

Consolidated financial statements of

Corporation of the Town of Pelham

December 31, 2012

Corporation of the Town of Pelham

December 31, 2012

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Independent Auditor's Report

To the Members of Council, and the Citizens of the
Corporation of the Town of Pelham

We have audited the accompanying consolidated financial statements of the Corporation of the Town of Pelham, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of operations, change in net financial 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 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 Pelham as at December 31, 2012, and the results of its operations, change in its net financial debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

Without modifying our opinion we draw attention to the budget figures which are provided for comparative purposes only. They have not been subject to audit procedures. Accordingly, we do not express an opinion on the budget figures.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
July 15, 2013

Corporation of the Town of Pelham

Consolidated statement of operations year ended December 31, 2012

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Revenue			
Taxation (Note 9)	9,479,161	9,477,723	9,198,085
User charges (Note 10)	5,050,075	4,921,990	4,480,073
Grants (Note 12)	125,364	110,337	111,216
Other (Note 13)	915,674	1,268,276	1,071,766
	15,570,274	15,778,326	14,861,140
Expenses			
General government	1,758,000	1,635,214	1,706,782
Protection to persons and property	1,469,122	1,789,399	2,120,045
Transportation services	2,248,568	4,965,813	4,914,316
Environmental services	3,241,575	4,464,068	3,628,368
Health services	177,817	175,264	176,898
Recreation and culture services	2,257,165	2,667,873	2,400,381
Planning and development	498,536	507,195	447,052
	11,650,783	16,204,826	15,393,842
Net revenue (expenses)	3,919,491	(426,500)	(532,702)
Other			
Equity earnings in subsidiary (Note 3)	-	186,792	7,446
Revenue related to tangible capital assets			
Grants (Note 12)	271,500	1,157,559	4,713,585
Other (Note 13)	-	221,328	330,241
(Loss) gain on disposal of tangible capital assets	-	(532,081)	17,887
	271,500	1,033,598	5,069,159
Annual surplus	4,190,991	607,098	4,536,457
Accumulated surplus, beginning of year	-	84,622,004	80,085,546
Accumulated surplus, end of year	4,190,991	85,229,102	84,622,004

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

Corporation of the Town of Pelham
 Consolidated statement of change in net financial debt
 year ended December 31, 2012

	2012	2011
	\$	\$
Annual surplus	607,098	4,536,457
Amortization of tangible capital assets	4,042,226	3,868,241
Acquisition of tangible capital assets	(3,825,156)	(8,017,409)
Loss (gain) on disposal of tangible capital assets	532,081	(17,887)
Proceeds on disposal of tangible capital assets	39,518	75,859
	1,395,767	445,261
Increase in other assets	(131,383)	(22,002)
Increase in net financial assets	1,264,384	423,259
Net financial debt, beginning of year	(2,813,070)	(3,236,329)
Net financial debt, end of year	(1,548,687)	(2,813,070)

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

Corporation of the Town of Pelham

Consolidated statement of financial position as at December 31, 2012

	2012	2011
	\$	\$
Financial assets		
Cash	374,162	477,526
Short-term investments (Note 2)	-	1,500,000
Taxes receivable	2,368,904	2,234,689
User charges receivable	584,882	587,790
Accounts receivable	610,607	686,062
Inventory held for resale	197,363	191,421
Investment in subsidiary (Note 3)	5,222,438	5,035,646
	9,358,356	10,713,134
Liabilities		
Bank indebtedness	-	2,990,431
Accounts payable and accrued liabilities	2,546,069	2,110,761
Other liabilities	827,622	822,294
Deferred revenue (Note 4)	2,099,238	2,246,683
Long-term debt (Note 5)	5,152,852	5,107,318
Employee benefit obligations (Notes 6 and 14)	281,262	248,717
	10,907,043	13,526,204
Contingencies (Note 17)		
Net debt	(1,548,687)	(2,813,070)
Non-financial assets		
Tangible capital assets (Schedule 2)	86,617,331	87,406,000
Other assets	160,458	29,074
	86,777,789	87,435,074
Accumulated surplus (Note 7)	85,229,102	84,622,004

Approved by

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

Corporation of the Town of Pelham

Consolidated statement of cash flows year ended December 31, 2012

	2012	2011
	\$	\$
Operating activities		
Annual surplus	607,098	4,536,457
Non-cash items		
Amortization	4,042,226	3,868,241
Loss (gain) on disposal of tangible capital assets	532,081	(17,887)
Increase in investment in subsidiary	(186,792)	(7,446)
Increase in taxes receivable	(134,215)	(310,185)
Decrease in user charges receivable	2,908	74,397
Increase (decrease) in accounts receivable	75,455	(31,190)
Increase in inventory held for resale	(5,942)	-
Increase (decrease) in accounts payable and accrued liabilities	435,308	(641,684)
Increase in other liabilities	5,328	25,783
(Decrease) increase in deferred revenue	(147,445)	39,484
Increase (decrease) in employee benefit obligations	32,545	(35,228)
Increase in other assets	(131,384)	(22,002)
	<u>5,127,171</u>	<u>7,478,740</u>
Capital activities		
Proceeds from disposal of tangible capital assets	39,518	75,859
Acquisition of tangible capital assets, net of construction in process capitalized	(3,825,156)	(8,017,409)
	<u>(3,785,638)</u>	<u>(7,941,550)</u>
Investing activities		
Acquisition of investments	-	(1,500,000)
Proceeds from the sale of investments	1,500,000	1,550,000
	<u>1,500,000</u>	<u>50,000</u>
Financing activities		
Decrease in bank indebtedness	(2,990,431)	(21,694)
Issue of long-term debt	808,600	1,729,800
Repayment of long-term debt	(763,066)	(843,484)
	<u>(2,944,897)</u>	<u>864,622</u>
Net (decrease) increase in cash and cash equivalents	(103,365)	451,812
Cash and cash equivalents, beginning of year	477,526	25,714
Cash and cash equivalents, end of year	<u>374,162</u>	<u>477,526</u>

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

1. Significant accounting policies

The consolidated financial statements of the Corporation of the Town of Pelham ("the Town") are the representation of management prepared in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Municipality are as follows:

Basis of consolidation

These consolidated financial statements reflect the assets, liabilities, non-financial assets, revenues, and expenses and include all activities of all committees of Council and the following local boards and municipal entities which are under the control of Council:

Pelham Public Library Board

Interdepartmental and organizational transactions and balances are eliminated.

The following joint local board is proportionality consolidated:

Niagara Central Airport Commission (Joint Board)

Related party transactions are eliminated (Note 15).

Niagara Peninsula Energy Inc.

Is a subsidiary corporation of the Municipality and is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government enterprises (Note 3). Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated.

The statements exclude trust funds that are administered for the benefit of external parties (Note 16).

Basis of accounting

The consolidated financial statements 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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and guaranteed investment certificates.

Investments

Investments are recorded at cost.

Deferred revenue

Receipts which are restricted by legislation of senior governments or by agreement with external parties are deferred and reported as restricted revenues. When qualifying expenses are incurred, restricted revenues are brought into revenue at equal amounts. Revenues received in advance of expenses which will be incurred in a later period are deferred until they are earned by being matched against those expenses.

Employee future benefits

The present value of the cost of providing employees with future benefit programs is expensed as employees earn these entitlements through service.

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

1. Significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of an asset. The cost, less residual value of the tangible capital asset is amortized on a straight line basis over the estimated useful life as follows:

<u>Classification</u>	<u>Useful life</u>
Land improvements	15 to 40 years
Buildings	20 to 60 years
Machinery and equipment	7 to 40 years
Furniture and fixtures	5 to 10 years
Computer hardware	4 years
Computer software	5 years
Library collection	15 years
Linear assets	2 to 90 years
Vehicles	3 to 20 years

Half year amortization is charged in the year of acquisition and no amortization is taken in year of disposal. Assets under construction are not amortized until the asset is available for productive use.

The Municipality does not capitalize interest as part of the costs of its capital assets.

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

Works of art, artifacts, cultural or historic assets are not recorded as assets in the financial statements.

Leases are classified as capital or operating leases. Leases that transfer substantially all benefits incidental to ownership are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Subdivision infrastructure

Subdivision streets, lighting, sidewalks, drainage and other infrastructure are required to be provided by subdivision developers. Upon completion they are turned over to the Municipality. The Municipality is not involved in the construction.

Reserves for future expenses

Certain amounts, as approved by Municipal Council, are set aside in reserves and reserve funds for future current and capital expenses.

Government transfers

Government transfers include entitlements, transfers under shared cost agreements, and grants. Government transfers are recognized in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

Local improvements

The Municipality records capital expenses funded by local improvement agreements as they are incurred. Revenues are recognized in the year they become receivable.

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

1. Significant accounting policies (continued)

Region and school board transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the Region of Niagara are not reflected in the accumulated surplus of these financial statements.

Management estimates

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budget figures

The budget for 2012 is reflected on the consolidated statement of operations. The budget established for 2012 included amounts for capital expenses, however starting in 2009 these expenses have been recorded as tangible capital asset additions. The budget figures do not include full amounts for amortization of tangible capital assets.

Future accounting changes

Effective for fiscal periods beginning on or after April 1, 2012, all governments will be required to adopt Public Sector Accounting Board Handbook ("PSAB") Section 3410 Government Transfers. This standard provides guidance to governments for the accounting and reporting of government transfers from both the transferring government and the recipient government in the financial statements.

Effective for fiscal periods beginning on or after April 1, 2014, all governments will be required to adopt PSAB Section 3260, Liability for Contaminated Sites. This standard provides guidance on how to account for and report a liability associated with the remediation of contaminated sites, defines which activities would be included in the liability for remediation, establishes when to recognize and how to measure a liability for remediation and provides guidance on financial statement presentation and disclosure.

Effective for fiscal periods beginning on or after April 1, 2015, all governments will be required to adopt PSAB Section 2601, Foreign Currency Translation, PSAB Section 3450 Financial Instruments, and PSAB Section 1201, Financial Statement Presentation. These standards provide guidance on how to account for and report on financial instruments and related revenue and expenditures, and also provides guidance on financial statement presentation and disclosure.

2. Short-term investments

The total for investments by the Town of Pelham of \$Nil (2011 - \$1,500,000) reported on the statement of financial position at cost, have a market value of \$Nil (2011 - \$1,500,000) at the end of the year.

3. Subsidiary operations

Peninsula West Power Inc. (PWPI), established by Municipal Council under Municipal By-law 2004-45, is an amalgamation of hydro-electric commissions from the Municipalities of Lincoln, West Lincoln and Pelham. PWPI owns a 25.5% share of Niagara Peninsula Energy Inc., which provides electric distribution services and wholly-owns Peninsula West Services Ltd. (PWSL), which provides water heater, sentinel lights and related services. PWPI also has a 50% share of the joint venture Niagara West Transformation Corporation, that provides electric transformation services. The Town of Pelham has a 17% interest in PWPI.

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

3. Subsidiary operations (continued)

The following table provides condensed supplementary financial information for Peninsula West Power Inc.:

	2012	2011
	\$	\$
Financial position		
Current assets	1,981,112	998,865
Capital assets	77,393	3,156,151
Investment	33,563,969	33,168,370
Total assets	35,622,474	37,323,386
Current liabilities		
(including current portion of long term debt of \$Nil; 2011 - \$114,000)	42,683	789,325
Long term debt	-	2,287,000
Future payments in lieu of taxes	4,859,568	4,625,616
Total liabilities	4,902,251	7,701,941
Net assets	30,720,223	29,621,445
Town of Pelham's interest - 17%	5,222,438	5,035,646
	2012	2011
	\$	\$
Change in equity investment in subsidiary		
Revenues	259,190	282,502
Expenses	(213,990)	(240,407)
Payment in lieu of income taxes	(245,302)	(107,248)
Loss from operations	(200,102)	(65,153)
Adjustment to fair value of interest rate swap	-	(214,261)
Other items related to merger	701,599	595,022
Net earnings	501,497	315,608
Dividends	(202,710)	(91,123)
Discontinued operations	799,991	(180,691)
Net increase in equity of subsidiary	1,098,778	43,794
Change in equity of subsidiary - 17%	186,792	7,446

Long-term debt

PWPI's long-term debt is comprised of a term loan in the amount of \$Nil (2011 - \$2,401,000) issued as bankers' acceptances and was due March 9, 2012.

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

3. Subsidiary operations (continued)

The financial position, long-term debt, capital lease and contingent liabilities information is as reported by Niagara Peninsula Energy Inc. at December 31, 2012 and the results of operations is as reported for the year ended December 31, 2012. The comparative financial position and results of operations figures are as reported by Peninsula West Power Inc. at December 31, 2011.

The following summarizes the Municipality's related party transactions with Niagara Peninsula Energy Inc. for the year. All transactions are in the normal course of operations, and are recorded at the exchange value based on normal commercial rates, or as agreed to by the parties.

	2012	2011
	\$	\$
Electricity purchased	58,848	62,444
Property taxes and other taxes	629	683
	<u>59,477</u>	<u>63,127</u>

4. Deferred revenue

	2012	2011
	\$	\$
Development Charges Act	1,161,014	1,459,496
Recreational land (Planning Act)	938,224	787,187
	<u>2,099,238</u>	<u>2,246,683</u>

5. Long-term debt

(a) The balance of net long-term debt reported on the consolidated statement of financial position is made up of the following:

	2012	2011
	\$	\$
CIBC bank loan, with interest only payable monthly until January, 2007 and then monthly principal payments of \$21,428 plus interest commencing in January, 2007. Interest is payable at the prime rate	1,859,852	2,116,988
The Municipality has assumed responsibility for the payment of principal and interest charges on certain long term debt issued by the Region of Niagara. At the end of the year, the outstanding principal amount of this debt is	3,293,000	2,990,330
Net long-term debt	<u>5,152,852</u>	<u>5,107,318</u>

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

5. Long-term debt (continued)

(b) The net long-term debt:

Debenture number	Purpose	Interest rates	Maturity dates	2012	2011
				\$	\$
114-2004	Canboro Road	2.46%	2014	500,000	750,000
73-2010	Fire trucks	3.217%	2015	259,415	340,580
67-2009	Centennial Park	3.5% to 4.8%	2019	151,000	170,000
83-2011	Haist & Pelham St	1.55% to 4.05%	2021	1,573,985	1,729,750
73-2012	Haist St & Rice Rd	1.35% to 3.10%	2022	808,600	-
Bank loan	Land purchase	Prime		1,859,852	2,116,988
				5,152,852	5,107,318

(c) Principal repayments in each of the next five years are due as follows:

	\$
2013	841,367
2014	849,394
2015	607,434
2016	525,318
2017	530,739

(d) The Municipality paid \$150,252 (2011 - \$139,036) interest on long-term debt during the year.

6. Employee benefit obligations

	2012	2011
	\$	\$
Post-retirement benefits	281,262	248,717

(a) Vested sick leave benefits

Under the sick leave benefit plan, which was in place until 1994, unused sick leave could accumulate and employees were entitled to a cash payment. All the vested sick leave benefits have been paid out as of 2012.

(b) Post-retirement benefits

Employees who are eligible to retire under the OMERS early retirement provisions are eligible to receive medical benefits and life insurance to the age of sixty-five. The Municipality pays 100% of the premiums.

The post-retirement benefits obligation is calculated using the average age and average service life of the applicable employees. The obligation is calculated using an extrapolation of current medical and life insurance premiums and includes a calculation of the estimated benefits that will be paid to current retirees.

The Municipality's obligation under the post-retirement provision of employment agreements will be funded out of current revenue.

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

7. Accumulated surplus

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

	2012	2011
	\$	\$
Surplus (deficit)		
Town	(4,799,861)	(6,072,195)
Library (Schedule 1)	(137,386)	(73,290)
Niagara Central Airport Commission (Note 15)	19,929	19,821
	<u>(4,917,318)</u>	<u>(6,125,664)</u>
Investment in tangible capital assets (Schedule 2)	86,617,331	87,406,000
Investment in subsidiary	5,222,438	5,035,646
Unfunded		
Long-term debt	(5,152,852)	(5,107,318)
Employee benefit obligations	(281,262)	(248,717)
	<u>(5,434,114)</u>	<u>(5,356,035)</u>
Reserves and reserve funds (Note 8)	3,740,765	3,662,057
	<u>85,229,102</u>	<u>84,622,004</u>

8. Reserves and reserve funds

	2012	2011
	\$	\$
Reserves set aside for specific purposes by Council		
Airport (Note 15)	(3,443)	12,095
Building department	36,236	8,644
Cemetery	(142,057)	(14,849)
Community improvement plan	194,823	176,645
Elections	1,867	(8,301)
Fire equipment	(12,639)	(41,926)
Fleet	(467,096)	(345,866)
Future subdivision project	362,613	362,613
Information technology	74,269	13,589
Land acquisition	60,098	60,098
Library (Schedule 1)	(62,062)	12,466
Municipal building facility	102,581	133,860
Parks and recreation	57,053	(67,322)
Physician recruitment	20,600	21,506
Planning	(60,038)	(36,983)
Roads	1,563,373	1,079,062
Wastewater	579,042	720,737
Water	1,149,312	592,169
Working capital	286,233	983,820
	<u>3,740,765</u>	<u>3,662,057</u>

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

9. Taxation

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Real property		27,631,409	26,695,336
From other governments payments in lieu of taxes		279,876	425,594
		27,911,285	27,120,930
Less: taxation collected on behalf of (Note 11)			
Region of Niagara		13,338,859	12,844,074
School boards		5,094,703	5,078,771
		18,433,562	17,922,845
Net taxes available for municipal purposes		9,477,723	9,198,085
Residential and farm	8,742,968	8,464,946	8,173,174
Multi-residential	151,988	151,988	171,724
Commercial	551,577	827,832	820,695
Industrial	32,628	32,957	32,492
	9,479,161	9,477,723	9,198,085

10. User charges

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Operating			
Fees and service charges	616,050	705,795	643,827
Water charges	2,413,153	2,318,368	2,102,325
Sewer charges	1,756,422	1,603,385	1,485,528
Licences and permits	264,450	294,442	248,393
	5,050,075	4,921,990	4,480,073

11. Collections for the Region of Niagara and school boards

Total taxation and development charges received or receivable on behalf of the Region of Niagara and the school boards were as follows:

	2012	2011
	\$	\$
Region of Niagara	13,338,859	12,844,074
School boards	5,094,703	5,078,771
	18,433,562	17,922,845

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

11. Collections for the Region of Niagara and school boards (continued)

The Municipality is required to levy and collect taxes on behalf of the Region of Niagara and the school boards. These taxes are recorded as revenue at the amounts levied. The taxes levied over (under) the amounts requisitioned are recorded as accounts payable (receivable).

The Municipality collects development charges on behalf of the Region of Niagara. Development charges collected in excess of those paid to the Region are recorded as accounts payable.

12. Grants

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Operating			
Government of Canada	-	31,076	33,610
Province of Ontario	117,864	73,599	63,539
Region of Niagara	7,500	5,662	14,067
	125,364	110,337	111,216
Capital			
Government of Canada	271,500	758,055	2,604,570
Province of Ontario	-	299,504	2,109,015
Region of Niagara	-	100,000	-
	271,500	1,157,559	4,713,585
	396,864	1,267,896	4,824,801

13. Other revenue

	2012 (Unaudited)	2012	2011
	\$	\$	\$
Operating			
Penalties and interest on taxes	270,000	354,096	301,654
Investment income	50,000	22,831	17,152
Fines and other penalties	73,000	63,186	136,296
Contributions from developers	120,000	395,930	167,280
Other	402,674	432,233	449,384
	915,674	1,268,276	1,071,766
Capital			
Contributions from developers	-	221,328	330,241
	915,674	1,489,604	1,402,007

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

14. Pension agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions to OMERS are made at rates ranging from 7.4% to 14.1% depending on the proposed retirement age and the level of earnings. As a result \$702,200 (2011 - \$632,152) was contributed to OMERS for current service, of which \$351,100 (2011 - \$316,076) represents the employees' portion.

15. Niagara Central Airport Commission

The Niagara Central Airport Commission operates a two runway airport offering a year round fixed base operation. The Commission is funded by the four nearby municipalities, City of Welland, City of Port Colborne, Town of Pelham and the Township of Wainfleet. The Town of Pelham has a non-controlling interest in the airport of 18%.

The following table provides condensed supplementary financial information for the Niagara Central Airport Commission:

	2012	2011
	\$	\$
Financial assets		
Cash and temporary investments	62,860	158,564
Receivables	9,897	6,737
	<u>72,757</u>	<u>165,301</u>
Liability		
Accounts payable and accrued liabilities	5,303	3,630
Net financial assets	<u>67,454</u>	<u>161,671</u>
Non-financial assets		
Prepaid expenses	1,378	1,563
Fuel inventory	21,630	11,361
Tangible capital assets	1,168,219	1,089,147
	<u>1,191,227</u>	<u>1,102,071</u>
	<u>1,258,681</u>	<u>1,263,742</u>
Accumulated surplus		
Operating surplus	109,298	108,431
Reserves	(18,836)	66,164
Investment in tangible capital assets	1,168,219	1,089,147
	<u>1,258,681</u>	<u>1,263,742</u>
Revenues		
Grants	75,810	90,155
Fuel and rentals	55,919	48,525
Interest	432	31
Expenses	(137,534)	(122,069)
Annual (deficit) surplus	<u>(5,373)</u>	<u>16,642</u>

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

15. Niagara Central Airport Commission (continued)

The financial position information is as reported by the Niagara Central Airport Commission as at December 31, 2012 and the results of operations are as reported for the year ended December 31, 2012. The comparative financial position and results of operations figures are as reported by the Niagara Central Airport Commission at December 31, 2011.

The Municipality has recorded in the financial statements its 18% share of the Niagara Central Airport Commissions' assets, liabilities, accumulated surplus, revenues, expenses, and annual surplus.

The following summarizes the Municipality's related party transactions with the Niagara Central Airport Commission for the year. All transactions are in the normal course of operations, and are recorded at the exchange value based on normal commercial rates, or as agreed to by the parties.

	2012	2011
	\$	\$
Grants	13,644	16,396

16. Trust funds

Trust funds administered by the Municipality amounting to \$908,744 (2011 - \$860,791) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Operations.

17. Contingencies

From time to time, as is common with other municipalities, the Municipality is the subject of litigation. In the opinion of management, any litigation outstanding, if successful, would not have a material impact on the financial statements.

The Town has been charged with offences under the Occupational Health and Safety Act, the outcome of which is not yet determinable.

The Town guarantees \$3,250,000 of the debt of Niagara West Transformation Corporation of which the corporation's 50% share is \$2,508,000 and is included on the consolidated balance sheet. The guarantee is secured by a general security agreement covering all assets of the corporation. The corporation is contingently liable for the difference of \$742,000.

The financial position, long-term debt, capital lease and contingent liabilities information is as reported by Niagara Peninsula Energy Inc. at December 31, 2012 and the results of operations is as reported for the year ended December 31, 2012. The comparative financial position and results of operations figures are as reported by Peninsula West Power Inc. at December 31, 2011.

18. Financial instruments

The Town's financial instruments consist of cash, accounts receivable, temporary and long-term investments, bank indebtedness, accounts payable, other liabilities and long-term debt. It is management's opinion that the Town is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

19. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

Corporation of the Town of Pelham

Notes to the consolidated financial statements

December 31, 2012

20. Segmented information

The Municipality provides a diverse range of services to its citizens. The Consolidated schedule of segment disclosure has grouped various services into segments to provide a further breakdown of the revenues and expenses attributable to each segment. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis..

The services included in each segment are as follows:

General government

General government is comprised of governance, corporate management and program support.

Protection services

Protection is comprised of fire, police, conservation authority, protective inspection and control, emergency measures and provincial offenses.

Transportation services

Transportation is comprised of roads, winter control, transit, parking, street lighting and air transportation.

Environmental services

Environmental is comprised of storm sewer systems, water collection, waste disposal and recycling.

Health services

Health services is comprised of cemeteries.

Recreation and culture services

Recreation and culture services is comprised of parks, recreation programs, recreation facilities, libraries and cultural services.

Planning and development

Planning and development is comprised of planning and zoning, commercial and industrial development, residential development, agricultural and reforestation and tile draining and shoreline assistance.

Corporation of the Town of Pelham

Consolidated schedule of library operations - Schedule 1 year ended December 31, 2012

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Revenue			
Municipal contribution	728,387	728,387	687,290
Grants	23,338	26,382	30,638
Other	61,124	74,642	81,953
	812,849	829,411	799,881
Expenses			
Administration	23,325	29,812	29,113
Amortization	-	95,855	90,698
Books, periodicals and other media	57,000	48,595	59,295
Electronic resources and maintenance	13,200	14,588	9,232
Furnishings and office equipment	1,250	1,772	469
Insurance	3,000	2,963	3,534
Programs	6,000	9,818	9,882
Repairs and maintenance	30,100	31,940	39,455
Salaries, wages and benefits	652,444	727,230	652,762
Supplies	2,900	3,843	3,471
Utilities	23,630	23,764	23,031
	812,849	990,180	920,942
Annual deficit	-	(160,769)	(121,061)
Accumulated surplus, beginning of year		461,637	582,698
Accumulated surplus, end of year	-	300,868	461,637
Accumulated surplus consists of the following			
Operating (deficit) surplus		(137,386)	(73,290)
Investment in tangible capital assets		512,854	558,446
Reserves		(62,062)	12,466
Unfunded employee benefit obligations		(12,538)	(35,985)
	-	300,868	461,637

Corporation of the Town of Pelham

Consolidated schedule of tangible capital assets - Schedule 2
year ended December 31, 2012

	Land	Land improvements	Buildings	Machinery, equipment, furniture, fixtures and computers	Vehicles	Linear assets	Construction in process	2012
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Beginning of year	11,670,599	1,362,713	7,370,656	5,284,939	6,674,940	99,586,664	4,804,281	136,754,792
Add additions	-	98,153	207,326	374,437	337,530	2,871,463	198,583	4,087,492
Less construction in process capitalized	-	-	-	-	-	-	(262,336)	(262,336)
Less disposals during the year	-	(18,245)	(1,248)	(269,511)	(399,708)	(1,214,690)	-	(1,903,402)
End of year	11,670,599	1,442,621	7,576,734	5,389,865	6,612,762	101,243,437	4,740,528	138,676,546
Accumulated amortization								
Beginning of year	-	788,665	2,645,316	2,478,492	3,138,254	40,298,065	-	49,348,792
Add amortization during the year	-	40,475	148,054	310,060	349,738	3,193,899	-	4,042,226
Less amortization on disposals	-	(18,245)	(1,248)	(254,995)	(366,905)	(690,410)	-	(1,331,803)
End of year	-	810,895	2,792,122	2,533,557	3,121,087	42,801,554	-	52,059,215
Net book value	11,670,599	631,726	4,784,612	2,856,308	3,491,675	58,441,883	4,740,528	86,617,331

Corporation of the Town of Pelham

Consolidated schedule of tangible capital assets - Schedule 2 (continued)
year ended December 31, 2011

	Land	Land improvements	Buildings	Machinery, equipment, furniture, fixtures and computers	Vehicles	Linear assets	Construction in process	2011
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Beginning of year	11,670,599	1,224,087	4,599,785	4,934,697	6,159,697	91,894,030	8,410,796	128,893,691
Add additions	-	138,626	2,770,871	421,217	541,081	7,697,900	5,933,079	17,502,774
Less construction in process capitalized	-	-	-	-	-	-	(9,485,365)	(9,485,365)
Less disposals during the year	-	-	-	(70,975)	(25,838)	(5,266)	(54,229)	(156,308)
End of year	11,670,599	1,362,713	7,370,656	5,284,939	6,674,940	99,586,664	4,804,281	136,754,792
Accumulated amortization								
Beginning of year	-	754,070	2,522,890	2,263,285	2,827,943	37,210,700	-	45,578,888
Add amortization during the year	-	34,595	122,426	283,980	335,399	3,091,841	-	3,868,241
Less amortization on disposals	-	-	-	(68,773)	(25,088)	(4,476)	-	(98,337)
End of year	-	788,665	2,645,316	2,478,492	3,138,254	40,298,065	-	49,348,792
Net book value	11,670,599	574,048	4,725,340	2,806,447	3,536,686	59,288,599	4,804,281	87,406,000

Corporation of the Town of Pelham

Consolidated schedule of segment disclosure - Schedule 3
year ended December 31, 2012

								2012
	General government	Protection to persons and property	Transportation services	Environmental services	Health services	Recreation and culture services	Planning and development	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Taxation	1,554,483	1,702,055	3,941,352		73,600	1,858,209	348,024	9,477,723
User charges	24,943	318,394	26,176	3,921,753	34,230	487,059	109,435	4,921,990
Grants	47,333		1,121,871	5,662	994	76,093	15,943	1,267,896
Other	428,761	(210,248)	387,693	536,653	66,440	246,512	33,793	1,489,604
Equity earnings in subsidiary	186,792	-	-	-	-	-	-	186,792
Gain (loss) on disposal of tangible capital assets	-	(20,802)	(511,279)	-	-	-	-	(532,081)
	2,242,312	1,789,399	4,965,813	4,464,068	175,264	2,667,873	507,195	16,811,924
Expenses								
Salaries and wages	1,393,817	1,040,271	878,823	660,447	144,182	1,626,839	379,342	6,123,721
Long-term debt interest		9,577	89,175	17,925		69,671		186,348
Materials	457,426	243,796	768,250	119,017	16,284	607,483	20,654	2,232,910
Contracted services	223,358	152,194	556,659	2,403,794	6,734	89,419	107,199	3,539,357
Rents and financial expenses	9,809	16,155	4,934	15,916	-	2,417	-	49,231
External transfers						31,033		31,033
Interfunctional adjustments	(534,325)	-	-	534,325	-	-	-	-
Amortization	85,129	327,406	2,667,972	712,644	8,064	241,011	-	4,042,226
	1,635,214	1,789,399	4,965,813	4,464,068	175,264	2,667,873	507,195	16,204,826
Annual surplus	607,098	-	-	-	-	-	-	607,098

Corporation of the Town of Pelham

Consolidated schedule of segment disclosure - Schedule 3 (continued)
year ended December 31, 2011

								2011
	General government	Protection to persons and property	Transportation services	Environmental services	Health services	Recreation and culture services	Planning and development	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Taxation	5,796,595	-	1,505,543	-	98,577	1,426,467	369,403	9,196,585
User charges	34,484	270,686	24,205	3,587,853	36,570	464,250	62,025	4,480,073
Grants	23,477	1,314,084	3,169,075	16,271	1,988	286,189	15,217	4,826,301
Other	379,708	535,275	199,293	25,034	38,815	223,475	407	1,402,007
Equity earnings in subsidiary	7,446	-	-	-	-	-	-	7,446
Gain (loss) on disposal of tangible capital assets	1,529	-	16,200	(790)	948	-	-	17,887
	<u>6,243,239</u>	<u>2,120,045</u>	<u>4,914,316</u>	<u>3,628,368</u>	<u>176,898</u>	<u>2,400,381</u>	<u>447,052</u>	<u>19,930,299</u>
Expenses								
Salaries and wages	1,291,067	972,242	879,196	574,325	157,376	1,479,141	-	5,353,347
Long-term debt interest	-	18,426	43,594	-	-	77,016	278,761	417,797
Materials	441,353	244,798	701,772	127,500	10,498	432,969	21,384	1,980,274
Contracted services	332,826	135,753	686,920	2,228,857	4,281	142,904	146,907	3,678,448
Rents and financial expenses	9,847	15,887	17,824	12,923	-	2,868	-	59,349
External transfers	-	-	-	-	-	36,386	-	36,386
Interfunctional adjustments	(447,071)	431,804	-	15,267	-	-	-	-
Amortization	78,760	301,135	2,585,010	669,496	4,743	229,097	-	3,868,241
	<u>1,706,782</u>	<u>2,120,045</u>	<u>4,914,316</u>	<u>3,628,368</u>	<u>176,898</u>	<u>2,400,381</u>	<u>447,052</u>	<u>15,393,842</u>
Annual surplus	<u>4,536,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,536,457</u>

Corporation of the Town of Pelham

Schedule of segment disclosure with budget information - Schedule 4 year ended December 31, 2012

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
General government			
Revenue			
Taxation	5,298,415	1,554,483	5,796,595
User charges	24,250	24,943	34,484
Grants	286,476	47,333	23,477
Gain on disposal of tangible capital assets	-	-	1,529
Equity earnings in subsidiary	-	186,792	7,446
Other	339,850	428,761	379,708
	5,948,991	2,242,312	6,243,239
Expenses			
Salaries and wages	1,325,656	1,393,817	1,291,067
Materials	296,746	457,426	441,353
Contracted services	124,775	223,358	332,826
Rents and financial	10,823	9,809	9,847
Interfunctional adjustments	-	(534,325)	(447,071)
Amortization	-	85,129	78,760
	1,758,000	1,635,214	1,706,782
Annual surplus	4,190,991	607,098	4,536,457
Protection to persons and property			
Revenue			
Taxation	1,087,272	1,702,055	-
User charges	285,450	318,394	270,686
Grants	-	-	1,314,084
Gain on disposal of tangible capital assets	-	(20,802)	-
Other	96,400	(210,248)	535,275
	1,469,122	1,789,399	2,120,045
Expenses			
Salaries and wages	1,045,943	1,040,271	972,242
Long-term debt interest	9,577	9,577	18,426
Materials	231,904	243,796	244,798
Contracted services	165,448	152,194	135,753
Rents and financial	16,250	16,155	15,887
Interfunctional adjustments	-	-	431,804
Amortization	-	327,406	301,135
	1,469,122	1,789,399	2,120,045
Annual surplus	-	-	-

Corporation of the Town of Pelham

Schedule of segment disclosure with budget information - Schedule 4

(continued)

year ended December 31, 2012

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Transportation services			
Revenue			
Taxation	2,076,568	3,941,352	1,505,543
User charges	-	26,176	24,205
Grants	-	1,121,871	3,169,075
Gain on disposal of tangible capital assets	-	(511,279)	16,200
Other	172,000	387,693	199,293
	2,248,568	4,965,813	4,914,316
Expenses			
Salaries and wages	793,811	878,823	879,196
Long-term debt interest	16,866	89,175	43,594
Materials	770,522	768,250	701,772
Contracted services	657,619	556,659	686,920
Rents and financial	9,750	4,934	17,824
Amortization	-	2,667,972	2,585,010
	2,248,568	4,965,813	4,914,316
Annual surplus	-	-	-
Environmental services			
Revenue			
Taxation	(961,400)	-	-
User charges	4,165,975	3,921,753	3,587,853
Grants	7,500	5,662	16,271
Loss on disposal of tangible capital assets	-	-	(790)
Other	29,500	536,653	25,034
	3,241,575	4,464,068	3,628,368
Expenses			
Salaries and wages	693,633	660,447	574,325
Long-term debt interest	-	17,925	-
Materials	149,800	119,017	127,500
Contracted services	2,382,642	2,403,794	2,228,857
Rents and financial	15,500	15,916	12,923
Inter-functional adjustments	-	534,325	15,267
Amortization	-	712,644	669,496
	3,241,575	4,464,068	3,628,368
Annual surplus	-	-	-

Corporation of the Town of Pelham

Schedule of segment disclosure with budget information - Schedule 4

(continued)

year ended December 31, 2012

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Health services			
Revenue			
Taxation	99,867	73,600	98,577
User charges	35,350	34,230	36,570
Grants	-	994	1,988
Gain on disposal of tangible capital assets	-	-	948
Other	42,600	66,440	38,815
	177,817	175,264	176,898
Expenses			
Salaries and wages	156,317	144,182	157,376
Materials	14,750	16,284	10,498
Contracted services	6,750	6,734	4,281
Amortization	-	8,064	4,743
	177,817	175,264	176,898
Annual surplus	-	-	-
Recreation and culture services			
Revenue			
Taxation	1,453,753	1,858,209	1,426,467
User charges	478,200	487,059	464,250
Grants	89,888	76,093	286,189
Other	235,324	246,512	223,475
	2,257,165	2,667,873	2,400,381
Expenses			
Salaries and wages	1,586,833	1,626,839	1,479,141
Long-term debt interest	70,000	69,671	77,016
Materials	454,365	607,483	432,969
Contracted services	97,000	89,419	142,904
Rents and financial	12,917	2,417	2,868
External transfers	36,050	31,033	36,386
Amortization	-	241,011	229,097
	2,257,165	2,667,873	2,400,381
Annual surplus	-	-	-

Corporation of the Town of Pelham

Schedule of segment disclosure with budget information - Schedule 4

(continued)

year ended December 31, 2012

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
	\$	\$	\$
Planning and development			
Revenue			
Taxation	424,686	348,024	369,403
User charges	60,850	109,435	62,025
Grants	13,000	15,943	15,217
Other	-	33,793	407
	498,536	507,195	447,052
Expenses			
Salaries and wages	361,506	379,342	278,761
Materials	25,030	20,654	21,384
Contracted services	112,000	107,199	146,907
	498,536	507,195	447,052
Annual surplus	-	-	-

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Independent Auditor's Report

To the Members of Council, and the Citizens of the
Corporation of the Town of Pelham

We have audited the accompanying financial statements of the Corporation of the Town of Pelham Trust Funds, which comprise the statement of financial position as at December 31, 2012 and the statement of continuity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal 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 Corporation of the Town of Pelham Trust Funds as at December 31, 2012, and the results of their operations for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
July 15, 2013

Corporation of the Town of Pelham Trust Funds

Statement of continuity
year ended December 31, 2012

	Cemetery Care and Maintenance Funds	Bradshaw Estate	Library Trust Funds	Total 2012	Total 2011
	\$	\$	\$	\$	\$
Balance, beginning of year	603,407	135,241	122,143	860,791	829,447
Revenue					
Interest	4,317	588	1,183	6,088	8,310
Donations	-	-	31,988	31,988	44,327
Marker fees	2,300	-	-	2,300	1,700
Plot sales	19,694	-	-	19,694	12,949
	26,311	588	33,171	60,070	67,286
Expenses					
Purchase of equipment, books and periodicals and miscellaneous	-	-	7,800	7,800	10,553
Cash transfer to Town of Pelham	4,317	-	-	4,317	25,389
	4,317	-	7,800	12,117	35,942
Excess of revenues over expenses	21,994	588	25,371	47,953	31,344
Balance, end of year	625,401	135,829	147,514	908,744	860,791

The accompanying notes to the financial statements are an integral part of this financial statement.

Corporation of the Town of Pelham

Trust Funds

Statement of financial position
as at December 31, 2012

	Cemetery Care and Maintenance Funds	Bradshaw Estate	Library Trust Funds	Total 2012	Total 2011
	\$	\$	\$	\$	\$
Assets					
Cash	57	35,241	147,514	182,812	364,442
Receivables and accrued interest	-	588	-	588	-
Investments (Note 2)	600,000	100,000	-	700,000	-
Due from Bank	-	-	-	-	959
Due from Town of Pelham	25,344	-	-	25,344	514,649
	625,401	135,829	147,514	908,744	880,050
Liability					
Due to Town of Pelham	-	-	-	-	19,259
Fund balance	625,401	135,829	147,514	908,744	860,791

The accompanying notes to the financial statements are an integral part of this financial statement.

Corporation of the Town of Pelham Trust Funds

Notes to the financial statements

December 31, 2012

1. Accounting policies

The financial statements of the Corporation of the Town of Pelham Trust Funds are prepared by management in accordance with Canadian public sector accounting standards. Since precise determination of many assets and liabilities is dependent upon future events. The preparation of periodic financial statements necessarily involves the use of estimates and approximations. These estimates have been made using careful judgments.

Significant aspects of the accounting policies adopted are as follows:

(a) Basis of accounting

Sources of revenue 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.

(b) Investments

Investments are recorded at cost.

2. Investments

The total for investments by the trust funds of \$700,000 (2011 - \$Nil) reported on the statement of financial position at cost, have a market value of \$700,000 (2011 - \$Nil) at the end of the year.

3. Subdividers', planning and builders' deposits

In addition to the cash accounts held by the Town and shown as trust funds, bank letters of credit are also held as security to ensure the provision of subdivision services and the completion of contracts:

	2012	2011
	\$	\$
Letters of credit, beginning of year	3,217,295	3,499,020
Net decrease	(159,545)	(281,725)
Letters of credit, end of year	3,057,750	3,217,295