

**The Corporation of the
Town of Shelburne
Financial Statements
For the year ended December 31, 2012**

The Corporation of the Town of Shelburne
Financial Statements
For the year ended December 31, 2012

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Independent Auditor's Report

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

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal 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 Shelburne as at December 31, 2012 and the results of its operations and accumulated surplus, change in net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Orangeville, Ontario

May 8, 2013

The Corporation of the Town of Shelburne Consolidated Statement of Financial Position

December 31	2012	2011
Assets and Liabilities		
Financial Assets		
Cash (Note 1)	\$ 3,158,025	\$ 2,618,534
Temporary investments (Note 2)	68,564	147,945
Taxes receivable	730,028	809,900
Trade and other receivable	1,167,428	1,062,046
Long-term receivables	6,528	9,780
	<u>5,130,573</u>	<u>4,648,205</u>
Liabilities		
Temporary borrowings (Note 3)	1,071,948	1,071,948
Accounts payable and accrued liabilities	1,462,448	2,028,048
Deferred revenue (Note 4)	1,410,979	1,187,749
Long-term liabilities (Note 5)	4,006,626	2,897,691
Landfill site closure and post-closure liability (Note 6)	528,012	297,560
	<u>8,480,013</u>	<u>7,482,996</u>
Net financial assets (liabilities)	(3,349,440)	(2,834,791)
Non-Financial Assets		
Inventory of supplies	59,480	37,051
Prepays	1,697	92,117
Tangible capital assets (Note 7)	50,791,875	46,764,788
Accumulated surplus (Note 8)	\$ 47,503,612	\$ 44,059,165
Contingent Liabilities (Note 19)		

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

The Corporation of the Town of Shelburne

Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	2012 Budget	2012 Actual	2011 Actual
Revenue			
Taxation	\$ 4,359,298	\$ 4,354,885	\$ 4,259,119
Fees and user charges	2,525,350	2,679,825	2,412,383
Grants (Note 14)	2,350,860	1,424,182	1,785,616
Other income (Note 12)	219,222	3,628,176	239,105
Development charges and gas tax revenue recognized	870,266	860,381	532,011
	<u>10,324,996</u>	<u>12,947,449</u>	<u>9,228,234</u>
Expenses			
General government	1,258,783	1,221,595	1,289,672
Protection services	1,968,139	2,080,099	1,926,082
Transportation services	1,186,006	1,498,108	1,481,482
Environmental services	1,647,651	2,877,552	2,081,142
Health services	80,700	57,981	78,428
Recreation and cultural services	1,063,460	1,394,171	1,612,023
Planning and development	290,488	368,860	238,082
	<u>7,495,227</u>	<u>9,498,366</u>	<u>8,706,911</u>
	2,829,769	3,449,083	521,323
Restatement of opening surplus (Note 22)	<u>-</u>	<u>(4,636)</u>	<u>(2,132)</u>
Annual surplus	2,829,769	3,444,447	519,191
Accumulated surplus, beginning of year	<u>44,059,165</u>	<u>44,059,165</u>	<u>43,539,974</u>
Accumulated surplus, end of year	<u>\$ 46,888,934</u>	<u>\$ 47,503,612</u>	<u>\$ 44,059,165</u>

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

The Corporation of the Town of Shelburne Consolidated Statement of Changes in Net Debt

For the year ended December 31	2012	2012	2011
	Budget	Actual	Actual
Annual surplus	\$ 2,829,769	\$ 3,444,447	\$ 519,191
Acquisition of tangible capital assets	(3,097,936)	(5,707,339)	(2,144,087)
Amortization of tangible capital assets	-	1,680,252	1,499,972
(Gain) loss on sale of tangible capital assets	-	(79,168)	45,336
Proceeds on disposal of capital assets	-	79,168	13,542
	<u>(3,097,936)</u>	<u>(4,027,087)</u>	<u>(585,237)</u>
Change in prepaids	-	90,420	(68,887)
Change in inventory of supplies	-	(22,429)	3,813
	<u>-</u>	<u>67,991</u>	<u>(65,074)</u>
Increase (decrease) in net financial assets	(268,167)	(514,649)	(131,120)
Net financial assets (liabilities), beginning of the year	(2,834,791)	(2,834,791)	(2,703,671)
Net financial assets (liabilities), end of the year	<u>\$ (3,102,958)</u>	<u>\$ (3,349,440)</u>	<u>\$ (2,834,791)</u>

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

The Corporation of the Town of Shelburne Consolidated Statement of Cash Flows

For the year ended December 31

2012

2011

Cash provided by (used in)

Operating activities

Annual surplus	\$ 3,444,447	\$ 519,191
Items not involving cash		
Landfill site closure and post-closure liability	230,452	(80,427)
Amortization	1,680,252	1,499,972
Change in prepaids	90,420	(68,887)
(Gain) loss on sale of tangible capital assets	(79,168)	45,336
Change in inventory of supplies	(22,429)	3,813
Income from contribution of tangible capital assets	(3,286,209)	-
	<u>2,057,765</u>	<u>1,918,998</u>
Change in non-cash working capital balances		
Decrease (increase) in taxes receivable	79,872	(10,495)
Decrease (increase) in trade and other receivable	(105,382)	209,983
Increase (decrease) in accounts payable and accrued liabilities	(565,600)	491,412
Increase in deferred revenue	223,230	547,804
Decrease (increase) in long-term receivables	3,252	(2,280)
	<u>1,693,137</u>	<u>3,155,422</u>

Capital transactions

Cash used to acquire tangible capital assets	(2,421,130)	(2,144,087)
Proceeds on sale of tangible capital assets	79,168	13,542
	<u>(2,341,962)</u>	<u>(2,130,545)</u>

Financing activities

Net repayments of long-term liabilities	(132,011)	(243,546)
Proceeds from debt issued	1,240,946	471,948
	<u>1,108,935</u>	<u>228,402</u>

Net change in cash and cash equivalents

460,110 1,253,279

Cash and cash equivalents, beginning of year

2,766,479 1,513,200

Cash and cash equivalents, end of year

\$ 3,226,589 \$ 2,766,479

Cash and cash equivalents comprised of:

Cash	\$ 3,158,025	\$ 2,618,534
Temporary investments	68,564	147,945
	<u>\$ 3,226,589</u>	<u>\$ 2,766,479</u>

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

The Corporation of the Town of Shelburne

Summary of Significant Accounting Policies

December 31, 2012

Management Responsibility

The consolidated financial statements of The Corporation of the Town of Shelburne are the representations 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.

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 boards and municipal enterprises owned or controlled by Council have been consolidated:

Town of Shelburne Public Library Board
Town of Shelburne Business Improvement Area
Centre Dufferin Recreation Complex
Shelburne and District Fire Department (proportionate -
49.10%, 2011 - 49.50%)

Basis of Accounting

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

Financial Instruments

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

The Corporation of the Town of Shelburne Summary of Significant Accounting Policies

December 31, 2012

**Financial Instruments
(continued)**

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

Cash and Cash Equivalents

The Town considers all short term, highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 which includes 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 asset, using the straight-line method. The useful life of the assets is based on estimates made by Council. The following useful lives are used:

Roads and Bridges	10 - 50 years
Land Improvements	15 - 60 years
Water and Sewer Systems	10 - 100 years
Buildings	15 - 100 years
Vehicles	3 - 15 years
Equipment	5 - 50 years

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

Non-Financial Assets

Non-financial assets have useful lives that extend beyond the current year and are not intended for sale in the ordinary course of business.

Deferred Revenue

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

The Corporation of the Town of Shelburne Summary of Significant Accounting Policies

December 31, 2012

Revenue Recognition

Fees and user charges are recognized when the related service is provided.

Contributions are recognized based on the terms of the grant or the year that the related expenses occur.

Other income is recognized when receivable.

Taxation and Related Revenues

Property tax billings are prepared by the Town based on assessment rolls issued by the Municipal Property Assessment Corporation. Tax rates are established annually by Town Council, incorporating amounts to be raised for local services. A normal part of the assessment process is the issue of supplementary assessment rolls, which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the Town determines the taxes applicable and renders supplementary tax billings. Taxation revenues are recorded at the time tax billings are issued. Assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known.

The Town is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are levied.

County and School Boards

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

Trust Funds

Funds held in trust by the municipality, and their related operations, are not included in these consolidated financial statements. The financial activity and position of the trust funds are reported separately on the trust funds statement of continuity and balance sheet.

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

1. Cash

The Town's bank and savings accounts are held at one financial institution. All accounts earn interest at the bank's prime rate less 1.85%.

2. Temporary Investments

	<u>2012</u>	<u>2011</u>
Cashable guaranteed investment certificates earning 0.8% (2011 - 0.75% - 1%), maturing October 22, 2013 (2011 - July 5, 2012 - October 22, 2012).	<u>\$ 68,564</u>	<u>\$ 147,945</u>

Investments have a market value of \$68,564 (2011 - \$147,945) at the end of the year.

3. Temporary Borrowings

	<u>2012</u>	<u>2011</u>
Interim construction financing, Ontario Infrastructure Projects Corporation (OIPC) for water meters and the new well water source. Interest is calculated at OIPC's cost of funds plus OIPC's prevailing spread with interest payable monthly, with no pre-determined date of repayment. The Town of Shelburne has been approved for financing up to \$5,079,345. Repayment terms of principal and interest will be determined upon completion of the water meters and new well water source projects.	<u>\$ 1,071,948</u>	<u>\$ 1,071,948</u>

At December 31, 2012, the municipality had undrawn credit capacity under an operating loan facility of approximately \$500,000 with interest at the bank's prime rate less 0.75%.

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

4. Deferred Revenue

	<u>2012</u>	<u>2011</u>
Obligatory reserve funds		
Development charges	\$ 1,388,537	\$ 1,169,722
Recreational land	-	247
Other		
Deferred police revenue	17,500	17,500
Deferred recreation revenue	<u>4,942</u>	<u>280</u>
	<u>\$ 1,410,979</u>	<u>\$ 1,187,749</u>

The net change during the year in the obligatory reserve fund balances is made up as follows:

	<u>Development Charges</u>	<u>Recreational Land</u>	<u>Federal Gas Tax</u>
Obligatory reserve fund, beginning of year	\$ 1,169,722	\$ 247	\$ -
Restricted funds received during the year	910,732	-	157,945
Interest earned	10,197	-	75
Expenses recognized during the year	<u>(702,114)</u>	<u>(247)</u>	<u>(158,020)</u>
Obligatory reserve fund, end of year	<u>\$ 1,388,537</u>	<u>\$ -</u>	<u>\$ -</u>

The Corporation of the Town of Shelburne

Notes to Financial Statements

December 31, 2012

5. Long-Term Liabilities

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

	<u>2012</u>	<u>2011</u>
Capital lease for various fire communication equipment, payable \$406 monthly, due June 2013.	\$ 997	\$ 3,417
Long-term capital financing, Ontario Strategic Infrastructure Financing Authority (OSIFA), 2.67%, payable \$56,751 principal and interest semi-annually, due July 2026.	1,318,576	1,395,330
Long-term capital financing, Ontario Infrastructure Projects Corporation (OIPC), 4.21%, payable \$57,696 principal and interest semi-annually, due December 2030.	1,446,107	1,498,944
Long-term capital financing, Ontario Infrastructure and Land Corporation (OILC), 2.11%, payable \$131,409 principal and interest semi-annually, due November 2017.	1,240,946	-
	<u>\$ 4,006,626</u>	<u>\$ 2,897,691</u>

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

2013	\$ 372,781
2014	381,291
2015	391,063
2016	401,086
2017	411,429
Thereafter	2,048,976

Interest expense in the amount of \$123,595 (2011 - \$104,921) has been recognized on the consolidated statement of operations and accumulated surplus.

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

6. Landfill Site Closure and Post-Closure Liability

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

The Town of Shelburne has estimated the closure and post-closure liability to be \$528,012 at December 31, 2012. The liability was estimated based upon current monitoring costs of \$13,000 annually inflated at a rate of 1.22% per year and discounted at a rate of 3.45% for an indefinite period. The post closure care period has been assumed to be indefinite with the Town currently working with the Ministry of the Environment to reduce monitoring costs and monitoring period.

The Corporation of the Town of Shelburne
Notes to Financial Statements

December 31, 2012

7. Tangible Capital Assets

	2012						
	Land	Land Improvements	Buildings	Vehicles	Equipment	Roads and Bridge	Water and Sewer System
Cost, beginning of year	\$ 3,550,893	\$ 1,705,859	\$ 20,757,845	\$ 2,017,094	\$ 2,895,050	\$ 11,113,894	\$ 22,047,503
Additions	-	993,365	301,125	458,015	150,933	1,119,431	2,684,470
Disposals	-	-	-	(42,678)	(12,289)	-	-
Cost, end of year	3,550,893	2,699,224	21,058,970	2,432,431	3,033,694	12,233,325	24,731,973
Accumulated amortization, beginning of year	-	548,026	5,446,347	936,424	1,703,981	3,888,764	4,799,808
Amortization	-	64,024	652,718	188,831	180,234	282,760	311,685
Disposals	-	-	-	(42,678)	(12,289)	-	-
Accumulated amortization, end of year	-	612,050	6,099,065	1,082,577	1,871,926	4,171,524	5,111,493
Net carrying amount, end of year	\$ 3,550,893	\$ 2,087,174	\$ 14,959,905	\$ 1,349,854	\$ 1,161,768	\$ 8,061,801	\$ 19,620,480
							\$ 50,791,875

The Corporation of the Town of Shelburne
Notes to Financial Statements

December 31, 2012

7. Tangible Capital Assets (continued)

	Land	Land	Buildings	Vehicles	Equipment	Roads and	Water and	2011
	Improvements	Improvements				Bridge	Sewer System	Total
Cost, beginning of year	\$ 1,675,134	\$ 1,675,134	\$ 20,730,254	\$ 1,967,208	\$ 2,687,494	\$ 10,817,312	\$ 21,037,788	\$ 62,433,677
Additions	32,406	30,725	27,591	344,161	216,995	392,330	1,099,879	2,144,087
Disposals	-	-	-	(294,275)	(9,439)	(95,748)	(90,164)	(489,626)
Cost, end of year	3,550,893	1,705,859	20,757,845	2,017,094	2,895,050	11,113,894	22,047,503	64,088,138
Accumulated amortization, beginning of year	-	492,329	4,878,667	1,075,319	1,537,211	3,719,441	4,551,159	16,254,126
Amortization	-	55,697	567,680	145,025	172,768	242,783	316,019	1,499,972
Disposals	-	-	-	(283,920)	(5,998)	(73,460)	(67,370)	(430,748)
Accumulated amortization, end of year	-	548,026	5,446,347	936,424	1,703,981	3,888,764	4,799,808	17,323,350
Net carrying amount, end of year	\$ 3,550,893	\$ 1,157,833	\$ 15,311,498	\$ 1,080,670	\$ 1,191,069	\$ 7,225,130	\$ 17,247,695	\$ 46,764,788

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

7. Tangible Capital Assets (continued)

The net book value of tangible capital assets not being amortized because they are under construction (or development or have been removed from service) is \$614,719 (2011 - \$1,759,787).

\$3,286,209 (2011 - 0) in contributed infrastructure capital assets were recognized as tangible capital asset additions in the consolidated financial statements during the year.

The municipality holds various works of art at the Town Hall gallery. These items are not recorded as assets in the consolidated financial statements.

\$11,513 in interest was capitalized to tangible capital assets during the year.

8. Accumulated Surplus

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

	2012	2011
Investment in Tangible Capital Assets		
Tangible capital assets purchased	\$ 50,791,875	\$ 46,764,788
Capital assets financed by long-term liabilities, to be funded in future years	(4,006,625)	(2,897,692)
	<u>46,785,250</u>	<u>43,867,096</u>
General surplus	-	57,763
Incomplete capital projects awaiting financing	(870,418)	(1,161,472)
Library	107,863	112,739
Centre Dufferin Recreation Complex	96,810	24,173
Business improvement area	19,068	18,723
Fire	26,366	26,166
Unfunded solid waste closure and post-closure costs	(528,012)	(297,560)
	<u>(1,148,323)</u>	<u>(1,219,468)</u>
	45,636,927	42,647,628
Reserves and reserve funds (Note 9)	<u>1,866,685</u>	<u>1,411,537</u>
Accumulated surplus	<u>\$ 47,503,612</u>	<u>\$ 44,059,165</u>

During the year, \$136,447 (2011 - \$4,035) was transferred to the contingencies reserve from operating, as approved by Council.

The Corporation of the Town of Shelburne
Notes to Financial Statements

December 31, 2012

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

	<u>2012</u>	<u>2011</u>
Reserves		
Contingencies	\$ 362,573	\$ 363,595
Current purposes	345,265	300,238
Capital purposes	<u>1,104,768</u>	<u>408,639</u>
	<u>1,812,606</u>	<u>1,072,472</u>
Reserve funds		
Current purposes	21,282	21,014
Capital purposes	<u>32,797</u>	<u>318,051</u>
	<u>54,079</u>	<u>339,065</u>
Reserves and reserve funds set aside for specific purpose by Council	<u>\$ 1,866,685</u>	<u>\$ 1,411,537</u>

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

10. Budgets

The budget figures anticipated the use of reserves accumulated in previous years to reduce current year expenses in excess of revenues to \$Nil. In addition, the budget expensed all tangible capital expenses rather than including amortization expense.

The budget adopted by Council was not prepared on a basis consistent with that used to report actual results (public sector accounting standards). The budget was prepared on a modified accrual basis while public sector accounting standards now require a full accrual basis. The following is a reconciliation of the budget approved by Council.

	2012 Budget	2012 Actual	2011 Actual
Annual surplus (Page 4)	\$ 2,829,769	\$ 3,444,447	\$ 519,191
Amortization	-	1,680,252	1,499,972
Change in unfunded liabilities	-	230,452	(80,427)
Change in other surpluses	-	(68,306)	(60,498)
	2,829,769	5,286,845	1,878,238
Net transfers (to) from reserves	(428,816)	(455,149)	352,448
Capital acquisitions less disposals and write-down	(3,097,936)	(5,707,339)	(2,085,209)
Capital projects not funded	-	1,108,934	(243,545)
Prior year capital projects (funded) expended	-	(291,054)	(22,617)
Proceeds from long-term debt	833,314	-	-
Debt principal repayments	(239,362)	-	-
	(103,031)	(57,763)	(120,685)
Prior year general surplus	103,031	57,763	178,448
General surplus (deficit) (Note 8)	\$ -	\$ -	\$ 57,763

The Corporation of the Town of Shelburne

Notes to Financial Statements

December 31, 2012

11. Financial Instrument Risk Management

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk arising from its bank balance and trade and other receivable. The majority of the organization's receivables are from customers in the same geographic area. Bank balance is held in bank accounts at one financial institution in excess of CDIC deposit insurance limits.

Liquidity Risk

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the variable rate of temporary borrowings.

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

12. Other Income

	2012	2012	2011
	Budget	Actual	Actual
Penalties and interest on taxation	\$ 110,000	\$ 113,949	\$ 111,621
Investment income	28,322	38,403	32,306
Rents, concessions and franchises	4,600	9,494	8,546
Donations	18,300	52,954	67,369
Contributed tangible capital assets	-	3,286,209	-
Gain (loss) on sale of assets	3,000	4,168	(45,336)
Other contributions	-	75,000	-
Other	55,000	47,999	64,599
	<u>\$ 219,222</u>	<u>\$ 3,628,176</u>	<u>\$ 239,105</u>

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

13. Government Business Partnerships

The following summarizes the financial position and operations of the government business partnerships which have been reported in these consolidated financial statements using the modified equity method:

Shelburne & District Fire Department

Shelburne & District Fire Department is a joint fire board under the shared control of the Town of Shelburne, the Township of Amaranth, the Township of Melancthon, the Town of Mono and the Township of Mulmur. The consolidated financial statements include the municipality's 49.1% (2011 - 49.5%) proportionate interest of the following:

	<u>2012</u>	<u>2011</u>
Financial assets	\$ 260,265	\$ 704,572
Liabilities	<u>142,678</u>	<u>27,331</u>
Net financial assets	117,587	677,241
Non financial assets	<u>1,201,855</u>	481,818
Accumulated surplus	<u>\$ 1,319,442</u>	<u>\$ 1,159,059</u>
Revenues	\$ 878,295	\$ 464,726
Expenses	<u>717,812</u>	<u>371,916</u>
Annual surplus	<u>\$ 160,483</u>	<u>\$ 92,810</u>

The Corporation of the Town of Shelburne

Notes to Financial Statements

December 31, 2012

14. Grants

	Budget	2012	2011
Operating			
Province of Ontario			
Ontario Municipal Partnership Fund (OMPF)	\$ 926,600	\$ 1,031,200	\$ 1,004,300
Conditional - Roads	5,700	5,180	6,425
- Other	153,945	168,009	204,361
	<u>1,086,245</u>	<u>1,204,389</u>	<u>1,215,086</u>
Government of Canada			
Conditional - Other	22,750	15,207	11,458
Other Municipalities			
Conditional - Other	188,139	189,642	197,227
Total operating grants	<u>1,297,134</u>	<u>1,409,238</u>	<u>1,423,771</u>
Tangible Capital Asset			
Province of Ontario			
Conditional - Recreation	-	-	92,489
- Sewer and water	1,053,726	4,944	147,892
- Other	-	10,000	28,975
	<u>1,053,726</u>	<u>14,944</u>	<u>269,356</u>
Government of Canada			
Conditional - Recreation	-	-	92,489
Total tangible capital asset grants	<u>1,053,726</u>	<u>14,944</u>	<u>361,845</u>
Total grants	<u>\$ 2,350,860</u>	<u>\$ 1,424,182</u>	<u>\$ 1,785,616</u>

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

15. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 30 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2012 was \$188,973 (2011 - \$172,459) for current service. The contribution rate for 2012 was 8.3% to 13.9% depending on age and level of income (2011 - 7.4% to 14.1%).

OMERS is a multi-employer pension plan, therefore any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the municipality does not recognize any share of the OMERS pension surplus or deficit. The last available report for the OMERS plan was December 31, 2012. At that time the plan reported a \$9.9 billion actuarial deficit (2011 - \$7.3 billion deficit), based on actuarial liabilities of \$69.1 billion (2011 - \$64.5 billion) and actuarial assets of \$59.2 billion (2011 - \$57.2 billion). Ongoing adequacy of the current contribution rates will need to be monitored and the recent severe decline in the financial markets may lead to increased future funding requirements.

16. Operations of School Boards and the County of Dufferin

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

	2012	2011
School boards	\$ 1,771,460	\$ 1,891,793
County of Dufferin	2,180,322	2,187,112
	<u>\$ 3,951,782</u>	<u>\$ 4,078,905</u>

17. Trust Funds

The trust funds administered by the municipality amounting to \$328,139 (2011 - \$304,361) have not been included in the consolidated statement of financial position nor have the operations been included in the consolidated statement of operations and accumulated surplus.

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

18. Contractual Commitments

The Town of Shelburne has entered into the following contracts:

- a) A three-year contract for the treatment and maintenance of the Shelburne Water Supply and operations and maintenance of the Shelburne Waste Water Treatment, at an approximate cost of \$492,675 per year, beginning January 1, 2011, with the annual cost adjusted by the CPI index and any new costs impacted by new regulations.

The Town of Shelburne has committed to spend approximately \$93,000 on capital projects in 2013 and beyond on various administration and environmental services capital projects.

19. Contingencies

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 the settlement of these appeals will be recorded in the fiscal year in which they can be determined.

The Town has been served with various claims as a result of accidents and other incidents. The Town is not aware of any possible settlements in excess of its liability insurance coverage. The outcomes of these claims are not determinable at this time. Should any liability be determined and not covered by insurance, it will be recognized in the period when determined.

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

20. Subsequent Event

Subsequent to year end, the Town received \$1,071,948.18 in long-term borrowing from the Ontario Infrastructure and Lands Corporation (OILC) for the new well and universal water metering program. Interest is repayable at 3.43% per annum. It is repayable in semi-annual instalments of blended principal and interest totaling \$37,254, due April 2033.

21. Financial Instruments

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

22. Restatement of Opening Surplus

In the current year, the Town's percentage share of operations of the Shelburne Fire Department decreased to 49.1% (2011 - 49.5%). As a result of the decrease in ownership, there has been a restatement of opening accumulated surplus of (\$4,636) (2011 - (\$2,132)).

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

23. Segmented Information

The Corporation of the Town of Shelburne is a diversified municipal government institution that provides a wide range of services to its citizens such as police, fire, environmental, planning, community, and water services. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

Community Services

This service area provides services meant to improve the health and development of the municipality's citizens. Recreational programs and cultural programs like swimming and skating lessons are provided at the recreation complex. Also, the municipality provides library services to assist with its citizens' informational needs.

Environmental

Environmental services consists of providing waste disposal to citizens.

Health

Health services are comprised of public health services which works to improve the overall health of the population and overcome health inequalities by providing services to individuals and communities. Also, the municipality provides cemetery services including cemetery maintenance and care.

Planning and Development

This department provides a number of services including town planning, maintenance and enforcement of building and construction codes and review of all property development plans through its application process. This department also includes the economic development committee and the downtown business improvement area.

Protection to Persons and Property

Protection is comprised of police services, fire protection and bylaw enforcement. The police services works to ensure the safety and protection of the citizens and their property. The fire department is responsible for providing fire suppression services, fire prevention programs, training, and education. The by-law enforcement department works to ensure that citizens and their property are protected by ensuring the Town's bylaws are being adhered to.

Transportation

Transportation is responsible for providing the municipality with road maintenance, winter control services, street light maintenance, parking lots, and equipment maintenance.

Water and Waste Water

This service provides the municipality's drinking water. They process and clean sewage and ensure the municipality's water system meets all Provincial standards.

The Corporation of the Town of Shelburne Notes to Financial Statements

December 31, 2012

23. Segmented Information (continued)

General Government

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The revenues and expenses and equity in government business enterprises and government business partnerships that are directly attributable to a particular segment are allocated to that segment. Amounts that are directly attributable to a number of segments 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
net surplus for the year.

OMPF Grant

allocated to segments based on the net
surplus for the year.

The Corporation of the Town of Shelburne

Notes to Financial Statements

December 31, 2012

23. Segmented Information (continued)

For the year ended December 31 Revenue	General Government	Protection Services	Transportation Services	Sewer and Water	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	2012 Total
Taxation	\$ 1,480,661	\$ 2,656,479	\$ 43,549	\$ (1,829,052)	\$ 914,526	\$ 43,549	\$ 609,684	\$ 435,489	\$ 4,354,885
Fees and user charges	78,678	130,888	15,498	1,788,476	958	33,671	541,083	90,573	2,679,825
Specific grants	45,000	79,081	5,180	4,944	46,669	-	212,108	-	392,982
OMPF grant	350,608	629,032	10,312	(433,104)	216,552	10,312	144,368	103,120	1,031,200
Other revenue	146,809	135,820	1,459,476	1,612,242	4,070	5,349	261,231	3,179	3,628,176
Obligatory reserve fund revenue recognized	-	-	158,021	702,113	-	-	247	-	860,381
	2,101,756	3,631,300	1,692,036	1,845,619	1,182,775	92,881	1,768,721	632,361	12,947,449
Expenses									
Salaries and benefits	803,166	1,609,909	527,343	77,581	7,816	34,803	602,850	31,389	3,694,857
Interest on debt	-	-	3,327	138,306	-	-	-	-	141,633
Materials and supplies	257,775	302,522	523,554	608,419	270	22,282	447,431	59,390	2,221,643
Contracted services	84,688	1,927	105,931	636,556	634,603	-	148,099	282,481	1,894,285
Other transfers	-	33,328	-	-	-	-	(165,619)	(4,400)	(136,691)
Rents and financial expenses	2,385	-	-	-	-	-	-	-	2,385
Amortization	73,581	132,413	337,953	774,001	-	896	361,410	-	1,680,254
	1,221,595	2,080,099	1,498,108	2,234,863	642,689	57,981	1,394,171	368,860	9,498,366
Restatement of opening surplus	-	(4,636)	-	-	-	-	-	-	(4,636)
Net surplus (deficit)	\$ 880,161	\$ 1,546,565	\$ 193,928	\$ (389,244)	\$ 540,086	\$ 34,900	\$ 374,550	\$ 263,501	\$ 3,444,417

The Corporation of the Town of Shelburne

Notes to Financial Statements

December 31, 2012

23. Segmented Information (continued)

For the year ended December 31	General Government	Protection Services	Transportation Services	Sewer and Water	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	2011 Total
Revenue									
Taxation	\$ 851,824	\$ 1,362,918	\$ 1,192,553	\$ -	\$ 255,547	\$ 42,591	\$ 383,321	\$ 170,365	\$ 4,259,119
Fees and user charges	32,747	123,250	12,827	1,637,266	951	30,450	553,238	21,654	2,412,383
Specific grants	41,708	107,949	6,425	147,891	43,456	-	433,887	-	781,316
OMPF grant	200,860	321,376	281,204	-	60,258	10,043	90,387	40,172	1,004,300
Other revenue	137,792	3,049	7,857	787	(55,437)	5,888	135,770	3,399	239,105
Obligatory reserve fund revenue recognized	-	-	318,914	213,097	-	-	-	-	532,011
	1,264,931	1,918,542	1,819,780	1,993,041	304,775	88,972	1,586,603	235,590	9,228,234
Expenses									
Salaries and benefits	864,573	1,530,654	492,310	75,065	5,085	48,880	658,433	28,649	3,703,649
Interest on debt	-	-	-	125,552	-	-	-	-	125,552
Materials and supplies	283,214	269,162	515,735	366,339	6,941	28,778	511,285	56,070	2,037,524
Contracted services	70,039	2,081	101,405	589,862	305,175	-	136,391	157,763	1,362,716
Other transfers	-	32,940	-	-	-	-	(53,128)	(4,400)	(24,588)
Rents and financial expenses	2,086	-	-	-	-	-	-	-	2,086
Amortization	69,760	91,245	372,032	607,123	-	770	359,042	-	1,499,972
	1,289,672	1,926,082	1,481,482	1,763,941	317,201	78,428	1,612,023	238,082	8,706,911
Restatement of opening surplus	-	(2,132)	-	-	-	-	-	-	(2,132)
Net surplus (deficit)	\$ (24,741)	\$ (9,672)	\$ 338,298	\$ 235,100	\$ (12,426)	\$ 10,544	\$ (15,420)	\$ (2,492)	\$ 519,191

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



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BDO Canada LLP
77 Broadway
Orangeville ON L9W 1K1 Canada

Independent Auditor's Report

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

We have audited the accompanying financial information of the trust funds of The Corporation of the Town of Shelburne, which comprise the balance sheet as at December 31, 2012 and the statement of continuity of the trust funds for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Information

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

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Orangeville, Ontario
May 8, 2013

The Corporation of The Town of Shelburne Trust Funds Balance Sheet

December 31, 2012

	Total	Lost Soldiers Fund	Cemetery Maint & Equipment	Cemetery Perpetual Care	Prepaid Burial Fund
Current assets					
Cash	\$ 68,917	\$ 1,253	\$ 20,806	\$ 35,032	\$ 11,826
Due from Town of Shelburne	1,950	-	767	86	1,097
Investments (Note 2)	257,272	-	34,941	222,331	-
	\$ 328,139	\$ 1,253	\$ 56,514	\$ 257,449	\$ 12,923
Liabilities and fund balance					
Fund balance	\$ 328,139	\$ 1,253	\$ 56,514	\$ 257,449	\$ 12,923

Statement of Continuity

December 31, 2012

	Total	Lost Soldiers Fund	Cemetery Maint & Equipment	Cemetery Perpetual Care	Prepaid Burial Fund
Balance, beginning of year	\$ 304,361	\$ 910	\$ 54,240	\$ 249,211	\$ -
Receipts					
Fees	22,186	330	-	8,238	13,618
Cemetery maintenance fee	1,700	-	1,700	-	-
Interest earned	1,000	13	574	345	68
	24,886	343	2,274	8,583	13,686
Expenses	1,108	-	-	345	763
Balance, end of year	\$ 328,139	\$ 1,253	\$ 56,514	\$ 257,449	\$ 12,923

The Corporation of the Town of Shelburne

Trust Funds

Notes to Financial Statements

December 31, 2012

1. Summary of Significant Accounting Policies

Management Responsibility

The financial information of the The Corporation of the Town of Shelburne 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.

Use of Estimates

The preparation of this 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 information, 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 consolidated financial statements of the municipality

Accrual Basis of Accounting

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

Financial Instruments

The organization classifies all of its financial instruments at amortized cost. The maximum exposure to credit risk is the carrying value of the financial instruments. These financial instruments include cash, due from Town of Shelburne, and investments. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

**The Corporation of the Town of Shelburne
Trust Funds
Notes to Financial Statements**

December 31, 2012

**Financial Instruments
(continued)**

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

**The Corporation of the Town of Shelburne
Trust Funds
Notes to Financial Statements**

December 31, 2012

2. Investments

	<u>2012</u>	<u>2011</u>
Term deposits earning 1% - 2.5%, maturing March 5, 2013 - June 17, 2014	<u>\$ 257,272</u>	<u>\$ 257,272</u>

Investments have a market value of \$259,024 (2011 - \$259,356) at the end of the year.

3. Financial Instruments

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

4. Financial Instrument Risk Management

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk arising from its bank balance and Due from Town of Shelburne. Bank balance is held in bank accounts at one financial institution in excess of CDIC deposit insurance limits.

Interest Rate Risk

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

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