

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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**County of Frontenac
Consolidated
Financial Statements
December 31, 2012**

County of Frontenac
Three Year Financial Review
(not subject to audit)

December 31	2012	2011	2010
Population (Statistics Canada)	* 26,375	* 26,375	** 26,658
<small>* 2011 population from the 2011 Census ** 2010 population from the 2006 Census</small>			
Number of Households (MPAC)	18,417	18,797	18,674
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Taxable Assessment (000's)	\$	\$	\$
Residential	4,186,639	3,854,781	3,528,289
Multi-residential	4,123	4,014	3,905
Commercial	43,891	41,399	37,175
Industrial	12,074	11,586	10,610
Farmland	95,614	90,985	91,189
Total	4,342,341	4,002,765	3,671,168
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Rates of Taxation			
▸ residential (municipal)	0.193135	0.212540	0.242244
▸ multi-residential (municipal)	0.193135	0.212540	0.242244
▸ commercial (municipal)	0.193135	0.212540	0.242244
▸ industrial (municipal)	0.193135	0.212540	0.242244
<hr/>			
Revenues for County Purposes (000's)	\$	\$	\$
▸ Taxation	8,450	8,496	8,908
▸ Government transfers	23,616	21,916	22,185
▸ Other	4,495	4,260	3,879
▸ Revenues related to capital assets	---	948	1,837
Total	36,561	35,620	36,809
<hr/>			
Expenditures (000's)			
▸ Operations	35,873	33,472	33,825
▸ Amortization	1,367	1,251	1,122
<hr/>			
Net Assets (Net Debt)			
▸ % of Operating Revenue (>(20%))	7.63%	4.02%	0.77%
▸ % of Taxation (>(60%))	32.99%	16.38%	3.02%

(Note: All dollar amounts are in thousands of dollars.)

County of Frontenac
Three Year Financial Review
(not subject to audit)

December 31	2012	2011	2010
	\$	\$	\$
Long Term Debt			
▸ Net long term debt (000's)	11,163	11,976	12,740
▸ Long term debt charges (000's)	1,529	1,529	1,529
▸ Annual repayment limit (000's)	3,118	2,999	3,006
▸ Long term debt per household	606	637	682
▸ Debt charges (000's)			
▸ tax supported	489	489	489
▸ City of Kingston	1,040	1,040	1,040
Municipal Equity (000's)			
▸ Surplus and Reserves	14,118	13,557	13,353
▸ Invested in capital assets	11,451	11,323	9,535
▸ Net book value to original cost	72.14%	74.80%	75.60%
▸ Reserves as % of operating expenses (>20%)	39.45%	40.50%	39.48%
Financial Indicators			
▸ Sustainability			
▸ financial assets to liabilities	1,1562	1,0705	1,0126
▸ financial assets to liabilities excluding long term debt	3,0899	2,7254	2,4955
▸ long term debt to tangible capital assets	49.36%	51.40%	57.19%
▸ Flexibility			
▸ Debt charges to total operating revenue	4.18%	4.44%	4.41%
▸ Total operating revenue to taxable assessment	0.84%	0.86%	0.94%
▸ Working capital to operating expenses (>10%)	38.89%	39.93%	38.46%
▸ Vulnerability			
▸ Operating government transfers ▸ to operating revenue	64.59%	64.43%	63.20%
▸ Total government transfers ▸ to total revenues	64.59%	65.38%	63.21%



Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of the Corporation of the County of Frontenac (the 'County') are the responsibility of the County's management and have been prepared in compliance with legislation, and in accordance with Canadian Public Sector Accounting Standards established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of significant accounting policies are described in note 2 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The County'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 consolidated financial statements. These systems are monitored and evaluated by management.

The consolidated financial statements have been audited by Allan Chartered Accountant Professional Corporation, independent external auditors appointed by the County. The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the County's consolidated financial statements.

R. Elavill

Chief Administrative Officer

Marian Vaul

Treasurer



Allan

Chartered Accountant Professional Corporation

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the County of Frontenac:

We have audited the consolidated statement of financial position of the Corporation of the County of Frontenac as at December 31, 2012 and the consolidated statement of operations, changes in net financial assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Corporation of the County of Frontenac's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 whether the consolidated financial statements are free of 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 the auditor's judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the County of Frontenac as at December 31, 2012 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.



Chartered Accountants

Licensed Public Accountants

Allan Chartered Accountants Professional Corporation

Authorized to practice public accounting by the Institute of Chartered Accountants of Ontario

Perth, Ontario,
May 15, 2013.

**County of Frontenac
Consolidated Statement of Financial Position**

December 31	2012	2011
	\$	\$
ASSETS		
Financial Assets		
Cash	16,908,835	16,919,197
Short term investment	164,069	492,209
Accounts receivable	3,553,018	3,702,708
	20,625,922	21,114,112
LIABILITIES		
Financial Liabilities		
Accounts payable and accrued liabilities	3,996,132	5,116,167
Employee future benefit obligations (note 3)	222,638	171,286
Deferred revenues	12,283	53,459
Deferred revenues - obligatory reserve fund (note 4)	2,444,292	2,406,299
Long term liabilities (note 5)	11,163,466	11,975,976
	17,838,811	19,723,187
NET FINANCIAL ASSETS	2,787,111	1,390,925
NON-FINANCIAL ASSETS		
Tangible capital assets (note 14)	22,615,130	23,299,475
Inventories	149,390	172,582
Prepaid expenses	18,118	17,891
	22,782,638	23,489,948
Commitments (note 11) Contingent Liabilities (note 9)		
MUNICIPAL EQUITY (note 6)	25,569,749	24,880,873

Approved by the Corporation of the County of Frontenac

_____ Warden

_____ Deputy Warden

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

County of Frontenac
Consolidated Statement of Operations

For the year ended December 31	(Note 16) Budget	2012	2011
	\$	\$	\$
REVENUES			
Taxation ▶ from other governments	8,281,074	8,450,478	8,496,222
User charges	3,076,288	2,916,276	2,901,382
Government grants ▶ provincial	13,574,808	14,029,913	13,644,849
▶ federal	---	---	4,426
▶ other municipalities	9,197,920	9,586,395	8,266,440
Deferred revenues earned (note 4)	1,171,281	812,987	646,756
Provincial offences fines penalties	222,879	200,299	225,509
Investment income	160,000	199,356	207,877
Other income	318,424	367,582	278,088
TOTAL REVENUES	36,002,674	36,562,286	34,671,547
EXPENDITURES			
General government	2,332,059	2,340,150	2,595,044
Protection to persons and property	23,095	11,320	12,960
Transportation services	1,588,188	1,553,466	1,523,051
Ambulance services	14,703,924	15,156,842	13,778,955
Health services	677,951	677,658	636,357
Social and family services	12,968,812	12,933,461	12,496,155
Libraries	761,978	786,579	740,394
Social housing	732,959	688,572	640,681
Planning and development	1,353,180	960,362	870,962
Other	765,000	765,000	177,816
TOTAL EXPENDITURES	35,907,146	35,873,410	33,472,375
NET REVENUES FROM OPERATIONS	95,528	688,876	1,199,172
OTHER			
Grants and transfers related to capital Government transfers	---	---	947,573
ANNUAL SURPLUS	95,528	688,876	2,146,745
MUNICIPAL EQUITY, BEGINNING OF YEAR	24,880,873	24,880,873	22,734,128
MUNICIPAL EQUITY, END OF YEAR	24,976,401	25,569,751	24,880,873

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

County of Frontenac
Consolidated Statement of Changes in Net Financial Assets

For the year ended December 31	(Note 16) Budget	2012	2011
	\$	\$	\$
ANNUAL SURPLUS	95,528	688,876	2,146,745
Amortization of tangible capital assets	1,252,612	1,366,641	1,250,859
Acquisition of tangible capital assets	(1,504,060)	(713,229)	(2,366,988)
Gain on sale of tangible capital assets	---	11,403	74,894
Proceeds on sale of tangible capital assets	---	19,531	17,544
Acquisition of inventories of supplies	---	(149,391)	(172,582)
Acquisition of prepaid expenses	---	(18,118)	(17,891)
Consumption of inventories	---	172,582	158,438
Use of prepaid expenses	---	17,891	30,758
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(155,920)	1,396,186	1,121,777
NET FINANCIAL ASSETS, BEGINNING OF YEAR	1,390,925	1,390,925	269,148
NET FINANCIAL ASSETS, END OF YEAR	1,235,005	2,787,111	1,390,925

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

County of Frontenac
Consolidated Statement of Cash Flows

For the year ended December 31	2012	2011
	\$	\$
OPERATING		
Annual surplus for the year	688,876	2,148,745
Amortization	1,366,641	1,250,859
	2,055,517	3,397,604
Net Change in Non-Cash Working Capital Balances		
Accounts receivable	149,689	(667,902)
Accounts payable and accrued liabilities	(1,120,036)	(1,130,035)
Employee future benefit obligations	51,352	16,074
Deferred revenues	(41,176)	(37,059)
Deferred revenues - obligatory reserve funds	37,993	199,287
Inventories	23,191	(14,144)
Prepaid expenses	(227)	12,868
	(899,214)	(1,820,911)
Working Capital from Operations	1,156,303	1,776,693
INVESTING		
Decrease in short term investments	328,140	338,479
Net increase in investments	328,140	338,479
CAPITAL		
Acquisition of tangible capital assets	(713,229)	(2,366,988)
Net proceeds on sale of tangible capital assets	30,934	92,438
Net investment in tangible capital assets	(682,295)	(2,274,550)
FINANCING		
Debt principal repayments	(812,510)	(764,351)
Net decrease in cash from financing activities	(812,510)	(764,351)
NET DECREASE IN CASH	(10,362)	(923,729)
CASH, BEGINNING OF YEAR	16,919,197	17,842,926
CASH, END OF YEAR	16,908,835	16,919,197

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

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

1. Status of the County of Frontenac

The County of Frontenac (the 'County') was incorporated in 1865 and assumed its responsibilities under the authority of the Provincial Secretary. The County operates as an upper tier government in the County of Frontenac, in the Province of Ontario, Canada and provides municipal services such as emergency measures, public works, public health services, ambulance services, social and family assistance, planning and development and other general government operations.

2. Significant Accounting Policies

The consolidated financial statements of the Corporation of the County of Frontenac are the representations of management and have been prepared in all material respects in accordance with Canadian Public Sector Accounting Standards for local governments as recommended by the Public Sector Accounting Board ('PSAB') of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies by the County are as follows:

Basis of Consolidation

- (i) The consolidated financial statements reflect financial assets, liabilities, operating revenues and expenditures, reserves, reserve funds and changes in investment in tangible capital assets of the County. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the County and which are owned or controlled by the County. Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated. These consolidated financial statements include:

▸ Fairmount Home for the Aged

- (ii) Non-consolidated entities:

Kingston, Frontenac and Lennox and Addington Public Health is not consolidated and only the contributions by the County are reported on the Consolidated Statement of Operations

The Kingston-Frontenac Public Library Board is not consolidated and only the contributions by the County are reported on the Consolidated Statement of Operations.

- (iii) The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards are not reflected in the municipal fund balances of these financial statements.

Basis of Accounting

- (i) The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenditures are recognized as they are incurred and measurable based on receipt of goods and services and/or the creation of a legal obligation to pay.
- (ii) 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. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial assets for the year.

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

2. Significant Accounting Policies / continued

Basis of Accounting / continued

- (iii) Trust funds and their related operations administered by the County are not included in these financial statements but are reported separately on the Trust Funds Statement of Financial Activities and Financial Position.

Tangible Capital Assets

Tangible capital assets are recorded at historical cost or where historical cost records were not available, other methods determined to provide a best estimate of historical cost and accumulated amortization of the assets. In certain cases the County used replacement costs and appropriate indices to deflate the replacement cost to an estimated historical cost at the year of acquisition. Costs include all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight line basis over their estimated useful lives as follows:

Land	
Land Improvements	10 - 30 years
Buildings	10 - 50 years
Vehicles	6 - 15 years
Machinery and Equipment	3 to 30 years
Bridges	16 years
Work in Progress	

Amortization is charged for the months in use. Assets under construction are not amortized until the asset is available for productive use, at which time they are capitalized.

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, and that fair value is also recorded as revenue. Similarly, transfers of assets to third parties are recorded as an expense equal to the net book value of other asset as of the date of transfer.

Leases

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

Inventories and Prepaid Expenses

Inventories and prepaid expenses held for consumption are recorded at the lower of cost or replacement cost.

Pension and Employee Benefits

The County accounts for its participation in the Ontario Municipal Employees Retirement System ('OMERS'), a multi-employer public sector pension fund, as a defined benefit plan. The OMERS plan specifies the retirement benefits to be received by employees based on length of service and pay rates.

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

2. Significant Accounting Policies / continued

Cash and Cash Equivalents

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

Government Transfers

Government transfers are recognized in the financial statements as revenues in the period in which 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.

Deferred Revenues

The County defers recognition of user charges and fees which have been collected but for which the related services have yet to be performed. Government transfers of gas taxes, are reported as deferred revenues in the Consolidated Statement of Financial Position. These amounts will be recognized as revenues in the fiscal year the services are performed.

Investments

Short-term and long-term investments are recorded at cost plus accrual interest. If the market value of investments become lower than cost and the decline in value is considered to be other than temporary, the investments are written down to market value.

Investment income earned on surplus current funds, capital funds, reserves and reserve funds (other than obligatory reserve funds) are reported as revenue in the period earned.

Financial Instruments

All financial instruments are initially recognized at fair value on the consolidated statement of financial position. The County has classified each financial instrument into one of the following categories: held-for-trading financial assets and liabilities, loans and receivables, held-to-maturity financial assets and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Held-for-trading financial assets and liabilities are subsequently measured at fair value with changes in those fair values recognized in net revenues.

Loans and receivables, held-to-maturity financial assets and other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The County classifies cash and cash equivalents as held-for-trading financial assets, accounts receivable as loans and receivables, and accounts payable and accrued liabilities as other financial liabilities.

Measurement Uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions on such areas as employee benefits, assessment appeals and environmental provisions. These estimates and assumptions are based on the County's best information and judgment and may differ significantly based on actual results.

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

3. Employee Future Benefit Obligations

Extended health care, dental, life insurance and sick leave benefits:

The County provides extended health care, dental and other benefits to one group of Fairmount Home employees. Extended health care and dental benefits continue to be available to early retirees at 100% of their cost up to the age of 60, then between the age of 60 and 65, the retiree will generally be responsible for paying 50% of the benefit premiums.

Retirement Benefits

An independent actuarial study of the employee non-pension retirement benefits has been undertaken. The most recent valuation of the employee future benefits was completed at December 31, 2012.

The accrued benefit obligations relating to employee non-pension retirement benefits has been actuarially determined using the projected benefit method pro-rated on services. At December 31, 2012, based on actuarial update, the accrued benefit obligation was \$222,638.

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

Discount rate	5% per annum
Inflation rate	2% per annum
Salary escalation	3% per annum
Dental benefits escalation	4% per annum
Health benefits escalation	8% per year starting in 2008, reducing to 4% per year over 12 years to reach 4% per year starting in 2010

Employee benefit obligations are comprised of:

	2012	2011
	\$	\$
Opening balance	171,286	155,212
Increase due to plan amendment	35,175	---
Expense recognized for the year	10,177	9,525
Interest cost	9,171	8,482
Benefit payments	(4,432)	(3,194)
Amortization of actuarial losses	1,261	1,261
Accrued benefit obligation, end of year	222,638	171,286

4. Deferred Revenues

A requirement of public sector accounting principles of the Canadian Institute of Chartered Accountants is that obligatory reserve funds be reported as deferred revenues. This requirement is in place as Provincial legislation restricts how these funds may be used and under certain circumstances these funds may possibly be refunded. The transactions for the year are summarized as follows:

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

4. Deferred Revenues / continued

	2012	2011
	\$	\$
Federal Gas Tax ▶ January 1, 2012	2,406,299	2,207,011
Federal grant ▶ gasoline tax	817,734	817,734
Investment income	33,248	28,310
Transfer to operating fund	(812,989)	(646,756)
Federal Gas Tax ▶ December 31, 2012	2,444,292	2,406,299

5. Long Term Liabilities

- (a) The balance of long term liabilities reported on the "Consolidated Statement of Financial Position" is comprised of the following:

	2012	2011
	\$	\$
Debenture issue	11,163,466	11,975,976
Net long term liabilities at the end of the year	11,163,466	11,975,976

A debenture was issued on September 12, 2002 maturing September 12, 2022, to finance a building project at Fairmount Home for the Aged. The debenture has an interest rate of 6.157% with principal repayments commencing on September 12, 2003. Debt repayment costs will be recovered from future revenue. The City of Kingston's share of the debt repayment was established through a Mediated Settlement dated August 7, 2002 and is based on 50% of the repayments related to the 32 new beds and 74% of the repayments related to the 96 existing beds.

- (b) Principal payments fall due as follows:

	General Revenues
	\$
2013	863,703
2014	918,122
2015	975,969
2016	1,037,462
2017	1,102,822
2018 and thereafter	6,265,388
	11,163,466

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

5. Long Term Liabilities / continued

- (c) These payments are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.
- (d) Interest expense on long term liabilities in 2012 amounted to \$716,200 (2011 \$764,517).
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6. Municipal Equity

	2012	2011
	\$	\$
Invested in tangible capital assets	22,615,129	23,299,475
Long term liabilities	(11,163,466)	(11,975,976)
	11,451,663	11,323,499
Unfunded Future Employee Liabilities	(35,175)	---
Reserves (Schedule 1)	11,410,776	10,570,892
Reserve Funds (Schedule 1)	2,742,485	2,986,482
Total Municipal Equity	25,569,749	24,880,873

7. Pension Contributions

The County makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of all permanent 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 was \$1,297,813 (2011 \$1,083,045) for current services and is included as an expenditure on the Consolidated Statement of Operations classified under the appropriate functional expenditure. Contributions by employees were a similar amount.

8. Trust Funds

Trust funds administered by the County amounting to \$10,051 (2011 \$9,700) are presented in a separate financial statement of trust fund balances and operations. As such balances are held in trust by the County for the benefit of others, they are not presented as part of the County's financial position or financial activities.

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

9. Contingent Liabilities

- (a) The County is contingently liable for its share of any operating deficit of the Kingston-Frontenac Public Library Board, which is approximately 13% of the accumulated balance as at the end of the year for the Board. The County's share of the accumulated operating surplus (deficits) is \$28,631 (2011 \$33,702).
 - (b) 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, 2012, management believes that the County 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 County's financial position.
-

10. Contributions to Joint Boards

- (a) The assets and liabilities of the Kingston-Frontenac Public Library Board have not been consolidated. The County contributions to the Library Board for 2012 are \$740,329 (2011 \$725,077) and are reported on the Consolidated Statement of Operations.
 - (b) The assets and liabilities of the Kingston-Frontenac and Lennox and Addington Health Board have not been consolidated. The County made the following contributions to the Kingston, Frontenac and Lennox and Addington Health Board for 2012 \$677,658 (2011 \$636,357).
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11. Commitments

- (a) The County leases premises under long term operating lease agreements with terms as follows:
 - (i) \$25,500 per annum plus HST to December 22, 2013, adjusted annually for additional rent and realty taxes (\$19,950 in 2011);
 - (ii) \$28,000 per annum plus HST;
 - (iii) \$25,389 per annum in 2011, during each subsequent year \$25,389 plus an adjustment based on CPI;
 - (iv) \$51,600 per annum plus HST to September 30, 2015;
 - (v) \$4,000 per annum plus HST first five year term to 2015 and the following 15 years \$4,000 plus CPI escalator, plus HST;
 - (vi) \$4,000 per annum plus HST.
- (b) In 2008, the County pledged \$54,000 annually for 10 years to the University Hospitals Kingston Foundation, a joint fund raising appeal undertaken by the Foundation on behalf of local hospitals. The County has provided \$54,000 as the fifth of 10 payments, as of December 31, 2012.

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

11. Commitments

- (c) In 2012, the Kingston Frontenac Housing Corporation entered into an agreement with the City of Kingston to pay \$12,500 per year beginning in 2012 to provide for a new septic system at the social housing site in Verona. Through the cost sharing agreement with the City of Kingston the County of Frontenac is obligated for 100% of the costs of the social housing units in the County, including this annual repayment.

12. Cost Sharing Allocations

The Local Service Realignment sets out formulae under which the costs for Social Services, Child Care, Social Housing, Provincial Offences and Land Ambulance are shared between the County of Frontenac and the City of Kingston. A new cost sharing arrangement was derived for the period of 2004 to 2006 through an arbitrated settlement and continued on a year to year basis in 2009. Program costs for Social Services and Child Care are distributed on the basis of caseload and Social Housing costs are allocated by the location of the unit. The administrative costs for these services are allocated on the basis of weighted assessment. The cost of Land Ambulance and the net revenue of Provincial Offences are distributed on the basis of weighted assessment.

13. Risk Management

In the normal course of operations, the County is exposed to a variety of financial risks which are actively managed by the County.

The County's financial instruments consist of cash, investments, accounts receivable, accounts payable and accrued liabilities. The fair values of cash, investments, accounts payable and accrued liabilities approximate their carrying values because of their expected short term maturity and treatment on normal trade terms.

The County's exposure to and management of risk has not changed materially from December 31, 2011.

(a) Credit Risk

Credit risk arises from the possibility that the entities to which the County provides services to may experience difficulty and be unable to fulfill their obligations. The County is exposed to financial risk that arises from the credit quality of the entities to which it provides services. The County does not have a significant exposure to any individual customer or counter party. As a result, the requirement for credit risk related reserves for accounts receivable is minimal.

(b) Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The County is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash and cash equivalents and operating loan. Changes in variable interest rates could cause unanticipated fluctuations in the County's operating results.

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

13. Risk Management / continued

(c) Liquidity Risk

Liquidity risk is the risk that the County will not be able to meet its obligations as they fall due. The County requires working capital to meet day-to-day operating activities. Management expects that the County's cash flows from operating activities will be sufficient to meet these requirements.

14. Tangible Capital Assets

	2012	2011
	\$	\$
Land	463,653	463,653
Land Improvements	655,597	450,915
Buildings	17,279,874	17,723,355
Vehicles	1,686,611	2,021,955
Machinery and Equipment	2,124,078	2,289,308
Bridges	116,612	125,524
Work in Progress	288,705	224,765
	22,615,130	23,299,475

For additional information, see Schedule 2 ▸ Tangible Capital Assets.

15. Segmented Information

The County is a diversified municipal government that provides a wide range of services to its citizens. The services are provided by departments and their activities are reported in the consolidated statement of operations.

Departments have been separately disclosed in the segmented information, along with the service they provide, as set out in the schedule below.

For each reported segment, expenditures represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 2.

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

15. Segmented Information / continued

2012	Salaries, Wages & Employee Benefits	Rents and Debt Interest	Materials & Services	External Transfers	Amortization	Total
	\$	\$	\$	\$	\$	\$
General Government Administration	855,262	---	1,289,491	771,263	189,133	3,105,149
Protection to Persons and Property	---	---	11,320	---	---	11,320
Transportation	841,567	---	37,125	674,774	---	1,553,466
Health Services						
Public Health Services	---	---	677,658	---	---	677,658
Ambulance	12,259,774	---	2,303,462	---	593,606	15,156,842
Social and Family Assistance						
General Assistance	---	---	1,189,165	---	---	1,189,165
Assistance to Aged Persons	8,487,287	716,200	2,002,859	---	537,951	11,744,297
Social Housing	---	---	688,572	---	---	688,572
Recreation and Cultural Services						
Libraries	---	---	740,628	---	45,951	786,579
Other	---	---	---	---	---	---
Planning and Development	266,418	---	693,944	---	---	960,362
2012	22,710,308	716,200	9,834,224	1,446,037	1,366,641	35,873,410

County of Frontenac
Notes to the Consolidated Financial Statements

December 31, 2012

15. Segmented Information / continued

2011	Salaries, Wages & Employee Benefits	Rents and Debt Interest	Materials & Services	External Transfers	Amortization	Total
	\$	\$	\$	\$	\$	\$
General Government Administration	801,202	---	1,103,369	510,000	180,473	2,595,044
Protection to Persons and Property	---	---	12,961	---	---	12,961
Transportation	799,548	---	48,321	675,182	---	1,523,051
Health Services						
Public Health Services	---	---	636,357	---	---	636,357
Ambulance	11,118,304	148,810	1,989,312	---	522,529	13,778,955
Social and Family Assistance						
General Assistance	---	---	1,267,813	---	---	1,267,813
Assistance to Aged Persons	8,064,348	764,517	1,866,935	---	532,540	11,228,340
Social Housing	---	---	640,681	---	---	640,681
Recreation and Cultural Services						
Libraries	---	---	725,077	---	15,317	740,394
Other	---	---	177,816	---	---	177,816
Planning and Development	236,685	---	634,278	---	---	870,963
2011	21,020,087	913,327	9,102,920	1,185,182	1,250,859	33,472,375

16. Budget Figures

The operating budget approved by County Council, for 2012 is reflected on the Consolidated Statement of Operations. The budgets established for capital investment in tangible capital assets are on a project oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year's actual expenditure amounts.

County of Frontenac
Schedule 1 ▶ Continuity of Reserves and Reserve Funds

For the year ended December 31	(Note 16) Budget	2012	2011
	\$	\$	\$
Revenues			
Donations	---	94,838	40,951
Investment income	42,099	58,348	39,877
Total Net Revenues	42,099	153,186	80,828
Net Transfers From / (To) Other Funds			
Transfers from operations	(332,196)	548,205	794,531
Transfers to capital acquisitions	(377,460)	(105,504)	(671,868)
Total Net Transfers	(709,656)	442,701	122,663
Balances, Change in Year	(667,557)	695,887	203,491
Balances, Beginning of Year	13,557,374	13,557,374	13,353,883
Reserves and Reserve Fund Balances, End of Year	12,889,817	14,153,961	13,557,374

Schedule 1 ▶ Composition of Reserves and Reserve Funds

For the year ended December 31	2012	2011
	\$	\$
Reserves set aside for specific purposes by Council:		
▶ for working capital ▶ County of Frontenac	4,983,724	4,830,040
▶ Fairmount Home for the Aged	626,793	677,807
▶ for land ambulance joint with City of Kingston	1,774,037	1,372,592
▶ for land ambulance County of Frontenac	394,217	394,217
▶ for social housing	401,900	389,400
▶ for library	141,867	128,217
▶ for GIS	33,000	22,000
▶ for land acquisition	57,654	40,000
▶ for land use planning	185,670	136,159
▶ for stabilization	974,431	974,431
▶ for ferry revenue stabilization	32,450	42,611
▶ for Fairmount capital replacement schedule	689,524	604,500
▶ for County capital asset replacement schedule	574,664	486,664
▶ for Ontarians with disabilities	45,000	35,000
▶ for Severance ▶ Fairmount Home for the Aged	116,762	99,254
▶ for Operations ▶ Fairmount Home for the Aged	27,223	18,000
▶ for strategic projects	170,000	170,000
▶ for NEER reserve	151,860	150,000
▶ 150 th Anniversary reserve	30,000	---
Total Reserves	11,410,776	10,570,892
Reserve Funds		
▶ for Fairmount donations	243,375	156,045
▶ for Fairmount rebuild donations	68,734	67,878
▶ for County of Frontenac capital	2,077,161	2,174,318
▶ for investing in Ontario	353,215	588,241
	2,742,485	2,986,482
Total Reserves and Reserve Funds	14,153,261	13,557,374

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

County of Frontenac
Schedule 2 ▶ 2012 Tangible Capital Assets

Asset Class	Cost 01/01/12	Additions	(Disposals)	Cost 31/12/12
	\$	\$	\$	\$
Land	463,653	---	---	463,653
Land Improvements	573,810	242,513	---	816,323
Buildings	21,363,900	10,456	---	21,374,356
Vehicles	3,132,312	106,844	(213,591)	3,025,565
Machinery & Equipment	5,255,028	289,477	(302,150)	5,242,355
Bridges	133,695	---	---	133,695
Work in Progress	224,766	113,797	(49,858)	288,705
	<u>31,147,164</u>	<u>763,087</u>	<u>(565,599)</u>	<u>31,344,652</u>

Asset Class	Accumulated Amortization 01/01/12	Amortization	(Disposals)	Accumulated Amortization 31/12/12	Net Book Value 31/12/12
	\$	\$	\$	\$	\$
Land	---	---	---	---	463,653
Land Improvements	122,896	37,830	---	160,726	655,597
Buildings	3,640,546	453,936	---	4,094,482	17,279,874
Vehicles	1,110,357	426,188	(197,591)	1,338,954	1,686,611
Machinery & Equipment	2,965,720	439,773	(287,216)	3,118,277	2,124,078
Bridges	8,170	8,913	---	17,083	116,612
Work in Progress	---	---	---	---	288,705
	<u>7,847,689</u>	<u>1,366,640</u>	<u>484,807</u>	<u>8,729,522</u>	<u>22,615,130</u>

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

County of Frontenac
Schedule 2 ▶ 2011 Tangible Capital Assets

Asset Class	Cost 01/01/11	Additions	(Disposals)	Cost 31/12/11
	\$	\$	\$	\$
Land	463,653	---	---	463,653
Land Improvements	428,851	146,959	---	573,810
Buildings	18,076,989	3,286,911	---	21,363,900
Vehicles	3,000,478	805,241	(673,407)	3,132,312
Machinery & Equipment	4,704,882	560,294	(10,148)	5,255,028
Bridges	---	133,695	---	133,695
Work in Progress	2,790,878	(2,566,112)	---	224,766
	<u>29,463,731</u>	<u>2,366,988</u>	<u>(683,555)</u>	<u>31,147,164</u>

Asset Class	Accumulated Amortization 01/01/11	Amortization	(Disposals)	Accumulated Amortization 31/12/11	Net Book Value 31/12/11
	\$	\$	\$	\$	\$
Land	---	---	---	---	463,853
Land Improvements	99,027	23,869	---	122,896	450,914
Buildings	3,217,470	423,076	---	3,640,546	17,723,354
Vehicles	1,318,298	379,624	(587,585)	1,110,357	2,021,955
Machinery & Equipment	2,553,152	418,120	(3,552)	2,966,720	2,289,308
Bridges	---	8,170	---	8,170	125,525
Work in Progress	---	---	---	---	224,766
	<u>7,187,947</u>	<u>1,250,859</u>	<u>(591,117)</u>	<u>7,847,689</u>	<u>23,299,475</u>

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

Allan

Chartered Accountant Professional Corporation

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the County of Frontenac:

We have audited the statement of financial position of the trust funds of the Corporation of the County of Frontenac as at December 31, 2012 and the statement of financial activities of the trust funds for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Corporation of the County of Frontenac's management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 whether the financial statements are free of 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 the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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

The trust funds of the Corporation of the County of Frontenac derives receipts from the Homes for Senior Citizen residents, which are not susceptible to complete audit verification. Accordingly our verification of such receipts was limited to accounting for the amounts recorded in the records of the trust funds.

In our opinion, except for the effect of adjustments which might have been required had receipts from the Homes for Senior Citizens residents been susceptible to complete audit verification, these financial statements present fairly, in all material respects, the financial position of the trust funds of the Corporation of the County of Frontenac as at December 31, 2012 and the financial activities for the year ended in accordance with Canadian Public Sector Accounting Standards.



Chartered Accountants

Licensed Public Accountants

Allan Chartered Accountants Professional Corporation

Authorized to practice public accounting by the Institute of Chartered Accountants of Ontario

Perth, Ontario,

May 15, 2013.

County of Frontenac
Trust Funds
Statement of Financial Position

December 31	Fairmount Home Residents'	Bridget Fowler	2012	2011
	\$	\$	\$	\$
ASSETS				
Cash	6,288	3,763	10,051	9,700
FUND BALANCES	6,288	3,763	10,051	9,700

Statement of Financial Activities

For the year ended December 31	Fairmount Home Residents'	Bridget Fowler	2012	2011
	\$	\$	\$	\$
REVENUES				
Residents' deposits	14,121	---	14,121	15,417
Interest	---	30	30	30
Dividends	---	630	630	202
	14,121	660	14,781	15,649
EXPENDITURES				
Residents' withdrawals	14,130	---	14,130	15,928
Payments	---	300	300	300
	14,130	300	14,430	16,228
NET REVENUES (EXPENDITURES) FOR THE YEAR	(9)	360	351	(579)
BALANCE AT THE BEGINNING OF THE YEAR	6,297	3,403	9,700	10,279
BALANCE AT THE END OF THE YEAR	6,288	3,763	10,051	9,700

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

**County of Frontenac
Trust Funds
Notes to the Financial Statements**

December 31, 2012

1. Significant Accounting Policies

Reporting Entity

Expenditures are reported on the cash basis of accounting with the exception of administrative expenses which are reported on the accrual basis of accounting, which recognizes expenditures 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.
