

**The Corporation of the
Municipality of Kincardine
Financial Statements
For the year ended December 31, 2012**

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Municipality of Kincardine

We have audited the accompanying consolidated financial statements of the Corporation of the Municipality of Kincardine, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of operations and accumulated surplus, changes in net debt 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

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 controls 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 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 the auditor's 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, the auditor considers 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 evaluation 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 qualified opinion.



Basis for Qualified Opinion

The completeness of tangible capital assets is not susceptible to satisfactory audit verification because information is not available for certain areas of the municipality. This has resulted in the municipality being unable to determine if all tangible capital assets have been recorded. Accordingly, our verification of these assets was limited to the amounts recorded in the records of the municipality. We were unable to determine whether any adjustments might be necessary to the tangible capital assets, amortization expense, annual surplus and accumulated surplus.

Opinion

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the Municipality of Kincardine as at December 31, 2012 and the results of its operations, changes in net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Kincardine, Ontario
July 3, 2013

**The Corporation of the Municipality of Kincardine
Consolidated Statement of Financial Position**

December 31	2012	2011
Assets and Liabilities		
Financial assets		
Cash (Note 1)	\$ 22,697,208	\$ 18,984,038
Taxes receivable	1,780,728	1,553,345
Trade and other receivables	2,655,625	3,557,171
Inventory held for resale	295,810	290,596
Long-term investments - other (Note 2)	6,193,983	6,071,975
Loans receivable (Note 3)	1,780,034	2,008,682
	<u>35,403,388</u>	<u>32,465,807</u>
Liabilities		
Accounts payable and accrued liabilities	5,134,852	5,175,422
Deferred revenue (Page 38)	1,979,066	1,325,806
Long-term liabilities (Note 6)	4,612,800	5,191,551
Post-employment benefits (Note 15)	745,944	638,123
Solid waste landfill closure and post closure liability (Note 7)	597,132	781,614
	<u>13,069,794</u>	<u>13,112,516</u>
Commitments and Contingencies (Note 19)		
Net financial assets	22,333,594	19,353,291
Non financial assets		
Inventory of supplies	676,472	712,314
Prepaid expenses	903,483	544,391
Tangible capital assets (Note 4)	153,071,839	152,407,690
Accumulated surplus (Note 8)	\$176,985,388	\$173,017,686

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Municipality of Kincardine Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	2012 Budget	2012 Actual	2011 Actual
Revenue			
Taxation	\$ 10,663,807	\$ 10,629,788	\$ 9,835,287
Water and sewer charges	4,196,902	4,359,785	3,592,594
Fees and user charges	20,628,635	20,375,547	20,691,356
Grants (Note 11)	2,045,275	1,938,752	4,926,607
Other income (Note 10)	2,322,628	5,406,603	3,925,979
Obligatory reserve fund revenue recognized	355,900	317,003	525,120
	<u>40,213,147</u>	<u>43,027,478</u>	<u>43,496,943</u>
Expenses			
General government	2,429,966	2,520,423	2,212,467
Protection services	4,458,900	4,356,244	4,095,009
Transportation services	3,972,622	4,998,232	5,105,952
Environmental services	4,019,173	3,581,977	3,459,722
Health services	735,861	727,538	763,082
Recreation and cultural services	4,300,013	4,169,324	3,914,166
Planning and development	1,061,620	992,174	1,111,573
Telecommunications	17,621,960	17,584,517	17,359,726
Transfers to obligatory reserve funds	-	120,547	-
	<u>38,600,115</u>	<u>39,050,976</u>	<u>38,021,697</u>
Annual surplus (Note 16)	<u>1,613,032</u>	<u>3,976,502</u>	<u>5,475,246</u>
Accumulated surplus, beginning of year	173,017,686	173,017,686	167,504,661
Restatement of opening fund balance (Note 12)	-	(8,800)	37,779
Accumulated surplus, beginning of year as restated	<u>173,017,686</u>	<u>173,008,886</u>	<u>167,542,440</u>
Accumulated surplus, end of year	<u>\$174,630,718</u>	<u>\$176,985,388</u>	<u>\$173,017,686</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Municipality of Kincardine Consolidated Statement of Changes in Net Debt

For the year ended December 31	2012 Budget	2012 Actual	2011 Actual
Annual surplus	\$ 1,613,032	\$ 3,976,502	\$ 5,475,246
Restatement of opening fund balance	-	(8,800)	37,779
	<u>1,613,032</u>	<u>3,967,702</u>	<u>5,513,025</u>
Acquisition of tangible capital assets	(9,646,325)	(8,606,771)	(13,003,997)
Amortization of tangible capital assets	6,575,828	7,815,570	8,097,532
(Gain) loss on sale of tangible capital assets	-	(14,840)	264,900
Proceeds on disposal of capital assets	-	141,892	59,725
Tangible capital assets recognized on initial consolidation of SMART	-	-	(37,379)
	<u>(1,457,465)</u>	<u>(664,149)</u>	<u>(4,619,219)</u>
Change in prepaid expenses	-	(359,092)	(75,469)
Change in inventory of supplies	-	35,842	13,334
	<u>-</u>	<u>(323,250)</u>	<u>(62,135)</u>
Increase in net financial assets	(1,457,465)	2,980,303	831,671
Net financial assets, beginning of the year	19,353,291	19,353,291	18,521,620
Net financial assets, end of the year	17,895,826	\$ 22,333,594	\$ 19,353,291

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Municipality of Kincardine Consolidated Statement of Cash Flows

For the year ended December 31	2012	2011
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 3,976,502	\$ 5,475,246
Items not involving cash		
Income from contribution of capital assets	(2,033,290)	(786,669)
Amortization of bond premiums	(69,614)	(115,387)
Change in inventories of supplies	35,842	13,334
Amortization of capital assets	7,815,570	8,097,532
Solid waste closure and post-closure liabilities	(184,482)	(242,298)
Post-employment benefits payable	107,821	80,768
Loss on sale of capital assets	(14,840)	264,900
Change in prepaid expenses	(359,092)	(75,469)
Restatement of opening fund balance (Note 12)	(8,800)	37,779
Forgiveness of loan receivable	90,000	-
Net change in non-cash working capital items		
Taxes receivable	(227,383)	29,298
Trade and other receivables	901,546	1,460,455
Inventory held for resale	(5,214)	75,478
Accounts payable and accrued liabilities	(40,570)	(1,053,648)
Deferred revenue	653,260	(298,751)
	10,637,256	12,962,568
Capital transactions		
Cash used to acquire capital assets	(6,573,481)	(12,217,328)
Proceeds on sale of capital assets	141,892	59,725
Capital assets recognized on initial consolidation of SMART	-	(37,379)
	(6,431,589)	(12,194,982)
Investing activities		
Acquisition of investments	(2,706,044)	(722,636)
Proceeds on sale of investments	2,653,650	785,819
Repayment of loans receivable	278,348	239,582
Issuance of loans receivable	(139,700)	(137,200)
	86,254	165,565
Financing activities		
Repayment of long-term liabilities	(598,451)	(716,036)
New debt issued	19,700	137,200
	(578,751)	(578,836)
Net change in cash and cash equivalents	3,713,170	354,315
Cash and cash equivalents, beginning of year	18,984,038	18,629,723
Cash and cash equivalents, end of year	\$ 22,697,208	\$ 18,984,038

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Municipality of Kincardine Summary of Significant Accounting Policies

December 31, 2012

Management Responsibility	The consolidated financial statements of the Corporation of the Municipality of Kincardine are the representations of management. They have been prepared in accordance with accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants as prescribed by the Ministry of Municipal Affairs and Housing.
Basis of Consolidation	<p>The consolidated statements reflect the assets, liabilities, revenues and expenses of all municipal organizations, committees, and boards which are controlled by Council. All interfund assets and liabilities and revenues and expenses have been eliminated on consolidation.</p> <p>The following boards and municipal enterprises owned or controlled by Council have been consolidated:</p> <p style="padding-left: 40px;">Kincardine Police Services Board Kincardine Business Improvement Area Bruce Telecom</p> <p>A government partnership exists where the municipality has shared control over the board or entity. The municipality's pro-rata share of the assets, liabilities, revenues and expenses are reflected in the financial statements using the proportionate consolidation method. The municipality's proportionate interest of the following government partnerships are reflected in the consolidated financial statements:</p> <p style="padding-left: 40px;">Saugeen Mobility and Regional Transit (SMART) 13.00% Bruce Area Solid Waste Recycling (BASWRA) 17.93%</p>
Basis of Accounting	Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues 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.

The Corporation of the Municipality of Kincardine Summary of Significant Accounting Policies

December 31, 2012

Cash and Cash Equivalents	Cash and cash equivalents include all cash balances and short term highly liquid investments that are readily convertible into cash.												
Temporary Investments	Temporary investments are recorded at the lower of cost and market value.												
Inventory	<p>Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined on the average cost basis.</p> <p>Assets held for sale, where it is not anticipated that the sale will be completed within one year, are reported as a non-financial asset.</p> <p>Inventory held for consumption is recorded at the lower of cost and replacement cost.</p>												
Long-term Investments	Long-term investments are recorded at cost, unless otherwise noted. Investment premiums and discounts arising on purchase of fixed term securities are amortized on a straight-line basis over the period to maturity.												
Non-Financial Assets	Tangible capital and other non-financial assets are accounted for as assets by the organization because they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the organization unless they are sold.												
Tangible Capital Assets	<p>Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Tangible capital assets received as contributions are recorded at their fair value at the date of contribution. Where fair market value cannot be reasonably determined, contributed tangible capital assets are recorded at a nominal amount. Amortization is provided over the estimated useful life of the assets, using the straight line method. The useful life of the assets is based on estimates determined by management. The following useful lives are used:</p> <table><tr><td>Land Improvements</td><td>15 - 100 years</td></tr><tr><td>Buildings</td><td>10 - 50 years</td></tr><tr><td>Equipment</td><td>3 - 50 years</td></tr><tr><td>Vehicles</td><td>7 - 20 years</td></tr><tr><td>Roads & Bridges</td><td>15 - 80 years</td></tr><tr><td>Water & Sewer Systems</td><td>15 - 80 years</td></tr></table>	Land Improvements	15 - 100 years	Buildings	10 - 50 years	Equipment	3 - 50 years	Vehicles	7 - 20 years	Roads & Bridges	15 - 80 years	Water & Sewer Systems	15 - 80 years
Land Improvements	15 - 100 years												
Buildings	10 - 50 years												
Equipment	3 - 50 years												
Vehicles	7 - 20 years												
Roads & Bridges	15 - 80 years												
Water & Sewer Systems	15 - 80 years												

The Corporation of the Municipality of Kincardine Summary of Significant Accounting Policies

December 31, 2012

Intangible Assets	Intangible assets, art and historic treasures, and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources, are not recognized in these financial statements.
Deferred Revenue	Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of financial position. The revenue is reported on the consolidated statement of operations and accumulated surplus in the year in which it is used for the specified purpose.
Post-Employment Benefits	<p>The municipality provides post-employment health, dental and life insurance benefits to eligible retired employees. The benefits earned by employees are determined using management's best estimate of expected benefit costs and are expensed as services are rendered.</p> <p>Defined contribution plan accounting is applied to the municipality's multi-employer defined benefit pension plan.</p>
Solid Waste Landfill Closure and Post-Closure Care	Site closure and post-closure care costs are recognized over the operating life of the landfills based on capacity used. The liability is recorded at its discounted value, based on the average long-term borrowing rate of the municipality.
County and School Board	The municipality collects taxation revenue on behalf of the school boards and the County of Bruce. The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the County of Bruce are not reflected in these financial statements.
Trust Funds	Funds held in trust by the municipality, and their related operations, are not included in these financial statements. The financial activity and position of the trust funds are reported separately on the trust funds statement of continuity and balance sheet.
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, and eligibility criteria have been met and reasonable estimates of the amounts can be made.

The Corporation of the Municipality of Kincardine Summary of Significant Accounting Policies

December 31, 2012

Revenue Recognition

User fees and other revenues are recognized when related goods or services are provided and collectibility is reasonably assured.

Investment income earned on surplus funds (other than obligatory reserve funds) are reported as revenue on the daily accrual basis. Investment income earned on obligatory reserve funds is recorded directly to each fund balance.

Taxation revenues are recorded when tax rates are set by by-laws and assessment roll is issued by assessment office. Supplementary taxation revenue is recorded once a supplementary assessment roll is received and supplementary tax bills are issued. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known. Interest and penalties on overdue taxes are recorded in the period the interest and penalties are levied.

Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Estimates are used when accounting for items such as accrued receivables, grants receivable, accrued liabilities, post-employment benefits and solid waste landfill closure and post-closure care.

Financial Instruments

The organization classifies all of its financial instruments at amortized cost. The maximum exposure to credit risk is the carrying value of the financial instruments. These financial instruments include cash, taxes receivable, trade and other receivables, long-term investments, loans receivable, accounts payable and accrued liabilities, and long-term liabilities. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument. Writedowns of financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net realizable value with the writedown being recognized in the statement of operations.

**The Corporation of the Municipality of Kincardine
Notes to Consolidated Financial Statements**

December 31, 2012

1. Cash

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 22,056,325	\$ 18,319,549
Restricted	640,883	664,489
	<u>\$ 22,697,208</u>	<u>\$ 18,984,038</u>

The municipality has internally and externally restricted funds that are segregated and will be used only for specific purposes.

Interest is earned on bank balances at the bank's monthly average prime rate less 1.7%, subject to a rate cap based on the average monthly 30 day banker's acceptance rate less 0.1%. The municipality's bank accounts are all held at one financial institution.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

2. Long-Term Investments - Other

	<u>2012</u>	<u>2011</u>
1,348 common shares, Westario Power Inc.	\$ 2,462,224	\$ 2,462,224
Other - fixed income bonds and investment certificates	<u>3,731,759</u>	<u>3,609,751</u>
	<u>\$ 6,193,983</u>	<u>\$ 6,071,975</u>

The municipality owns 13.5% of the outstanding common shares of Westario Power Inc., a private company incorporated under the laws of the Province of Ontario. The shares have no fixed maturity dates and are generally not exposed to interest rate risk. The fair value of these shares is not practicable to determine in the absence of published market quotations. Dividends of \$89,495 (2011 - \$105,824) were received on these shares during the year.

The other investments in fixed income bonds and investment certificates have a market value of \$3,863,363 (2011 - \$3,761,705) at the end of the year. They earn interest at rates ranging from 2.00% to 11.25% and mature in 2013 through 2023.

The other investments in fixed income bonds and investment certificates include \$154,149 (2011 - \$148,511) in internally and externally restricted funds that are segregated and will be used only for specific purposes.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

3. Loans Receivable

	2012	2011
Kincardine Water Treatment Plant Expanded Service Area loans receivable, 4.25%, receivable interest and principal annually, due July 2015	\$ 756,211	\$ 838,641
Paddy Walker Heritage Society loan receivable, \$5,000 principal received annually to 2013 and \$9,375 principal received annually from 2014 to 2021	-	90,000
Doctor recruitment loans receivable, 1.12% and prime rate plus 1%, \$1,000 and \$944 principal and interest received monthly, due 2017 and 2014	66,408	67,513
Friends of the Pavilion loan receivable, 4.10%, \$21,565 principal and interest received semi-annually, due 2019	260,742	292,356
Drain 19 and Lake Street loans receivable, interest ranging from 2.77% to 3.77%, principal and interest payments ranging from \$511 to \$3,503 semi-annually, due 2015	124,458	171,634
Tile drain loans receivable, 6.00%, principal and interest payments ranging from \$387 to \$6,793 annually, due 2013 to 2022	483,882	548,538
Family Health Team loan receivable, 0%, \$1,667 principal received monthly, due 2017	88,333	-
	\$ 1,780,034	\$ 2,008,682

Interest earned on the loans receivables during the year was \$84,518 (2011 - \$86,146).

During the year, the remaining balance of the Paddy Walker Heritage Society loan of \$90,000 was forgiven by the municipality.

**The Corporation of the Municipality of Kincardine
Notes to Consolidated Financial Statements**

December 31, 2012

4. Tangible Capital Assets

	2012						
	Land & Land Improvements	Buildings	Equipment & Vehicles	Roads & Bridges	Water & Sewer Systems	Assets under construction	Total
Cost, beginning of year	\$ 22,805,795	\$ 47,704,501	\$ 81,364,715	\$ 63,889,406	\$ 57,824,239	\$ 7,079,005	\$ 280,667,661
Additions	256,169	470,024	2,592,535	51,007	2,091,156	3,145,880	8,606,771
Disposals	(32)	(40,208)	(575,959)	-	(19,189)	(51,099)	(686,487)
Transfers	1,905,981	956,193	4,080,494	1,075,447	1,162,680	(9,180,795)	-
Cost, end of year	24,967,913	49,090,510	87,461,785	65,015,860	61,058,886	992,991	288,587,945
Accumulated amortization, beginning of year	5,623,855	20,249,050	53,865,719	30,260,727	18,260,620	-	128,259,971
Amortization	356,478	1,256,505	3,553,804	1,653,947	994,836	-	7,815,570
Disposals	(10)	(9,848)	(543,505)	-	(6,072)	-	(559,435)
Accumulated amortization, end of year	5,980,323	21,495,707	56,876,018	31,914,674	19,249,384	-	135,516,106
Net carrying amount, end of year	\$ 18,987,590	\$ 27,594,803	\$ 30,585,767	\$ 33,101,186	\$ 41,809,502	\$ 992,991	\$ 153,071,839

**The Corporation of the Municipality of Kincardine
Notes to Consolidated Financial Statements**

December 31, 2012

4. Tangible Capital Assets - (continued)

						2011	
	Land & Land Improvements	Buildings	Equipment & Vehicles	Roads & Bridges	Water & Sewer Systems	Assets under construction	Total
Cost, beginning of year	\$ 22,654,364	\$ 42,132,850	\$ 78,798,737	\$ 62,907,346	\$ 56,147,868	\$ 5,904,474	\$ 268,545,639
Additions	26,569	381,677	2,886,704	138,771	855,911	8,714,365	13,003,997
Disposals		(132,546)	(570,182)	(37,827)	(206,836)	(41,624)	(989,015)
Cost on initial consolidation of SMART		-	107,040	-	-	-	107,040
Transfers	124,862	5,322,520	142,416	881,116	1,027,296	(7,498,210)	-
Cost, end of year	22,805,795	47,704,501	81,364,715	63,889,406	57,824,239	7,079,005	280,667,661
Accumulated amortization, beginning of year	5,272,391	19,172,468	50,246,472	28,659,983	17,405,854	-	120,757,168
Amortization	351,464	1,138,788	4,037,696	1,628,606	940,978	-	8,097,532
Disposals		(62,206)	(488,110)	(27,862)	(86,212)	-	(664,390)
Amortization on initial consolidation of SMART		-	69,661	-	-	-	69,661
Accumulated amortization, end of year	5,623,855	20,249,050	53,865,719	30,260,727	18,260,620	-	128,259,971
Net carrying amount, end of year	\$ 17,181,940	\$ 27,455,451	\$ 27,498,996	\$ 33,628,679	\$ 39,563,619	\$ 7,079,005	\$ 152,407,690

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

4. Tangible Capital Assets - (continued)

The net book value of tangible capital assets not being amortized because they are under construction (or development or have been removed from service) is \$992,991 (2011 - \$7,079,005).

\$2,033,290 (2011 - \$786,669) in contributed infrastructure capital assets were recognized in the financial statements during the year.

5. Temporary Borrowings

The municipality has an undrawn operating line of credit of \$3,000,000 that bears interest at the bank's prime rate less 0.50%. This facility is secured by a current borrowing by-law.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

6. Long-Term Liabilities

The balance of long-term liabilities reported on the consolidated statement of financial position is made up of the following:

	2012	2011
Loan payable, Ontario Infrastructure Project Corporation, 2.35%, payable \$71,543 semi-annually principal and interest, due August 2020	\$ 1,037,996	\$ 1,154,630
Loan payable, Canadian Imperial Bank of Commerce, 4.86%, payable \$30,688 semi-annually principal and interest, due on demand	402,045	442,198
Loan payable, Canadian Imperial Bank of Commerce, bank prime rate less 0.25%, payable \$833 monthly principal plus interest, due on demand	58,350	68,346
Loan payable, Ontario Infrastructure Project Corporation, 2.77%, payable \$25,839 semi-annually principal and interest, due August 2015	147,785	194,398
Tile drain debentures payable, 6% to 8%, payable interest and principal annually, due 2013 through 2022	483,884	548,540
Loan payable, Canadian Imperial Bank of Commerce, 4.1%, payable \$21,545 semi-annually principal and interest, due on demand	258,996	290,399
Loan payable, Canadian Imperial Bank of Commerce, 4.09%, payable \$184,268 semi-annually principal and interest, due on demand	2,223,744	2,493,040
	\$ 4,612,800	\$ 5,191,551

The loans with the Canadian Imperial Bank of Commerce are due on demand, however the bank is accepting periodic repayments in accordance with the loan agreements. These loans are secured by capital borrowing by-laws. The loans with the Canadian Imperial Bank of Commerce include certain reporting requirements.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

6. Long-Term Liabilities - (continued)

The principal portion of scheduled loan payments due over the next five fiscal years and thereafter according to the loan agreements entered into by the Municipality are as follows:

2013	\$ 593,600
2014	613,780
2015	902,843
2016	557,274
2017	572,085
Thereafter	<u>1,373,218</u>
	<u>\$ 4,612,800</u>

7. Solid Waste Landfill Closure and Post-Closure Liability

Solid waste landfill closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, removal of ground water and leachates and ongoing environmental monitoring, site inspection and maintenance. These costs will be incurred as each landfill site stops accepting waste, with the post-closure care expected to continue for an additional 25 years.

The liability recorded is \$597,132 (2011 - \$781,614) and represents the present value of closure and post-closure costs for two active sites and four closed sites, using the municipality's average long-term borrowing rate of 4.10% (2011 - 4.10%) and adjusted for inflation of 2.90% (2011 - 2.90%). The liability is recorded based on the capacity of the landfills used to date. The total estimated future expenditures for closure and post-closure care are \$1,184,925 (2011 - \$1,332,730) leaving an amount to be recognized of \$587,793 (2011 - \$551,116).

At December 31, 2012, the municipality has set aside \$243,031 in reserve funds from which the closure and post-closure care costs are expected to be funded. The unfunded balance of the liability is expected to be funded from taxation in the year the costs arise or from landfill reserve funds, allocations to which are expected to be made over the remaining lives of the landfill sites.

The estimated remaining capacity of the two sites is approximately 641,500 cubic meters. The sites have remaining life of 35 years.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

8. Accumulated Surplus

Accumulated surplus consists of individual fund surplus (deficit) and reserves as follows:

	2012	2011
Investment in tangible capital assets		
Tangible capital assets purchased	\$153,071,839	\$152,407,690
Capital assets financed by long-term liabilities, to be funded in future years	(2,482,740)	(2,783,438)
Unfinanced capital assets	(1,987,964)	(2,072,263)
Total invested in capital assets	148,601,135	147,551,989
General surplus	-	987,986
Bruce Telecom	1,435,586	887,597
Business improvement area	33,187	31,182
Transit	366	399
Unfunded post-employment benefits	(333,242)	(326,371)
Unfunded solid waste closure and post-closure costs	(597,132)	(781,614)
	149,139,900	148,351,168
Reserves and reserve funds (Note 9)	27,845,488	24,666,518
Accumulated surplus	\$176,985,388	\$173,017,686

During the year, \$1,399,779 was transferred to the capital reserve from the general surplus, as approved by Council.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

9. Reserves and Reserve Funds Set Aside for Specific Purpose by Council

	2012	2011
Reserves		
Working funds	\$ 468,108	\$ 484,428
Capital purposes	7,366,713	5,899,580
Current purposes	54,000	36,000
	7,888,821	6,420,008
Reserve funds		
Contingencies	3,045	605,587
Insurance, sick leave, WSIB	345,539	350,289
Capital purposes	19,608,083	17,290,634
	19,956,667	18,246,510
Reserves and reserve funds set aside for specific purpose by Council	\$ 27,845,488	\$ 24,666,518

10. Other Income

	2012 Budget	2012 Actual	2011 Actual
Penalties and interest	\$ 156,000	\$ 232,110	\$ 217,230
Investment income	203,944	657,092	691,393
Rents, concessions and franchises	1,047,955	983,039	962,644
Donations	57,713	2,515,015	1,107,148
Gain (Loss) on sale of tangible capital assets	-	14,840	(264,900)
Contributions from benefiting landowners	2,070	59,640	292,523
Other community contributions	103,019	104,003	103,145
Other	751,927	840,864	816,796
	\$ 2,322,628	\$ 5,406,603	\$ 3,925,979

**The Corporation of the Municipality of Kincardine
Notes to Consolidated Financial Statements**

December 31, 2012

11. Grants

	2012	2012	2011
	Budget	Actual	Actual
Operating			
Province of Ontario			
Ontario Municipal Partnership Fund (OMPF)	\$ 1,619,500	\$ 1,619,500	\$ 1,539,400
- Sewer and Water	-	41,034	895,937
Conditional - Other	168,482	99,807	(647,639)
	<u>1,787,982</u>	<u>1,760,341</u>	<u>1,787,698</u>
Government of Canada			
- Sewer and Water	-	41,034	744,919
Conditional - Other	40,475	(31,488)	(709,534)
	<u>40,475</u>	<u>(31,488)</u>	<u>(709,534)</u>
Other Municipalities			
Conditional - Other	179,208	162,883	185,568
	<u>179,208</u>	<u>162,883</u>	<u>185,568</u>
Total Operating grants	<u>2,007,665</u>	<u>1,932,770</u>	<u>2,008,651</u>
Capital Grants			
Province of Ontario			
Conditional - Water, sewer and other	37,610	422	1,591,323
	<u>37,610</u>	<u>422</u>	<u>1,591,323</u>
Government of Canada			
Conditional - Sewer, water, and other	-	(15,440)	1,325,133
	<u>-</u>	<u>(15,440)</u>	<u>1,325,133</u>
Other Municipalities			
Conditional - Other	-	21,000	1,500
	<u>-</u>	<u>21,000</u>	<u>1,500</u>
	<u>37,610</u>	<u>5,982</u>	<u>2,917,956</u>
Total grants	<u>\$ 2,045,275</u>	<u>\$ 1,938,752</u>	<u>\$ 4,926,607</u>

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

12. Government Partnerships

The following summarizes the financial position and results of operations of the government partnerships. The Corporation of the Municipality of Kincardine's pro-rata share of these amounts has been reported in these financial statements using the proportionate consolidation method.

	Saugeen Mobility And Regional Transit		Bruce Area Solid Waste Recycling Association	
	2012	2011	2012	2011
Financial assets	\$ 110,687	\$ 71,485	\$ 2,099,909	\$ 1,657,332
Liabilities	138,363	91,870	117,913	62,657
Net (debt) financial assets	(27,676)	(20,385)	1,981,996	1,594,675
Non financial assets	339,236	338,441	1,745,614	1,964,458
Accumulated surplus	\$ 311,560	\$ 318,056	\$ 3,727,610	\$ 3,559,133
Revenues	\$ 772,134	\$ 709,971	\$ 2,356,281	\$ 2,760,375
Expenses	778,630	657,963	2,187,803	2,242,979
Annual surplus (deficit)	\$ (6,496)	\$ 52,008	\$ 168,478	\$ 517,396

Saugeen Mobility and Regional Transit (SMART) is a partnership between the Town of Hanover, Municipality of Brockton, Municipality of West Grey, Municipality of Arran-Elderslie and the Municipality of Kincardine to provide transportation services to the physically disabled. During the year, the municipality made payments to SMART of \$42,781 (2011 - \$44,734) for transportation services.

Bruce Area Solid Waste Recycling Association (BASWRA) is a partnership between the Town of South Bruce Peninsula, the Municipality of Arran-Elderslie, the Town of Saugeen Shores, the Municipality of Kincardine and others to provide garbage, recycling and cardboard collection services. During the year, the municipality made payments to BASWRA of \$365,800 (2011 - \$397,373) for garbage, recycling and cardboard collection services.

The opening fund balance of the government partnerships required an adjustment of \$8,800 in 2012 to reflect the municipality's decrease in their proportionate interest in BASWRA and SMART from 2011 to 2012. On becoming a partner in SMART in 2011, the municipality had an adjustment to accumulated surplus in the amount of \$37,779

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

13. Other Government Organization

The following summarizes the financial position and operations of the other government organizations which has been reported in these financial statements using the consolidation method:

Bruce Telecom

Bruce Telecom is an independent telephone company that provides telephone service to customers in the Municipality of Kincardine, the Town of Saugeen Shores, the Municipality of Arran-Elderslie and three other surrounding municipalities, as well as internet service to Bruce, Grey, Simcoe, Huron counties and the Golden Triangle.

	<u>2012</u>	<u>2011</u>
Financial assets	\$ 3,477,055	\$ 2,542,357
Liabilities	<u>2,916,295</u>	<u>2,436,993</u>
Net financial assets	560,760	105,364
Non financial assets	<u>32,712,359</u>	<u>33,123,342</u>
Accumulated surplus	<u>\$ 33,273,119</u>	<u>\$ 33,228,706</u>
Revenues	\$ 18,628,930	\$ 18,722,121
Expenses	<u>17,584,517</u>	<u>17,359,726</u>
Annual surplus	<u>\$ 1,044,413</u>	<u>\$ 1,362,395</u>

All surplus funds of Bruce Telecom are to be distributed at the direction of the Council of the Corporation of the Municipality of Kincardine. During the year ended December 31, 2012, \$1,000,000 (2011 - \$1,000,000) of surplus funds were distributed to the municipality.

**The Corporation of the Municipality of Kincardine
Notes to Consolidated Financial Statements**

December 31, 2012

14. Kincardine Business Improvement Area

The following summarizes the financial position and results of operations of the Kincardine Business Improvement Area, which is controlled by the municipality. The Kincardine Business Improvement Area has been consolidated into these financial statements.

	<u>2012</u>		<u>2011</u>
Financial assets	\$ 39,045	\$	38,612
Liabilities	<u>5,860</u>		<u>7,431</u>
Accumulated surplus	<u>\$ 33,185</u>	\$	<u>31,181</u>
Revenue	\$ 56,871	\$	63,923
Expenses	<u>54,867</u>		<u>50,385</u>
Annual surplus	<u>\$ 2,004</u>	\$	<u>13,538</u>

During the year, the municipality made payments to the Kincardine Business Improvement Area of \$49,695 (2011 - \$50,000).

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

15. Post-employment Benefits

Other Benefits

The municipality provides certain benefits, including retirement benefits and other post-employment benefits, to its employees. Payments for these benefits totaled \$90,192 in 2012 (2011 - \$87,189). The post-employment benefit at December 31 includes the following components:

	2012	2011
Post-employment benefits	\$ 91,809	\$ 84,030
Sick leave	179,575	176,715
Workplace Safety and Insurance Board Obligations	159,668	177,409
Bruce Telecom post-employment benefits	412,702	311,752
	843,754	749,906
Unamortized actuarial loss	(97,810)	(111,783)
	\$ 745,944	\$ 638,123

Actuarial valuations for accounting purposes are performed using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared as at December 31, 2009.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical inflation rates, wage increases, employee turnover and mortality rates. The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 5.0% (2011 - 5.0%). For extended health care costs, an 8.0% annual rate of increase was assumed for 2007, decreasing to an ultimate rate of 4.0% per year for 2019. For dental costs, a 4.0% annual rate of increase was assumed.

	2012	2011
Current period benefit cost	\$ 90,192	\$ 78,395
Amortization of actuarial loss	13,973	42,973
Retirement benefit expense	104,165	121,368
Interest costs	53,166	51,905
Total expense for the year	\$ 157,331	\$ 173,273

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

15. Post-employment Benefits - (continued)

Pension Plan

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 78 members of its staff. This 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. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are the joint responsibility of Ontario municipal organizations and their employees. As a result, the municipality does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2012 was \$352,334 (2011 - \$304,915) for current service. The contribution rate for 2012 was 8.3% to 13.9% depending on age and level of income level (2011 - 7.1% to 14.1%).

The last available report for the OMERS plan was December 31, 2012. At that time the plan reported a \$9.9 billion actuarial deficit (2011 - \$7.3 billion deficit), based on actuarial liabilities of \$69.1 billion (2011 - \$64.5 billion) and actuarial assets of \$59.2 billion (2011 - \$57.2 billion). There has been a severe decline in financial markets. Ongoing adequacy of the current contribution rates will need to be monitored and may lead to increased future funding requirements.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

16. Budget Amounts

Under Canadian generally accepted accounting principles, budget amounts are to be reported on the consolidated statement of operations and changes in net debt for comparative purposes. The 2012 budget amounts for The Corporation of the Municipality of Kincardine as approved by Council have been restated to conform to the presentation of the revenues and expenses on the consolidated statements of operations and change in net debt. The following is a reconciliation of the budget approved by Council.

	2012 Budget	2012 Actual	2011 Actual
Annual surplus	\$ 1,613,032	\$ 3,976,502	\$ 5,475,246
Acquisition of tangible capital assets less disposals and write-downs	(9,646,325)	(8,479,719)	(12,679,372)
Amortization	6,575,828	7,815,570	8,097,532
Change in long-term debt to be funded in future years	(263,194)	(300,698)	(416,754)
Net transfers (to) from reserves	720,659	(3,178,970)	(467,960)
Change in unfunded liabilities	-	(177,611)	(250,097)
Change in consolidated entities	1,000,000	(558,761)	2,361,718
	-	(4,880,189)	(3,354,933)
Capital projects not funded (expended)	-	(84,299)	(1,484,685)
General surplus (deficit), beginning of year	-	987,986	352,358
	\$ -	\$ -	\$ 987,986

17. Operations of School Boards and the County of Bruce

During the year, the following taxation revenue was raised and remitted to the school boards and the County of Bruce:

	2012	2011
School boards	\$ 4,025,228	\$ 4,037,942
County of Bruce	6,538,999	6,371,232
	\$ 10,564,227	\$ 10,409,174

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

18. Trust Funds

The trust funds administered by the municipality amounting to \$488,949 have not been included in the consolidated statement of financial position nor have the operations been included in the consolidated statement of financial activities. At December 31, 2012, the trust fund balances are as follows:

	<u>2012</u>	<u>2011</u>
Cemetery Care and Maintenance	\$ 387,516	\$ 374,201
Willow West Security	91,081	87,903
Ontario Home Renewal Program	10,352	10,327
	<u>\$ 488,949</u>	<u>\$ 472,431</u>

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

19. Contractual Commitments

The municipality entered into a service agreement with Bruce Area Solid Waste Recycling for the collection of garbage for a three year term ending October 17, 2013 with \$176,900 remaining.

The municipality has entered into a service agreement with the Minister of Community Safety and Correctional Services for the provision of policing services for a five year term which will expire on March 30, 2014 with approximately \$3,952,000 remaining.

The municipality has entered into various capital projects that were not completed at year-end. The balance of the projects to be completed is approximately \$434,000. In addition, the municipality has entered into agreements for non-capital construction in the amount approximately \$340,000. Subsequent to year end, the municipality entered into various capital projects with a balance of approximately \$1,002,000.

The municipality guaranteed short term financing on behalf of Bruce Telecom, consisting of a line of credit and corporate credit cards totaling \$1,250,000. It is expected that any amount drawn on this credit will be repaid by Bruce Telecom. Currently and as of year-end only nominal amounts are outstanding.

On October 13, 2004 the Municipality of Kincardine entered into an agreement with Ontario Power Generation (OPG) to act as the host community for a Deep Geological Repository (DGR) for the management and storage of Low and Intermediate Level Waste (L&ILW). The agreement will continue until such time as the Western Waste Management Facility including the DGR is no longer needed for Decommissioning Waste and in respect of all other L&ILW up to and including December 31, 2035. As part of this agreement, Kincardine and several adjacent municipalities will receive compensation consisting of both yearly and lump sum payments, indexed for inflation. Kincardine's share comprises an annual payment of \$650,000 for the years 2005 to 2035, a lump sum payment of \$2,900,000 in 2005 as well as a lump sum payment of \$1,300,000 in 2013 subject to OPG receiving a licence to construct the DGR.

The municipality has entered into a five year agreement, commencing January 1, 2013 (Bylaw 2013-070) (automatically renewed annually) with Bruce Power L.P. for funding assistance for Nuclear Emergency Preparedness as a requirement of The Emergency Management and Civil Protection Act. Bruce Power will reimburse the municipality up to \$105,000 per year (adjusted by CPI) for expenses incurred to comply with this Act.

The Corporation of the Municipality of Kincardine

Notes to Consolidated Financial Statements

December 31, 2012

20. Financial Instruments

On January 1, 2012, the municipality adopted the Public Sector Accounting Handbook Sections 3450 - Financial Instruments, 2601 - Foreign Currency Translation and 1201 - Financial Statement Presentation. The new standards address the classification, recognition and measurement of financial instruments and are effective for years beginning on or after April 1, 2012, however, earlier adoption is permitted. The accounting change resulted in no change to operating surplus or measurement of assets

21. Financial Instrument Risk Management

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The municipality is exposed to credit risk arising from its cash, taxes receivable, trade and other receivables, long-term investments and loans receivable. The majority of the municipality's taxes receivable, loans receivable, and trade and other receivables are mainly from ratepayers, which can be collected through tax sale of properties. Cash is held in bank accounts at one financial institution in excess of CDIC deposit insurance limits. Long-term investments excluding the Westario Power Inc. common shares are held in accounts at one financial institution in excess of CDIC deposit insurance limits.

Liquidity Risk

Liquidity risk is the risk that the municipality encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the municipality will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and long-term debt. The organization has sufficient cash balances and long-term investments to extinguish its liabilities.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The municipality is exposed to interest rate risk arising from the possibility that interest rates will affect the value of fixed income denominated investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure risks.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

22. Economic Dependence

Approximately 24% (2011 - 28%) of the municipality's taxation revenues are generated from Ontario Power Generation (OPG). The loss of a material amount of taxation revenue from OPG could have a material adverse effect on the operations of the municipality.

23. Comparative Amounts

Amounts presented for comparative purposes have been reclassified to conform to the current year's presentation.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

24. Segmented Information

The Corporation of the Municipality of Kincardine is a diversified municipal government institution that provides a wide range of services to its citizens such as police, fire, building inspection, sewer, water, waste, collection, disposal and recycling, recreational, library and planning. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

General Government

This item reports the revenues and expenses that relate to the governance and operations of the Municipality itself and cannot be directly attributed to a specific segment.

Protection to Persons and Property

Protection is comprised of police services, fire protection, conservation authority, emergency measures, animal control and building and structural inspection. The police services work to ensure the safety and protection of the citizens and their property. The fire department is responsible to provide fire suppression service, fire prevention programs, training and education. The members of the fire department consist of volunteers. The building department provides a number of services including maintenance and enforcement of building and construction codes and review of all property development plans through its application process.

Transportation

Transportation is responsible for construction and maintenance of the Municipality's roadways, bridges, parking areas and streetlighting. Transportation also includes the provision of air transportation through the Kincardine Airport.

The Corporation of the Municipality of Kincardine

Notes to Consolidated Financial Statements

December 31, 2012

24. Segmented Information - (continued)

Sewer and Water

Sewers are responsible for collecting and cleaning the sewage. Water collects, treats and distributes the Municipality's drinking water. They ensure the Municipality's sewer and water systems meet all Provincial standards.

Environmental

Environmental services consists of providing waste collection, disposal and recycling to its citizens.

Health

Health services include doctor recruitment, provision of a medical clinic and operation of a Locum house and periodic contributions to the local Hospital Foundations. Health services also includes the operations of local cemeteries.

Telecommunications

Telecommunication services is Bruce Telecom, which is owned by the Municipality of Kincardine. Bruce Telecom provides telephone and internet services to the Municipality of Kincardine and surrounding municipalities.

Recreational and Cultural Services

This service area provides services meant to improve the health and development of the Municipality's citizens. The municipality operates and maintains parks, arenas, a swimming pool, community centres, and a marina. The Municipality also provides recreational programs and library facilities.

Planning and Development

This department is responsible for planning and zoning including the Official plan. This service area also includes tourist information, promotion and events as well as business improvement area, weed control, and drainage.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Amounts that are directly attributable to a number of segments have been allocated on a reasonable basis as follows:

Taxation and payments-in-lieu, OMPF grant, net income of government business enterprise and shared other revenue consisting of penalty and interest on taxes, bank and investment income and Ontario Power Generation contribution have been allocated to those segments that are funded by these amounts based on the net surplus for the year.

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

24. Segmented Information - (continued)

For the year ended December 31, 2011	General Government	Protection Services	Transportation Services	Sewer and Water	Environmental Services	Health Services	Telecommu- nications	Recreation and Cultural Services	Planning and Development	Total
Revenue	\$ 1,532,603	\$ 2,831,138	\$ 3,138,232	\$ -	\$ 301,354	\$ 296,146	\$ -	\$ 1,897,205	\$ 633,110	\$ 10,629,788
Taxation										
Fees and user charges	152,789	210,014	168,558	4,359,849	555,995	67,696	18,466,347	673,313	80,771	24,735,332
Specific grants	-	45,760	75,510	82,068	55,763	-	-	(2,528)	62,679	319,252
OMPF grant	233,500	431,338	478,125	-	45,913	45,119	-	289,048	96,457	1,619,500
Other revenue										
- Specific	149,955	3,963	213,276	2,203,236	110,604	231,296	162,583	753,362	53,112	3,881,387
- Shared	219,906	406,226	450,289	-	43,240	42,493	-	272,220	90,842	1,525,216
Obligatory reserve fund revenue recognized	2,684	129,084	-	-	-	-	-	185,235	-	317,003
	2,291,437	4,057,523	4,523,990	6,645,153	1,112,869	682,750	18,628,930	4,067,855	1,016,971	43,027,478
Expenses										
Salaries and benefits	1,505,135	918,398	1,235,252	725,642	597,980	135,669	7,356,000	1,638,753	350,527	14,463,356
Interest on debt	-	-	65	48,040	-	99,552	-	561	34,800	183,018
Materials and supplies	837,143	372,502	1,384,732	256,101	369,341	147,321	6,972,000	1,374,590	298,093	12,011,823
Contracted services	7,454	2,566,758	214,027	187,046	67,169	-	-	208,029	255,700	3,506,183
Other transfers	-	283,588	-	-	12,207	135,606	-	77,520	19,050	527,971
Rents and financial expenses	51,032	-	30,458	22,475	10,319	2,614	244,544	41,664	19,402	422,508
Amortization	119,659	214,998	2,133,698	1,184,269	101,388	206,776	3,011,973	828,207	14,602	7,815,570
Transfers to obligatory reserve funds	-	-	-	-	-	-	-	-	120,547	120,547
	2,520,423	4,356,244	4,998,232	2,423,573	1,158,404	727,538	17,584,517	4,169,324	1,112,721	39,050,976
Annual surplus (deficit)	\$ (228,986)	\$ (298,721)	\$ (474,242)	\$ 4,221,580	\$ (45,535)	\$ (44,788)	\$ 1,044,413	\$ (101,469)	\$ (95,750)	\$ 3,976,502

The Corporation of the Municipality of Kincardine Notes to Consolidated Financial Statements

December 31, 2012

24. Segmented Information - (continued)

For the year ended December 31, 2010	General Government	Protection Services	Transportation Services	Sewer and Water	Environmental Services	Health Services	Telecommuni- cations	Recreation and Cultural Services	Planning and Development	Total
Revenue										
Taxation	\$ 1,520,732	\$ 2,925,605	\$ 3,492,314	\$ -	\$ 112,811	\$ 250,898	\$ -	\$ 946,351	\$ 586,576	\$ 9,835,287
Fees and user charges	63,194	206,162	153,185	3,594,073	723,098	51,097	18,626,740	720,185	146,216	24,283,950
Specific grants	-	166,523	80,497	1,640,856	72,357	17,000	-	1,254,945	155,029	3,387,207
OMPF grant	238,022	457,910	546,610	-	17,657	39,270	-	148,121	91,810	1,539,400
Other revenue										
- Specific	182,644	(61,026)	356,277	778,135	(81,507)	370,566	95,381	715,243	51,750	2,407,463
- Shared	234,793	451,698	539,195	-	17,417	38,737	-	146,112	90,564	1,518,516
Obligatory reserve fund revenue	-	-	-	42,155	342,742	-	-	-	-	525,120
recognized	2,239,385	4,287,095	5,168,078	6,055,219	1,204,575	767,568	18,722,121	3,930,957	1,121,945	43,496,943
Expenses										
Salaries and benefits	1,464,799	796,212	1,323,334	658,211	447,054	118,070	7,460,000	1,494,106	361,729	14,123,515
Interest on debt	3,493	-	216	53,164	-	108,936	-	1,494	33,738	201,041
Materials and supplies	565,219	342,284	1,399,180	498,666	376,086	135,355	6,310,000	1,359,685	364,613	11,351,088
Contracted services	960	2,459,409	201,314	226,472	(75,665)	-	-	188,532	314,402	3,315,424
Other transfers	-	293,628	-	-	9,324	191,971	-	78,849	7,250	581,022
Rents and financial expenses	55,504	-	18,009	12,716	31,638	-	165,611	49,881	18,716	352,075
Amortization	122,492	203,476	2,163,899	1,150,606	71,450	208,750	3,424,115	741,619	11,125	8,097,532
	2,212,467	4,095,009	5,105,952	2,599,835	859,887	763,082	17,359,726	3,914,166	1,111,573	38,021,697
Annual surplus (deficit)	\$ 26,918	\$ 192,086	\$ 62,126	\$ 3,455,384	\$ 344,688	\$ 4,486	\$ 1,362,395	\$ 16,791	\$ 10,372	\$ 5,475,246

**The Corporation of the Municipality of Kincardine
Schedule of Deferred Revenue**

For the year ended December 31, 2012

	Opening	Contributions Received	Investment Income	Revenue Recognized	Ending
Obligatory Reserve Funds					
Building permit fees	\$ 251,186	\$ -	\$ 3,795	\$ (131,768)	\$ 123,213
Development charges	48,997	73,760	309	-	123,066
Parkland	56,115	37,886	983	-	94,984
Gas tax	-	342,732	2,453	(185,235)	159,950
Parking	-	137,509	259	-	137,768
Other	159,802	-	5,403	-	165,205
	<u>516,100</u>	<u>591,887</u>	<u>13,202</u>	<u>(317,003)</u>	<u>804,186</u>
Other					
Subdivider contribution	597,552	218,440	-	(28,720)	787,272
Other	50,628	53,840	-	(50,628)	53,840
Grants	48,172	63,879	-	(22,123)	89,928
Telecommunications	113,354	293,000	-	(162,514)	243,840
	<u>809,706</u>	<u>629,159</u>	<u>-</u>	<u>(263,985)</u>	<u>1,174,880</u>
	<u>\$ 1,325,806</u>	<u>\$ 1,221,046</u>	<u>\$ 13,202</u>	<u>\$ (580,988)</u>	<u>\$ 1,979,066</u>

**The Corporation of the Municipality of Kincardine
Trust Funds
Financial Statements
For the year ended December 31, 2012**



Tel: 519 832 2049
Fax: 519 832 5659
www.bdo.ca

BDO Canada LLP
625 Mill Street
PO Box 1390
Port Elgin ON N0H 2C0 Canada

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Municipality of Kincardine

We have audited the accompanying financial information of the trust funds of the Corporation of the Municipality of Kincardine, which comprise the balance sheet as at December 31, 2012 and the statement of continuity 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

Management is responsible for the preparation and fair presentation of this financial information 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 this financial information 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 information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, 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 information 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 information.

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, this financial information present fairly, in all material respects, the financial position of the trust funds of the Corporation of the Municipality of Kincardine as at December 31, 2012 and the continuity of the trust funds for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Kincardine, Ontario

July 3, 2013

**The Corporation of the Municipality of Kincardine
Trust Funds
Balance Sheet**

December 31, 2012

Assets	Cemetery Care and Maintenance	Willow West Security	Ontario Home Renewal Program	Total
Cash	\$ 326,478	\$ 7,675	\$ 2,329	\$ 336,482
Interest receivable	310	7	2	319
Loans receivable (Note 2)	-	-	8,021	8,021
Due from (to) municipality	(1,272)	-	-	(1,272)
Investments (Note 3)	62,000	83,399	-	145,399
	\$ 387,516	\$ 91,081	\$ 10,352	\$ 488,949

Liabilities and Fund Balances

Fund Balances	\$ 387,516	\$ 91,081	\$ 10,352	\$ 488,949
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Statement of Continuity

For the year ended December 31, 2012

	Cemetery Care and Maintenance	Willow West Security	Ontario Home Renewal Program	Total
Balance, beginning of the year	\$ 374,201	\$ 87,903	\$ 10,327	\$ 472,431
Receipts				
Bank and investment interest	8,505	3,178	25	11,708
Care and maintenance	13,315	-	-	13,315
	21,820	3,178	25	25,023
Expenses				
Transfer to municipality	8,505	-	-	8,505
Balance, end of the year	\$ 387,516	\$ 91,081	\$ 10,352	\$ 488,949

The Corporation of the Municipality of Kincardine Trust Funds Notes to Financial Statements

December 31, 2012

1. Summary of Significant Accounting Policies

Management Responsibility The financial information of The Corporation of the Municipality of Kincardine Trust Funds are the representation of management. Precise determination of some assets and liabilities may be dependent upon future events and estimates and approximations. These estimates and approximations have been based upon the available information, using careful judgment and review.

Accrual Basis of Accounting Sources of financing and expenses are reported on the accrual basis of accounting.

The accrual basis of accounting recognizes revenues 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.

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 were limited to \$7,500, of which the maximum forgivable portion was \$4,000.

Ontario Home Renewal Program loans receivable at December 31, 2012 comprise repayable loans of \$6,661 (2011 - \$6,661) and forgivable loans of \$1,359 (2011 - \$1,359). Loan forgiveness is earned and recorded at a rate of up to \$600 per year of continuous 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 balance of the repayable loan and the unearned forgivable loan immediately becomes due and payable by the homeowner.

As of July 16, 1993 the Ontario Home Renewal Program was discontinued and municipalities were prohibited from issuing further loans as of that date. All OHRP funds held in municipal trust accounts as of December 31, 1993 were remitted to the Province by March 1, 1994. Any loans receivable under the program which are collected subsequent to December 31, 1993 were remitted to the Province by March 1 of the following year. However, municipalities will be provided an administration fee of five per cent of the balances collected after December 31, 1993 and are permitted to retain the interest earned on unremitted OHRP trust account balances.

**The Corporation of the Municipality of Kincardine
Trust Funds
Notes to Financial Statements**

December 31, 2012

3. Investments

The total investments of \$145,399 (2011 - \$142,320) reported on the balance sheet have a market value of \$156,699 (2011 - \$158,247) at the end of the year.
