

Consolidated Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF NORTH FRONTENAC**

Year ended December 31, 2006

Consolidated Financial Statements of

**CORPORATION OF THE TOWNSHIP OF NORTH
FRONTENAC**

Year ended December 31, 2006

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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, 2006 and the consolidated statements of financial activities and changes in financial position 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, 2006 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

April 3, 2007

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Financial Position

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Financial assets:		
Cash (note 2)	\$ 604,666	\$ 999,924
Taxes receivable	435,268	445,826
Trade and other receivables	271,096	254,830
Long-term investments (notes 2 and 3)	1,015,234	981,972
	2,326,264	2,682,552
Liabilities:		
Accounts payable and accrued liabilities	456,663	558,018
Deferred revenue – obligatory reserve funds (note 4)	122,543	143,027
Deferred revenue – other	7,242	8,183
Long-term liabilities (note 5)	75,942	–
Solid waste management facility liabilities (note 6)	1,084,000	980,000
	1,746,390	1,689,228
Net financial assets	\$ 579,874	\$ 993,324
Municipal position:		
Current fund (note 7)	\$ 150,000	\$ 150,000
Reserves and reserve funds	1,589,816	1,823,324
	1,739,816	1,973,324
Amounts to be recovered from future revenues	1,159,942	980,000
Contingencies (note 13)		
Total municipal position	\$ 579,874	\$ 993,324

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Financial Activities

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Net taxation and payments-in-lieu	\$ 2,956,076	\$ 2,903,087
Transfer payments	384,900	384,628
Transfers from deferred obligatory reserve funds	113,934	4,742
Government grants	308,884	156,350
Other	554,335	434,992
Investment income	71,804	63,493
	4,389,933	3,947,292
Expenditure:		
Current (note 8):		
General government	804,964	629,853
Protection to persons and property	655,540	574,399
Transportation services	1,680,463	1,816,972
Environmental services	387,380	577,533
Health services	26,250	5,210
Recreation and culture	192,390	147,738
Planning and development	135,165	106,405
Transfer to deferred obligatory reserve funds	19,995	33,030
Total current expenditure	3,902,147	3,891,140
Capital:		
General government	29,571	50,948
Protection to persons and property	441,626	92,397
Transportation services	187,639	212,652
Environmental services	109,385	47,180
Health services	-	8,785
Recreation and culture	115,456	10,075
Transfer to deferred obligatory reserve funds	17,559	17,559
Total capital expenditure	901,236	439,596
Total expenditure	4,803,383	4,330,736
Net expenditure	(413,450)	(383,444)
Financing and transfers:		
Additions to debt	166,280	-
Debt principal repayments	(90,338)	(18,084)
Change in solid waste management facility liabilities	104,000	380,000
	179,942	361,916
Decrease in fund balances	\$ (233,508)	\$ (21,528)

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Changes in Financial Position

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Operations:		
Net expenditure	\$ (413,450)	\$ (383,444)
Changes in non-cash working capital items:		
Taxes receivable	10,558	(100,816)
Trade and other receivables	(16,266)	(67,828)
Accounts payable and accrued liabilities	(101,355)	131,759
Deferred revenue – obligatory reserve funds	(20,484)	64,330
Deferred revenue – other	(941)	161
Solid waste management facility liabilities	104,000	380,000
	(437,938)	24,162
Financing:		
Additions to debt	166,280	–
Debt principal repayments	(90,338)	(18,084)
	75,942	(18,084)
Investing:		
Investments	(33,262)	(422,337)
Decrease in cash and cash equivalents	(395,258)	(416,259)
Cash and cash equivalents, beginning of year	999,924	1,416,183
Cash and cash equivalents, end of year	\$ 604,666	\$ 999,924

The Township considers cash and cash equivalents to be highly liquid investments with original maturities of three months or less.

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

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements

Year ended December 31, 2006

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, revenues and expenditures 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 revenues and expenditures have been eliminated.

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

The taxation, other revenues, expenditures, 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 Statements of Continuity.

(b) Basis of accounting:

- (i) Capital assets:

The historical cost and accumulated amortization of capital assets are not reported for municipal purposes. Funds expended on capital assets are reported as capital expenditures on the Consolidated Statement of Financial Activities in the year of acquisition.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

1. Accounting policies (continued):

(b) Basis of accounting (continued):

(ii) 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.

(iii) 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.

(iv) 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.

(v) Amounts to be recovered:

Amounts to be recovered from future revenues, which represent the future outlay to retire the outstanding principal portion of long-term debt and the solid waste management facility liabilities, are reported as an offset to the municipal position on the Consolidated Statement of Financial Position.

(vi) 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 expenditure during the period. Actual results could differ from those estimates.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

2. Restricted assets:

Cash and long-term investments in the amount of \$1,517,159 (2005 - \$1,498,610) have been restricted to support obligatory reserve funds and reserve funds.

3. Long-term investments:

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

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:

	2006	2005
Balance, beginning of year	\$ 143,027	\$ 78,697
Development contributions	48,697	15,007
Other income	602	–
Investment income	6,597	3,476
Transfers from current fund	19,994	33,030
Transfers to capital fund	(113,933)	(4,742)
Transfer from capital fund – federal gasoline tax	17,559	17,559
Balance, end of year	\$ 122,543	\$ 143,027
Analyzed as follows:		
Recreation land	\$ 43,025	\$ 91,888
Building department	43,762	33,580
Federal gasoline tax	35,756	17,559
	\$ 122,543	\$ 143,027

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

5. Long-term liabilities:

	2006	2005
Obligation under capital lease, payable \$9,730 monthly including interest at 6.63%, maturing August 2007	\$ 75,942	\$ -

Interest expenditure for 2006 was \$6,964 (2005 - \$222).

The long-term liabilities have been approved by either the Ontario Municipal Board or by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs & Housing.

6. 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-five 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.

Estimated total expenditures 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 \$2,940,000 (2005 - \$1,679,096). The Township currently has six active and two inactive landfill sites. For sites that are still active, the estimated liability for these expenditures is recognized as the landfill site's capacity is used. For sites that are inactive, the estimated liability for these expenditures is recognized immediately. Included in liabilities at December 31, 2006 is an amount of \$1,084,000 (2005 - \$980,000) with respect to landfill closure and post-closure obligations recognized to date.

The estimated average remaining capacity of the landfill sites is 51% of the total estimated capacity and the estimated average remaining life of the landfill sites is 19 years, after which the period for post-closure care is estimated to be 25 years.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

7. Municipal position at the end of the year:

- (a) The current fund balance of \$150,000 (2005 - \$150,000) at the end of the year is to be applied to operations of the operating fund for the following year.
- (b) The balance available for the general reduction of taxation at December 31, 2006 has been reduced by an amount of \$377,915 (2005 - \$339,900) transferred to the reserves as authorized by Council.

Had this reduction not been made, the current fund – general purpose balance would have shown a surplus of \$527,915 (2005 - \$489,900).

8. Expenditure:

Expenditure by object classification are as follows:

	2006	2005
Materials and supplies	\$ 1,745,397	\$ 1,996,106
Salaries, wages and benefits	1,444,852	1,339,005
Services, rents and financial services	674,655	513,976
External transfers	10,284	8,801
Interest on municipal debt	6,964	222
Transfer to deferred obligatory reserve fund	19,995	33,030
	\$ 3,902,147	\$ 3,891,140

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

During 2006, 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	
	2006	2005	2006	2005
Amounts requisitioned and collected	\$ 1,284,205	\$ 1,172,244	\$ 1,286,625	\$ 1,228,669

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

10. 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 2006 current services was \$44,858 (2005 - \$33,705).

11. Trust funds:

Trust funds administered by the municipality at year end amount to \$85,007 (2005 - \$77,206). Trust funds are reported separately on the Trust Funds Statements of Financial Position and Statements of Continuity.

12. Budget figures:

The Municipality reviews its operating and capital budgets annually. The approved operating and capital budgets for 2006 are reflected on the Schedules of Current and Capital Fund Operations. Budget figures have not been audited and are presented for information purposes. Budgets established for capital funds are based on a project-oriented basis, the costs of which may be carried out over one or more years.

13. 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, 2006, 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.

14. Financial instruments:

The fair value of the municipality's financial instruments that are comprised of cash and short-term investments, taxes receivable, accounts receivable 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 municipality is not exposed to significant interest, currency or credit risks arising from these financial instruments.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Schedule of Current Fund Operations

Year ended December 31, 2006, with comparative figures for 2005

	Budget 2006 (unaudited)	Actual 2006	Actual 2005
Revenue:			
Net taxation and payments-in-lieu	\$ 2,933,132	\$ 2,956,076	\$ 2,903,087
Transfer payments	384,900	384,900	384,628
Transfers from deferred obligatory reserve funds	93,367	113,934	–
Grants	–	291,325	138,791
Investment income	20,000	22,574	20,679
Other	543,125	554,335	434,992
Total revenue	3,974,524	4,323,144	3,882,177
Expenditure:			
General government	825,516	804,964	629,853
Protection to persons and property	673,234	655,540	574,399
Transportation services	2,056,965	1,680,463	1,816,972
Environmental services	248,900	387,380	577,533
Health services	29,246	26,250	5,210
Recreation and culture	212,301	192,390	147,738
Planning and development	155,660	135,165	106,405
Transfer to deferred obligatory reserve funds	–	19,995	33,030
Total expenditures	4,201,822	3,902,147	3,891,140
Net revenue (expenditure)	(227,298)	420,997	(8,963)
Financing and transfers:			
Debt principal repayments	–	(90,338)	(18,084)
Transfers from (to) reserves and reserve funds	761,024	282,738	286,116
Transfers to capital fund	(988,322)	(717,397)	(639,069)
Change in solid waste management facility liabilities	–	104,000	380,000
Net financing and transfers	(227,298)	(420,997)	8,963
Change in current fund balance	–	–	–
Opening current fund balance	150,000	150,000	150,000
Closing current fund balance	\$ 150,000	\$ 150,000	\$ 150,000

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Schedule of Capital Fund Operations

Year ended December 31, 2006, with comparative figures for 2005

	Budget 2006	Actual 2006	Actual 2005
(unaudited)			
Revenue:			
Transfers from deferred obligatory reserve funds	\$ -	\$ -	\$ 4,742
Government grants – federal gas tax	17,560	17,559	17,559
Total revenue	17,560	17,559	22,301
Expenditure:			
General government	29,525	29,571	50,948
Protection to persons and property	503,062	441,626	92,397
Transportation services	257,560	187,639	212,652
Environmental services	95,000	109,385	47,180
Health services	-	-	8,785
Recreation and culture	103,175	115,456	10,075
Transfer to deferred obligatory reserve funds	17,560	17,559	17,559
Total expenditure	1,005,882	901,236	439,596
Net expenditure	988,322	883,677	(417,295)
Financing and transfers:			
Transfers from current fund	988,322	717,397	639,069
Transfers to reserves and reserve funds	-	-	(221,774)
Additions to debt	-	166,280	-
Net financing and transfers	988,322	883,677	417,295
Change in capital fund balance	-	-	-
Opening capital fund balance	-	-	-
Closing capital fund balance	\$ -	\$ -	\$ -

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Schedule of Reserves and Reserve Funds

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Investment income	\$ 49,230	\$ 42,814
Net transfers from (to) other funds:		
Transfers to current fund	(282,738)	(286,116)
Transfers from capital fund	-	221,774
Total net transfers	(282,738)	(64,342)
Change in reserves and reserve fund balance	(233,508)	(21,528)
Opening reserves and reserve fund balance	1,823,324	1,844,852
Closing reserves and reserve fund balance	\$ 1,589,816	\$ 1,823,324
Analyzed as follows:		
Reserves set aside for specific purposes by Council:		
Working capital	\$ 150,000	\$ 150,000
Roads	-	66,847
Other	45,200	250,894
Total reserves	195,200	467,741
Reserve funds set aside for specific purposes by Council:		
Protection	73,750	73,009
Roads	541,987	557,747
Other	778,879	724,827
Total reserve funds	1,394,616	1,355,583
Total reserves and reserve funds	\$ 1,589,816	\$ 1,823,324

Financial Statements of

**CORPORATION OF THE TOWNSHIP
OF NORTH FRONTENAC
TRUST FUNDS**

Year ended December 31, 2006

Financial Statements

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC TRUST FUNDS

Year ended December 31, 2006

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AUDITORS' REPORT

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

We have audited the statements of financial position of the trust funds of the Corporation of the Township of North Frontenac as at December 31, 2006 and the statements 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, 2006 and the continuity of trust funds for the year then ended in accordance with the accounting policies disclosed in note 1 to the financial statements.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single, long, horizontal, slightly wavy line that serves as a flourish or underline.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

April 3, 2007

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC TRUST FUNDS

Statements of Financial Position

December 31, 2006, with comparative figures for 2005

Name of Fund	Cemetery	Perpetual Care	2006 Total	2005 Total
Assets				
Current assets:				
Cash and short term investments	\$ 21,894	\$ 63,113	\$ 85,007	\$ 75,825
Accounts receivable	-	-	-	1,381
	\$ 21,894	\$ 63,113	\$ 85,007	\$ 77,206

Fund Balances

Fund balances	\$ 21,894	\$ 63,113	\$ 85,007	\$ 77,206
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Name of Fund	Cemetery	Perpetual Care	2006 Total	2005 Total
Statements of Continuity				
Year ended December 31, 2006, with comparative figures for 2005				
Balance, beginning of year	\$ 19,666	\$ 57,540	\$ 77,206	\$ 73,492
Contributions	1,500	3,000	4,500	1,670
Interest earned	728	2,573	3,301	2,044
	2,228	5,573	7,801	3,714
Balance, end of year	\$ 21,894	\$ 63,113	\$ 85,007	\$ 77,206

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, 2006

1. Accounting policies:

Basis of accounting:

Capital receipts and income are reported on the cash basis of accounting.

Expenditures are reported on the accrual basis of accounting.