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Private & Confidential

November 3, 2011

Town of The Blue Mountains
32 Mill Street
Box 310
Thornbury, Ontario
N0H 2P0

Dear Sir/Madam:

**Re: Audit of the Consolidated Financial Statements of the Town of The Blue Mountains
For the ended December 31, 2010**

The purpose of this report is to summarize certain aspects of the audit that we believe would be of interest to the Finance Committee. This report should be read in conjunction with the financial statements and our report thereon, and it is intended solely for the use of the Finance Committee and should not be distributed to external parties without our prior consent. We accept no responsibility to a third party who uses this communication.

Tax Arrears

An analysis of your tax arrears as at December 31, 2010 is as follows:

	<u>2010</u>	<u>2009</u>
Current year	\$ 1,875,122	\$ 2,741,183
One year	918,528	914,148
Two years	451,591	331,828
Three or more years	246,603	223,358
Interest and penalties	401,939	424,695
	<u>3,893,783</u>	<u>4,635,212</u>
Less: Allowance for uncollectable amounts	(34,000)	(34,000)
	<u>\$ 3,859,783</u>	<u>\$ 4,601,212</u>

Tax arrears as a percentage of the total levy for the year is 12.4% compared to a corresponding percentage of 15.2% at the end of 2009. Current year collections as a percentage of current taxation is 94%.

Accumulated Surplus

As shown in the notes to the financial statements your accumulated surplus is comprised of the following:

	<u>2010</u>	<u>2009</u>
Invested in tangible capital assets		
Tangible capital assets at cost less amortization	\$ 165,292,856	158,866,399
Unfinanced capital assets	(8,204,441)	(6,817,211)
Capital assets financed by long-term liabilities and to be funded in future years	<u>(4,004,528)</u>	<u>(4,715,165)</u>
Total invested in capital assets	153,083,887	147,334,023
Unfunded post-employment benefits	(144,671)	(89,819)
Unfunded projects	(270,865)	(156,881)
Unfunded solid waste closure and post-closure costs	(1,511,295)	(1,142,130)
General surplus	1,967,217	1,077,692
Building inspection deficit	(780,729)	(639,469)
Cemeteries	(159,353)	(113,609)
Recreation, community centres and arenas	<u>65,681</u>	<u>67,593</u>
	152,249,872	146,337,400
Reserves and reserve funds	<u>24,596,744</u>	<u>24,232,686</u>
Accumulated surplus	<u>\$ 176,846,616</u>	<u>\$ 170,570,086</u>

Included in the accumulated surplus above is a deficit in the building inspection department of \$780,729. There have been deficits in this department for two years. Activities within this department should be reviewed to ensure that this deficit does not continue to grow.

Reserves and Reserve Funds

An analysis of your reserves at December 31, 2010 is as follows:

	<u>2010</u>	<u>2009</u>
Reserves		
Working funds	\$ 3,022,532	\$ 3,122,532
Insurance, sick leave and WSIB	162,674	162,674
Current purposes	954,572	898,395
Capital purposes	<u>5,231,383</u>	<u>5,038,723</u>
	<u>\$ 9,371,161</u>	<u>\$ 9,222,324</u>

An analysis of your reserve funds at December 31, 2010 is as follows:

	<u>2010</u>	<u>2009</u>
Obligatory Reserve Funds		
Development charges	\$ 752,376	\$ 752,376
Recreational land	1,141,841	619,340
Federal Gas tax	239,406	239,406
Parking	27,000	27,000
	<u>2,160,623</u>	<u>1,638,122</u>
Discretionary Reserve Funds		
Sewage	11,061,207	11,146,123
Water	2,834,201	2,746,006
General government	22,521	22,334
Roads	831,731	734,129
Garbage and recycling	65,674	65,128
Parks and recreation	312,321	199,382
Library	82,190	81,654
Other	15,737	15,606
	<u>15,225,582</u>	<u>15,010,362</u>
	<u>\$ 17,386,205</u>	<u>\$ 16,648,484</u>

Reserves are amounts set aside for specific purposes to ensure the resources to meet the purpose intended are available when required. We understand that part of Council's budgeting process is a review of the reserves. We recommend Council continue to review annually the reserve balances to determine whether amendments or additions are required and whether reserves in certain areas are adequate. The level of reserves and annual contributions required should correspond to the capital requirements outlined in your comprehensive long-term capital plan.

Likely Aggregate Misstatements

Uncorrected misstatements aggregated during the audit that were determined by management to be immaterial amounted to \$21,303. A summary of the statement of likely aggregate misstatements is attached to this letter.

After considering both quantitative and qualitative factors with respect to the likely aggregate misstatements attached, we agree with management that the financial statements are not materially misstated.

Significant Weaknesses in Internal Controls

We obtained a sufficient understanding of internal controls to enable us to plan the audit. In certain areas, we assessed control risk below maximum and obtained sufficient appropriate audit evidence through tests of control to support that assessment. However, our study and evaluation of internal controls was not sufficient to express an opinion on the effectiveness of the municipality's internal control systems.

During the course of our audit, the following weaknesses in the design or implementation of internal controls came to our attention:

Interest Allocation to Reserve Funds

Interest is allocated to reserve funds based on a standard interest rate and the balance of the reserve funds. The interest allocated to reserve funds is significantly lower than the actual interest earned on reserve fund investments. We recommend the standard interest rate used in the calculations be reviewed and adjusted periodically based on the average rate of return realized on the reserve fund investments.

Letters of Credit

Letters of Credit are received from developers as security according to planning agreements with the municipality. We recommend that the system for tracking these Letters of Credit be reviewed to ensure there is an accurate master list that accumulates and provides details of all outstanding Letters of Credit.

Payroll Approval

During the audit, we noted that there does not appear to be an approval process for department head timesheets. We recommend that the CAO approve department head timesheets.

Since an audit is not designed to detect all weaknesses in internal controls, there may be other weaknesses which our procedures did not detect.

Management Representations

During the course of an audit, management made many representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base the audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

Management's representations included, but were not limited to:

- matters communicated in discussions with us, whether solicited or unsolicited;
- matters communicated electronically to us;
- schedules, analyses and reports prepared by the entity, and management's notations and comments thereon, whether or not in response to a request by us;
- internal and external memoranda or correspondence;
- minutes of meetings of the board of directors or similar bodies such as audit committees and compensation committees;
- a signed copy of the financial statements; and
- a representation letter from management.

We wish to express our appreciation for the co-operation we received during the audit from the municipality's management. We would be pleased to discuss with you any matters mentioned in this letter, as well as any other matters that may be of interest to you.

Yours truly,

A handwritten signature in black ink, appearing to read "Traci Smith". The signature is written in a cursive, flowing style.

Traci Smith, CGA, LPA

Partner

BDO & Company LLP*

*BDO & Company LLP provides accounting, assurance, tax and other professional advisory services to BDO Canada LLP

TS:nb

Town of The Blue Mountains
Summary of Unadjusted Misstatements
 December 31, 2010

Description of the Misstatement	Identified Misstatement	Projected Misstatement	Estimates	Proposed Adjustments				Details of why no adjustment has been made to financial statements
				Assets Dr(Cr)	Liabilities Dr(Cr)	Opening Fund Balance Dr(Cr)	Income Dr(Cr)	
Variance in allowance for doubtful accounts set up by client versus calculated amount	79,978	-	-	(79,978)	-	50,689	29,289	
Tax adjustment relating to 2007 was posted in 2011 instead of in 2010 when approved as it was missed off of batch. Would affect rate payer AR, amount due to upper tier and school board and then write-offs and requisitions.	-	-	-	(59,274)	44,542	-	14,732	Client felt that change in net income did not warrant an entry to post in 2010. The adjustment would affect multiple accounts and completed working papers. Entry was posted in 2011.
Life insurance liability	-	-	-	-	(32,741)	34,836	(2,095)	
Retirement benefits	-	-	-	-	(10,624)	10,853	(229)	
Subdivider revenue from Craigeith (Orchard) Development to be transferred to reserve fund	33,805	-	-	-	33,805	-	(33,805)	

Likely Aggregate Misstatements Before Effect of Previous Year's Errors and Estimates	113,783	-	(139,252)	34,982	96,378	7,892	
Effect of Previous Year's Errors			-	-	29,195	(29,195)	
Likely Aggregate Misstatements			(139,252)	34,982	125,573	(21,303)	

**The Corporation of the
Town of The Blue Mountains
Financial Information
For the year ended December 31, 2010**

**The Corporation of the Town of The Blue Mountains
Financial Information
For the year ended December 31, 2010**

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**The Corporation of the
Town of The Blue Mountains
Financial Statements
For the year ended December 31, 2010**

**The Corporation of the Town of The Blue Mountains
Financial Statements
For the year ended December 31, 2010**

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Town of The Blue Mountains

We have audited the accompanying consolidated financial statements of the Corporation of the Town of The Blue Mountains, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes 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 financial position of the Corporation of the Town of The Blue Mountains as at December 31, 2010 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Owen Sound, Ontario
September 5, 2011

The Corporation of the Town of The Blue Mountains
Consolidated Statement of Financial Position

December 31	2010	2009
Financial assets		
Cash (Note 1)	\$ 3,856,846	\$ 4,598,251
Temporary investments (Note 2)	10,404,108	8,323,927
Taxes receivable	3,859,783	4,601,212
Trade and other receivables	6,576,992	7,381,248
Long-term receivables (Note 3)	4,932,690	3,479,598
	<u>29,630,419</u>	<u>28,384,236</u>
Liabilities		
Accounts payable and accrued liabilities (Note 4)	10,123,991	8,635,280
Solid waste closure and post-closure liabilities (Note 6)	1,511,295	1,142,130
Deferred revenue (Page 29)	2,526,156	2,288,035
Long-term liabilities (Note 5)	4,040,869	4,758,554
	<u>18,202,311</u>	<u>16,823,999</u>
Net financial assets	<u>11,428,108</u>	<u>11,560,237</u>
Non financial assets		
Inventory of supplies	67,083	67,453
Prepaid expenses	58,569	75,997
Tangible capital assets (Note 7)	165,292,856	158,866,399
	<u>165,418,508</u>	<u>159,009,849</u>
Accumulated surplus (Note 8)	<u>\$ 176,846,616</u>	<u>\$ 170,570,086</u>

**The Corporation of the Town of The Blue Mountains
Consolidated Statement of Operations and Accumulated Surplus**

For the year ended December 31	2010 Budget (Note 10)	2010 Actual	2009 Actual
Revenue			
Taxation	\$ 10,095,948	\$ 10,270,435	\$ 9,872,239
Fees and user charges	7,012,882	6,790,046	6,626,048
Grants (Note 12)	7,900,041	9,173,928	4,729,447
Other income (Note 11)	1,796,275	1,735,423	4,656,328
Obligatory reserve fund revenue recognized	3,066,014	2,345,013	2,308,240
	<u>29,871,160</u>	<u>30,314,845</u>	<u>28,192,302</u>
Expenses			
General government	3,274,167	8,663,766	7,972,106
Protection services	4,879,228	4,638,819	3,994,218
Transportation services	2,800,530	2,439,922	3,033,025
Environmental services	4,533,497	5,181,561	4,536,862
Health services	66,219	67,312	131,240
Recreation and cultural services	1,771,104	1,859,605	2,147,943
Planning and development	1,206,854	1,187,330	1,121,405
	<u>18,531,599</u>	<u>24,038,315</u>	<u>22,936,799</u>
Annual surplus (Note 10)	11,339,561	6,276,530	5,255,503
Accumulated surplus, beginning of year	170,570,086	170,570,086	165,314,583
Accumulated surplus, end of year	<u>\$ 181,909,647</u>	<u>\$ 176,846,616</u>	<u>\$ 170,570,086</u>

**The Corporation of the Town of The Blue Mountains
Consolidated Statement of Changes in Net Financial Assets**

<u>For the year ended December 31</u>	<u>2010</u> Budget (Note 10)	<u>2010</u> Actual	<u>2009</u> Actual
Annual surplus (Page 5)	\$ 11,339,561	\$ 6,276,530	\$ 5,255,503
Acquisition of tangible capital assets	(14,626,270)	(12,109,926)	(11,977,632)
Amortization of tangible capital assets	-	5,601,053	5,122,086
Loss on disposal of tangible capital assets	-	71,416	7,472
Proceeds on disposal of capital assets	-	11,000	-
	<u>(14,626,270)</u>	<u>(6,426,457)</u>	<u>(6,848,074)</u>
Change in inventories of supplies	-	370	(11,392)
Change in prepaid expenses	-	17,428	(48,094)
	<u>-</u>	<u>17,798</u>	<u>(59,486)</u>
Decrease in net financial assets	(3,286,709)	(132,129)	(1,652,057)
Net financial assets, beginning of the year	11,560,237	11,560,237	13,212,294
Net financial assets, end of the year	<u>\$ 8,273,528</u>	<u>\$ 11,428,108</u>	<u>\$ 11,560,237</u>

**The Corporation of the Town of The Blue Mountains
Consolidated Statement of Cash Flows**

For the year ended December 31	2010	2009
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 6,276,530	\$ 5,255,503
Items not involving cash		
Change in solid waste closure and post-closure liabilities	369,165	92,384
Amortization	5,601,053	5,122,086
Deferred revenue recognized	(2,751,073)	(3,903,703)
Change in prepaid expenses	17,428	(48,094)
Change in inventory of supplies	370	(11,392)
Loss on disposal of tangible capital assets	71,416	7,472
	<u>9,584,889</u>	<u>6,514,256</u>
Changes in non-cash working capital balances		
Taxes receivable	741,429	(370,009)
Trade and other receivables	804,256	(2,926,780)
Accounts payable and accrued liabilities	1,488,711	(2,918,553)
Deferred revenue received	2,989,194	2,131,741
	<u>15,608,479</u>	<u>2,430,655</u>
Capital transactions		
Cash used to acquire capital assets	(12,109,926)	(11,977,632)
Proceeds on sale of capital assets	11,000	-
	<u>(12,098,926)</u>	<u>(11,977,632)</u>
Investing activities		
Increase in long-term receivables	(1,453,092)	(1,471,927)
Financing activities		
Repayment of long-term liabilities	(717,685)	(715,085)
Net change in cash and cash equivalents	1,338,776	(11,733,989)
Cash and cash equivalents, beginning of year	12,922,178	24,656,167
Cash and cash equivalents, end of year	\$ 14,260,954	\$ 12,922,178
Comprised of:		
Cash	\$ 3,856,846	\$ 4,598,251
Temporary investments	10,404,108	8,323,927
	<u>\$ 14,260,954</u>	<u>\$ 12,922,178</u>

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

The Corporation of the Town of The Blue Mountains Summary of Significant Accounting Policies

December 31

Basis of Accounting

The consolidated financial statements of the Corporation of the Town of The Blue Mountains are the representations of management. They have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ontario Ministry of Municipal Affairs and Housing.

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of Consolidation

The consolidated statements reflect the assets, liabilities, revenues and expenses of all municipal organizations, committees, and boards which are owned or controlled by Council. All interfund assets and liabilities and revenues and expenses have been eliminated on consolidation.

The following board controlled by Council has been consolidated:

The Blue Mountains Public Library Board

A government partnership exists where the municipality has shared control over the board or entity. The municipality's pro-rata share of the assets, liabilities, revenues and expenses are reflected in the financial statements using the proportionate consolidation method. The municipality's proportionate interest of the following government partnership is reflected in the consolidated financial statements:

Georgian Trail Board of Management

41%

The Corporation of the Town of The Blue Mountains
Summary of Significant Accounting Policies

December 31

Cash and Cash Equivalents Cash and cash equivalents include all cash balances and short-term highly liquid investments that are readily convertible into cash.

Temporary Investments Temporary investments are recorded at the lower of cost and market value.

Inventory of Supplies Inventory held for consumption is recorded at the lower of cost and replacement cost.

Tangible Capital Assets Tangible capital assets are recorded at cost less accumulated amortization. Costs include all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Amortization is provided over the estimated useful life of the assets, using the straight-line method. The useful life of the assets is based on estimates made by Council. The following rates are used:

Land improvements	10 to 50 years
Buildings	15 to 50 years
Machinery, equipment and vehicles	5 to 50 years
Water systems	20 to 100 years
Sewer systems	20 to 100 years
Roads	10 to 75 years

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

Deferred Revenue Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of operations and accumulated surplus. The revenue is reported on the consolidated statement of financial activities in the year in which it is used for the specified purpose.

County and School Board The municipality collects taxation revenue on behalf of the school boards and the County of Grey. The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the County of Grey are not reflected in these financial statements.

The Corporation of the Town of The Blue Mountains
Summary of Significant Accounting Policies

December 31

Trust Funds	Funds held in trust by the municipality, and their related operations, are not included in these financial statements. The financial activity and position of the trust funds are reported separately on the trust funds statement of continuity and balance sheet.
Government Transfers	Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, and eligibility criteria have been met and reasonable estimates of the amounts can be made.
Revenue Recognition	<p>Tax levies are recognized as revenue when the amounts are levied on the municipality's ratepayers.</p> <p>User fees and other revenues are recognized when related goods or services are provided and collectibility is reasonably assured.</p>

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

1. Cash

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ 3,403,623	\$ 4,148,412
Restricted	453,223	449,839
	<u>\$ 3,856,846</u>	<u>\$ 4,598,251</u>

The Town has established segregated interest-bearing bank accounts pursuant to agreements with developers and these funds are for the sole purpose of paying capital costs relating to specific developments.

Cash balances are earning interest at a rate of prime less 1.75%.

On December 31, 2010, the municipality had deposits of \$4,574,793 in a Canadian Chartered bank. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of \$100,000 per depositor.

The municipality has an available operating facility of \$750,000 which was not drawn upon at December 31, 2010. The operating facility is due on demand and bears interest at the bank's prime rate.

2. Temporary Investments

	<u>2010</u>	<u>2009</u>
Cash	\$ 6,053,778	\$ 742,595
Guaranteed Investment Certificates, 1.11% to 2.55%, due 2011 and 2012	4,350,330	7,581,332
	<u>\$ 10,404,108</u>	<u>\$ 8,323,927</u>

Investments have a market value of \$10,428,279 (2009 - \$8,323,927) at the end of the year.

On December 31, 2010, the municipality had investment deposits of \$8,053,748 in a Canadian Financial Institution. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of \$100,000 per depositor.

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

3. Long-term Receivables

	<u>2010</u>	<u>2009</u>
Water and sewer loans, 4.8% to 18%, due 2011 to 2030	\$ 4,896,349	\$ 3,436,209
Tile drainage loans, 6% to 8%, due 2011 to 2016	36,341	43,389
	<u>\$ 4,932,690</u>	<u>\$ 3,479,598</u>

4. Accounts Payable and Accrued Liabilities

	<u>2010</u>	<u>2009</u>
Trade accounts payable	\$ 4,163,542	\$ 3,005,899
Accrued liabilities	677,998	563,930
Developer and other deposits	5,282,451	5,065,451
	<u>\$ 10,123,991</u>	<u>\$ 8,635,280</u>

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

5. Long-Term Liabilities

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

	2010	2009
Loan payable, prime less 0.25%, repayable in annual principal instalments of \$115,000 plus interest, due 2012	\$ 230,000	\$ 345,000
Loan payable, 4.85%, repayable in annual principal instalments of \$450,000 plus interest, due 2014	1,800,000	2,250,000
Loan payable, 4.85%, repayable in blended annual payments of \$83,608, due 2014	294,528	360,165
Loan payable, 5.11%, repayable in semi-annual principal instalments of \$40,000 plus interest, due 2031	1,680,000	1,760,000
Tile drainage loans payable, 6% to 8%, due from 2011 to 2016	36,341	43,389
	\$ 4,040,869	\$ 4,758,554

The interest expense included on the consolidated statement of operations and accumulated surplus totals \$215,186 (2009 - \$264,220).

Principal payments for the next 5 fiscal years and thereafter are as follows:

2011	\$	720,213
2012	\$	724,045
2013	\$	613,073
2014	\$	612,834
2015	\$	85,127
Thereafter	\$	1,285,577

At December 31, 2010, the municipality had undrawn credit capacity of \$2,500,000 at prime minus 0.75%.

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

6. Solid Waste Closure and Post-Closure Liabilities

Solid waste closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, removal of ground water and leachates, and ongoing environmental monitoring, site inspection and maintenance.

The liability for the landfill site is recorded at \$1,511,295 and represents the present value of closure and post-closure costs for 96% of the current site's capacity, using the municipalities average long-term borrowing rate of 4.25%. The liability is recorded based on the capacity of the landfill used to date. The total estimated future expenses for closure and post-closure care are \$1,580,049 leaving an amount to be recognized of \$68,754. The estimated remaining capacity of the site's opened cells are approximately 16,100 cubic metres, which will be filled in 2 years. Post-closure care is estimated to continue for a period of 25 years.

The Town has a landfill reserve to help fund a portion of the liability. During 2010 there were no transfers to or from this reserve. The balance of this reserve at December 31, 2010 is \$194,474.

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31

7. Tangible Capital Assets

	2010									
	Land	Land Improvements	Land	Buildings	Machinery, Equipment and Vehicles	Water System	Sewer System	Roads	Work in Progress	Total
Cost, beginning of year	\$ 5,685,259	\$ 4,187,703	\$ 18,659,007	\$ 22,465,696	\$ 42,212,004	\$ 55,389,270	\$ 72,184,662	\$ 5,484,616	\$ 226,268,217	
Additions	82,873	385,708	70,339	1,024,111	47,983	55,434	35,922	10,407,556	12,109,926	
Disposals		-	(13,563)	(175,182)	(199,980)	(226,644)	(97,352)	-	(712,721)	
Transfers	71,034	891,483	167,452	-	1,008,268	1,538,252	5,273,278	(8,949,767)	-	
Cost, end of year	5,839,166	5,464,894	18,883,235	23,314,625	43,068,275	56,756,312	77,396,510	6,942,405	237,665,422	
Accumulated amortization, beginning of year	-	1,807,090	7,446,978	8,106,491	10,656,585	8,667,915	30,716,759	-	67,401,818	
Amortization	-	221,523	509,564	1,215,911	585,536	706,768	2,361,751	-	5,601,053	
Disposals	-	-	(10,783)	(163,300)	(199,947)	(161,654)	(94,621)	-	(630,305)	
Accumulated amortization, end of year	-	2,028,613	7,945,759	9,159,102	11,042,174	9,213,029	32,983,889	-	72,372,566	
Net carrying amount, end of year	\$ 5,839,166	\$ 3,436,281	\$ 10,937,476	\$ 14,155,523	\$ 32,026,101	\$ 47,543,283	\$ 44,412,621	\$ 6,942,405	\$ 165,292,856	

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31

7. Tangible Capital Assets - (continued)

	2009									
	Land	Land Improvements	Land	Buildings	Machinery, Equipment and Vehicles	Water System	Sewer System	Roads	Work in Progress	Total
Cost, beginning of year	\$ 5,326,069	\$ 3,971,455	\$ 17,103,763	\$ 17,283,369	\$ 40,198,859	\$ 52,781,563	\$ 69,250,437	\$ 8,721,422	\$ 214,636,947	
Additions	359,190	216,238	780,892	1,061,575	235,779	1,249,566	316,978	7,757,414	11,977,632	
Disposals	-	-	(6,052)	(340,310)	-	-	-	-	-	(346,362)
Transfers	-	-	780,404	4,461,062	1,777,366	1,358,141	2,617,247	(10,994,220)	-	-
Cost, end of year	5,685,259	4,187,733	18,659,007	22,465,696	42,212,004	55,389,270	72,184,662	5,484,616	226,268,217	
Accumulated amortization, beginning of year	-	1,648,510	6,968,057	7,283,807	10,090,538	7,997,895	28,629,815	-	-	62,618,622
Amortization	158,530	158,530	483,519	1,156,976	566,047	670,020	2,086,944	-	-	5,122,086
Disposals	-	-	(4,598)	(334,292)	-	-	-	-	-	(338,890)
Accumulated amortization, end of year	-	1,807,040	7,446,978	8,106,491	10,656,585	8,667,915	30,716,759	-	-	67,401,818
Net carrying amount, end of year	\$ 5,685,259	\$ 2,380,613	\$ 11,212,029	\$ 14,359,205	\$ 31,555,419	\$ 46,721,355	\$ 41,467,903	\$ 5,484,616	\$ 158,866,399	

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

7. Tangible Capital Assets - (continued)

The net book value of tangible capital assets not being amortized because they are under construction is \$6,942,405 (2009 - \$5,484,616).

The municipality holds various works of art and historical treasures. These items are not recognized as tangible capital assets in the financial statements because a reasonable estimate of the future benefits associated with such property cannot be made.

8. Accumulated Surplus

Accumulated surplus consists of individual fund surplus and reserves as follows:

	2010	2009
Invested in tangible capital assets		
Tangible capital assets at cost less amortization	\$ 165,292,856	\$ 158,866,399
Unfinanced capital assets	(8,204,441)	(6,817,211)
Capital assets financed by long-term liabilities and to be funded in future years (Note 5)	(4,004,528)	(4,715,165)
Total invested in capital assets	153,083,887	147,334,023
Unfunded post-employment benefits	(144,671)	(89,819)
Unfunded projects	(270,865)	(156,881)
Unfunded solid waste closure and post-closure costs	(1,511,295)	(1,142,130)
General surplus (Note 10)	1,967,217	1,077,692
Building inspection deficit	(780,729)	(639,469)
Cemeteries	(159,353)	(113,609)
Recreation, community centres and arenas	65,681	67,593
	152,249,872	146,337,400
Reserves and reserve funds (Note 9)	24,596,744	24,232,686
Accumulated surplus	\$ 176,846,616	\$ 170,570,086

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

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

	<u>2010</u>	<u>2009</u>
Reserves		
Working funds	\$ 3,022,532	\$ 3,122,532
Insurance, sick leave and WSIB	162,674	162,674
Current purposes	954,572	898,395
Capital purposes	<u>5,231,383</u>	<u>5,038,723</u>
	9,371,161	9,222,324
Reserve funds:		
Capital purposes	<u>15,225,583</u>	<u>15,010,362</u>
Reserves and reserve funds set aside for specific purpose by Council	<u>\$ 24,596,744</u>	<u>\$ 24,232,686</u>

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

10. Budgets

Under Canadian generally accepted accounting principles, budget amounts are to be reported on the consolidated statement of operations and changes in net debt for comparative purposes. The 2010 budget amounts for the Corporation of the Town of The Blue Mountains approved by Council have been restated to conform to the presentation of the consolidated statements of operations and changes in net debt. The following is a reconciliation of the budget approved by Council. The budget figures have not been audited.

	2010 Budget	2010 Actual	2009 Actual
Annual surplus (Page 5)	\$ 11,339,561	\$ 6,276,530	\$ 5,255,503
Amortization	-	5,601,053	5,122,086
Change in unfunded liabilities	(9,500)	424,017	94,872
Change in unfunded operating expenses	212,100	113,984	74,594
Change in other surpluses	-	188,916	418,994
	11,542,161	12,604,500	10,966,049
Net transfers from (to) reserves	3,113,651	(364,058)	(890,056)
Capital acquisitions, disposals and write-down	(14,626,270)	(12,027,510)	(11,970,160)
Capital projects not funded	300,577	1,387,230	3,101,703
Proceeds from long-term debt	230,881	-	-
Debt principal repayments	(711,000)	(710,637)	(707,536)
	(150,000)	889,525	500,000
Prior year general surplus	150,000	1,077,692	577,692
General surplus (Note 8)	\$ -	\$ 1,967,217	\$ 1,077,692

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

11. Other Income

	2010	2010	2009
	Budget	Actual	Actual
Penalties and interest on taxation	\$ 440,000	\$ 580,629	\$ 525,623
Other fines and penalties	38,700	58,891	66,037
Investment income	289,700	509,907	444,120
Licenses, permits and rents	386,925	440,250	316,741
Donations	102,546	27,949	10,370
Prepaid special charges	517,854	91,471	3,219,583
Subdivider contributions	-	63,000	-
Loss on sale of capital assets	-	(71,416)	(7,472)
Other	20,550	34,742	81,326
	<u>\$ 1,796,275</u>	<u>\$ 1,735,423</u>	<u>\$ 4,656,328</u>

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

12. Grants

	Budget	2010	2009
Operating			
Province of Ontario			
Ontario Municipal Partnership Fund (OMPF)	\$ 1,581,200	\$ 1,581,200	\$ 1,683,000
Conditional - Roads	25,000	64,461	213,053
- Other	138,300	187,155	225,087
	<u>1,744,500</u>	<u>1,832,816</u>	<u>2,121,140</u>
Government of Canada			
- Other	29,582	158,546	189,980
Other municipalities			
Conditional - Roads	-	19,973	-
- Other	94,432	10,423	21,734
	<u>94,432</u>	<u>30,396</u>	<u>21,734</u>
Total operating grants	<u>1,868,514</u>	<u>2,021,758</u>	<u>2,332,854</u>
Capital			
Province of Ontario			
Conditional - Roads	1,088,700	2,218,659	991,658
- Sewer and water	107,723	298,746	143,178
- Other	359,852	2,092,285	522,351
	<u>1,556,275</u>	<u>4,609,690</u>	<u>1,657,187</u>
Government of Canada			
Conditional - Roads	670,000	527,049	296,709
- Sewer and water	170,752	170,708	91,969
- Other	3,597,500	1,844,723	345,728
	<u>4,438,252</u>	<u>2,542,480</u>	<u>734,406</u>
Other municipalities			
- Other	37,000	-	5,000
Total capital grants	<u>6,031,527</u>	<u>7,152,170</u>	<u>2,396,593</u>
Total grants	<u>\$ 7,900,041</u>	<u>\$ 9,173,928</u>	<u>\$ 4,729,447</u>

The Corporation of the Town of The Blue Mountains Notes to Financial Statements

December 31, 2010

13. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 96 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement benefits to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The employer amount contributed to OMERS for 2010 current service by the Town was \$386,120 (2009 - \$365,719). The contribution rate for 2010 was 6.5% to 10.7% depending on age and income level (2009 - 6.5% to 10.7%).

OMERS is a multi-employer plan, therefore any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. The municipality does not recognize any share of the OMERS pension surplus or deficit. The last available report for the OMERS plan was December 31, 2010. At that time the plan reported a \$1.5 billion deficit (2009 - \$1.5 billion actuarial surplus), based on actuarial liabilities of \$54.3 billion (2009 - \$54.3 billion) and actuarial assets of \$52.8 billion (2009 - \$55.8 billion). Ongoing adequacy of the current contribution rates will need to be monitored and the decline in the financial markets may lead to increased future funding requirements.

14. Operations of School Boards and the County of Grey

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

	2010	2009
School Boards	\$ 8,838,296	\$ 8,647,181
County of Grey	12,137,517	11,917,584
	<u>\$ 20,975,813</u>	<u>\$ 20,564,765</u>

15. Trust Funds

The trust funds administered by the municipality amounting to \$262,946 (2009 - \$258,403) have not been included in the consolidated statement of financial position nor have the operations been included in the consolidated statement of financial activities. At December 31, 2010, the trusts fund balances are as follows:

	2010	2009
Cemetery Care and Maintenance funds	\$ 262,946	\$ 258,403

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

16. Contractual Commitments

- (a) The Corporation of the Town of The Blue Mountains has entered into contracts totalling \$12,151,200 to upgrade and extend road, sewer and water services and purchase equipment. A total of \$2,275,300 remains to be spent. These commitments will be funded by municipal reserve funds, development charges, local improvement charges, government grants and long-term debt.
 - (b) The Town has committed to provide funding of \$350,000 as a grant and \$420,000 as an interest free loan to the North East Grey Health Clinic. The amounts are to be funded from the working capital reserve.
-

17. Subdivision Agreements

As part of various subdivision agreements, the municipality has received Letters of Credit to cover developers' responsibilities in completing the projects as well as covering unpaid municipal levies. Letters of Credit held by the municipality at December 31, 2010 amount to \$9,514,366.

18. Contingencies

- (a) OMERS has notified The Town of The Blue Mountains that they may request the Town pay OMERS contributions for an omission period from 1998 to 2007 for employees who are no longer employed by the Town. The impact on expenses as a result of settlement of this issue is not determinable at this time. The effect on expenses, if any, will be recorded in the fiscal year in which it can be determined.
 - (b) A number of appeals of the current value assessment of properties in the municipality are currently in process. The impact on taxation revenue as a result of settlement of these appeals is not determinable at this time. The effect on taxation of these rebates will be recorded in the fiscal year in which they can be determined.
-

The Corporation of the Town of The Blue Mountains

Notes to Financial Statements

December 31, 2010

19. Segmented Information

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

General Government

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

Protection to Persons and Property

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

Transportation

Transportation is responsible for construction and maintenance of the municipality's roadways, bridges, parking areas and streetlighting.

Environmental

Environmental services consists of providing waste collection, disposal and recycling to its citizens. This service also provides the municipality's drinking water. They process and clean sewage and ensure the municipality's water system meets all Provincial standards.

Health

Health services include contributions to the operations of local cemeteries.

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

20. Segmented Information - (continued)

Recreational and Cultural Services

This service area provides services meant to improve the health and development of the municipality's citizens. The municipality operates and maintains parks and arenas. The municipality also provides library services and recreational programs.

Planning and Development

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

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

Taxation, payments-in-lieu and penalties and interest	Allocated to those segments that are funded by these amounts based on the budget for the year.
OMPF Grants	Allocated to segments based on the budget for the year.

The Corporation of the Town of The Blue Mountains Notes to Financial Statements

December 31

For the year ended December 31	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	2010 Total
Revenue								
Taxation	\$ 1,232,452	\$ 3,491,948	\$ 2,670,313	\$ 821,635	\$ 102,704	\$ 1,335,157	\$ 616,226	\$ 10,270,435
Fees and user charges	17,630	90,110	29,863	5,656,806	32,530	755,593	207,514	6,790,046
Specific grants	3,166,506	22,357	2,960,481	969,233	-	420,391	53,760	7,592,728
OMPF grant	189,744	537,608	411,112	126,496	15,812	205,556	94,872	1,581,200
Other revenue	1,008,660	454,627	15,183	143,944	10,853	98,376	3,780	1,735,423
Transfers from obligatory reserve	5,228	248,302	136,677	1,118,469	-	818,998	17,339	2,345,013
	5,620,220	4,844,952	6,223,629	8,836,583	161,899	3,634,071	993,491	30,314,845
Expenses								
Salaries and benefits	2,324,410	1,655,866	738,825	1,417,202	35,693	1,376,000	511,988	8,059,984
Interest on debt	-	-	2,647	223,400	-	6,900	4,259	237,206
Materials and supplies	34,379	304,824	1,075,803	3,398,375	40,031	751,582	570,506	6,175,500
Contracted services	211,351	2,114,637	365,726	769,517	8,330	23,385	45,155	3,538,101
Other transfers	20,000	294,660	-	4,450	-	-	60,995	380,105
Rents and financial expenses	7,077	7,081	7,333	18,392	-	5,252	1,231	46,366
Amortization	5,601,053	-	-	-	-	-	-	5,601,053
	8,198,270	4,377,068	2,190,334	5,831,336	84,054	2,163,119	1,194,134	24,038,315
Annual surplus (deficit)	\$ (2,578,050)	\$ 467,884	\$ 4,033,295	\$ 3,005,247	\$ 77,845	\$ 1,470,952	\$ (200,643)	\$ 6,276,530

The Corporation of the Town of The Blue Mountains

Notes to Financial Statements

December 31

For the year ended December 31	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	2009 Total
Revenue								
Taxation	\$ 691,058	\$ 3,850,173	\$ 2,665,504	\$ 592,334	\$ 98,722	\$ 987,224	\$ 987,224	\$ 9,872,239
Fees and user charges	16,178	39,733	59,319	5,656,206	32,650	683,239	138,723	6,626,048
Specific grants	541,377	149,007	1,559,545	464,856	2,228	227,765	101,669	3,046,447
OMP grant	117,810	656,370	454,410	100,980	16,830	168,300	168,300	1,683,000
Other revenue	986,780	339,053	818,927	2,476,218	9,649	75,271	430	4,656,328
Transfers from obligatory reserve	292,050	166,966	419,353	724,520	-	705,351	-	2,308,240
	2,645,253	5,201,302	5,977,058	10,015,114	160,079	2,797,150	1,396,346	28,192,302
Expenses								
Salaries and benefits	2,113,680	1,279,617	738,426	1,796,028	36,101	1,258,970	493,422	7,716,244
Interest on debt	-	-	-	240,135	-	20,700	3,385	264,220
Materials and supplies	132,116	526,847	1,397,883	2,434,295	28,743	797,209	435,927	5,753,020
Contracted services	176,741	1,991,503	563,677	761,558	51,656	34,438	58,770	3,638,343
Other transfers	-	277,071	-	5,000	25,000	(13,750)	131,149	424,470
Rents and financial expenses	(18,244)	9,320	5,467	16,513	120	4,998	242	18,416
Amortization	5,122,086	-	-	-	-	-	-	5,122,086
	7,526,379	4,084,358	2,705,453	5,253,529	141,620	2,102,565	1,122,895	22,936,799
Annual surplus (deficit)	\$ (4,881,126)	\$ 1,116,944	\$ 3,271,605	\$ 4,761,585	\$ 18,459	\$ 694,585	\$ 273,451	\$ 5,255,503

**The Corporation of the Town of The Blue Mountains
Schedule of Deferred Revenue**

For the year ended December 31, 2010

	Opening	Contributions Received	Investment Income	Revenue Recognized	Ending
Obligatory Reserve Funds					
Development charges	\$ 752,376	\$ 2,085,571	\$ 5,178	\$(2,049,630)	\$ 793,495
Recreational land	619,340	649,984	5,596	(133,079)	1,141,841
Parking revenues	27,000	-	-	-	27,000
Federal Gas Tax	239,406	209,994	2,040	(162,305)	289,135
	<u>1,638,122</u>	<u>2,945,549</u>	<u>12,814</u>	<u>(2,345,014)</u>	<u>2,251,471</u>
Other					
Provincial grants	635,319	-	-	(405,659)	229,660
Hall deposits	500	100	-	-	600
Harbour deposits	10,719	-	-	(300)	10,419
Other	3,375	30,731	-	(100)	34,006
	<u>649,913</u>	<u>30,831</u>	<u>-</u>	<u>(406,059)</u>	<u>274,685</u>
	<u>\$ 2,288,035</u>	<u>\$ 2,976,380</u>	<u>\$ 12,814</u>	<u>\$(2,751,073)</u>	<u>\$2,526,156</u>

**The Corporation of the
Town of The Blue Mountains
Trust Funds
Financial Statements
For the year ended December 31, 2010**

The Corporation of the Town of The Blue Mountains
Trust Funds
For the year ended December 31, 2010

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The Corporation of the Town of The Blue Mountains Trust Funds

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the Town of The Blue Mountains

We have audited the accompanying financial information for the trust funds of the Town of The Blue Mountains, which comprise the balance sheet as at December 31, 2010, 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 this financial information in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial information presents fairly, in all material respects, the balance sheet for the trust funds of the Town of The Blue Mountains as at December 31, 2010 and the statement of continuity for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Owen Sound, Ontario
September 5, 2011

**The Corporation of the Town of The Blue Mountains
Trust Funds
Balance Sheet**

December 31, 2010

	Cemetery Care and Maintenance
Assets	
Cash	\$ 1,124
Investments (Note 2)	261,860
	\$ 262,984
Liabilities	
Due to Town	\$ 38
Fund balance	262,946
	\$ 262,984

Statement of Continuity

For the year ended December 31, 2010

	Cemetery Care and Maintenance
Balance, beginning of the year	\$ 258,403
Receipts	
Monument fees	600
Share of plot sales	3,896
Capital gains	10,528
	15,024
Expenses	
Contributions to cemetery	10,481
Balance, end of the year	\$ 262,946

The Corporation of the Town of The Blue Mountains
Notes to Financial Statements

December 31, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting

The financial information of the Corporation of the Town of The Blue Mountains Trust Funds are the representation of management. They have been prepared in accordance with accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ontario Ministry of Municipal Affairs and Housing except that tangible capital assets are expensed in the statement of continuity in the year of acquisition.

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

Use of Estimates

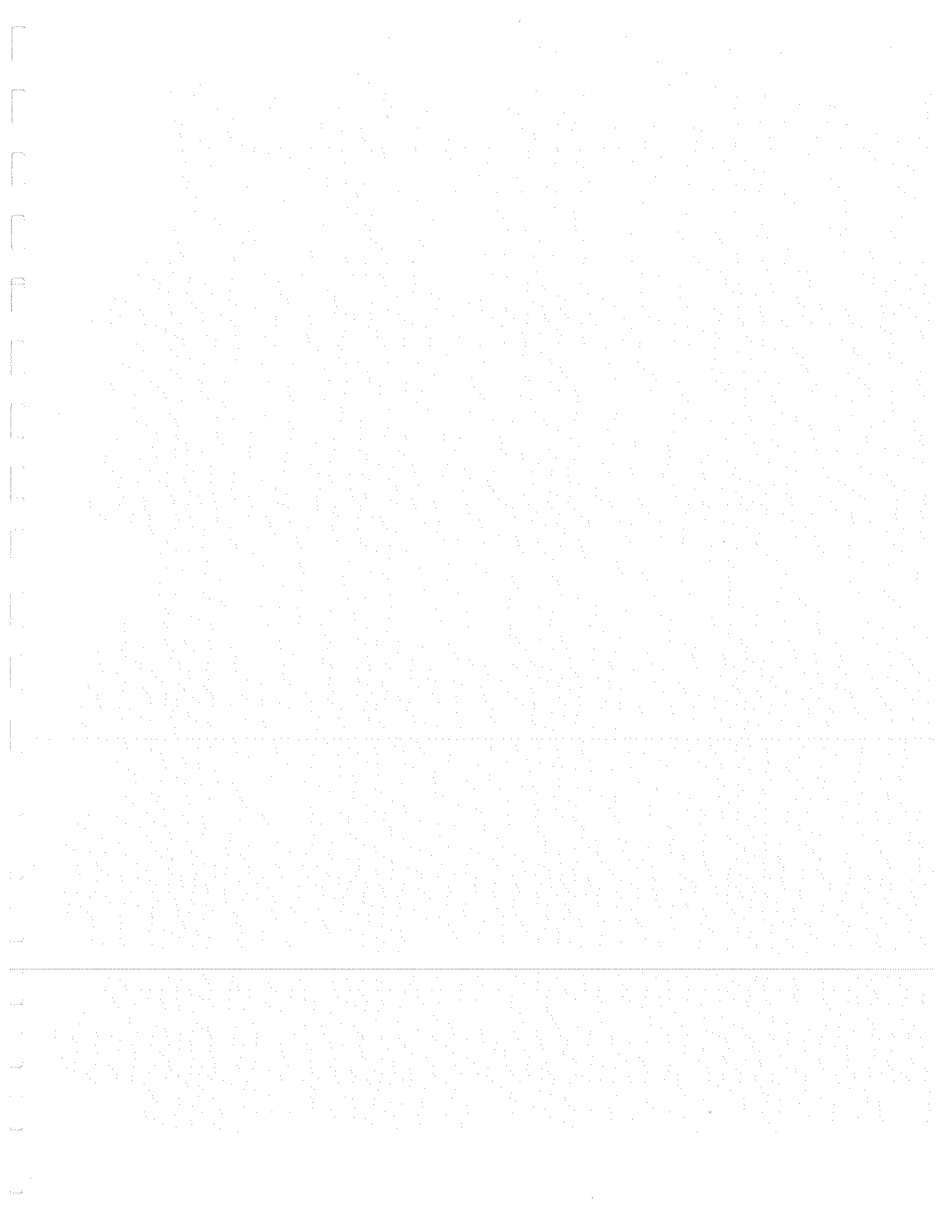
The preparation of financial information in accordance with Canadian public sector accounting standards requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of Consolidation

These trust funds have not been consolidated with the financial statements of the municipality.

2. Investments

The total investments of \$261,860 reported on the balance sheet at cost have a market value of \$247,724 at the end of the year.



The Corporation of the
Town of The Blue Mountains
Supplementary Financial Information
For the year ended December 31, 2010



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Auditor's Comments on Supplementary Financial Information

To the Members of Council, Inhabitants and Ratepayers
of the Corporation of the Town of The Blue Mountains

We have audited the consolidated financial statements of Corporation of the Town of The Blue Mountains, which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows, for the year then ended, and a summary of significant accounting policies and other explanatory information, and have issued our report thereon dated September 4, 2011 which contained an unmodified opinion on those consolidated financial statements. The audit was performed to form an opinion on the consolidated financial statements as a whole. The supplementary financial information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary financial information is the responsibility of management and was derived from the underlying accounting and other records used to prepare the consolidated financial statements.

The supplementary financial information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such supplementary information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

Restriction on Distribution and Use

The supplementary financial information is prepared to assist the Town's management to meet the requirements of the Ontario Ministry of Tourism and Culture. As a result, the supplementary financial information may not be suitable for another purpose. Our report is intended solely for the Town's management and the Ontario Ministry of Tourism and Culture and should not be distributed to or used by parties other than the Town's management or the Ontario Ministry of Tourism and Culture.

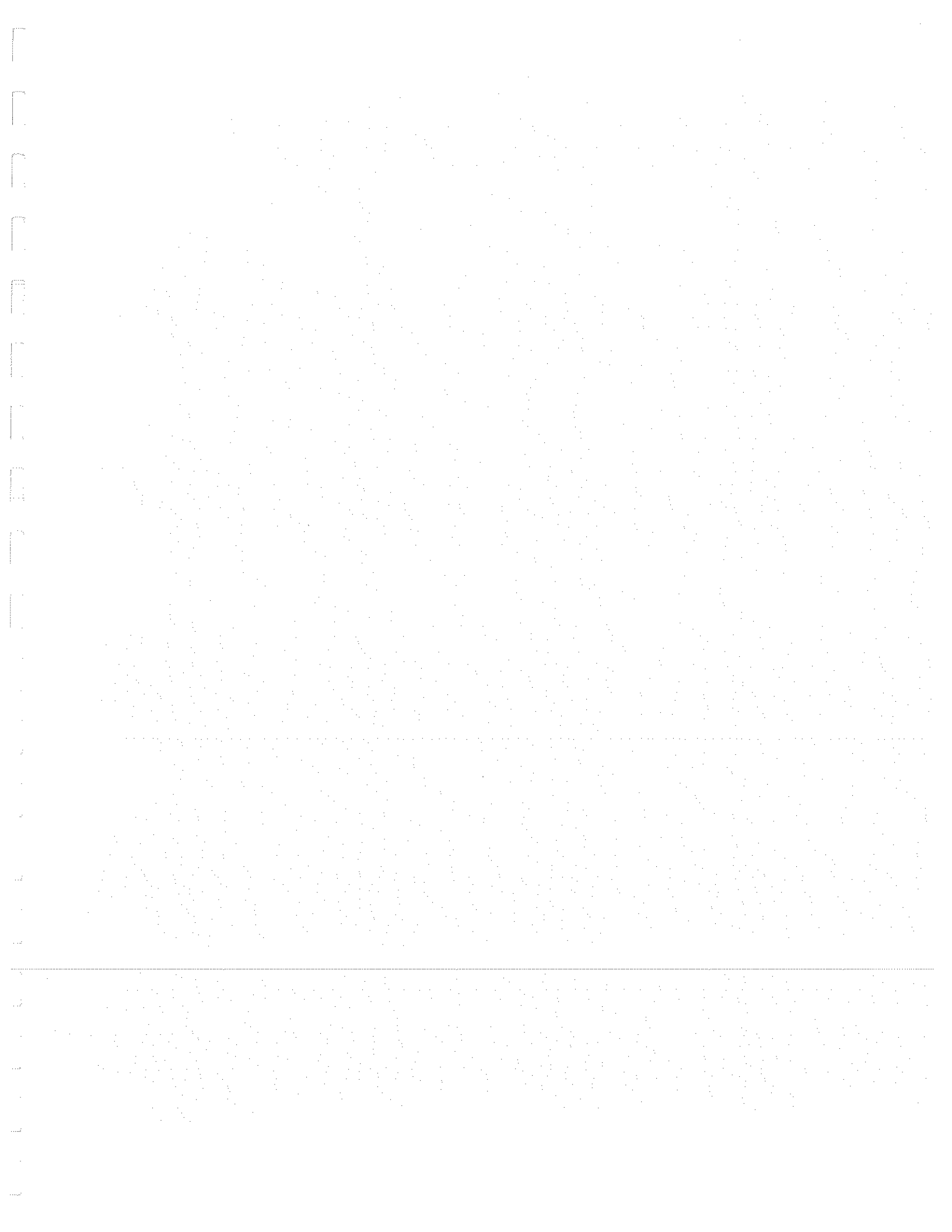
BDO Canada LLP

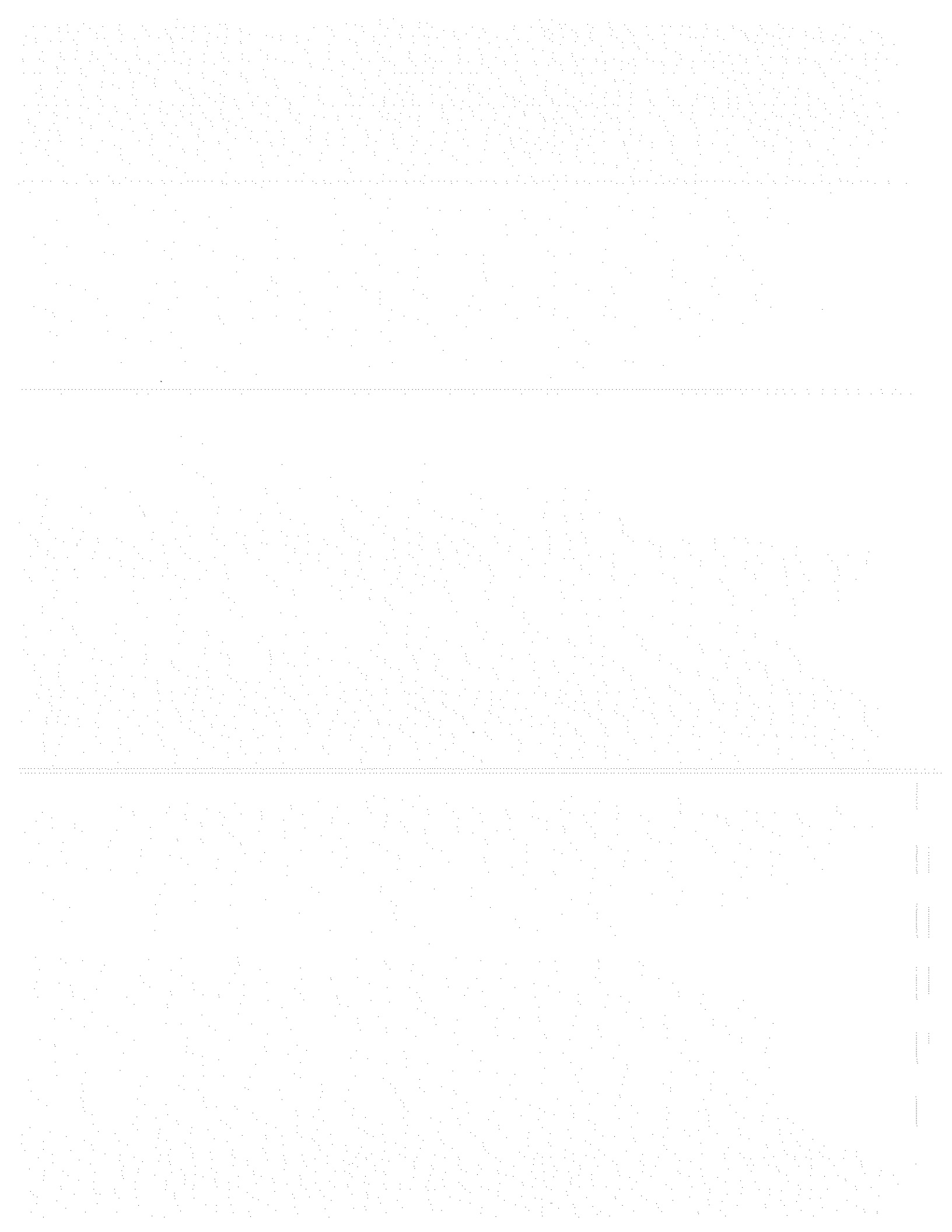
Chartered Accountants, Licensed Public Accountants

Owen Sound, Ontario
September 5, 2011

Corporation of the Town of The Blue Mountains
Museum Statement of Operations
(See Auditor's Comments on Supplementary Financial Information)

For the year ended December 31	2010	2009
Revenues		
Grants	\$ 27,638	\$ 5,022
Donations	1,328	29
Admission, program fees and memberships	2,663	7,141
Sundry	4,518	1,184
Rent	5,000	5,000
	<u>41,147</u>	<u>18,376</u>
Expenditures		
Exhibits and programs	3,345	6,497
Operating supplies	22,227	24,728
Maintenance of premises and utilities	13,129	17,556
Salaries and benefits	75,169	57,073
	<u>113,870</u>	<u>105,854</u>
Annual surplus (deficit)	(72,723)	(87,478)
Funded by the Town of The Blue Mountains	<u>72,723</u>	<u>87,478</u>
	<u>\$ -</u>	<u>\$ -</u>





**Town of The Blue Mountains
Library Board
Financial Statements
For the year ended December 31, 2010**

**Town of The Blue Mountains
Library Board
Financial Statements
For the year ended December 31, 2010**

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the Town of The Blue Mountains

We have audited the accompanying financial statements of the Town of The Blue Mountains Library Board, which comprise the statement of financial position as at December 31, 2010, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows 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 control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Town of The Blue Mountains Library Board as at December 31, 2010 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Owen Sound, Ontario
September 5, 2011

**Town of The Blue Mountains
Library Board
Statement of Financial Position**

<u>December 31</u>	<u>2010</u>	<u>2009</u>
Financial assets		
Temporary investments (Note 2)	\$ 82,190	\$ 81,654
Non financial assets		
Tangible capital assets (Note 3)	<u>2,021,454</u>	<u>2,158,110</u>
Accumulated surplus (Note 4)	<u>\$ 2,103,644</u>	<u>\$ 2,239,764</u>

**Town of The Blue Mountains
Library Board
Statement of Operations and Accumulated Surplus**

For the year ended December 31	2010	2010	2009
	Budget (Note 5)	Actual	Actual
Revenue			
Operating grants			
Province of Ontario	\$ 21,000	\$ 21,137	\$ 21,796
Government of Canada	2,500	1,972	1,710
Town of The Blue Mountains	473,877	484,400	513,437
Capital grants			
Provincial and other municipalities	-	27,085	10,200
Town of The Blue Mountains	64,183	36,876	265,100
Capital donations	-	8,643	2,162
Fundraising	2,500	4,515	4,730
Interest	-	683	577
Other	17,800	16,729	20,744
	<u>581,860</u>	<u>602,040</u>	<u>840,456</u>
Expenses			
Salaries and benefits	395,551	402,227	370,804
Administrative expenses	14,280	19,374	15,289
Operating expenses	2,625	2,678	3,144
Books and materials	3,800	3,835	3,110
Communications	11,460	13,294	11,352
Training and travel	6,500	2,431	7,250
Personnel	1,750	1,483	909
Utilities	23,250	23,698	24,735
Equipment expenses	15,400	7,482	17,855
Professional fees	3,950	92	3,410
Financial related expenses	8,699	9,166	7,857
Premises	29,635	24,740	24,663
Other	777	599	-
Replacement furniture and fixtures	-	-	96
Studies	-	-	16,500
Information technology	-	17,653	-
Amortization	-	209,408	228,633
	<u>517,677</u>	<u>738,160</u>	<u>735,607</u>
Annual surplus (deficit) (Note 5)	64,183	(136,120)	104,849
Accumulated surplus, beginning of the year	2,239,764	2,239,764	2,134,915
Accumulated surplus, end of the year	<u>\$ 2,303,947</u>	<u>\$2,103,644</u>	<u>\$ 2,239,764</u>

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

**The Corporation of the Town of The Blue Mountains
Library Board
Statement of Changes in Net Financial Assets**

<u>For the year ended December 31</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>
	Budget (Note 5)	Actual	Actual
Annual surplus (deficit)	\$ 64,183	\$ (136,120)	\$ 104,849
Acquisition of tangible capital assets	(64,183)	(72,752)	(326,365)
Amortization of tangible capital assets	-	209,408	228,633
	<u>(64,183)</u>	<u>136,656</u>	<u>(97,732)</u>
Increase in net financial assets	-	536	7,117
Net financial assets, beginning of year	<u>81,654</u>	<u>81,654</u>	<u>74,537</u>
Net financial assets, end of year	<u>\$ 81,654</u>	<u>\$ 82,190</u>	<u>\$ 81,654</u>

**Town of The Blue Mountains
Library Board
Statement of Cash Flows**

For the year ended December 31	2010	2009
Cash provided by (used in)		
Operating activities		
Annual surplus (deficit)	\$ (136,120)	\$ 104,849
Items not involving cash		
Amortization	<u>209,408</u>	<u>228,633</u>
	73,288	333,482
Changes in non-cash working capital balances		
Temporary investments	<u>(536)</u>	<u>(7,117)</u>
	72,752	326,365
Capital transactions		
Cash used to acquire capital assets	<u>(72,752)</u>	<u>(326,365)</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

**The Corporation of the Town of The Blue Mountains
Library Board
Notes to the Financial Statements**

December 31, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting The financial statements of the Town of The Blue Mountains Library Board are the representation of management prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ministry of Municipal Affairs and Housing.

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

Use of Estimates Precise determination of some assets and liabilities may be dependent upon future events and estimates and approximations. These estimates and approximations have been based upon the available information, using careful judgment and review. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of Consolidation The Library Board has been consolidated with the financial statements of the Corporation of the Town of The Blue Mountains.

Tangible Capital Assets Tangible capital assets are recorded at cost less accumulated amortization. Costs include all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Amortization is provided over the estimated useful life of the assets, using the straight-line method. The useful life of the assets is based on estimates made by Council. The following rates are used:

Buildings	50 years
Land improvements	10 to 50 years
Library collections	7 years
Machinery, equipment and vehicles	5 to 20 years

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

The Corporation of the Town of The Blue Mountains
Library Board
Notes to the Financial Statements

December 31, 2010

1. Summary of Significant Accounting Policies - (continued)

Revenue Recognition	Revenues are reported on the accrual basis of accounting and are recognized as follows:
	a) Grants are recorded as revenue when corresponding expenses have been incurred in accordance with the grant applications.
	b) Fines are recognized when received.
	c) All other revenues are recorded upon sale of goods or provision of services and when collection is reasonably assured.

2. Temporary Investments

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ 82,190	\$ 81,654

Investments have a market value of \$82,190 (2009 - \$81,654) at the end of the year.

3. Tangible Capital Assets

	<u>2010</u>		<u>2009</u>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 756,487	\$ -	\$ 756,487	\$ -
Land improvements	250,014	51,539	250,014	38,324
Buildings	1,077,267	497,575	1,077,267	465,383
Library collections	1,496,048	1,201,644	1,456,819	1,037,643
Machinery, equipment and vehicles	305,343	112,947	271,820	112,947
	<u>\$ 3,885,159</u>	<u>\$ 1,863,705</u>	<u>\$ 3,812,407</u>	<u>\$ 1,654,297</u>
Net book value		<u>\$ 2,021,454</u>		<u>\$ 2,158,110</u>

**The Corporation of the Town of The Blue Mountains
Library Board
Notes to the Financial Statements**

December 31, 2010

4. Accumulated Surplus

The organization segregates its accumulated surplus in the following categories:

	<u>2010</u>	<u>2009</u>
Invested in capital assets	\$ 2,021,454	\$ 2,158,110
Reserves	<u>82,190</u>	<u>81,654</u>
Accumulated surplus	<u>\$ 2,103,644</u>	<u>\$ 2,239,764</u>

5. Budgets

The budget adopted by the Board was not prepared on a basis consistent with that used to report actual results (Canadian Public Sector Accounting Standards). The budget was prepared on a modified accrual basis while Canadian Public Sector Accounting Standards now require a full accrual basis. The budget figures anticipated the use of reserves accumulated in previous years to reduce current year expenditures in excess of revenues to \$Nil. In addition, the budget expensed all tangible capital expenditures rather than including amortization expense. The following is a reconciliation of the budget approved by the Board. The budget figures have not been audited.

	<u>2010 Budget</u>	<u>2010 Actual</u>	<u>2009 Actual</u>
Annual surplus (deficit)	\$ 64,183	\$ (136,120)	\$ 104,849
Transfers (to) from reserves	-	(536)	4,673
Capital acquisitions	(64,183)	(72,752)	(326,365)
Amortization	-	209,408	228,633
Capital acquisitions not financed (funded)	-	-	(11,790)
Operating surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>