

Consolidated Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF NORTH FRONTENAC**

Year ended December 31, 2007

Consolidated Financial Statements of

**CORPORATION OF THE TOWNSHIP OF NORTH
FRONTENAC**

Year ended December 31, 2007

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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, 2007 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, 2007 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, 2008

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Consolidated Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Financial assets:		
Cash (note 2)	\$ 218,323	\$ 604,666
Taxes receivable	519,932	435,268
Trade and other receivables	443,370	271,096
Long-term investments (notes 2 and 3)	909,806	1,015,234
	2,091,431	2,326,264
Liabilities:		
Accounts payable and accrued liabilities	482,686	456,663
Deferred revenue – obligatory reserve funds (note 4)	166,972	122,543
Deferred revenue – other	8,592	7,242
Long-term liabilities (note 5)	–	75,942
Solid waste management facility liabilities (note 6)	1,378,000	1,084,000
	2,036,250	1,746,390
Net financial assets	\$ 55,181	\$ 579,874
Municipal position:		
Current fund (note 7)	\$ 150,000	\$ 150,000
Reserves and reserve funds	1,283,181	1,589,816
	1,433,181	1,739,816
Amounts to be recovered from future revenues	1,378,000	1,159,942
Contingencies (note 14)		
Total municipal position	\$ 55,181	\$ 579,874

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, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Net taxation and payments-in-lieu	\$ 3,238,056	\$ 2,956,076
Transfer payments	420,094	384,900
Transfers from deferred obligatory reserve funds	14,230	113,934
Government grants	51,768	308,884
Other	702,065	554,335
Investment income	64,684	71,804
	4,490,897	4,389,933
Expenditure:		
Current (note 8):		
General government	698,622	804,964
Protection to persons and property	951,243	655,540
Transportation services	1,764,762	1,680,463
Environmental services	532,547	387,380
Health services	8,355	26,250
Recreation and culture	272,763	192,390
Planning and development	146,128	135,165
Transfer to deferred obligatory reserve funds	-	19,995
Total current expenditure	4,374,420	3,902,147
Capital:		
General government	38,400	29,571
Protection to persons and property	93,574	441,626
Transportation services	341,379	187,639
Environmental services	42,710	109,385
Health services	6,150	-
Recreation and culture	19,605	115,456
Transfer to deferred obligatory reserve funds	23,410	17,559
Total capital expenditure	565,228	901,236
Total expenditure	4,939,648	4,803,383
Net expenditure	(448,751)	(413,450)
Financing and transfers:		
Additions to debt	-	166,280
Debt principal repayments	(75,942)	(90,338)
Change in solid waste management facility liabilities	218,058	104,000
	142,116	179,942
Decrease in fund balances	\$ (306,635)	\$ (233,508)

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, 2007, with comparative figures for 2006

	2007	2006
Operations:		
Net expenditure	\$ (448,751)	\$ (413,450)
Changes in non-cash working capital items		
Taxes receivable	(89,664)	10,558
Trade and other receivables	(172,274)	(16,266)
Accounts payable and accrued liabilities	26,023	(101,355)
Deferred revenue – obligatory reserve funds	49,429	(20,484)
Deferred revenue – other	1,350	(941)
Solid waste management facility liabilities	218,058	104,000
	(415,829)	(437,938)
Financing:		
Additions to debt	–	166,280
Debt principal repayments	(75,942)	(90,338)
	(75,942)	75,942
Investing:		
Investments	105,428	(33,262)
Decrease in cash and cash equivalents	(386,343)	(395,258)
Cash and cash equivalents, beginning of year	604,666	999,924
Cash and cash equivalents, end of year	\$ 218,323	\$ 604,666

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, 2007

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, 2007

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, 2007

1. Accounting policies (continued):

(c) Changes in accounting policies:

Commencing with the fiscal year beginning January 1, 2009, the municipality will be adopting CICA Public Sector Accounting Handbook Section PS 3150, "*Tangible Capital Assets*". This Section establishes standards on how to account for and report tangible assets in government financial statements. Tangible capital assets include such diverse items as roads, bridges, buildings, vehicles, equipment, land, water systems and other utility systems.

Effective January 1, 2007, the Township adopted Public Sector Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets by way of a note to the financial statements until Section 3150, "*Tangible Capital Assets*" comes into effect on January 1, 2009.

As of December 31, 2007, the Township does not have adequate information to disclose any of the tangible assets by major category.

2. Restricted assets:

Cash and long-term investments in the amount of \$1,128,129 (2006 - \$1,517,159) have been restricted to support obligatory reserve funds and reserve funds.

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, 2007

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:

	2007	2006
Balance, beginning of year	\$ 122,543	\$ 143,027
Development contributions	31,442	48,697
Other income	–	602
Investment income	3,807	6,597
Transfer (to) from current fund	(2,532)	19,994
Transfers to capital fund	(11,698)	(113,933)
Transfer from capital fund – federal gasoline tax	23,410	17,559
Balance, end of year	\$ 166,972	\$ 122,543
Analyzed as follows:		
Recreation land	\$ 64,242	\$ 43,025
Building department	42,515	43,762
Federal gasoline tax	60,215	35,756
	\$ 166,972	\$ 122,543

5. Long-term liabilities:

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

Interest expenditure for 2007 was \$1,900 (2006 - \$6,964).

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.

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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 (2006 - \$2,940,000). 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, 2007 is an amount of \$1,378,000 (2006 - \$1,084,000) 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.

7. Municipal position at the end of the year:

- (a) The current fund balance of \$150,000 (2006 - \$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, 2007 has been reduced by an amount of \$232,937 (2006 - \$377,915) 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 \$382,937 (2006 - \$527,915).

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

8. Expenditure:

Expenditure by object classification are as follows:

	2007	2006
Materials and supplies	\$ 2,094,070	\$ 1,745,397
Salaries, wages and benefits	1,642,920	1,444,852
Services, rents and financial services	623,401	674,655
External transfers	12,119	10,284
Interest on municipal debt	1,910	6,964
Transfer to deferred obligatory reserve fund	-	19,995
	\$ 4,374,420	\$ 3,902,147

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

During 2007, 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	
	2007	2006	2007	2006
Amounts requisitioned and collected	\$ 1,310,226	\$ 1,284,205	\$ 1,335,827	\$ 1,286,625

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 2007 current services was \$60,304 (2006 - \$44,858).

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

12. Trust funds:

Trust funds administered by the municipality at year end amount to \$92,485 (2006 - \$85,007). Trust funds are reported separately on the Trust Funds Statements of Financial Position and Statements of Continuity.

13. Budget figures:

The Municipality reviews its operating and capital budgets annually. The approved operating and capital budgets for 2007 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.

14. 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, 2007, 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.

15. 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, 2007, with comparative figures for 2006

	Budget 2007 (unaudited)	Actual 2007	Actual 2006
Revenue:			
Net taxation and payments-in-lieu	\$ 3,131,113	\$ 3,238,056	\$ 2,956,076
Transfer payments	420,094	420,094	384,900
Transfers from deferred obligatory reserve funds	-	2,532	113,934
Grants	108,600	28,358	291,325
Investment income	24,000	23,608	22,574
Other	562,570	702,065	554,335
Total revenue	4,246,377	4,414,713	4,323,144
Expenditure:			
General government	787,340	698,622	804,964
Protection to persons and property	770,794	951,243	655,540
Transportation services	2,049,820	1,764,762	1,680,463
Environmental services	333,775	532,547	387,380
Health services	16,350	8,355	26,250
Recreation and culture	287,445	272,763	192,390
Planning and development	204,900	146,128	135,165
Transfer to deferred obligatory reserve funds	-	-	19,995
Total expenditures	4,450,424	4,374,420	3,902,147
Net revenue	204,047	40,293	420,997
Financing and transfers:			
Debt principal repayments	-	(75,942)	(90,338)
Transfers to reserves and reserve funds	594,937	(3,365)	282,738
Transfers to capital fund	(798,984)	(179,044)	(717,397)
Change in solid waste management facility liabilities	-	218,058	104,000
Net financing and transfers	(204,047)	(40,293)	(420,997)
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, 2007, with comparative figures for 2006

	Budget 2007	Actual 2007	Actual 2006
(unaudited)			
Revenue:			
Transfers from deferred obligatory reserve funds	\$ -	\$ 11,698	\$ -
Government grants – federal gas tax	23,410	23,410	17,559
<u>Total revenue</u>	<u>23,410</u>	<u>35,108</u>	<u>17,559</u>
Expenditure:			
General government	45,000	38,400	29,571
Protection to persons and property	160,312	93,574	441,626
Transportation services	322,000	341,379	187,639
Environmental services	228,000	42,710	109,385
Health services	7,500	6,150	-
Recreation and culture	36,172	19,605	115,456
Transfer to deferred obligatory reserve funds	23,410	23,410	17,559
<u>Total expenditure</u>	<u>822,394</u>	<u>565,228</u>	<u>901,236</u>
<u>Net revenue (expenditure)</u>	<u>(798,984)</u>	<u>530,120</u>	<u>883,677</u>
Financing and transfers:			
Transfers from current fund	798,984	179,044	717,397
Transfers from reserves and reserve funds	-	351,076	-
Additions to debt	-	-	166,280
<u>Net financing and transfers</u>	<u>798,984</u>	<u>530,120</u>	<u>883,677</u>
<u>Change in capital fund balance</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Opening capital fund balance</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Closing capital fund balance</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CORPORATION OF THE TOWNSHIP OF NORTH FRONTENAC

Schedule of Reserves and Reserve Funds

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Investment income	\$ 41,076	\$ 49,230
Net transfers from (to) other funds:		
Transfers from current fund	3,365	(282,738)
Transfers to capital fund	(351,076)	-
Total net transfers	(347,711)	(282,738)
Change in reserves and reserve fund balance	(306,635)	(233,508)
Opening reserves and reserve fund balance	1,589,816	1,823,324
Closing reserves and reserve fund balance	\$ 1,283,181	\$ 1,589,816
Analyzed as follows:		
Reserves set aside for specific purposes by Council:		
Working capital	\$ 150,000	\$ 150,000
Other	33,292	45,200
Total reserves	183,292	195,200
Reserve funds set aside for specific purposes by Council:		
Protection	220,916	73,750
Roads	194,224	541,987
Other	684,749	778,879
Total reserve funds	1,099,889	1,394,616
Total reserves and reserve funds	\$ 1,283,181	\$ 1,589,816