

**CORPORATION OF THE MUNICIPALITY OF
HASTINGS HIGHLANDS**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

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Vivian Bloom
Mayor

I. Craig Davidson
CAO/Treasurer



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CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

For The Year Ended December 31, 2011

MANAGEMENT REPORT

The accompanying consolidated financial statements of the Corporation of the Municipality of Hastings Highlands are the responsibility of management and have been approved by Council.

The consolidated financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly, in all material respects.

The Municipality maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Municipality's assets are appropriately accounted for and adequately safeguarded.

The Municipality's Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving financial statements.

Council reviews and approves the Municipality's financial statements for issuance to the members of Council, inhabitants and ratepayers of the Corporation of the Municipality of Hastings Highlands. Council meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities and to review the financial statements and the independent auditors' report.

The consolidated financial statements have been audited by Collins Barrow Kawarthas LLP in accordance with Canadian generally accepted auditing standards on behalf of the Municipality. Collins Barrow Kawarthas LLP has full and free access to Council.

Mayor

A handwritten signature in cursive script, appearing to read "Vivian E. Bloom", written over a horizontal line.

Date

A handwritten date "July 18, 2012" written in cursive script over a horizontal line.

CAO/Clerk - Treasurer

A handwritten signature in cursive script, appearing to read "I. Craig Davidson", written over a horizontal line.

Date

A handwritten date "July 18, 2012" written in cursive script over a horizontal line.

INDEPENDENT AUDITORS' REPORT**To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Municipality of Hastings Highlands***Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of the Corporation of the Municipality of Hastings Highlands and its local boards, which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of operations and accumulated surplus, change in net financial assets (liabilities) and cash flows 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 these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Municipality of Hastings Highlands and its local boards as at December 31, 2011 and the results of its operations and cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

*Collins Barrow Kawarthas LLP*Chartered Accountants
Licensed Public AccountantsPeterborough, Ontario
July 18, 2012

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	2011	2010
	\$	\$
FINANCIAL ASSETS		
Cash	2,812,882	1,827,416
Accounts receivable	474,904	2,652,073
Taxes receivable	1,515,182	1,717,092
TOTAL FINANCIAL ASSETS	4,802,968	6,196,581
LIABILITIES		
Accounts payable and accrued liabilities	515,688	1,701,234
Deferred revenue - obligatory reserve funds (note 3)	626,873	418,157
Deferred revenue - other (note 4)	40,955	31,850
Long term debt (note 5)	3,289,255	3,357,934
Landfill closure and post-closure liability (note 6)	478,484	362,264
TOTAL LIABILITIES	4,951,255	5,871,439
NET FINANCIAL ASSETS/(LIABILITIES)	(148,287)	325,142
NON-FINANCIAL ASSETS		
Tangible capital assets (note 9)	21,291,261	21,023,789
Prepaid expenses	27,285	20,638
TOTAL NON-FINANCIAL ASSETS	21,318,546	21,044,427
ACCUMULATED SURPLUS (note 10)	21,170,259	21,369,569

The accompanying notes are an integral part of these financial statements

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the Year Ended December 31, 2011

	Budget 2011 \$	Actual 2011 \$	Actual 2010 \$
REVENUES			
Property taxation	5,122,260	5,144,163	5,069,415
User charges	302,700	350,508	335,265
Government of Canada	7,200	13,056	2,521,431
Province of Ontario	846,881	1,081,414	3,491,563
Other municipalities	-	18,328	21,885
Penalties and interest on taxes	150,000	235,964	234,815
Investment income	8,000	10,409	2,654
Gain (loss) on disposal of capital assets	-	-	38,542
Federal gas tax	650,000	42,321	64,704
TOTAL REVENUES	7,087,041	6,896,163	11,780,274
EXPENSES			
General government	843,352	950,674	821,383
Protection services	1,386,650	1,245,737	1,301,765
Transportation services	3,650,400	3,670,982	3,432,476
Environmental services	753,000	719,782	541,955
Health services	18,000	14,685	8,670
Recreation and cultural services	281,281	326,134	320,058
Planning and development	161,100	167,479	124,147
TOTAL EXPENSES	7,093,783	7,095,473	6,550,454
ANNUAL SURPLUS/(DEFICIT)	(6,742)	(199,310)	5,229,820
ACCUMULATED SURPLUS - beginning of year	21,369,569	21,369,569	16,139,749
ACCUMULATED SURPLUS - end of year	21,362,827	21,170,259	21,369,569

The accompanying notes are an integral part of these financial statements

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (LIABILITIES)

For the Year Ended December 31, 2011

	Budget 2011 \$	Actual 2011 \$	Actual 2010 \$
ANNUAL SURPLUS/(DEFICIT)	(6,742)	(199,310)	5,229,820
Amortization of tangible capital assets	1,314,930	1,733,013	1,314,872
Acquisition of tangible capital assets	(2,250,000)	(2,000,485)	(8,317,484)
Gain on disposal of tangible capital assets	-	-	(38,542)
Proceeds on sale of tangible capital assets	-	-	46,465
(Increase)/decrease in prepaid expenses	-	(6,647)	7,929
DECREASE IN NET FINANCIAL ASSETS	(941,812)	(473,429)	(1,756,940)
NET FINANCIAL ASSETS - beginning of year	325,142	325,142	2,082,082
NET FINANCIAL ASSETS (LIABILITIES) - end of year	(616,670)	(148,287)	325,142

The accompanying notes are an integral part of these financial statements

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

	2011	2010
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual surplus/(deficit)	(199,310)	5,229,820
(Increase)/decrease in accounts receivable	2,177,169	(1,003,473)
(Increase)/decrease in taxes receivable	201,910	(260,539)
(Increase)/decrease in prepaid expenses	(6,647)	7,929
Increase/(decrease) in accounts payable and accrued liabilities	(1,185,546)	639,718
Increase in deferred revenue - obligatory reserve funds	208,716	158,196
Increase in deferred revenue - other	9,105	31,850
Non-cash charges to operations		
Amortization of tangible capital assets	1,733,013	1,314,872
Gain on disposal of tangible capital assets	-	(38,542)
Increase in landfill closure and post-closure liability	116,220	24,441
Net increase in cash from operating transactions	3,054,630	6,104,272
CAPITAL		
Acquisition of tangible capital assets	(2,000,485)	(8,317,484)
Proceeds on disposal of tangible capital assets	-	46,465
Net decrease in cash from capital transactions	(2,000,485)	(8,271,019)
FINANCING		
Long term debt issued	-	3,294,000
Debt principal repayments	(68,679)	(45,121)
Net increase/(decrease) in cash from financing transactions	(68,679)	3,248,879
INCREASE IN CASH	985,466	1,082,132
CASH - beginning of year	1,827,416	745,284
CASH - end of year	2,812,882	1,827,416

The accompanying notes are an integral part of these financial statements

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

The Municipality of Hastings Highlands is a lower tier municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies are as follows:

(a) Reporting Entity

These consolidated financial statements reflect the assets, liabilities, revenues and expenses and accumulated surplus 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 Municipality and which are owned and controlled by the Municipality. These financial statements include:

- Hastings Highlands Public Library Board
- Cemetery Board

All interfund assets and liabilities and revenues and expenses are eliminated.

(b) Trust Funds

Trust funds and their related operations administered by the Municipality are not included in these consolidated financial statements but are reported on separately on the Trust Funds Statement of Continuity and Statement of Financial Position.

(c) 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, if any, of tangible capital assets is amortized on a straight-line basis, over the expected useful life of the asset, as follows:

Land improvements	15 - 20 years
Buildings	40 - 50 years
Building improvements	20 - 30 years
Machinery	10 - 15 years
Vehicles	8 - 10 years
Furniture and office equipment	3 - 20 years
Roads and bridges	15 - 40 years

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

Tangible capital assets categorized as assets under construction are not amortized until they are put into service.

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1. SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Non-financial Assets

Tangible capital and other non-financial assets are accounted for as assets by the Municipality because they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the Municipality unless they are sold.

(e) Recognition of Revenues and Expenses

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which the transactions or events occurred that give rise to the revenue; expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.

(f) Reserves

Certain amounts, as approved by Council, are set aside in reserves for future operating and capital purposes. Transfers to and/or from reserves are an adjustment to the respective fund when approved.

(g) Deferred Revenue

Deferred revenue represents grants which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(h) Taxation

Property tax billings are prepared by the Municipality based on assessment rolls issued by the Municipal Property Assessment Corporation (MPAC) and in accordance with the provisions of the Municipal Act, 2001. The Municipality's Council establishes the tax rates annually, incorporating amounts to be raised for local services, and amounts the Municipality is required to collect on behalf of the County and School Boards. From time to time property assessments are adjusted by MPAC through the reconsideration process or by the Assessment Review Board through the appeal process. Additional assessments, referred to as supplementary and omitted assessment can also be issued by MPAC in accordance with the Assessment Act. These adjustments and additional assessments are processed by the Municipality upon receipt and recognized in the fiscal year they are determined. All property taxes are secured by the land and pose no significant collection risk.

(i) Government Funding

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

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1. SIGNIFICANT ACCOUNTING POLICIES, continued

(j) Use of Estimates

Certain items recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on the Municipality's best information and judgment. Such amounts are not expected to change materially in the near term.

- The amounts recorded for landfill closure and post-closure care depend on estimates of usage, remaining life and capacity. The provision for future closure and post-closure costs also depends on estimates of such costs.
- The amounts recorded for amortization and opening costs of tangible capital assets are based on estimates of useful life, residual values and valuation rates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.
- The amount recorded as allowance for doubtful accounts receivable is based on management's estimate of future payments on receivable account balances.

(k) Financial Instruments

The Municipality's financial instruments consist of cash, accounts receivable, taxes receivable, accounts payable and accrued liabilities and long term debt. Unless otherwise noted, it is management's opinion that the carrying value of the financial instruments approximates their fair values and that the Municipality does not have any significant concentration of interest, currency or credit risk.

2. OPERATIONS OF SCHOOL BOARDS AND THE COUNTY OF HASTINGS

During 2011, requisitions were made by the County of Hastings and School Boards requiring the Municipality to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are as follows:

	School Boards \$	County \$
Property taxes	1,924,646	2,332,722
Taxation from other governments	789	9,693
Amounts requisitioned and remitted	1,925,435	2,342,415

These amounts have not been included in the Consolidated Statement of Operations and Accumulated Surplus.

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

3. DEFERRED REVENUE - OBLIGATORY RESERVE FUNDS

A requirement of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as legislation and external agreements restrict how these funds may be used and under certain circumstances these funds may possibly be refunded. The balance in the obligatory reserve funds of the Municipality is summarized below:

	2011	2010
	\$	\$
Federal gas tax	626,873	418,157

The continuity of deferred revenue - obligatory reserve funds is as follows:

	2011	2010
	\$	\$
Balance - beginning of year	418,157	259,961
Add amounts received:		
County gas tax funding received	123,712	97,831
Federal gas tax funding received	123,712	124,128
Interest	3,613	941
	251,037	222,900
Less transfer to operations:		
Federal gas tax	42,321	64,704
Balance - end of year	626,873	418,157

4. DEFERRED REVENUE - OTHER

Included in deferred revenue - other are the following amounts:

	2011	2010
	\$	\$
Healthy Communities Fund	40,955	-
Trillium Foundation	-	8,132
Ministry of Culture	-	23,718
	40,955	31,850

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

5. LONG TERM DEBT

- (a) The balance of long term debt reported on the Consolidated Statement of Financial Position is made up of the following:

	2011 \$	2010 \$
Long term capital lease repayable in blended monthly instalments of \$4,360, interest at 6%, due May 12, 2012.	18,813	63,934
Ontario Infrastructure Projects Corporation due August 18, 2025, repayable in blended semi annual instalments of \$21,713 and bears interest at 4.19% per annum.	456,442	480,000
Ontario Infrastructure Projects Corporation due July 15, 2021, repayable in blended semi annual instalments of \$94,261 and bears interest at 3.45% per annum. First payment will be made on January 16, 2012.	1,583,000	1,583,000
Ontario Infrastructure Projects Corporation due July 15, 2026, repayable in blended semi annual instalments of \$54,662 and bears interest at 3.92% per annum. First payment will be made on January 16, 2012.	1,231,000	1,231,000
	3,289,255	3,357,934

- (b) The long term debt in (a) issued in the name of the Municipality have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.
- (c) Interest paid during the year on long term debt amounted to \$68,679 (2010 - \$45,121).
- (d) The long term debt is secured by a chattel mortgage on the assets acquired.
- (e) The long term debt reported in (a) of this note is repayable as follows:

	Principal \$	Interest \$	Total \$
2012	240,100	122,968	363,068
2013	229,467	111,805	341,272
2014	237,952	103,320	341,272
2015	246,752	94,520	341,272
2016	255,880	85,392	341,272
2017 and subsequent years	2,079,104	347,583	2,426,687
	3,289,255	865,588	4,154,843

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

6. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

The liability for landfill closure and post-closure costs of \$478,484 (2010 - \$362,264) has been estimated using discounted future cash flows associated with closure and post-closure care activities for the nine sites operated by the Municipality. The closure costs include final cover, vegetation and additional monitoring wells. Post-closure costs include monitoring, maintenance of control systems and consulting fees for 25 years after the site is closed. A reserve of \$351,222 (2010 - \$311,222) has been provided for this liability with the remaining costs to be funded from taxation. There are no specific assets designated for settling this liability.

The reported liability is based upon estimates and assumptions with respect to events extending over the remaining life of the nine operating landfill sites. The remaining capacity of the nine operating sites is estimated at approximately 38.2% (2010 - 39.3%) of their total capacity. The total discounted future cash flows for closure and post-closure cost is estimated at \$872,077 as at December 31, 2011 (2010 - \$660,257). The landfill sites are expected to reach their capacities between 2014 and 2049.

7. EXPENSES BY OBJECT

The expenses for the year reported on the Consolidated Statement of Operations and Accumulated Surplus by object are as follows:

	Budget 2011 \$	Actual 2011 \$	Actual 2010 \$
Salaries and benefits	2,271,181	2,157,139	2,032,884
Interest charges	39,400	50,435	17,881
Materials	2,272,672	1,918,755	1,893,722
Contracted services	1,108,900	1,197,446	1,188,941
Rents and financial	16,700	4,100	25,721
External transfers	70,000	34,585	76,433
Amortization	1,314,930	1,733,013	1,314,872
	<u>7,093,783</u>	<u>7,095,473</u>	<u>6,550,454</u>

8. PENSION AGREEMENTS

The Municipality makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of all permanent, full-time 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.

Contributions required on account of current service in 2011 were \$99,883 (2010 - \$81,450).

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2011

9. TANGIBLE CAPITAL ASSETS

The net book value of the Municipality's tangible capital assets are:

	2011	2010
	\$	\$
General		
Land and land improvements	927,003	927,003
Buildings	5,711,313	1,567,866
Vehicles and equipment	1,614,752	1,411,556
Computer equipment, furnishings and other	33,023	56,074
Infrastructure		
Roads and bridges	11,874,044	8,339,318
	20,160,135	12,301,817
Assets under construction	1,131,126	8,721,972
	21,291,261	21,023,789

For additional information, see the Consolidated Schedule of Tangible Capital Assets.

During the year there were no write-downs of assets (2010 - \$Nil) and no interest capitalized (2010 - \$Nil).

	2011	2010
	\$	\$
General government	4,183,643	4,202,187
Protection services	410,440	442,396
Transportation services	15,801,305	15,456,975
Environmental services	15,373	20,497
Recreation and cultural services	880,500	901,734
	21,291,261	21,023,789

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

10. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2011	2010
	\$	\$
Surplus/(Deficit)		
Municipality	57,313	39,433
Hastings Highlands Public Library Board	2,807	12,929
Cemetery Board	4,415	4,414
Unfunded landfill closure and post-closure costs	(478,484)	(362,264)
	(413,949)	(305,488)
Invested In Capital Assets		
Tangible capital assets - net book value	21,291,261	21,023,789
Long term debt	(3,289,255)	(3,357,934)
	18,002,006	17,665,855
Surplus	17,588,057	17,360,367
Reserves		
Working funds	884,780	834,780
Insurance	20,065	20,065
General administration	833,833	833,833
Equipment replacement	586,204	1,161,204
Paving and construction	191,401	191,401
Election	15,500	7,500
Waste disposal	569,216	529,216
Policing costs	110,000	110,000
Recreation capital	54,203	54,203
Fire	230,000	180,000
Economic development	77,000	77,000
Health	10,000	10,000
Total Reserves	3,582,202	4,009,202
	21,170,259	21,369,569

11. TRUST FUNDS

Trust funds administered by the Municipality amounting to \$105,844 (2010 - \$80,295) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations and Accumulated Surplus. As such balances are held in trust by the Municipality for the benefit of others, they are not presented as part of the Municipality's financial position or operations.

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

12. BUDGET FIGURES

The budget, approved by the Municipality, for 2011 is reflected on the Consolidated Statement of Operations and Accumulated Surplus and the Consolidated Statement of Change in Net Financial Assets (Liabilities). The budgets established for capital investment in tangible capital assets are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year's actual amounts. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements. Budget figures are not subject to audit.

13. CREDIT FACILITY AGREEMENT

The Municipality has a revolving credit facility agreement with its main financial institution. The amount available at any time is limited to \$1,000,000 via an operating line of credit. Any balance borrowed will accrue interest at the bank's prime lending rate. Council authorized the temporary borrowing limit by By-law 2011-015. At December 31, 2011 there was no balance outstanding.

14. COMMITMENTS

The Municipality has accepted a tender for the collection and disposal of household garbage and recyclable materials with a cost of \$246,500 per annum. The term of the agreement is for two years, from January 1, 2012 to December 31, 2013.

During the current year, the Municipality entered into contracts for the completion of capital construction projects. At December 31, 2011, the Municipality had outstanding commitments of \$670,585 related to the construction of various roads. This will be funded by current contributions and reserves.

The Municipality has agreed to severance settlements but the amount is not disclosed in the financial statements due to confidentiality policies. This severance will be funded from 2012 operations and be reported in the 2012 financial statements.

Council approved a donation of \$40,000 to North Hastings Arena for the purchase of an ice resurfacer to be funded from reserves.

Council approved a donation to the equipment campaign of the Quinte Health Care location in Bancroft to the total amount of \$40,000 with payments over the next 4 years.

15. SEGMENTED INFORMATION

The Municipality of Hastings Highlands is a municipal government organization that provides a range of services to its residents. Municipality services are reported by function and their activities are separately disclosed in the segmented information.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Certain allocation methodologies are employed in the preparation of segmented financial information. Taxation, payments-in-lieu of taxes and certain unconditional government transfers are apportioned based on each segment's net requirements.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. For additional information see the Consolidated Schedule of Segment Disclosure.

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

15. SEGMENTED INFORMATION, continued

General Government

General government consists of the activities of Council and general financial and administrative management of the Municipality and its programs and services.

Protection Services

Protection services include police, fire and protective inspection and control.

Transportation Services

The activities of the transportation function include construction and maintenance of the Municipality's roads and bridges, winter control and street lighting.

Environmental Services

The environmental function is responsible for providing waste collection, waste disposal and recycling services to ratepayers.

Health Services

The health services function consists of external transfers to the local medical centre and cemetery operations.

Recreation and Cultural Services

The recreation and cultural services function provides indoor and outdoor recreational facilities and programs and library services.

Planning and Development

The planning and development services function manages commercial, industrial and residential development within the Municipality.

16. CONTINGENT LIABILITIES

The Municipality, in the course of its operations, has been named in several lawsuits the outcome of which is indeterminable at this time. No amounts in connection with these items have been reflected in these financial statements.

17. COMPARATIVE FIGURES

Certain comparative figures were restated, where required, to conform with the current year presentation.

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS For the Year Ended December 31, 2011

	General				Infrastructure		Totals \$
	Land and Land Improvements \$	Buildings \$	Vehicles and Equipment \$	Computer Equipment, Furnishings and Other \$	Roads and Bridges \$	Assets Under Construction \$	
COST							
Balance, beginning of year	927,003	2,131,958	5,946,491	119,223	29,017,449	8,721,972	46,864,096
Add: additions during the year	-	109,556	540,157	-	1,350,772	-	2,000,485
Internal transfers	-	4,204,508	-	-	3,386,338	(7,590,846)	-
Balance, end of year	927,003	6,446,022	6,486,648	119,223	33,754,559	1,131,126	48,864,581
ACCUMULATED AMORTIZATION							
Balance, beginning of year	-	564,092	4,534,935	63,149	20,678,131	-	25,840,307
Add: additions during the year	-	170,617	336,961	23,051	1,202,384	-	1,733,013
Balance, end of year	-	734,709	4,871,896	86,200	21,880,515	-	27,573,320
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	927,003	5,711,313	1,614,752	33,023	11,874,044	1,131,126	21,291,261

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE For the Year Ended December 31, 2011

	General Government \$	Protection Services \$	Transportation Services \$	Environmental Services \$	Health Services \$	Recreation and Cultural Services \$	Planning and Development \$	Consolidated \$
Revenues								
Property taxation	-	983,604	3,861,553	299,006	-	-	-	5,144,163
User charges	38,828	112,466	27,592	124,196	500	21,032	25,894	350,508
Government transfers - operating	163,430	80,761	5,000	254,259	14,072	283,867	137,806	939,195
Government transfers - capital	17,420	-	137,855	-	-	-	-	155,275
Other municipalities	-	-	-	-	-	-	18,328	18,328
Penalties and interest on taxes	235,964	-	-	-	-	-	-	235,964
Investment income	10,409	-	-	-	-	-	-	10,409
Federal gas tax	-	-	-	42,321	-	-	-	42,321
Total revenues	466,051	1,176,831	4,032,000	719,782	14,572	304,899	182,028	6,896,163
Expenses								
Salaries and benefits	492,181	357,063	1,014,769	138,653	-	103,056	51,417	2,157,139
Interest charges	26,429	-	24,006	-	-	-	-	50,435
Materials	271,788	270,984	967,042	151,346	22	149,627	107,946	1,918,755
Contracted services	38,373	540,024	152,095	429,783	-	29,055	8,116	1,197,446
Rents and financial	3,970	-	-	-	-	130	-	4,100
External transfers	9,306	4,311	-	-	14,663	6,305	-	34,585
Amortization	108,627	73,355	1,513,070	-	-	37,961	-	1,733,013
Total expenses	950,674	1,245,737	3,670,982	719,782	14,685	326,134	167,479	7,095,473
Net surplus/(deficit)	(484,623)	(68,906)	361,018	-	(113)	(21,235)	14,549	(199,310)

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

CONSOLIDATED SCHEDULE OF SEGMENT DISCLOSURE For the Year Ended December 31, 2010

	General Government \$	Protection Services \$	Transportation Services \$	Environmental Services \$	Health Services \$	Recreation and Cultural Services \$	Planning and Development \$	Consolidated \$
Revenues								
Property taxation	-	1,229,151	3,688,991	151,273	-	-	-	5,069,415
User charges	(39,938)	191,257	42,916	105,772	326	11,048	23,884	335,265
Government transfers - operating	-	6,500	-	898,900	-	101,634	-	1,007,034
Government transfers - capital	2,019,960	-	2,986,000	-	-	-	-	5,005,960
Other municipalities	-	-	-	-	-	-	21,885	21,885
Penalties and interest on taxes	234,815	-	-	-	-	-	-	234,815
Investment income	2,654	-	-	-	-	-	-	2,654
Gain (loss) on disposal of capital assets	(7,925)	-	46,467	-	-	-	-	38,542
Federal gas tax	-	-	54,390	10,314	-	-	-	64,704
Total revenues	2,209,566	1,426,908	6,818,764	1,166,259	326	112,682	45,769	11,780,274
Expenses								
Salaries and benefits	467,343	336,975	983,800	89,330	-	91,326	64,110	2,032,884
Interest charges	12,088	-	5,793	-	-	-	-	17,881
Materials	219,832	254,830	1,078,393	123,283	-	159,017	58,367	1,893,722
Contracted services	63,784	622,273	149,079	329,342	-	22,793	1,670	1,188,941
Rents and financial	25,656	-	-	-	-	65	-	25,721
External transfers	26,551	18,724	-	-	8,670	22,488	-	76,433
Amortization	6,129	68,963	1,215,411	-	-	24,369	-	1,314,872
Total expenses	821,383	1,301,765	3,432,476	541,955	8,670	320,058	124,147	6,550,454
Net surplus/(deficit)	1,388,183	125,143	3,386,288	624,304	(8,344)	(207,376)	(78,378)	5,229,820

INDEPENDENT AUDITORS' REPORT**To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Municipality of Hastings Highlands***Report on the Financial Statements*

We have audited the accompanying financial statements of the Trust Funds of the Corporation of the Municipality of Hastings Highlands, which comprise the statement of financial position as at December 31, 2011, the statement of continuity 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 these financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust Funds of the Municipality as at December 31, 2011 and the continuity of the Trust Funds for the year then ended in accordance with Canadian Public Sector Accounting Standards.

*Collins Barrow Kawarthas LLP*Chartered Accountants
Licensed Public AccountantsPeterborough, Ontario
July 18, 2012

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

**TRUST FUNDS
STATEMENT OF FINANCIAL POSITION
At December 31, 2011**

	Community Trust \$	Papineau Cemetery Perpetual Care \$	Zion Cemetery Perpetual Care \$	2011 Total \$	2010 Total \$
FINANCIAL ASSETS					
Cash	97,049	5,711	3,081	105,841	80,295
FUND BALANCES					
Capital	97,049	5,036	3,081	105,166	79,596
Income	-	675	3	678	699
	97,049	5,711	3,084	105,844	80,295
	97,049	5,711	3,084	105,844	80,295

The accompanying notes are an integral part of these financial statements

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

**TRUST FUNDS
STATEMENT OF CONTINUITY
For the Year Ended December 31, 2011**

	Community Trust \$	Papineau Cemetery Perpetual Care \$	Zion Cemetery Perpetual Care \$	2011 Total \$	2010 Total \$
BALANCE - beginning of year	71,460	5,732	3,103	80,295	61,088
RECEIPTS					
Donations	25,803	-	-	25,803	19,203
Interest earned	-	3	5	8	4
	25,803	3	5	25,811	19,207
EXPENSES					
Bank charges	214	24	24	262	-
BALANCE - end of year	97,049	5,711	3,084	105,844	80,295

The accompanying notes are an integral part of these financial statements

CORPORATION OF THE MUNICIPALITY OF HASTINGS HIGHLANDS

TRUST FUNDS NOTES TO THE FINANCIAL STATEMENTS For the Year Ended December 31, 2011

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for local governments and their boards as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(a) Basis of Accounting

Revenue and expenses are reported on the accrual basis of accounting which 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.

(b) Financial Instruments

The Trust Funds financial instruments consist of cash. It is management's opinion that the fair value of the financial instrument is not materially different from its carrying value unless otherwise noted. The Trust Funds do not have any significant concentration of credit, currency or interest rate risk.

(c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions 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 and are based on the Municipality's best information and judgment. Actual results could differ from these estimates.

2. CEMETERY PERPETUAL CARE

The Perpetual Care Fund administered by the Municipality is funded by the sale of cemetery plots. These funds are invested and earnings derived there from are used to perform perpetual care maintenance to the Municipality's cemeteries. The operations and investments of the Fund are undertaken by the Municipality in accordance with the regulations of the Cemeteries Act.