

Audited Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF SOUTH FRONTENAC**

Year ended December 31, 2011

Audited Financial Statements

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Year ended December 31, 2011

TOWNSHIP OF SOUTH FRONTENAC

	Page
Management's Responsibility for Consolidated Financial Statements	1
AUDITED FINANCIAL STATEMENTS	
Independent Auditors' Report	2
Consolidated Statement of Financial Position	4
Consolidated Statement of Operations and Accumulated Municipal Surplus	5
Consolidated Statement of Changes in Net Financial Assets	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
Consolidated Schedule of Segment Information	23
TRUST FUNDS	
Independent Auditors' Report	24
Statements of Financial Position	26
Statements of Continuity	26
Notes to Financial Statements	27
CEMETERY BOARDS	
Independent Auditors' Report	29
Statements of Financial Position	31
Statements of Operations and Accumulated Surplus	32
Notes to Financial Statements	33

Management's Responsibility for the Consolidated Financial Statements

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

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

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

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



Wayne Orr
Chief Administrative Officer



Louise Fragnito
Treasurer



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Corporation of the Township of South Frontenac, which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of operations and accumulated municipal surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Corporation of the Township of South Frontenac as at December 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

October 16, 2012

Kingston, Canada

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Consolidated Statement of Financial Position

December 31, 2011, with comparative figures for 2010

	2011	2010
Financial assets:		
Cash	\$ 13,217,933	\$ 9,615,987
Taxes receivable	2,487,712	2,606,138
Accounts receivable	999,110	3,729,810
Long-term investments (note 4)	554,180	551,635
Tile drainage loan receivable (note 16)	8,700	10,156
Sydenham Water Works debenture receivable (note 17)	386,514	399,652
Mortgage receivable (note 18)	76,071	88,390
Total financial assets	17,730,220	17,001,768
Liabilities:		
Accounts payable and accrued liabilities	3,175,878	2,091,843
Deferred revenue	489,556	565,376
Deferred revenue – obligatory reserve funds (note 6)	3,315,302	3,093,340
Tile drainage loan payable (note 16)	8,700	10,156
Sydenham Water Works debenture (note 17)	386,514	399,652
Landfill closure and post-closure liabilities (note 9)	1,352,258	935,484
Employee post employment benefit liability (note 7)	119,783	119,930
Total financial liabilities	8,847,991	7,215,781
Net financial assets	8,882,229	9,785,987
Non-financial assets:		
Tangible capital assets (note 19)	81,287,827	81,215,098
Inventory and prepaid expenses	280,996	265,560
Total non-financial assets	81,568,823	81,480,658
Contingent liabilities (note 11)		
Commitments (note 12)		
Accumulated municipal surplus (note 10)	\$ 90,451,052	\$ 91,266,645

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Consolidated Statement of Operations and Accumulated Municipal Surplus

Year ended December 31, 2011, with comparative figures for 2010

	Budget (Unaudited, note 14)	2011	2010
Revenue:			
Property taxation	\$ 12,484,762	\$ 12,562,723	\$ 11,930,494
User charges	1,989,301	871,436	1,097,341
Licenses, permits and rents	701,900	727,005	644,786
Government grants	2,055,142	3,341,799	5,918,921
Grants from other municipalities	961,134	942,178	890,291
Investment income	59,000	158,962	75,169
Penalties and interest on taxes	350,000	415,169	381,074
Donations	9,400	71,255	56,274
Gain on sale of capital assets	-	45,375	-
Utilized obligatory reserve funds	-	320,896	364,135
Other	39,900	111,184	133,976
Total revenue	18,650,539	19,567,982	21,492,461
Expenses (note 13):			
General government	1,150,305	1,165,095	2,172,919
Fire	1,229,371	1,254,729	1,187,730
Police	2,343,245	2,321,806	2,049,106
Conservation authority	163,515	168,657	163,285
Protective inspections and control	498,957	410,337	394,838
Emergency measures	1,300	150	1,574
Roadways and winter control	11,282,034	11,281,383	10,158,689
Street lighting	82,000	72,336	81,615
Waterworks	158,745	411,348	320,723
Garbage collection and disposal	1,915,855	1,919,841	1,500,594
Landfill closure and post-closure costs	-	416,774	65,141
Cemeteries	1,300	58,454	63,932
Parks, recreation and cultural services	731,294	727,338	647,960
Planning and development	197,405	175,327	78,582
Total expenses	19,755,326	20,383,575	18,886,688
Annual surplus (deficit)	(1,104,787)	(815,593)	2,605,773
Accumulated municipal surplus, beginning of year	-	91,266,645	88,660,872
Accumulated municipal surplus (deficit), end of year	\$ (1,104,787)	\$ 90,451,052	\$ 91,266,645

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Consolidated Statement of Changes in Net Financial Assets

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Annual surplus (deficit)	\$ (815,593)	\$ 2,605,773
Amortization of tangible capital assets	7,297,013	8,021,585
Acquisition of tangible capital assets	(7,366,916)	(10,195,138)
Proceeds on disposal of tangible capital assets	(2,825)	86,688
Change in inventories, prepaid expenses	(15,437)	(26,992)
Gain on sale of tangible capital assets	-	(20,687)
	(88,165)	(2,134,544)
Change in net financial assets	(903,758)	471,229
Net financial assets, beginning of year	9,785,987	9,314,758
Net financial assets, end of year	\$ 8,882,229	\$ 9,785,987

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Consolidated Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Operations:		
Annual surplus (deficit)	\$ (815,593)	\$ 2,605,773
Items not involving cash:		
Amortization	7,297,013	8,021,585
Gain on sale of tangible capital assets	-	(20,687)
Change in landfill liability	416,774	65,141
Change in employee benefit obligations	(147)	10,991
	6,898,047	10,682,803
Change in non-financial assets:		
Increase in prepaid expenses	(15,436)	(26,992)
Change in non-cash assets and liabilities:		
Decrease (increase) in taxes receivable	118,426	(377,684)
Decrease (increase) in accounts receivable	2,730,700	(2,840,781)
Increase (decrease) in accounts payable and accrued liabilities	1,084,034	(795,065)
Decrease in deferred revenue	(75,820)	(75,488)
Increase (decrease) in deferred revenue – obligatory reserve funds	221,962	(680,524)
	4,079,302	(4,769,542)
Net change in cash from operations	10,961,913	5,886,269
Investing transactions:		
Purchase of long-term investments	(2,545)	(9,060)
Decrease in mortgage receivable	12,319	11,499
	9,774	2,439
Capital transactions:		
Proceeds on disposal of tangible capital assets	(2,825)	86,688
Cash used to acquire tangible capital assets	(7,366,916)	(10,195,138)
	(7,369,741)	(10,108,450)
Increase (decrease) in cash	3,601,946	(4,219,742)
Cash, beginning of year	9,615,987	13,835,729
Cash, end of year	\$ 13,217,933	\$ 9,615,987

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements

Year ended December 31, 2011

1. Significant accounting policies:

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

(a) Basis of consolidation:

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

These consolidated financial statements include:

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

Proportionate consolidation:

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

- (ii) The charges for long-term liabilities assumed by consolidated entities or by individuals in the case of the drainage and shoreline property assistance loans are reflected in the financial statements.
- (iii) Accounting for school board and county transactions:
The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards and county are not reflected in the municipal fund balances of these consolidated financial statements.
- (iv) Trust funds and their related operations administered by the Township are not included in these financial statements but are reported on separately on the Trust Fund Statements of Continuity and Statements of Financial Position.

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(b) Basis of accounting:

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

(c) Deferred revenue – obligatory reserve funds:

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

(d) Investments:

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

(e) Government transfers:

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

(f) Use of estimates:

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

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(g) Landfill closure and post-closure liabilities:

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

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

(h) Deferred revenue:

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

(i) Employee future benefits:

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

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(j) Non-financial assets:

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

(i) Tangible capital assets:

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

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

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

(ii) Contributions of tangible capital assets:

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

(iii) Natural resources:

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(j) Non-financial assets (continued):

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

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

(v) Inventories of supplies:

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

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

During 2011, the Township collected property taxes and payments in lieu of property taxes on behalf of the school boards and the County of Frontenac. The amounts collected and remitted are summarized below:

	School Boards		County of Frontenac	
	2011	2010	2011	2010
Amounts collected and remitted	\$ 5,654,047	\$ 5,322,108	\$ 4,885,697	\$ 5,018,738

3. Contributions to consolidated joint board:

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

	2011	2010
North Frontenac Community Arena	\$ 50,134	\$ 55,549

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

North Frontenac Community Arena	\$ 576,274	\$ 563,868
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The Township paid \$490,643 on behalf of North Frontenac Community Arena for expenses relating to Project End Zone. In the current year, \$16,997 has been repaid leaving a receivable balance of \$199,423 at year end.

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

4. Long-term investments:

Total long-term investments of \$554,180 (2010 - \$551,635) reported on the "Consolidated Statement of Financial Position" at cost plus accrued interest, have a market value of \$591,189 (2010 - \$561,455) at the end of the year.

5. Trust funds:

Trust funds administered by the Township amounting to \$561,066 (2010 - \$547,083) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations and Accumulated Municipal Surplus".

6. Deferred revenue – obligatory reserve funds:

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

	2011	2010
Balance, beginning of year	\$ 3,093,340	\$ 3,773,864
Development contributions	231,794	215,233
Subdivider contributions	136,119	111,594
Investment income	59,811	38,977
Gasoline tax	851,181	560,824
Grant utilized	(736,047)	(1,243,017)
Other revenue utilized	(320,896)	(364,135)
	\$ 3,315,302	\$ 3,093,340
Analized as follows:		
Gasoline tax	\$ 425,213	\$ 298,536
Investment in Ontario	297,162	293,472
Development charges	1,602,618	1,584,088
Cash in lieu of parkland	863,760	797,484
Subdivider contributions	126,549	119,760
	\$ 3,315,302	\$ 3,093,340

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

7. Employee post employment benefit liability:

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

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

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

The accrued benefit obligation relating to employee non-pension retirement benefits has been actuarially determined using the projected benefit method pro-rated on services. At December 31, 2011, based on an actuarial update, the accrued benefit obligation was \$128,409 (2010 - \$124,639).

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

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

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

	2011	2010
Accrued benefit liability, beginning of year	\$ 119,930	\$ 108,939
Expense recognized for the year	6,941	6,749
Interest cost	7,250	6,738
Increase due to plan amendment	2,490	—
Benefits paid for the year	(16,828)	(2,496)
Accrued benefit liability, end of year	\$ 119,783	\$ 119,930

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

	2011	2010
Accrued benefit obligation, end of year	\$ 128,409	\$ 124,639
Unamortized actuarial loss	(8,626)	(4,709)
Accrued benefit liability, end of year	\$ 119,783	\$ 119,930

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

8. Pension agreements:

The Township makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of forty-two members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2011 was \$172,807 (2010 - \$149,844) for current service and is included as an expense on the "Consolidated Statement of Operations and Accumulated Municipal Surplus".

9. Landfill closure and post-closure liabilities:

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

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

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

Estimated total expenses represent the sum of the discounted future cash flows for closure and post-closure care activities using an estimated inflation rate of 2% and discounted at the Township's average long-term borrowing rate of 6% (2010 - 6%). The estimated total landfill closure and post-closure care expenses are calculated to be approximately \$1,822,645 (2010 - \$1,374,031). For sites that are still active, the estimated liability for these expenses is recognized as the landfill site's capacity is used. For sites that are inactive, the estimated liability for these expenses is recognized immediately. Included in liabilities at December 31, 2011 is an amount of \$1,352,258 (2010 - \$935,484) with respect to landfill closure and post-closure liabilities recognized to date.

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

10. Accumulated municipal surplus:

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

	2011	2010
Surplus (deficit)	\$ (199,424)	\$ 43,000
Cemetery boards	3,665	8,435
North Frontenac Community Arena	(21,854)	(28,998)
Invested in tangible capital assets:		
Tangible capital assets	81,287,827	81,215,098
Unfinanced capital expense	(1,018,886)	(970,616)
Landfill closure and post-closure to be recovered	(1,352,258)	(935,484)
Total surplus	78,699,070	79,331,435
Reserves set aside for specific purposes by Council:		
Working funds	2,895,489	2,800,782
Contingencies	7,002	7,002
Replacement of equipment	839,096	1,084,440
Mill rate stabilization	1,024,511	963,931
General government capital	203,968	183,474
Roadways capital	2,736,619	2,932,627
Sydenham water	179,715	171,161
Future landfill closing	838,854	843,554
Cemeteries	50,000	40,000
Recreation capital	136,040	143,566
Other capital	529,518	268,453
	9,440,812	9,438,990
Reserve funds set aside for specific purposes by Council:		
Election	44,460	26,131
General government capital	833,694	1,127,070
Protection services capital	14,339	13,270
Roadways capital	692,957	684,354
Future landfill closing	486,930	433,968
Recreation capital	207,806	190,640
Accessibility	25,832	15,635
Other capital	5,152	5,152
	2,311,170	2,496,220
Total accumulated municipal surplus	\$ 90,451,052	\$ 91,266,645

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

11. Contingent liabilities:

The nature of the Township's activities is such that there is usually litigation pending or in prospect at any time. With respect to claims at December 31, 2011, management believes that the Township has valid defences and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Township's financial position. As a result, no provision has been made in these financial statements for any settlement which may arise as a result of these claims.

12. Commitments:

- (a) The Township has entered into an agreement with the Ontario Provincial Police for the provision of police services. The term of the agreement is five years, commencing April 1, 2008 at an annual cost of approximately \$2.3 million.
- (b) The Township entered into an Agreement with 1425445 Ontario Limited operating as Utilities Kingston for the operation and maintenance of the water system. The term of the Agreement that expired on April 1, 2009 was renegotiated on April 23, 2012 for a term ending December 31, 2014. The annual cost as at December 31, 2011 was \$112,360 (2010 - \$149,002).

13. Supplementary information:

	2011	2010
Expense by object:		
Salaries, wages and employee benefits	\$ 3,378,767	\$ 3,303,162
Materials, services, rents and financial expenses	9,477,310	7,324,567
Transfers to others	230,485	237,374
Amortization	7,297,013	8,021,585
	<u>\$ 20,383,575</u>	<u>\$ 18,886,688</u>

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

14. Budget figures:

The unaudited budget data presented in these consolidated financial statements is based upon the 2011 operating and capital budgets approved by Council on May 3, 2014. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements. An amount for amortization expense has been added and is based on management's best estimate. Amortization expense was not included in the original council-approved budget. The approved budget to the budget figures reported in these consolidated financial statements is listed below:

	2011 Budget
Reported on statement of operations:	
Revenue	\$ 18,650,539
Expenses	19,755,326
Less: amortization	(7,297,014)
	<u>12,458,312</u>
Annual surplus before transfers	<u>\$ 6,192,227</u>
Budget not reported on statements:	
Transfer to capital	\$ (4,032,000)
Transfer to reserve and reserve fund	(2,160,227)
Total budget transfers not reported on statement	<u>\$ (6,192,227)</u>

15. Fair value of financial assets and financial liabilities:

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

The market value of long-term investments is disclosed in note 5.

16. Tile drainage loan receivable and payable:

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

17. Sydenham Water Works debenture receivable and payable:

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

18. Mortgage receivable:

The mortgage receivable bears annual interest at 7%, is repayable in 120 equal instalments of principal and interest of \$1,503 and is due on December 1, 2016.

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

19. Tangible capital assets:

Cost	Balance at December 31, 2010 (note 2)	Additions	Disposals, adjustments	Balance at December 31, 2011
Land	\$ 3,042,550	\$ 26,128	\$ (2,825)	\$ 3,071,503
Land improvements	146,159	150,914	—	297,075
Buildings and building improvements	5,236,190	1,756,270	—	6,992,460
Vehicles, machinery and equipment	10,389,279	1,199,375	281,406	11,307,248
Roads and bridges infrastructure	123,256,347	4,216,636	—	127,472,983
Water infrastructure	7,926,307	1,327,653	—	9,253,960
Assets under construction	1,455,324	141,903	1,455,324	141,903
North Frontenac Community Arena	708,202	3,360	—	711,562
Total	\$ 152,160,358	\$ 8,822,240	\$ 1,733,905	\$ 159,248,694

Accumulated amortization	Balance at December 31, 2010 (note 2)	Amortization expense	Disposals, adjustments	Balance at December 31, 2011
Land improvements	\$ 9,430	\$ 11,081	\$ —	\$ 20,511
Buildings and building improvements	2,013,770	138,132	—	2,151,902
Vehicles, machinery and equipment	5,171,750	664,100	281,406	5,554,444
Roads and bridges infrastructure	63,102,833	6,313,622	—	69,416,455
Water infrastructure	480,953	152,146	—	633,099
North Frontenac Community Arena	166,524	17,932	—	184,456
Total	\$ 70,945,260	\$ 7,297,013	\$ 281,406	\$ 77,960,867

	Net book value December 31, 2010	Net book value December 31, 2011
Land	\$ 3,042,550	\$ 3,071,503
Land improvements	136,729	276,563
Buildings and building improvements	3,222,420	4,840,558
Vehicles, machinery and equipment	5,217,529	5,752,804
Roads and bridges infrastructure	60,153,514	58,056,528
Water infrastructure	7,445,354	8,620,861
Assets under construction	1,455,324	141,903
North Frontenac Community Arena	541,678	527,107
Total	\$ 81,215,098	\$ 81,287,827

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

19. Tangible capital assets (continued):

(a) Assets under construction

Assets under construction having a value of \$141,903 (2010 - \$1,455,324) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Tangible capital assets disclosed at nominal values

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

20. Segmented information:

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

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

(a) Administration:

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

(b) Protection Services:

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

20. Segmented information (continued):

(c) Transportation Services:

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

(d) Environmental Services:

Includes the management and maintenance of water treatment and distribution.

(e) Cemetery Boards:

Includes the management and maintenance of municipal cemeteries.

(f) Parks, Recreation and Culture:

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

(g) Planning and Development:

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

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

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Consolidated Schedule of Segment Information

Year ended December 31, 2011

	Administration	Protection Services	Transportation Services	Environmental Services	Health Services	Parks, Recreation and Culture	Planning and Development	Total
Revenue:								
Taxation	\$ 12,562,723	-	-	-	-	-	-	\$ 12,562,723
Penalties and interest	415,169	-	-	-	-	-	-	415,169
Government unconditional Grants	1,512,900	398,000	-	-	-	-	-	1,910,900
Government conditional grants	(4,488)	35,163	112,106	1,274,473	-	8,090	5,555	1,430,899
Other municipalities	-	-	875,678	-	-	66,500	-	942,178
Licenses, permits and rents	149,825	392,245	18,579	46,286	-	120,070	-	727,005
User fees and service charges	5,459	65,816	62,635	524,882	25,270	111,569	75,805	871,436
Other	254,816	27,581	263,271	1,770	7,095	152,915	224	707,672
	14,896,404	918,805	1,332,269	1,847,411	32,365	-459,144	81,584	19,567,982
Expenses:								
Salaries, wages and employee benefits	880,070	647,923	1,422,672	203,886	500	219,451	4,264	3,378,766
Materials	194,119	366,274	2,952,810	264,819	4,336	193,969	19,683	3,996,010
Contracted services	156,488	2,643,305	196,181	2,066,067	53,618	268,916	31,320	5,415,895
Rents and financial expenses	40,378	-	-	-	-	1,623	-	42,001
External transfers	8,400	183,391	34,410	150	-	4,135	-	230,486
Amortization	35,340	285,262	6,773,770	166,077	-	34,475	2,090	7,297,014
Inter-functional adjustments	(149,700)	29,525	(26,125)	24,170	-	4,769	117,361	-
Interest on long-term debt	-	-	-	22,794	-	-	609	23,403
Total expenses	1,165,095	4,155,680	11,353,718	2,747,963	58,454	727,338	175,327	20,383,575
Excess of revenue over expenses (expenses over revenue)	\$ 13,731,309	\$ (3,236,875)	\$(10,021,449)	\$ (900,552)	\$ (26,089)	\$ (268,194)	\$ (93,743)	\$ (815,593)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Corporation of the Township of South Frontenac, which comprise the statement of the statements of continuity of trust funds as December 31, 2011, the statements of continuity of trust funds for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Corporation of the Township of South Frontenac as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP



Chartered Accountants, Licensed Public Accountants

October 16, 2012

Kingston, Canada

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Trust Funds

Statements of Financial Position

December 31, 2011, with comparative figures for 2010

Name of Fund	Subdivider deposits	Cemetery perpetual care	Monument perpetual care	Muriel Burns	Ontario home renewal program	Grant family memorial endowment	Total 2011	Total 2010
Assets								
Current assets:								
Cash	\$ 11,069	\$ 368,076	\$ 66,974	\$ -	\$ 497	\$ 29,684	\$ 476,300	\$ 494,128
Investments at cost, which approximates market value:								
Term deposits	-	32,500	-	25,000	-	-	57,500	32,500
	11,069	400,576	66,974	25,000	497	29,684	533,800	526,628
Loans receivable (note 2)	-	-	-	-	-	-	-	-
Long-term notes receivable	-	-	-	-	28,491	-	28,491	28,491
	\$ 11,069	\$ 400,576	\$ 66,974	\$ 25,000	\$ 28,988	\$ 29,684	\$ 562,291	\$ 555,119
Liabilities and Capital								
Current liabilities:								
Accounts payable	\$ -	\$ -	\$ 776	\$ -	\$ 448	\$ -	\$ 1,224	\$ 8,036
Capital (note 3):								
Bedford district	1,652	-	-	-	11,685	-	13,337	13,268
Loughborough district	9,417	76,961	14,944	-	15,160	29,684	146,166	143,597
Portland district	-	210,573	34,313	-	450	-	245,336	238,276
Storrington district	-	113,042	16,941	25,000	1,245	-	156,228	151,942
	11,069	400,576	66,198	25,000	28,540	29,684	561,067	547,083
	\$ 11,069	\$ 400,576	\$ 66,974	\$ 25,000	\$ 28,988	\$ 29,684	\$ 562,291	\$ 555,119

Statements of Continuity

Year ended December 31, 2011, with comparative figures for 2010

Balance, beginning of year	\$ 10,931	\$ 390,206	\$ 63,139	\$ 25,000	\$ 28,492	\$ 29,315	\$ 547,083	\$ 531,594
Sales of perpetual care	-	10,370	2,250	-	-	-	12,620	18,260
Interest earned	138	4,517	808	312	48	369	6,192	5,353
	138	14,887	3,058	312	48	369	18,812	23,613
Expenses:								
Transfer to operating fund	-	4,517	-	312	-	-	4,829	4,647
Capital donations	-	-	-	-	-	-	-	-
Transfer to revenue fund	-	-	-	-	-	-	-	-
Refund to province	-	-	-	-	-	-	-	3,477
	-	4,517	-	312	-	-	4,829	8,124
Balance, end of year	\$ 11,069	\$ 400,576	\$ 66,197	\$ 25,000	\$ 28,540	\$ 29,684	\$ 561,066	\$ 547,083

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Trust Funds

Notes to Financial Statements

Year ended December 31, 2011

1. Significant accounting policies:

The financial statements of the Corporation of the Township of South Frontenac Trust Funds are prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Basis for accounting:

These statements reflect the assets, liabilities, revenue and expenditures 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 expenditures during the period.

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

2. Ontario Home Renewal Program:

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

Ontario Home Renewal Program loans receivable at December 31, 2011 are comprised of repayable loans of \$28,492 (2010 - \$28,492) and forgivable loans of \$400 (2010 - \$400). Loan forgiveness is earned and recorded at a rate of up to \$600 per year of continued ownership and occupancy. In the event of the sale or lease of the home or in the event of the homeowner ceasing to occupy the home, the balances of the repayable loan and the unearned forgivable loan immediately become due and payable by the homeowner.

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Trust Funds

Notes to Financial Statements (continued)

Year ended December 31, 2011

3. Monument perpetual care:

The capital balance of monument perpetual care includes the original capital contributions received as well as accumulated unspent income on the capital contributions received. The unspent income of \$808 (2010 - \$465) is available for future expenses related to monument perpetual care.

4. Statement of cash flows:

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Corporation of the Township of South Frontenac Cemetery Boards, which comprise the statement of financial position as at December 31, 2011, statements of operations and accumulated surplus for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation of the Township of South Frontenac Cemetery Boards as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

October 16, 2012

Kingston, Canada

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Cemetery Boards

Statements of Financial Position

December 31, 2011, with comparative figures for 2010

Name of Board	Portland	Sandhill	Sydenham	Total 2011	Total 2010
Net Assets					
Financial assets:					
Cash	\$ 16,505	\$ 35,871	\$ 13,519	\$ 65,895	\$ 77,837
Accounts receivable	873	2	–	875	52
	17,378	35,873	13,519	66,770	77,889
Liabilities:					
Accounts payable	24,033	22,784	13,789	60,606	67,046
Prepaid burials and vandalism fund	–	879	1,620	2,499	2,408
	24,033	23,663	15,409	63,105	69,454
Net financial assets (liabilities)	\$ (6,655)	\$ 12,210	\$ (1,890)	\$ 3,665	\$ 8,435

Accumulated Surplus (Deficit)

Accumulated surplus (deficit)	\$ (6,655)	\$ 12,210	\$ (1,890)	\$ 3,665	\$ 8,435
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The accompanying notes are an integral part of this financial statement.

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Cemetery Boards

Statement of Operations and Accumulated Surplus

Year ended December 31, 2011, with comparative figures for 2010

Name of Boards	Portland	Sandhill	Sydenham	Total 2011	Total 2010
Revenue:					
Sale of plots	\$ 7,300	\$ 7,700	\$ 3,380	\$ 18,380	\$ 26,140
Less portion transferred to the Perpetual Care Fund capital account	5,840	3,080	1,450	10,370	13,310
	1,460	4,620	1,930	8,010	12,830
Transfer from Perpetual Care Fund	3,692	1,388	948	6,028	4,222
Burial charges-opening and closing	8,075	-	6,650	14,725	14,825
Sale of cornerstones	120	1,525	540	2,185	2,310
Bank interest	134	394	143	671	1,941
Interest from Muriel Burns Trust Fund	-	312	-	312	282
Municipal contribution from tax levy	10,000	10,000	-	20,000	20,000
Miscellaneous income	140	84	210	434	502
Total revenue	23,621	18,323	10,421	52,365	56,912
Expenditures:					
Administration and general	1,005	2,965	1,825	5,795	7,024
Maintenance and care of plots	22,172	18,118	11,050	51,340	55,780
Total expenditures	23,177	21,083	12,875	57,135	62,804
Net expenditures	444	(2,760)	(2,454)	(4,770)	(5,892)
Opening accumulated surplus	(7,099)	14,970	564	8,435	14,327
Closing accumulated surplus (deficit)	\$ (6,655)	\$ 12,210	\$ (1,890)	\$ 3,665	\$ 8,435

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

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Cemetery Boards

Notes to Financial Statements

Year ended December 31, 2011

1. Significant accounting policies:

The financial statements of the Township of South Frontenac Cemetery Boards are the representation of management prepared in accordance with Canadian generally accepted accounting principles. Significant aspects of the accounting policies adopted by the Boards are as follows:

The financial statements reflect the assets, liabilities and revenue and expenses of the cemetery bonds.

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

(b) Non-consolidated trust funds:

The Perpetual Care Trust Funds and related operations are not consolidated but are reported separately on the "Trust Fund Statements of Financial Position and Statements of Continuity" of the Township of South Frontenac.

(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 expenditures 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.

CORPORATION OF THE TOWNSHIP OF SOUTH FRONTENAC

Cemetery Boards

Notes to Financial Statements (continued)

Year ended December 31, 2011

2. Trust funds:

The Perpetual Care Trust Funds administered by the Cemetery Boards amounting to \$400,576 (2010 - \$390,206) have not been included in the "Statements of Financial Position" nor have their operations been included in the "Statements of Operations and Accumulated Surplus".

3. Statement of changes in financial position:

A statement of changes in financial position has not been included as it would not provide additional meaningful information.