorded | 35,275,709 |
| Accumulated surplus at January 1, 2008, as restated | \$ 35,330,890 |
| Annual surplus for 2008: | |
| Net revenues, as previously reported | \$ 1,384,362 |
| Assets capitalized but previously expensed | 940,481 |
| Amortization expense not previously recorded | (5,443,932) |
| Annual surplus, as restated | \$ (3,119,089) |

3. Long-term investments:

Long-term investments, which consist primarily of government bonds and guaranteed investment certificates, are recorded on the Consolidated Statement of Financial Position at cost, plus accrued interest, which approximates market value.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

4. 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:

| | 2009 | 2008 |
|-----------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 134,817 | \$ 166,972 |
| Development contributions | 30,025 | 35,388 |
| Investment income | 1,154 | 2,648 |
| Transfer to current fund | (29,357) | (13,516) |
| Transfers to capital fund | (3,398) | (56,675) |
| Transfer from current fund | 86,446 | - |
| Balance, end of year | \$ 219,687 | \$ 134,817 |
| Analyzed as follows: | | |
| Recreation land | \$ 126,455 | \$ 96,984 |
| Federal gasoline tax | 93,232 | 37,833 |
| | \$ 219,687 | \$ 134,817 |

5. Solid waste management facility 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 industry standards and include final covering and landscaping of the landfill, treatment and monitoring of leachate, monitoring ground water and surface water, gas monitoring and recovery, and ongoing maintenance of various control systems, drainage systems and final cover. The reported liability is based on estimates and assumptions with respect to events extending over a fifty-six year period using the best information available to management. Future events will result in changes to the estimated total expenditures, capacity used or total capacity and the estimated liability and will be recognized prospectively, as a change in estimate, when applicable.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

5. Solid waste management facility liabilities (continued):

Estimated total expenses represent the sum of the discounted future cash flows for closure and post-closure monitoring activities using an assumed rate of 2% for inflation and a discount factor of 6%. The estimated total landfill closure and post-closure expenditures are estimated to be \$892,178 (2008 - \$2,851,242). The Township currently has five active and three inactive landfill sites. For sites that are still active, the estimated liability for these expenditures is recognized as the landfill sites' capacity is used. For sites that are inactive, the estimated liability for these expenditures is recognized immediately. Included in liabilities at December 31, 2009 is an amount of \$537,429 (2008 - \$1,006,289) with respect to landfill closure and post-closure obligations recognized to date.

The estimated average remaining capacity of the landfill sites is 70% of the total estimated capacity and the estimated average remaining life of the landfill sites is 34 years, after which the period for post-closure care is estimated to be 25 years.

6. Expenditure:

Expenditure by object classification are as follows:

| | 2009 | 2008 |
|--|---------------------|---------------------|
| Materials and supplies | \$ 2,207,897 | \$ 2,051,109 |
| Salaries, wages and benefits | 2,032,733 | 1,844,492 |
| Services, rents and financial services | 508,893 | 582,628 |
| External transfers | 17,128 | 13,127 |
| Solid waste management facility | (468,860) | (371,711) |
| Amortization | 5,262,251 | 5,443,932 |
| Transfer to obligatory reserve fund | 53,691 | - |
| | \$ 9,613,733 | \$ 9,563,577 |

7. Operations of school boards and the County of Frontenac:

During 2009, requisitions were made by the school boards and the County of Frontenac requesting the Township to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

| | School Boards | | County of Frontenac | |
|-------------------------------------|---------------|--------------|---------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Amounts requisitioned and collected | \$ 1,393,697 | \$ 1,312,891 | \$ 1,344,692 | \$ 1,298,886 |

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

8. Pension agreement:

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan which covers substantially all of its employees. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employee based on length of service and rates of pay.

The amount contributed to OMERS for 2009 current services was \$73,156 (2008 - \$65,444).

9. Trust funds:

Trust funds administered by the municipality at year end amount to \$98,834 (2008 - \$97,235). Trust funds are reported separately on the Trust Funds Statements of Financial Position and Statements of Continuity.

10. Budget figures:

The Township reviews its operating and capital budgets annually. Budget figures have not been audited and are presented for information purposes. Amortization was not contemplated during the development of the budget and, as such, has not been included.

11. Contingencies:

The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims as at December 31, 2009, management believes that the Township has valid defences and appropriate insurance coverage in place. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material effect on the Township's financial position.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

12. Financial instruments:

The fair value of the Township's financial instruments that are comprised of cash, taxes receivable, trade and other receivables and accounts payable and accrued liabilities approximates their carrying value due to their short-term nature.

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

13. Tangible capital assets:

| Cost | Balance at December 31, 2008 (note 2) | Additions | Disposals | Balance at December 31, 2009 |
|------------------------|--|---------------------|------------------|------------------------------------|
| Land | \$ 860,928 | \$ - | \$ - | \$ 860,928 |
| Land improvements | 184,208 | 143,714 | - | 327,922 |
| Buildings | 2,836,575 | 145,904 | - | 2,982,479 |
| Vehicles and machinery | 1,807,450 | 296,689 | 74,735 | 2,029,404 |
| Equipment | 1,350,321 | 290,150 | - | 1,640,471 |
| Furniture and fixtures | 134,409 | 33,263 | - | 167,672 |
| Roads | 77,839,356 | 266,355 | - | 78,105,711 |
| Total | \$ 85,013,247 | \$ 1,176,075 | \$ 74,735 | \$ 86,114,587 |

| Accumulated amortization | Balance at December 31, 2008 (note 2) | Disposals | Amortization expense | Balance at December 31, 2009 |
|-----------------------------|--|------------------|-------------------------|------------------------------------|
| Land | \$ - | \$ - | \$ - | \$ - |
| Land improvements | 45,397 | - | 15,904 | 61,301 |
| Buildings | 938,840 | - | 61,205 | 1,000,045 |
| Vehicles and machinery | 907,571 | 74,735 | 134,489 | 967,325 |
| Equipment | 638,808 | - | 100,792 | 739,600 |
| Furniture and fixtures | 56,810 | - | 15,183 | 71,993 |
| Roads | 51,653,563 | - | 4,934,678 | 56,588,241 |
| Total | \$ 54,240,989 | \$ 74,735 | \$ 5,262,251 | \$ 59,428,505 |

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

13. Tangible capital assets (continued):

| | Net book value December 31, 2008 | Net book value December 31, 2009 |
|------------------------|-------------------------------------|-------------------------------------|
| Land | \$ 860,928 | \$ 860,928 |
| Land improvements | 138,811 | 266,621 |
| Buildings | 1,897,735 | 1,982,434 |
| Vehicles and machinery | 899,879 | 1,062,079 |
| Equipment | 711,513 | 900,871 |
| Furniture and fixtures | 77,599 | 95,679 |
| Roads | 26,185,793 | 21,517,470 |
| Total | \$ 30,772,258 | \$ 26,686,082 |

| | Balance at December 31, 2007 (note 2) | Additions | Disposals | Balance at December 31, 2008 |
|------------------------|--|---------------------|---------------------|------------------------------------|
| Land | \$ 805,260 | \$ 55,668 | \$ - | \$ 860,928 |
| Land improvements | 114,008 | 70,200 | - | 184,208 |
| Buildings | 2,836,575 | - | - | 2,836,575 |
| Vehicles and machinery | 1,319,126 | 488,324 | - | 1,807,450 |
| Equipment | 1,266,956 | 83,365 | - | 1,350,321 |
| Furniture and fixtures | 103,600 | 30,809 | - | 134,409 |
| Roads | 74,531,512 | 3,307,844 | - | 77,839,356 |
| Work-in-progress | 3,095,728 | - | 3,095,728 | - |
| Total | \$ 84,072,765 | \$ 4,036,210 | \$ 3,095,728 | \$ 85,013,247 |

| | Balance at December 31, 2007 (note 2) | Disposals | Amortization expense | Balance at December 31, 2008 |
|------------------------|--|-------------|-------------------------|------------------------------------|
| Land | \$ - | \$ - | \$ - | \$ - |
| Land improvements | 36,432 | - | 8,965 | 45,397 |
| Buildings | 880,553 | - | 58,287 | 938,840 |
| Vehicles and machinery | 788,729 | - | 118,842 | 907,571 |
| Equipment | 555,960 | - | 82,848 | 638,808 |
| Furniture and fixtures | 41,209 | - | 15,601 | 56,810 |
| Roads | 46,494,174 | - | 5,159,389 | 51,653,563 |
| Work-in-progress | - | - | - | - |
| Total | \$ 48,797,057 | \$ - | \$ 5,443,932 | \$ 54,240,989 |

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

13. Tangible capital assets (continued):

| | Net book value December 31, 2007 | Net book value December 31, 2008 |
|------------------------|-------------------------------------|-------------------------------------|
| Land | \$ 805,260 | \$ 860,928 |
| Land improvements | 77,577 | 138,811 |
| Buildings | 1,956,022 | 1,897,735 |
| Vehicles and machinery | 530,397 | 899,879 |
| Equipment | 710,998 | 711,513 |
| Furniture and fixtures | 62,391 | 77,599 |
| Roads | 28,037,338 | 26,185,793 |
| Work-in-progress | 3,095,728 | - |
| Total | \$ 35,275,711 | \$ 30,772,258 |

(a) 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.

(b) Works of art and historical treasures:

The Township manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at Township sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

14. Accumulated surplus:

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

| | 2009 | 2008 |
|-------------------------------------|----------------------|----------------------|
| Surplus | \$ 88,060 | \$ 88,060 |
| Invested in tangible capital assets | 26,686,082 | 30,772,258 |
| Unfinanced capital | (414,613) | (360,748) |
| Landfill cost closure | (537,429) | (1,006,289) |
| | \$ 25,822,100 | \$ 29,493,281 |

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

14. Accumulated surplus (continued):

| | 2009 | 2008 |
|---|---------------|---------------|
| Reserves set aside for specific purposes by Council: | | |
| Working capital | \$ 150,000 | \$ 150,000 |
| Other | 11,819 | 28,427 |
| Total reserves | 161,819 | 178,427 |
| Reserve funds set aside for specific purposes by Council: | | |
| Protection | 432,722 | 305,488 |
| Roads | 1,385,692 | 1,517,931 |
| Other | 1,024,768 | 716,674 |
| Total reserve funds | 2,843,182 | 2,540,093 |
| Accumulated municipal equity | \$ 28,827,101 | \$ 32,211,801 |

15. Segmented information:

The Township of North Frontenac 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.

Township 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 is responsible for 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 is provided as well as frontline reception and customer service.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

15. Segmented information (continued):

(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 detection, 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.

(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 the six active and two inactive landfill sites.

(e) Parks and Recreation:

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

(f) Planning and Development:

Manages rural 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.

(g) Cemeteries:

Includes the management and maintenance of municipal cemeteries.

For each segment separately reported, the segment revenue and expenditures 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 taxation such as property tax revenue. Taxation and payments-in-lieu of taxes are apportioned to these services based on the net surplus. 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 NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

16. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2009.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Schedule of Segment Disclosure

Year ended December 31, 2009

| | Administration | Protection Services | Transportation Services | Environmental Services | Parks and Recreation | Planning and Development | Cemeteries | Total |
|---------------------------------------|-------------------|---------------------|-------------------------|------------------------|----------------------|--------------------------|-----------------|----------------------|
| Taxation | \$ 272,536 | \$ 1,058,440 | \$ 1,768,887 | \$ 444,331 | \$ 123,057 | \$ 59,729 | \$ 22,631 | \$ 3,749,611 |
| Penalties and interest | 88,280 | - | - | - | - | - | - | 88,280 |
| Investment income | 22,873 | - | - | - | - | - | - | 22,873 |
| Government unconditional grants | 1,304,000 | - | - | - | - | - | - | 1,304,000 |
| Government conditional grants | 105,258 | 12,929 | 392,755 | 87,533 | 31,534 | - | - | 630,009 |
| Other | 22,344 | 37,260 | 9,613 | 90,815 | 131,161 | 143,042 | 25 | 434,260 |
| Total revenue | 1,815,291 | 1,108,629 | 2,171,255 | 622,679 | 285,752 | 202,771 | 22,656 | 6,229,033 |
| Salaries, wages and employee benefits | 633,193 | 204,985 | 719,090 | 211,346 | 109,752 | 154,367 | - | 2,032,733 |
| Materials | 344,789 | 303,910 | 1,198,075 | 157,561 | 173,229 | 24,827 | 5,506 | 2,207,897 |
| Contracted services | 24,279 | 303,052 | 10,931 | 15,892 | 108,968 | 22,343 | 15,150 | 500,615 |
| Rents and financial expenses | 7,903 | - | - | (468,860) | 375 | - | - | (460,582) |
| External transfers | - | 17,128 | - | - | - | - | - | 17,128 |
| Transfer to obligatory reserve fund | - | - | - | - | - | 53,691 | - | 53,691 |
| Amortization | 27,641 | 69,190 | 5,113,498 | 21,110 | 27,975 | 2,837 | - | 5,262,251 |
| Total expenditures | 1,037,805 | 898,265 | 7,041,594 | (62,951) | 420,299 | 258,065 | 20,656 | 9,613,733 |
| Net revenue (expenditures) | \$ 777,486 | \$ 210,364 | \$ (4,870,339) | \$ 685,630 | \$ (134,547) | \$(55,294) | \$ 2,000 | \$(3,384,700) |

See accompanying notes to financial statements.



KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Fax (613) 549-6349
Internet www.kpmg.ca

AUDITORS' REPORT

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

We have audited the statement of financial position of the trust funds of the Corporation of the Township of North Frontenac as at December 31, 2009 and the statement of continuity of trust funds for the year then ended. These financial statements are the responsibility of the Township'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 trust funds of the Township as at December 31, 2009 and the continuity of trust funds for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

February 26, 2010

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC TRUST FUNDS

Statement of Financial Position

December 31, 2009, with comparative figures for 2008

| Name of Fund | Cemetery | Perpetual Care | 2009 Total | 2008 Total |
|------------------------------------|-----------|-------------------|---------------|---------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and short-term investments | \$ 25,541 | \$ 73,293 | \$ 98,834 | \$ 97,235 |
| Fund Balances | | | | |
| Fund balances | \$ 25,541 | \$ 73,293 | \$ 98,834 | \$ 97,235 |

Statement of Continuity

Year ended December 31, 2009, with comparative figures for 2008

| Name of Fund | Cemetery | Perpetual Care | 2009 Total | 2008 Total |
|-------------------------------|-----------|-------------------|---------------|---------------|
| Balance, beginning of year | \$ 25,225 | \$ 72,010 | \$ 97,235 | \$ 92,485 |
| Accrued investment income | - | 198 | 198 | 221 |
| Contributions | 200 | 755 | 955 | 2,005 |
| Interest earned | 116 | 330 | 446 | 2,524 |
| | 316 | 1,283 | 1,599 | 4,750 |
| Balance, end of year | \$ 25,541 | \$ 73,293 | \$ 98,834 | \$ 97,235 |

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC TRUST FUNDS

Notes to Financial Statements

Year ended December 31, 2009

1. Significant accounting policies:

The financial statements of the Corporation of the Township of North Frontenac Trust Funds are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute for Chartered Accountants.

(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 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 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. Statement of cash flow:

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

3. Financial instruments:

The fair value of the trust funds' financial instruments that are comprised of cash and short-term investments approximates their carrying value due to their short-term nature.

