

Consolidated Financial Statements of

**THE CORPORATION OF THE COUNTY
OF PRINCE EDWARD**

Year ended December 31, 2012

Consolidated Financial Statements of

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Year ended December 31, 2012

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

	Page
Management's Responsibility for the Consolidated Financial Statements	1
Independent Auditors' Report	2
Consolidated Statement of Financial Position	4
Consolidated Statement of Operations and Accumulated Surplus	5
Consolidated Statement of Change in Net Debt	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
Schedule of Segment Disclosure	28

Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of The Corporation of the County of Prince Edward (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. A summary of the significant accounting policies are described in Note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

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

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

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



Merlin J. Dewing
Chief Administrative Officer



James Hepburn
Director of Finance



KPMG LLP
Suite 400
863 Princess Street
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Telefax (613) 549-6349
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of Council of the Corporation of the County of Prince Edward

We have audited the accompanying consolidated financial statements of The Corporation of the County of Prince Edward, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian 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.

Auditors' Responsibility

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

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



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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Corporation of the County of Prince Edward 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.

Other Matter

The financial statements of The Corporation of the County of Prince Edward as at and for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements in their report dated August 28, 2012.

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

Chartered Accountants, Licensed Public Accountants

July 23, 2013

Kingston, Canada

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Consolidated Statement of Financial Position

December 31, 2012, with comparative figures for 2011

	2012	2011
Financial assets:		
Cash (note 3)	\$ 16,897,246	\$ 14,295,354
Taxes receivable	3,534,317	3,514,302
Trade and other receivables	3,215,071	3,521,031
Long-term receivables	–	38,283
Long-term investments	55,763	55,763
	<u>23,702,397</u>	<u>21,424,733</u>
Liabilities:		
Temporary borrowing (note 6)	8,200,000	30,150,290
Accounts payable and accrued liabilities	7,365,673	6,247,298
Prepaid property taxes (note 7)	1,298,663	1,513,978
Solid waste landfill and post closure liabilities (note 8)	1,810,000	1,768,500
Deferred revenue	300,667	271,139
Deferred revenue – obligatory reserve funds (note 9)	5,503,685	4,860,841
Municipal debt (note 10)	33,598,804	13,563,088
Obligation under capital lease (note 11)	354,289	357,965
	<u>58,431,781</u>	<u>58,733,099</u>
Net debt	(34,729,384)	(37,308,366)
Non-financial assets:		
Tangible capital assets (note 12)	221,482,212	225,398,424
Inventory (note 13)	2,930,530	2,990,122
Prepaid expense	494,458	280,868
	<u>224,907,200</u>	<u>228,669,414</u>
Contingent liabilities (note 17)		
Commitments (note 20)		
Accumulated surplus (note 14)	\$ 190,177,816	\$ 191,361,048

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

Approved by Council:



Peter A. Mertens, Mayor



Kim White, Clerk

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2012, with comparative figures for 2011

	Budget 2012	Actual 2012	Actual 2011
	(Unaudited, note 23)		
Revenue:			
Net taxes available for municipal purposes	\$ 27,228,137	\$ 27,361,083	\$ 25,125,207
User charges	11,246,629	11,145,902	10,937,534
Government grants	9,048,855	8,964,719	8,588,664
Other municipalities	–	136,486	119,928
Investment income	35,473	95,961	59,650
Interest earned on reserves	898	32,125	31,917
Fines and penalties	891,511	1,016,013	1,017,445
Donations	37,407	104,429	217,637
Total revenue	48,488,910	48,856,718	46,097,982
Expenditures (note 19):			
General government	4,588,871	4,810,960	4,048,983
Protection services	8,748,267	8,438,043	8,253,692
Transportation services	13,012,432	12,428,377	11,364,666
Environmental services	9,892,237	9,287,021	9,118,158
Health services	3,092,632	3,077,279	2,937,902
Social and family services	6,915,533	6,893,018	6,726,585
Social housing	917,350	937,104	902,796
Recreation and cultural services	6,098,471	5,824,166	5,769,123
Planning and development	1,936,825	1,213,934	1,481,702
Total expenses	55,202,618	52,909,902	50,603,607
Net expenditures	(6,713,708)	(4,053,184)	(4,505,625)
Other income (expenses) related to capital:			
Net taxes available for municipal purposes	251,483	–	526,804
Government transfers:			
Canada	1,343,000	2,099,376	1,279,260
Ontario	–	66,981	726,334
Other	–	314,520	484,902
Transfer from obligatory reserve funds (note 9)	–	673,262	–
Tangible capital assets gain (loss)	11,000	(284,187)	(323,218)
Outlays and expenditures on disposal of capital assets	–	–	(50,445)
	1,605,483	2,869,952	2,643,637
Annual deficit	(5,108,225)	(1,183,232)	(1,861,988)
Accumulated surplus, beginning of year	–	191,361,048	193,209,386
Proportionate consolidation adjustment	–	–	13,650
Accumulated surplus, end of year	\$ –	\$ 190,177,816	\$ 191,361,048

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

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Consolidated Statement of Change in Net Debt

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Annual deficit	\$ (1,183,232)	\$ (1,861,988)
Amortization of tangible capital assets	8,895,623	8,631,671
Acquisition of tangible capital assets	(5,300,811)	(7,611,178)
Consolidation adjustment tangible capital assets	–	(4,185)
Loss on disposal of tangible capital assets	232,738	323,218
Proceeds on sale of tangible capital assets	88,663	136,702
Use of supplies inventories	59,591	6,214
Acquisition of prepaid expense	(213,590)	(60,766)
	3,762,214	1,421,676
Change in net debt	2,578,982	(440,312)
Net debt, beginning of year	(37,308,366)	(36,881,704)
Proportionate consolidated adjustment	–	13,650
Net debt, end of year	\$ (34,729,384)	\$ (37,308,366)

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

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Operating activities:		
Annual deficit	\$ (1,183,232)	\$ (1,861,988)
Items not involving cash:		
Amortization	8,895,623	8,631,671
Employee post-employment benefits	–	23,175
Loss on disposal of tangible capital assets	232,738	323,218
Solid waste landfill closure and post-closure liabilities	41,500	343,500
Change in non-cash assets and liabilities:		
Taxes receivable	(20,015)	(500,022)
Trade and other receivables	305,961	8,447,314
Prepaid expenses	(213,590)	(60,636)
Inventory	59,590	6,577
Long-term receivables	38,283	15,642
Accounts payable and accrued liabilities	1,118,375	(5,206,810)
Prepaid property taxes	(215,315)	474,672
Other liabilities	–	65,770
Deferred revenue	29,528	341,629
Deferred revenue – obligatory reserve funds	642,844	–
Net change in cash from operating activities	9,732,290	11,043,712
Capital activities:		
Acquisition of tangible capital assets	(5,300,811)	(7,611,178)
Proceeds on sale of tangible capital assets	88,663	136,702
Net change in cash from capital activities	(5,212,148)	(7,474,476)
Financing activities:		
Repayment of bank indebtedness	–	(5,070,204)
Proceeds from (repayment of) temporary borrowing	(21,950,290)	11,950,291
Proceeds from (repayment of) long-term debt	20,035,716	(2,732,759)
Repayment of obligation under capital lease	(3,676)	(2,958)
Net change in cash from financing activities	(1,918,250)	4,144,370
Increase in cash	2,601,892	7,713,606
Cash, beginning of year	14,295,354	6,573,897
Proportionate consolidated adjustment	–	7,851
Cash, end of year	\$ 16,897,246	\$ 14,295,354
Interest received	\$ 128,086	\$ 91,567
Interest paid	1,077,310	1,116,613

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

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements

Year ended December 31, 2012

The Corporation of the County of Prince Edward (the "County") is a municipality in the Province of Ontario, Canada and operates under the provisions of the Ontario Municipal Act.

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the County of Prince Edward are the representation of management prepared in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the County are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

These consolidated statements reflect the assets, liabilities, revenue, expenses and fund balances of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the 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:

The County of Prince Edward Public Library Board

Picton Business Improvement Area Board of Management

Interdepartmental and organizational transactions and balances are eliminated.

(ii) Proportionate consolidation:

The following local boards and joint boards are proportionately consolidated:

Centre and South Hastings Waste Services Board.

The County is a member of the Centre & South Hastings Waste Services Board, a Joint Municipal Service Board operating waste reduction programs including recycling, hazardous waste management and composting. Consistent with generally accepted accounting treatment for government partnerships, the joint service board is accounted for on a proportionate consolidated basis whereby the County's pro-rata share of each of the financial assets, liabilities, non-financial assets, revenue and expenses are combined on a line by line basis in the consolidated financial statements.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(iii) Non-consolidated entities:

The following local board is not consolidated:

The Hastings and Prince Edward Counties Health Unit.

(iv) Accounting for school board transactions:

Taxation and other revenues, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements. Taxation collected on behalf of the school boards and transferred to the school boards during the year is reported in note 15 to these statements.

(v) Trust funds and their related operations administered by the County are not consolidated, but are reported separately on the "Trust Funds Statements of Continuity and Statements of Financial Position".

(b) Basis of accounting:

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue in the year it is earned 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.

(c) Land held for resale:

Land held for resale is recorded at the lower of cost and net realizable value. Cost includes amounts for improvements to prepare the land for sale or servicing.

(d) Deferred revenue:

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

(e) Deferred revenue – obligatory reserve funds:

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

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(f) Investments:

Investments are recorded at cost plus accrued interest and amortization of purchase premiums and discounts. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

Investment income earned on available general funds, reserve funds (other than obligatory funds) are reported as revenue in the period earned.

(g) Reserves and reserve funds:

Certain amounts, as approved by Council, are set aside in reserves and reserve funds for future operating and capital expenses. Transfers to, or from, reserves and reserve funds are recorded as an adjustment to the respective fund.

(h) Government transfers:

Government transfers are recognized as revenues or expenditures in the year that the events giving rise to the transfer occurred, provided the transfer is authorized, eligibility criteria, if any, have been met by the recipient, and a reasonable estimate of the amount can be made.

(i) Taxation and related revenues:

Property tax billings are prepared by the County based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by Municipal Council incorporating amounts to be raised for local services and amounts the Municipality is required to collect on behalf of the school boards. Realty taxes are billed based on the assessment rolls provided by MPAC.

Taxation revenues are recorded at the time tax billings are issued. A normal part of the assessment process is the issuance of supplementary assessment rolls that provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the Municipality determines the taxes applicable and renders supplementary tax billings. Assessments and the related property taxes are subject to appeal. Any supplementary billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year they are determined and the effect shared with the school boards as appropriate.

(j) Employee future benefits:

The County provides post employment benefits to its employees as well as benefits to employees on long-term disability leave. The County has estimated this liability based on the value of estimated future premium payments. Calculation of this liability on an accrual basis could result in amounts that differ from this estimate.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(k) Non-financial assets:

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

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes 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 is amortized on a straight-line basis over their estimated useful life as follows:

Asset	Useful Life - Years
Land improvements	20 - 40
Buildings	20 - 50
Vehicles	5 - 20
Equipment	5 - 30
Pooled equipment	1 - 30
Transportation:	
Bridges and structures	40-75
Curb and gutter	30
Curb stops (pooled)	30
Culverts	60
Roads	8 - 50
Sidewalks	40
Water and Wastewater networks:	
Sewer network	60 - 80
Storm sewer network	50
Water network	15 - 80

Annual amortization is charged in the first year after acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use, at which time the costs are transferred to the appropriate asset category.

(ii) Contributions of tangible capital assets:

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

(iii) Works of art:

Assets that have a historical or cultural significance, which include works of art, monuments and other cultural artifacts, are not recognized as tangible capital assets because a reasonable estimate of future benefits associated with this property cannot be made.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(k) Non-Financial assets (continued):

(iv) 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.

(l) Inventories of supplies:

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

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Significant items subject to such estimates and assumptions include landfill closure and post-closure liability and the employee post employment benefit liability.

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

2. Financial instruments:

The County's financial instruments consist of cash, taxes receivable, trade and other receivables, long-term receivables, long-term investments, bank indebtedness, temporary borrowing, accounts payable and accrued liabilities, other liabilities, municipal debt, and obligations under capital lease. Unless otherwise noted, it is management's opinion that the County is not exposed to significant interest rate, currency or credit risks arising from its financial instruments.

3. Restricted assets:

Cash in the amount of \$5,503,685 (2011 - \$4,860,841) has been restricted to support obligatory reserve funds.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

4. Contributions to consolidated joint boards:

Further to note 1(a)(ii) the County paid \$358,407 (2011 - \$361,461) to Centre & South Hasting Waste Services Board for recycling services.

5. Bank indebtedness:

The County has an operating line of credit of \$5 million at an interest rate of prime less 0.25%. As at December 31, 2012, \$Nil (2011 - \$Nil) was drawn.

6. Temporary borrowings:

The County has arranged bridge financing for a number of capital projects through the Ontario Infrastructure Projects Corporation (OIPC) and the Ontario Infrastructure and Lands Corporation (OILC).

The Ontario Infrastructure Projects Corporation (OIPC) and the Ontario Infrastructure and Lands Corporation advances bear interest at a floating rate per annum as determined by OIPC based on OIPC's cost of funds plus OIPC's prevailing spread assigned to the borrower sector for delivery costs and risks. The advances are due on the earlier of the facility termination date or the debenture purchase date for the projects for which the advances were made.

As at December 31, 2012, \$8,200,000 remained outstanding.

7. Prepaid property taxes:

As a service to landowners, the County offers a monthly payment plan for property tax billings. The plan is set up such that the annual bill is paid by the end of September. As the billings are spread over the full twelve-month period, this leads to a prepayment of the subsequent year tax billings that is credited to the landowner account. These amounts reverse to net taxation revenue annually.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

8. Solid waste landfill closure and post-closure liabilities:

The Ontario Environmental Protection Act sets out the regulatory requirements to properly close and maintain all active and inactive landfill sites. The estimated liability for these expenditures is recognized based on the cumulative capacity used to date, compared to the total estimated landfill capacity.

The remaining life for the landfill sites is estimated to be 8 years for Ameliasburgh, 11 years for Hillier, 8 years for South Marysburgh and 7 years for the Wellington site. Post-closure care is estimated to continue for a period of approximately 20 years.

Reserves set aside for landfill site closure and post-closure requirements amounted to \$936,016 at December 31, 2012 (2011 - \$1,237,676).

	Remaining capacity (cubic meters)	Liability December 31, 2012	Liability December 31, 2011
Ameliasburgh	85,035	\$ 377,752	\$ 368,200
Hillier	45,050	474,172	462,400
South Marysburgh	23,160	443,428	438,200
Wellington	8,400	514,648	499,700
		\$ 1,810,000	\$ 1,768,500

Landfill site closure and post-closure care requirements include final cover and vegetation, and the treatment and monitoring of leachate, gas, and ground and surface water.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

9. Deferred revenue – obligatory reserve funds:

The balance of deferred revenue consists of the following:

	Balance December 31, 2011	Additions	Transferred to income	Balance December 31, 2012
Externally restricted:				
Parkland	\$ 176,907	\$ 26,111	\$ (6,708)	\$ 196,310
Development charges	1,908,368	506,460	(187,982)	2,226,846
Gasoline tax – Federal	1,529,623	1,595,010	(523,289)	2,601,344
Building services	143,043	15,218	–	158,261
Investing in Ontario Act	43,794	–	–	43,794
Water/sewer operations	1,059,106	18,592	(800,568)	277,130
Total	\$ 4,860,841	\$ 2,161,391	\$ (1,518,547)	\$ 5,503,685

10. Municipal debt:

The balance of municipal debt consists of the following:

	2012	2011
Province of Ontario - financing tile drainage debentures issued to landowners, principal and interest to be recovered from landowners, maturing at various dates to 2016	\$ –	\$ 38,283
Bank of Montreal - repayable by monthly payments of \$3,726, interest at a rate of 4.96%, maturing in 2012	–	376,349
Bank of Montreal - repayable by monthly payments of \$14,703, interest at a rate of 4.96%, maturing in 2012	–	1,484,915
Bank of Montreal - repayable by monthly payments of \$4,709, interest at a rate of 5.28%, maturing in 2012	–	54,850
Bank of Montreal - repayable by monthly payments of \$10,236, interest at a rate of 4.12%, maturing in 2013	1,084,884	1,161,331
Balance forward	1,084,884	3,115,728

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

10. Municipal debt (continued):

	2012	2011
Balance forward	\$ 1,084,884	\$ 3,115,728
Bank of Montreal - repayable by monthly payments of \$32,538, interest at a rate of 2.60%, maturing in 2014	417,207	791,568
Bank of Montreal - repayable by monthly payments of \$18,523, interest at a rate of 3.00%, maturing in 2015	106,296	139,750
Bank of Montreal - repayable by monthly payments of \$12,442, interest at a rate of 4.51%, maturing in 2015	396,139	524,458
Bank of Montreal - repayable by monthly payments of \$7,393, interest at a rate of 4.51%, maturing in 2015	235,372	311,615
Bank of Montreal - repayable by monthly payments of \$14,354, interest at a rate of 4.88%, maturing in 2018	1,463,754	1,562,001
Bank of Montreal - repayable by monthly payments of \$5,842, interest at a rate of 4.35%, maturing in 2019	654,396	695,081
Bank of Montreal - repayable by monthly payments of \$32,794, interest at a rate of 3.90%, maturing in 2019	2,407,229	2,700,711
Bank of Montreal - repayable by monthly payments of \$12,626, interest at a rate of 3.25%, maturing in 2020	1,046,866	1,162,339
Bank of Montreal – repayable by monthly payments of \$3,429, interest at a rate of 3.19%, maturing in 2022	349,491	–
Bank of Montreal - repayable by monthly payments of \$13,530, interest at a rate of 3.19%, maturing in 2022	1,378,944	–
Infrastructure Ontario loan bears interest at 2.85%, payable in semi-annual payments of \$121,112 with maturity date of July 4, 2022	2,095,822	–
Infrastructure Ontario loan bears interest at 3.51%, payable in semi-annual payments of \$87,508 with maturity date of July 3, 2032	2,500,000	–
Infrastructure Ontario loan bears interest at 3.61%, payable in semi-annual payments of \$242,335 with maturity date of July 3, 2032	6,923,175	–
Balance forward	21,059,575	11,003,251

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

10. Municipal debt (continued):

	2012	2011
Balance forward	\$ 21,059,575	\$ 11,003,251
Infrastructure Ontario loan bears interest at 5.32%, payable in semi-annual payments of \$78,809 with maturity date of October 1, 2049	2,539,229	2,559,837
Federation of Canadian Municipalities loan bears interest at 2.0%, payable in semi-annual payments of \$304,543 with maturity date of November 15, 2032	10,000,000	–
	<u>\$ 33,598,804</u>	<u>\$ 13,563,088</u>

Interest included in expenses in the Consolidated Statement of Operations relating to municipal debt totals \$1,225,174 (2011 - \$1,112,616).

Principal payments are estimated to be as follows:

2013	\$ 3,393,428
2014	2,016,314
2015	2,688,648
2016	1,708,158
2017	1,764,359
2018 and thereafter	22,027,897
	<u>\$ 33,598,804</u>

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

11. Capital lease obligations:

The following is a schedule of future minimum lease payments:

2013	\$	81,780
2014		81,780
2015		81,780
2016		81,780
2017		81,780
2018 and thereafter		711,899
Total minimum lease payments		1,120,799
Less: amount representing deemed interest		766,510
Balance of obligation		\$ 354,289

Assets under capital lease consist of a building. The lease has an initial term expiring in 2016. The County has the right to renew the lease for two further five year terms.

	2012	2011
Cost of leased tangible capital asset	\$ 375,000	\$ 375,000
Accumulated amortization of leased tangible capital asset	112,500	93,750
	\$ 262,500	\$ 281,250

Amortization expense includes \$18,750 (2011 - \$18,750) on leased tangible capital assets.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. Tangible capital assets:

Cost	Balance at December 31, 2011	Additions	Disposals/ adjustments	Balance at December 31, 2012
General:				
Land and land improvements	\$ 18,932,923	\$ 428,009	\$ –	\$ 19,360,932
Building and leasehold improvements	28,995,354	304,094	–	29,299,448
Vehicles and equipment	12,256,131	1,017,611	1,008,638	12,265,104
Computer hardware and software	1,057,509	110,905	–	1,168,414
Other	4,944,705	315,271	152,833	5,107,143
Assets under construction	23,784	13,570	23,784	13,570
Infrastructure:				
Plants and facilities	51,245,134	–	–	51,245,134
Roads	165,327,122	1,039,348	595,304	165,771,166
Underground and other networks	44,791,817	668,035	31,750	45,428,102
Bridges and other structures	27,288,812	–	–	27,288,812
Assets under construction	1,934,404	3,033,523	1,629,555	3,338,372
Total	\$ 356,797,695	\$ 6,930,366	\$ 3,441,864	\$ 360,286,197

Accumulated amortization	Balance at December 31, 2011	Disposals	Amortization expense	Balance at December 31, 2012
General:				
Land and land improvements	\$ 3,618,714	\$ –	\$ 354,232	\$ 3,972,946
Building and leasehold improvements	8,081,279	–	728,398	8,809,677
Vehicles and equipment	7,284,989	937,790	680,714	7,027,913
Computer hardware and software	440,463	–	121,930	562,393
Other	1,956,751	127,601	356,082	2,185,232
Assets under construction	–	–	–	–
Infrastructure:				
Plants and facilities	11,907,038	–	1,591,106	13,498,144
Roads	79,724,558	402,382	3,931,192	83,253,368
Underground and other networks	9,640,065	23,136	583,696	10,200,625
Bridges and other structures	8,745,414	–	548,273	9,293,687
Assets under construction	–	–	–	–
Total	\$ 131,399,271	\$ 1,490,909	\$ 8,895,623	\$ 138,803,985

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. Tangible capital assets (continued):

	Net book value December 31, 2011	Net book value December 31, 2012
General:		
Land and land improvements	\$ 15,314,209	\$ 15,387,986
Building and leasehold improvements	20,914,075	20,489,771
Vehicles and equipment	4,971,142	5,237,191
Computer hardware and software	617,046	606,021
Other	2,987,954	2,921,911
Assets under construction	23,784	13,570
Infrastructure:		
Plants and facilities	39,338,096	37,746,990
Roads	85,602,564	82,517,798
Underground and other networks	35,151,752	35,227,477
Bridges and other structures	18,543,398	17,995,125
Assets under construction	1,934,404	3,338,372
Total	\$ 225,398,424	\$ 221,482,212

(a) Work-in-progress:

Assets under construction having a value of \$3,338,372 (2011 - \$1,934,404) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Works of art and historical treasures:

The County manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at County sites and public display areas, these assets are deemed worth of preservation because of the social rather than financial benefits they provide to the community.

(c) Loss on disposal of tangible capital assets:

The loss of disposal of tangible capital assets during the year was \$232,738 (2011 - \$323,218).

13. Inventory:

The inventory is comprised of the following:

	2012	2011
Inventory for resale	\$ 12,553	\$ 45,777
Inventory for own consumption	518,341	563,893
Gravel and sand supplies	2,399,636	2,380,452
Balance, end of year	\$ 2,930,530	\$ 2,990,122

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

14. Accumulated surplus:

The accumulated surplus is comprised of the following:

	2012	2011
Equity in tangible capital assets	\$ 221,482,212	\$ 225,398,424
Less: related debt	(31,708,104)	(12,819,850)
Less: unfinanced capital projects	(10,933,435)	(29,914,656)
	178,840,673	182,663,918
Reserves set aside for specific purpose by Council:		
Acquisition of capital assets	1,702,829	1,879,908
Roads construction	588,179	48,551
Recreation programs and facilities	736,193	586,410
Working capital	595,734	590,628
Contingencies	2,497,905	2,268,943
Protection services	19,900	19,900
Water and sewer systems	13,463	13,463
Planning and development	456,105	366,527
Business Improvement Area	25,267	38,240
Social services	58,871	58,871
Pits and quarries	98,529	98,529
Total reserves	6,792,975	5,969,970
Reserve funds set aside for specific purpose by Council:		
Acquisition of capital assets	103,103	100,505
Roads construction	358,695	274,039
Recreation programs and facilities	107,078	106,180
Water and sewer systems	2,437,301	1,034,352
Contingencies	1,319,080	1,302,672
Cemetery maintenance	152,278	141,562
Parking	2,142	182
Lot levies	3,778	3,729
OPP revenues	-	56,360
Total reserve funds	4,483,455	3,019,581
Total reserves and reserve funds	11,276,430	8,989,551
Amounts to be recovered:		
Landfill closure and post-closure costs	(1,810,000)	(1,768,500)
Employee future benefits (note 1(j))	(208,014)	(142,744)
Unrestricted surplus:		
The County of Prince Edward	1,931,949	1,369,508
The County of Prince Edward Public Library Board	11,645	11,937
Business Improvement Area	878	878
Centre and South Hastings Waste Services Board	134,255	236,500
	\$ 190,177,816	\$ 191,361,048

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

15. Operations of school boards:

During the 2012, requisitions were made by the school boards requesting the County to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

	2012	2011
Amounts requisitioned	\$ 7,926,625	\$ 7,546,733

16. Pension agreements:

The County makes contributions to the Ontario Municipal Employees Retirement System Pension Fund (OMERS) which is a multiemployer plan, on behalf of 187 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 amounts contributed to OMERS for current service in 2012 was \$419,503 (2011 - \$373,472) for current service and are included as an expenditure on the Consolidated Statement of Operations and Accumulated Surplus. There is no past service liability.

17. Contingent liabilities:

(a) As a result of arbitration awards. McFarland Home employees can use the portion of accumulated sick leave benefits that have not vested to increase their income under the short-term or long-term disability plans or Workplace Safety and Insurance Board benefits to regular payroll levels.

Water department employees can use the portion of sick leave benefits accumulated to April 30, 1997 that have not vested to increase their income under the long-term disability plan to 85% of regular payroll levels, and to 100% of regular payroll levels under the short-term disability plan or Workplace Safety and Insurance Board benefits.

These amounts are not available for cash payment and are forfeited upon retirement.

The contingent liability for these accumulated days amounted to \$66,870 at December 31, 2012 (2011 - \$106,698). No amount has been accrued in the financial statements for this contingent liability.

(b) As at December 31, 2012, certain legal actions are pending against the County. An estimate of the contingency cannot be made since the outcome of these matters cannot be determined at this time. The County carries liability insurance. Any settlement in excess of amounts which have been recorded in the accounts and insurance coverage will be accounted for as a current transaction in the year of settlement.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

17. Contingent liabilities (continued):

- (c) The County has seven open gravel pit sites which will be reclaimed in the future. The estimated future costs of reclamation have not been accrued in these financial statements as an estimate cannot be reasonably determined at this time.

18. Trust funds:

Trust funds administered by the County amounting to \$635,559 (2011 - \$947,247) have not been included in the Consolidated Statement of Financial Position nor have their operations been included on the Consolidated Statement of Operations. Such balances are held in trust by the County for the benefit of others and are therefore not presented as part of the Municipal financial position or operations.

19. Supplementary information

	Budget 2012	Actual 2012	Actual 2011
	(Unaudited, note 23)		
Salaries, wages and employee benefits	\$ 17,727,138	\$ 17,673,932	\$ 16,858,241
Interest on long-term debt	2,145,000	1,309,722	842,584
Materials and supplies	10,129,026	9,566,766	9,828,569
Contracted services and general services	12,111,405	11,328,313	9,974,748
Rents and financial services	548,203	494,055	736,698
External transfers	3,647,501	3,642,769	3,731,096
Amortization of tangible capital assets	8,894,345	8,894,345	8,631,671
	\$ 55,202,618	\$ 52,909,902	\$ 50,603,607

20. Commitments:

The County has contracts committing it to payments in future years. The following agreements existed at December 31, 2012.

At December 31, 2012, the County has outstanding capital project contractual commitments of approximately \$530,000.

An agreement with the County of Hastings for the provision of land ambulance services to December 31, 2012. Costs will be charged on the basis of services used. Base charges for the 2012 year were \$2,162,463. The County is currently negotiating a renewal of this agreement.

An agreement with the Province of Ontario for policing services to 2014. Costs will be charged on the basis of services used. Base charges for the 2012 year were \$4,954,617.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

20. Commitments (continued):

An agreement with the City of Quinte West for the provision of bulk water to the areas of Consecon and Carrying Place to July 27, 2027.

Costs will be charged on the basis of water used. Base charges for the 2012 year were \$66,790.

An agreement with the City of Belleville for the provision of bulk water to the areas of Rossmore and Fenwood Gardens to December 31, 2020. Costs will be charged on the basis of water used. Base charges for the 2012 year were \$364,578.

An agreement with Waste Management of Canada Corporation for the collection of household waste to July 31, 2012. Base charges for the 2012 year were \$524,694.

The County has entered into an agreement to repurchase a property at an amount to be determined by an appraisal of the property.

The County has an outstanding commitment to Tri-County Healthcare Foundation Joint Diagnostic Imaging Campaign of \$250,000 payable \$100,000 annually from 2012 to 2014 and \$50,000 in 2015.

The County has an outstanding commitment to University Hospitals Kingston Foundation of \$250,000 payable \$50,000 annually from 2013 to 2017.

The County has agreed to fund its proportionate share of the Eastern Ontario Wardens Caucus Inc. broadband project. At December 31, 2012, this commitment is \$53,823 payable \$53,823 in 2013.

The County has commitments under various operating leases. The minimum lease payments under these leases are as follows:

2013	\$	172,059
2014		154,070
2015		121,308
2016		94,968
2017		94,968
2018 and thereafter		94,968
	\$	732,341

21. Provincial offences administration:

The Provincial Offences Act 1997 (POA) is a procedural law for administering and prosecuting provincial offences, including those committed under the Highway Traffic Act, Compulsory Automobile Insurance Act, Trespass to Property Act, Liquor License Act, Municipal bylaws and minor federal offences. The POA governs all aspects of the legal process from serving notice to a defendant to conducting trials, including sentencing and appeals.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

21. Provincial offences administration (continued):

Balances arising from the operation of the POA office have been consolidated with these financial statements. The revenue of the court office consists of fines levied under Parts I and III (including delay penalties) for POA charges filed in the Picton Court. Offenders may pay their fines at any court office in Ontario, at which time their receipt is recorded in the Integrated Courts Operation Network System ("ICON") operated by the Province of Ontario. Revenue is recognized when receipt of funds is recorded by the provincial ICON system regardless of the location where payment is made. Total revenue and expenditures recorded as of December 31, 2012 are as follows:

	2012	2011
Gross revenues received	\$ 427,060	\$ 497,472
Gross expenditures	255,713	251,520
Net revenues	\$ 171,347	\$ 245,952

22. Segmented information:

The County provides a wide range of services to its residents. Segmented information has been identified based upon lines of service provided by the County. Services are delivered directly by departments of the County, by boards and agencies or by contract through other organizations. The lines of service that have been separately disclosed along with the department or body responsible for providing the service are as follows:

(a) General Government:

The General Government Services segment is comprised of the following service areas: Council and Mayor's Office, Administration/CAO's Office, Clerk's Office, Treasury Department, Purchasing Department, Information Technology and Human Resources.

(b) Protection services:

The Protection Services segment is comprised of the following service areas: Police Services: Fire Protection and Rescue; Building Services; By-law Enforcement and Canine Control; Provincial Offences Administration and Quinte Conservation Authority. Policing is provided by contract with the Ontario Provincial Police.

(c) Transportation services:

The Transportation Services segment is comprised of the following service areas: Roads & Bridges including road and roadside maintenance, storm water maintenance, winter control, street lights and traffic signals; project planning, engineering and management; development planning and servicing; and Parking.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

22. Segmented information (continued):

(d) Environmental services:

The Environmental Services segment is comprised of Water treatment and distribution; Wastewater collection and treatment; and Waste Management Services. Most waste management services are provided under contract.

(e) Health services:

The Health Services segment is comprised of Ambulance Services; Public Health Services provided by the Hastings and Prince Edward Health Unit; and Cemetery Maintenance. Ambulance service is provided under contract with Hastings County.

(f) Social and family services:

Social and Family Services segment is comprised of Children's Services and Ontario Works provided by Prince Edward, Lennox and Addington Social Services, and Assistance to Aged Persons - H. J. McFarland Memorial Home.

(g) Social housing:

Social Housing services are provided by Prince Edward, Lennox and Addington Social Services.

(h) Recreation and cultural services:

The Recreation and Cultural Services segment is comprised of the following service areas: Parks, Trails and Sports fields; Arenas; Harbours, Marinas and Boat Launches; Libraries and Archives; Community Halls/Theatre; Museums; and Recreational and Cultural Activities.

(i) Planning and development:

The Planning and Development Services segment is comprised of the following service areas: Planning and Zoning and Economic Development.

The segmented information was provided in accordance with the financial reporting guidelines established by the Public Sector Accounting Board of the CICA (section PS2700). Certain allocation methodologies are employed in the preparation of segmented financial information.

User charges and other revenue have been allocated to the segments based upon the segment that generated the revenue. Government transfers have been allocated to the segment based upon the purpose for which the transfer was made.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

23. Budget figures:

Budgets established by the County are based on a project oriented basis, the costs of which may be carried out over one or more years. Although they are not directly comparable with current year actual amounts, budget figures have been reflected on the "Statement of Operations and Accumulated Surplus". Budget figures have been reclassified for the purpose of these financial statements to conform with PSAB reporting requirements.

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Schedule of Segment Disclosure

Year ended December 31, 2012

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Social Housing	Subtotal
Revenue:								
User charges	\$ 786,809	\$ 87,683	\$ 935,246	\$ 6,444,972	\$ 31,773	\$ 1,571,019	\$ –	\$ 9,857,502
Government grants	2,104,321	1,393,148	1,290,931	1,018,624	1,184,362	3,678,113	–	10,669,499
Other municipalities	–	–	–	–	–	136,486	–	136,486
Investment income	85,488	31,227	–	–	–	–	–	116,715
Fines and penalties	949,496	14,825	–	51,692	–	–	–	1,016,013
Donations	–	–	5,000	–	–	4,157	–	9,157
Other revenue	(36,901)	–	(173,965)	(8,614)	–	3,558	–	(215,922)
	3,889,213	1,526,883	2,057,212	7,506,674	1,216,135	5,393,333	–	21,589,450
Expenses:								
Salaries, wages and employee benefits	3,170,599	2,109,021	2,762,779	1,937,530	–	4,517,655	–	14,497,584
Interest on long-term debt	–	–	444,939	686,514	81,780	12,472	–	1,225,705
Materials and supplies	1,437,140	860,016	2,162,890	2,104,882	54,164	966,867	–	7,585,959
Contracted services and general services	7,438	4,802,798	1,915,672	1,326,109	2,167,130	–	–	10,219,147
Rents and financial expenses	54,649	48,029	123,018	65,652	6,751	20,928	–	319,027
External transfers	258,646	277,526	–	–	561,756	1,250,196	937,104	3,285,228
Interfunctional adjustments	(252,500)	77,800	25,500	165,000	110,000	–	–	125,800
Amortization	134,988	262,853	4,993,579	2,306,796	95,698	124,900	–	7,918,814
	4,810,960	8,438,043	12,428,377	8,592,483	3,077,279	6,893,018	937,104	45,177,264
Excess of revenue over expenses (expenses over revenue) before property tax								
	\$ (921,747)	\$ (6,911,160)	\$ (10,371,165)	\$ (1,085,809)	\$ (1,861,144)	\$ (1,499,685)	\$ (937,104)	\$ (23,587,814)

THE CORPORATION OF THE COUNTY OF PRINCE EDWARD

Schedule of Segment Disclosure, page 2

Year ended December 31, 2012

	Subtotal	Recreation and Cultural Services	Planning and Development	Picton Library Board	Picton Business Improvement Area	Centre and South Hastings Water Services Board	Eliminations	Total
Revenue:								
User charges	\$ 9,857,502	\$ 1,109,280	\$ 299,418	\$ 18,266	\$ 6,136	\$ 528,561	\$ -	\$ 11,819,163
Government grants	10,669,499	49,333	49,380	155,629	8,372	198,863	-	11,131,076
Other municipalities	136,486	-	-	-	-	-	-	136,486
Investment income	116,715	-	-	4,750	-	6,621	-	128,086
Fines and penalties	1,016,013	-	-	-	-	-	-	1,016,013
Donations	9,157	39,768	30,247	22,807	2,450	-	-	104,429
Other revenue	(215,922)	242,254	-	4,000	-	-	-	30,332
	21,589,450	1,440,635	379,045	205,452	16,958	734,045	-	24,365,585
Expenses:								
Salaries, wages and employee benefits	14,497,584	1,580,633	735,755	859,960	-	-	-	17,673,932
Interest on long-term debt	1,225,705	73,992	10,025	-	-	-	-	1,309,722
Materials and supplies	7,585,959	1,445,217	306,035	229,555	-	-	-	9,566,766
Contracted services and general services	10,219,147	367,862	71,821	-	-	669,482	-	11,328,312
Rents and financial expenses	319,027	106,587	68,440	-	-	-	-	494,054
External transfers	3,285,228	1,213,117	127,200	-	-	-	(982,776)	3,642,769
Interfunctional adjustments	125,800	(5,800)	(120,000)	-	-	-	-	-
Amortization	7,918,814	844,844	14,656	90,975	-	25,056	-	8,894,345
	45,177,264	5,626,452	1,213,932	1,180,490	-	694,538	(982,776)	52,909,900
Excess of revenue over expenses (expenses over revenue) before property taxation								
	\$(23,587,814)	\$ (4,185,817)	\$ (834,887)	\$ (975,038)	\$ 16,958	\$ 39,507	982,776	(28,544,315)
Property taxation							(982,776)	27,361,083
							\$ -	\$ (1,183,232)