

The Corporation of the Town of Essex

Financial Statements

For the year ended December 31, 2012

The Corporation of the Town of Essex

Financial Statements

For the year ended December 31, 2012

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Telephone number: (519)776-6488
Fax number: (519)776-6090
www.bdo.ca

BDO Canada LLP
180 Talbot Street South
Essex Ontario N8M 1B6 Canada

Independent Auditor's Report

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

We have audited the accompanying financial statements of The Corporation of the Town of Essex as at December 31, 2012, which comprise the Consolidated Statement of Financial Position as at December 31, 2012, and the Consolidated Statement of Operations and Accumulated Surplus, Consolidated Statement of Changes in Net Financial Assets (Debt) and Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 of 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 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 consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the Town of Essex as at December 31, 2012 and their financial performance and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP
Chartered Accountants, Licensed Public Accountants
Essex, Ontario
July 08, 2013

Consolidated Statement of Financial Position

December 31	2012	2011
Financial Assets		
Cash and cash equivalents	\$14,747,198	\$15,774,332
Taxes receivable	2,186,632	2,671,461
Accounts receivable	2,831,121	2,875,317
Loan receivable (Note 2)	596,864	344,236
Investment in ELK Energy Incorporated (Note 3)	11,007,420	10,446,618
Investment in Union Water Supply System (Note 4)	962,131	963,893
Other assets	86,328	116,358
	32,417,694	33,192,215
Liabilities		
Accounts payable and accrued liabilities	3,896,954	2,467,724
Other current liabilities	218,389	231,130
Accrued interest payable on long-term debt	193,321	203,342
Employee future benefits (Note 10)	3,400,314	3,133,614
Deferred revenue – development charges (Note 11)	(792,285)	(619,974)
Net long-term debt (Note 6)	18,840,341	20,336,978
	25,757,034	25,752,814
Net financial assets	6,660,660	7,439,401
Non-financial assets		
Tangible capital assets (Schedule 1)	184,958,401	179,233,237
Prepaid expenses and inventories of supplies	228,056	155,036
	185,186,457	179,388,273
Accumulated surplus (Note 9)	\$191,847,117	\$186,827,674
Contingent liabilities (Note 13)		
Contractual obligations (Note 15)		

Treasurer

Mayor

Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	Budget (Note 12) 2012	Actual 2012	Actual 2011
Revenue			
Taxation	\$12,228,694	\$12,155,587	\$12,136,940
Grants	6,015,054	6,057,879	7,665,563
Sewer and water charges	6,432,638	6,412,631	6,212,215
User charges	3,818,815	3,038,681	2,870,263
Other	761,073	713,915	330,188
Landfill compensation	1,749,395	1,372,396	1,694,661
Interest and penalties	539,750	744,922	736,230
Development contributions	131,445	361,710	410,493
Commuted payments	0	47,001	32,148
Share of income from ELK Energy Incorporated (Note 3)	0	651,784	331,073
Loss on disposal of tangible capital assets	0	(30,289)	(45,411)
	<u>31,676,864</u>	<u>31,526,217</u>	<u>32,374,363</u>
Expenses			
General government	2,781,684	2,670,483	2,599,894
Protection to persons and property	6,670,969	6,224,271	5,923,049
Transportation services	5,721,790	5,058,997	5,066,284
Environmental services	5,856,610	5,385,246	5,447,964
Health services	235,502	230,343	226,247
Recreation and cultural services	6,274,852	6,287,151	5,718,875
Planning and development	782,828	650,283	1,118,704
	<u>28,324,235</u>	<u>26,506,774</u>	<u>26,101,017</u>
Annual surplus	3,352,629	5,019,443	6,273,346
Accumulated surplus, beginning of year	<u>186,827,674</u>	<u>186,827,674</u>	<u>180,554,328</u>
Accumulated surplus, end of year	<u>\$190,180,303</u>	<u>\$191,847,117</u>	<u>\$186,827,674</u>

Consolidated Statement of Changes in Net Financial Assets (Debt)

For the year ended December 31	Budget (Note 12) 2012	Actual 2012	Actual 2011
Annual surplus	\$3,352,629	\$5,019,443	\$6,273,346
Acquisition of tangible capital assets	(14,329,551)	(6,113,851)	(6,724,909)
Change in tangible capital assets Work in Progress	(2,000,000)	(4,468,715)	2,092,423
Amortization of tangible capital assets	4,827,000	4,827,113	4,552,367
Loss on sale of tangible capital assets	0	30,289	45,411
	(8,149,992)	(705,721)	6,238,638
Net change in inventories of supplies	0	(68,101)	81,427
Net change prepaid expenses	0	(4,919)	6,443
	0	(73,020)	87,870
Net change in net financial assets (debt)	(8,149,922)	(778,741)	6,326,508
Net financial assets (debt), beginning of year	7,439,401	7,439,401	1,112,893
Net financial assets (debt), end of year	\$(710,521)	\$6,660,660	\$7,439,401

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

For the year ended December 31	2012	2011
Cash provided by (used in)		
Operating activities		
Annual surplus for the year	\$5,019,443	\$6,273,346
Items not involving cash		
Amortization	4,827,113	4,552,367
Loss on disposal of tangible capital assets	30,289	45,411
Decrease in taxes receivable	484,829	90,396
Decrease in accounts receivable	44,196	1,631,262
Decrease in other assets	30,030	26,102
Increase (decrease) in accounts payable and accrued liabilities	1,429,230	(302,840)
Increase (decrease) in other current liabilities	(12,741)	5,396
Decrease in accrued interest payable on long-term debt	(10,021)	(13,188)
Changes in employee future benefits	266,700	281,400
Decrease in deferred revenue - development charges	(172,311)	(278,168)
Decrease (increase) in prepaid expenses and inventories of supplies	(73,020)	87,871
	11,863,737	12,399,355
Capital activities		
Acquisition of tangible capital assets	(6,113,851)	(6,724,909)
Change in tangible capital assets work-in-process	(4,468,715)	2,092,423
	(10,582,566)	(4,632,486)
Investing activities		
Decrease (increase) in investment in ELK Energy Incorporated	(560,802)	138,270
Decrease in equity in Union Water Supply System	1,762	231,704
	(559,040)	369,974
Financing activities		
Long-term debt issued	0	87,004
Long-term debt repaid	(1,428,069)	(2,251,703)
Loan advances (issued) repaid	(252,628)	106,154
Changes regarding debt transferred to property owners	(68,568)	(56,932)
	(1,749,265)	(2,115,477)
Net change in cash and cash equivalents	(1,027,134)	6,021,366
Cash and cash equivalents, beginning of year	15,774,332	9,752,966
Cash and cash equivalents, end of year	\$14,747,198	\$15,774,332

Notes to the Consolidated Financial Statements

December 31, 2012

1. Summary of significant accounting policies

Management responsibility The consolidated financial statements of The Corporation of the Town of Essex (the "Municipality") are the responsibility of management. They have been prepared in accordance with Canadian public sector accounting standards for local governments using guidelines established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The Corporation of the Town of Essex is a municipality in the Province of Ontario and operates under the provisions of the Community Charter. The Municipality provides municipal services such as fire, roads, water, wastewater, planning, parks, recreation and other general government services.

Use of estimates The preparation of 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 expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of consolidation (i) Consolidated Financial Statements
The consolidated statements reflect the assets, liabilities, revenues and expenditures of the revenue fund, capital fund, reserves and reserve funds of all municipal organizations, committees, and Boards which are owned or controlled by the Municipality. All inter-entity transactions and balances have been eliminated on consolidation.

(ii) Other entities
The investments in E.L.K. Energy Inc. are accounted for using the modified equity basis of accounting, which represents the Town's proportionate share of E.L.K.'s net assets at acquisition plus its share of undistributed earnings. The basis is consistent with the generally accepted accounting treatment of government units.

December 31, 2012

1. Summary of significant accounting policies (continued)

The Town's proportionate share in the Union Water Supply System is accounted for on a proportionate equity basis, consistent with the generally accepted accounting treatment of government units.

(iii) Accounting for County and School Board Transactions
The municipality collects taxation revenue on behalf of the school boards and the County of Essex. The taxation and other revenues with respect to the operations of the County and school boards are not reflected in the Consolidated Statement of Operations. In addition, the revenues, expenses, assets and liabilities with respect to the operations of the County and school boards are not reflected in these financial statements except to the extent that any amounts due to or from are reported on the Consolidated Statement of Financial Position in "accounts receivable" or "accounts payable".

(iv) Trust funds
Funds held in trust by the Municipality, and their related operations are not included in these financial statements. The financial activity and position of the trust funds are reported separately.

Basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures 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.

The consolidated statement of financial position reflects all of the financial assets and liabilities of the municipality. Financial assets are those assets which could provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the Municipality, and is the difference between its assets and liabilities. This provides information about the Municipality's overall future revenue requirements and its ability to finance activities and meet its obligations.

December 31, 2012

1. Summary of significant accounting policies (continued)

Cash and cash equivalents Management considers all highly liquid investment with maturity of three months or less at acquisition to be cash equivalents.

Purchase premium Purchase premium arising on the acquisition of a government business enterprise will be deferred and amortized over a period of twenty years.

Taxation and related revenue Taxes are recognized as revenue in the year they are levied. Property tax billings are prepared by the municipality based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by Town Council, incorporating amounts to be raised for local services, the requisition made by the County of Essex in respect of County services and amounts the Town is required to collect on behalf of the Province of Ontario in respect of education taxes. 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 municipality determines the taxes applicable and renders supplementary tax billings. Taxation revenue is recorded at the time tax billings are issued. Assessments and the related property taxes are subject to appeal and write off for physical changes to the property. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known. The municipality is entitled to collect interest and penalties on overdue taxes. This revenue is recorded in the period the interest and penalties are levied.

Conditional grant revenue is recognized to the extent the conditions imposed on it have been fulfilled. Unconditional grant revenue is recognized when monies are receivable. Grants for the acquisition of tangible capital assets are recognized in the period in which eligible expenditures are made.

Sanitary sewer and water operations are funded by various revenues including frontage, connection and usage charges. Charges for sewer and water usage are recorded as user fees. Connection fee revenues are recognized when the connection has been established.

December 31, 2012

1. Summary of significant accounting policies (continued)

User charges, landfill compensation, and other revenues are recorded on the accrual basis of accounting noted above.

Deferred revenue

Funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes are accounted for as deferred revenue on the consolidated statement of financial position. The revenue is recognized in the consolidated statement of operations in the year in which it is used for the specified purpose.

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing once the asset is available for productive use as follows:

Land improvements	10 to 30 years
Buildings	25 to 80 years
Roads and sidewalks	15 to 75 years
Machinery and equipment	1 to 50 years
Water infrastructure	50 to 80 years
Sewer infrastructure	60 to 100 years
Vehicles	3 to 25 years
Stormwater infrastructure	55 to 90 years
Murals	10 years

Employee future benefits

The Municipality has adopted the method of accounting for employee future benefits as required by the Canadian Institute of Chartered Accountants. The cost of future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and assumptions with respect to mortality and termination rates, retirement age and expected inflation rates with respect to employee benefit costs. The estimated cost of these benefit obligations is recognized as employee future benefit obligations.

December 31, 2012

2. Loan receivable

The loan receivable from previous years was paid in full during the year.

The current loan receivable represents monies loaned to Harrow Health Centre Incorporated as at December 31, 2012. Subsequent to the year end, additional monies were loaned to Harrow Health Centre Inc. and it was agreed upon by both parties that Harrow Health Centre Incorporated would repay any amounts owing over \$500,000 and the resulting loan of \$500,000 will commence its term on June 10, 2013. Subsequent to year end, the loan will bear interest at 2.6% per annum, amortized over four years. Principal and interest will be due quarterly and the loan can be repaid at any time without notice or bonus. The repayment schedule is set with quarterly installments of \$33,005 including principal and interest maturing on June 10, 2017.

3. Investment in ELK Energy Incorporated.

The Municipality held a 100% (2011 - 100%) investment in ELK Energy Incorporated This investment is recorded using the modified equity method, wherein the investment balance represents the Town's proportionate interest in the net assets of ELK Energy Incorporated. at acquisition, plus its proportionate share of undistributed earnings.

The investment in ELK Energy Incorporated at December 31, 2012 is as follows:

	2012	2011
Corporation of the Town of Essex 100% proportionate interest in the net assets of ELK Energy Incorporated (2011 – 100%)	\$7,673,282	\$7,021,498
Purchase premium – net of amortization	1,434,138	1,525,120
7.25% promissory note due to the Corporation from ELK Energy Incorporated	1,900,000	1,900,000
	\$11,007,420	\$10,446,618

The Corporation of the Town of Essex
Notes to the Consolidated Financial Statements

December 31, 2012

3. Investment in E.L.K. Energy Incorporated (continued)

Supplementary information of ELK Energy Incorporated at December 31 is as follows:

	2012	2011
Financial Position		
Current assets	\$11,857,284	\$10,784,137
Capital and regulatory authority	7,291,248	8,514,713
Future income taxes	1,540,000	1,448,000
Investments	46,968	35,942
	\$20,735,500	\$20,782,792
Total assets	\$20,735,500	\$20,782,792
Current liabilities	\$10,797,134	\$12,306,235
Long-term liabilities	2,265,084	1,455,059
	13,062,218	13,761,294
Total liabilities	13,062,218	13,761,294
Net Assets	\$7,673,282	\$7,021,498
Financial Activities		
Total Revenue	\$23,861,955	\$24,308,616
Total expenditures	23,086,158	23,754,887
Income taxes	124,013	222,656
	\$651,784	\$331,073
Net earnings	\$651,784	\$331,073
Corporation of the Town of Essex share of net earnings in ELK Energy Incorporated	\$651,784	\$331,073

E.L.K. Energy Inc. bills and collects the Town's water and sewer surcharge revenue. In 2012 these amounted to \$6,377,756 (2011-\$6,198,415) and are included in sewer and water charges revenue.

At December 31, 2012, included in accounts receivable is a balance owing from ELK Energy Incorporated totaling \$538,655 (2011- \$469,134).

These transactions are in the normal course of operations and are measured at the exchange amount which is the cost of the consideration established and agreed to by the related parties.

The Corporation of the Town of Essex
Notes to the Consolidated Financial Statements

December 31, 2012

4. Equity in Union Water Supply System

The equity in Union Water Supply System is made up as follows:

	2012	2011
Cash and cash equivalents	\$929,744	\$975,848
Accounts receivable	43,472	25,631
Accounts payable and accrued liabilities	(11,086)	(37,587)
Due to related part	(56,553)	(73,721)
	905,577	890,172
Net financial assets before long-term debt		
Long-term debt	(1,152,979)	(1,233,800)
	(247,402)	(343,628)
Net financial assets		
Tangible capital assets and non-financial assets	2,416,660	2,085,559
Accumulated surplus	\$2,169,258	\$1,741,931
Equity in reserves and reserve funds	\$962,131	\$963,893
Tangible capital assets – net book value consists of:		
Water – buildings and equipment	\$1,320,960	\$986,567
Water – linear	1,095,700	1,098,992
	\$2,416,660	\$2,085,559

Included in the Consolidated Statement of Operations is the Union Water System's share of:

	2012	2011
Amortization expense	\$56,803	\$53,201
Interest on long-term debt	115,052	119,799

The equity interest of each municipality is determined according to its proportionate water consumption from the System. The Municipality's equity in the System is 5.85% (2011 5.85%). The order also provides for the establishment of a Board of Management to govern the system.

December 31, 2012

5. Bank indebtedness

The Municipality has an authorized line of credit up to \$6,000,000 bearing interest at prime less 0.85%. At December 31, 2012, \$6,000,000 (2011-\$6,000,000) in unused credit was available.

The Municipality also has a commercial loan outstanding in the amount of \$59,029 bearing interest at 4.75%. This loan is held for the purpose of financing of the Union Water System capital works program and the Union Water System has assumed all responsibility for payments and has included this servicing in their wholesale water rate and annual budget forecasts. Therefore, as this loan has been assumed by the Union Water System, it is not presented on the Consolidated Statement of Financial Position of the Corporation of the Town of Essex.

6. Net long-term debt

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

User Fee Supported	2012	2011
i) Essex Sewage Treatment Plant and Expansion Debenture, Ontario Infrastructure Projects Corporation (OIPC). Repayable in semi-annual installments of \$138,915 including interest at 2.66%, due September 1, 2026.	\$3,229,805	\$3,428,785
ii) Harrow Sewage Lagoon Debenture, Ontario Infrastructure Projects Corporation (OIPC). Repayable in semi-annual installments of \$131,564 including interest at 2.67%, due February 3, 2025.	2,780,918	2,966,080
iii) Essex Sewage Update and Expansion Debenture, Ontario Infrastructure Projects Corporation (OIPC). Repayable in semi-annual installments of \$243,990 including interest at 2.53%, due September 1, 2016.	1,845,333	2,278,391
iv) Harrow Colchester South Water Plant, Ontario Clean Water Agency (OCWA). Repayable in annual installments including interest at 7.06%, due November 1, 2014.	115,702	170,150
	\$7,971,758	\$8,843,406

The Corporation of the Town of Essex
Notes to the Consolidated Financial Statements

December 31, 2012

6. Net long-term debt (continued)

Property Tax Supported (continued)

	2012	2011
i) Essex Twin Pad Arena Advance - repayable in semiannual installments of \$386,712 including interest at 4.65%, due March 2030	9,192,244	9,526,526
ii) Fire Platform Truck Debenture - repayable in annual installments of \$98,184 including interest at 2.76%, due October 15, 2014	188,527	279,010
iii) Joint Pool Venture Debenture - repayable in annual installments of \$21,756 including interest at 5.25%, due August 1, 2013	20,671	40,310
iv) Other various debentures payable with various terms	9,973	21,385
	9,411,415	9,867,231

Benefiting Property Owners

i) Watermain Debentures - repayable in annual installments including interest ranging from 4.6% to 7.06%, due in various amounts from 2013 to December 2019	87,679	136,100
ii) Tile Drain loans - repayable in annual installments including interest ranging from 6.0% to 8.0%, due in various amounts from 2016 to 2020	110,551	124,956
iii) Drain loans - repayable in annual installments including interest ranging from 3.01% to 5.25%, due in various amounts from 2012 to 2020	216,510	256,440
iv) Shoreline loans - repayable in annual installments including interest ranging from 6.0% to 8.0%, due in various amounts from 2014 to 2018	62,269	70,919
	477,009	588,415

Share of Union Water System obligations
Subtotal

	1,152,979	1,233,801
	19,013,161	20,532,853

The Municipality is contingently liable for the tile and shoreline loans included above. The responsibility for payment of principal and interest has been assumed by individual landowners

	172,820	195,875
	\$18,840,341	\$ 20,336,978

December 31, 2012

6. Net long-term debt (continued)

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

2013	\$1,546,580
2014	1,523,939
2015	1,385,811
2016	1,378,497
2017	918,201
Thereafter	<u>12,087,313</u>
	<u>\$18,840,341</u>

Interest payments included in revenue fund expenditures during the year were \$710,530 (2011- \$807,202), excluding the interest on tile and shoreline loans which is recovered from the individual landowners.

The long-term liabilities issued in the name of the Town have received approval by the Municipal Board on or before December 31, 2012. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

7. Operations of school boards and the County of Essex

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

	<u>2012</u>	2011
School boards	\$5,227,042	\$5,334,937
County of Essex	6,904,794	6,618,878
	<u>\$12,131,836</u>	<u>\$11,953,815</u>

8. Public sector salary disclosure

The Public Sector Salary Disclosure Act requires all municipalities to disclose which, if any, employees or officers received a salary totaling more than \$100,000 during the year. During 2012, the following met this requirement:

Position	Name	Salary Paid	Taxable Benefits
Chief Administrative Officer	Wayne Miller	\$155,755	\$2,151
Treasurer	Donna Hunter	\$123,651	\$2,068
Infrastructure and Development	Chris Nepszy	\$108,317	\$1,811

The Corporation of the Town of Essex
Notes to the Consolidated Financial Statements

December 31, 2012

9. Accumulated surplus

(a) Accumulated surplus consists of individual fund surplus/(deficit) as follows:

	2012	2011
Invested in tangible capital assets	\$184,958,401	\$179,233,237
To be used to offset user charges and taxation	1,787,794	1,590,095
To be financed by user charges and municipal debt	(7,482,056)	(2,649,633)
Equity in ELK Energy, Incorporated	9,107,420	8,546,618
Amounts to be recovered		
Employee benefits payable	(3,391,800)	(3,125,100)
Accrued interest on net long-term liabilities	(193,321)	(203,342)
Municipal debt	(18,840,341)	(20,336,978)
Reserve and reserve funds (Note 9(b))	25,901,020	23,772,777
Total accumulated surplus	\$191,847,117	\$186,827,674

(b) Reserves and reserve funds consist of individual funds as follows:

	2012	2011
Reserves set aside for specific purpose by Council:		
Working funds	\$1,000,000	\$1,000,000
Reserve funds set aside for specific purpose by Council:		
Capital purposes	13,429,418	12,086,906
Landfill	5,901,588	5,300,376
Contingencies	2,908,158	2,461,559
Other	1,901,386	1,681,985
Gas tax revenue	547,052	1,039,172
Sick leave benefits	213,418	202,779
	24,901,020	22,772,777
Total reserves and reserve funds	\$25,901,020	\$23,772,777

December 31, 2012

10. Employment benefits

(a) Pension agreement

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf 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 \$399,509 (2011 -\$331,103).

(b) Employee future benefit liabilities

Employee future benefit liabilities are future liabilities of the Corporation to its employees and retirees for benefits earned but not taken as at December 31, 2012 and consists of the following:

	2012	2011
Post-employment benefits	\$3,391,800	\$3,125,100
Vacation	8,514	8,514
	\$3,400,314	\$3,133,614

Sick pay is paid annually for union employees.

(i) Post-employment benefits

The post-employment benefit liability is based on an actuarial valuation performed by the Municipality's actuaries. The actuarial valuation was performed as at October 31, 2011 and extrapolated to December 31, 2012. The significant actuarial assumptions adopted in estimating the Municipality's liability are as follows:

Discount Rate	3.15%
Health Care Trend Rate	7% for 2012 grading to 4.5% in 2032
Other Medical Care Trend Rate	7% for 2012 grading to 4.5% in 2032
Dental	4% per annum

December 31, 2012

10. Employment benefits (continued)

Information about the Municipality's future liability with respect to these costs are as follows:

	2012	2011
Accrued benefit liability, beginning of year	\$3,125,100	\$2,843,700
Annual expense	389,700	394,400
Benefits paid	(123,000)	(113,000)
	\$3,391,800	\$3,125,100

(ii) Accrued sick leave

Under the sick leave benefit plan, approved for all union employees, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Town's employment. The amount of the payment is equal to the number of sick days to which the employee is entitled at one-half their rate of pay at the time of termination. Sick leave unused is normally paid out to union employees before the end of each fiscal year, resulting in no accrual at the year end. Non-union employees are not entitled to sick leave benefits.

(iii) Vacation

Vacation entitlements can accumulate and employees would be entitled to a cash payment equal to the value of their unused entitlements if they were to terminate employment.

11. Deferred revenue - development charges

Development charges are reported as deferred revenue since provincial legislation restricts the use of the funds to specific purposes and under certain circumstances the funds may be refunded.

As of December 31, 2012, the Town had allocated more development charge revenue than it had collected. This deficit will be recovered through the collection of future development charges.

December 31, 2012

12. Budget

The Financial Plan (Budget) By-Law adopted by Council on March 19, 2012 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 budget figures anticipated using surpluses accumulated in previous years to reduce current year expenditures in excess of current year revenues to \$nil. In addition, the budget expensed all tangible capital expenditures rather than including amortization expense. As a result, the budget figures presented in the statements of operations and change in net financial assets (debt) represent the Financial Plan adopted by Council on March 19, 2012 with adjustments as follows:

	2012
Financial Plan (Budget) By-Law consolidated surplus/(deficit) for the year	\$(9,579,991)
Add:	
Debt principal repayments	1,428,069
Capital Expenditures	16,329,551
	\$17,757,620
Less	
Amortization	4,825,000
	\$3,352,629

13. Contingent liabilities

The Municipality has been named defendant in certain legal actions. The ultimate liability if any, which may arise, is indeterminable as the Municipality has established valid defense positions. In the opinion of administration and legal counsel, any payments, which may result from these actions, are subject to material coverage under the Municipality's insurance policies. Consequently, the consolidated financial statements contain no provision for any liability, which may occur as a result of these claims.

14. Comparative amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

December 31, 2012

15. Contractual obligations

In accordance with a service agreement entered into by the Municipality on February 13, 1958 with the Ontario Clean Water Agency (OCWA), the existing sewage and water systems are operated by OCWA. Under this agreement, the Municipality is obligated to meet all operating costs and repay the long-term liabilities related to this project.

Included in the consolidated statement of financial activities are the 2012 charges from OCWA of \$786,652 (2011 - \$753,575). The consolidated statement of financial position does not reflect any assets or liabilities pertaining to the sewage or water systems except to the extent of service charges due to (or from) OCWA and the total long-term liabilities outstanding. The accumulated net surplus of OCWA is not reflected in the accompanying consolidated financial statements. The total long-term liabilities as at December 31, 2012 are \$115,702 (2011 - \$220,897).

The Municipality has entered into various other service agreements. The largest of these relates to The Minister of Community Safety and Correctional Services (Police Services). The obligation under this contract approximates \$4.0 million in expenditures on an annual basis. The total expense included in the consolidated statement of financial activities for 2012 is \$4,125,436 (2011 - \$3,961,545). The duration of this contract is five years, it expires March 2014, and the contract can be terminated by either party with written notice of one year.

16. Tangible capital assets

The Consolidated Schedule of Tangible Capital Assets (Schedule 1) provides information on the tangible capital assets of the Municipality by major asset class as well as for accumulated amortization of the assets controlled. The reader should be aware of the following information relating to tangible capital assets:

(a) Contributed Capital Assets

The Town records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or of the transfer of risk and responsibility. Typical examples are roadways, water and sewer lines installed by a developer as part of a subdivision agreement. There were no such transfers in the current or prior year.

(b) Capitalization of Interest

The Town has a policy of capitalizing borrowing costs incurred when financing the acquisition of a tangible capital asset.

December 31, 2012

17. Segmented information

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

General Government

General government consists of three categories: governance, corporate management and program support. It includes offices of the Council, Chief Administrative Officer, Information Technology, Financial and Clerk Services.

Protection to Persons and Property

Protection is comprised of Fire, Police, Conservation Authority and Protective Inspection and Control. The mandate of the Police Services department is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. Conservation Authority includes the Town's share of the Essex Region Conservation Authority. The Fire Service department is responsible to provide fire suppression service; fire prevention programs; training and education related to prevention, detection or extinguishment of fires. Protective Inspection and Control ensures an acceptable quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-laws for the protection of occupants.

Transportation

The Public Works department is responsible for the delivery of municipal public works services related to the planning, development and maintenance of roadway systems, snow clearing and removal and street lighting. Transportation also includes services related to the harbour.

Environmental

Includes Water, Wastewater, Storm sewer, as well as Garbage Collection and Disposal. The department provides drinking water to citizens of Essex, collecting and treating wastewater, and providing collection and disposal of waste. Recycling is provided at the County level.

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.

December 31, 2012

17. Segmented information (continued)

Recreational and Cultural

The department provides public services that respond to citizens' leisure and cultural requirements. Facilities include a wide variety of parks plus three arenas, a pool and various community facilities.

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.

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 accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in the Summary of Significant Accounting Policies. For additional information see the Schedule of Segment Disclosure (Schedule 2).

The Corporation of the Town of Essex
Consolidated Schedule of Tangible Capital Assets - Schedule 1

December 31, 2012

2012

	Land	Buildings	Vehicles	Machinery & equipment	Murals & land improvements	Roads	Underground and other networks	Assets under construction	Total
Cost, beginning of year	\$ 22,391,096	\$ 42,453,433	\$ 4,357,394	\$ 9,502,654	\$ 1,103,404	\$ 55,930,550	\$ 98,943,220	\$ 1,315,005	\$ 235,996,756
Additions	318,834	1,365,308	468,374	715,486	-	1,980,109	932,339	4,991,570	10,772,020
Disposals/writedowns		-	(31,355)	(56,527)	-	(16,050)	-	(9,400)	(113,332)
Other transfers		2,718					330,683	(522,856)	(189,455)
Cost, end of year	22,709,930	43,821,459	4,794,413	10,161,613	1,103,404	57,894,609	100,206,242	5,774,319	246,465,989
Accumulated amortization, beginning of year	-	8,899,142	2,272,831	3,565,378	428,865	14,959,331	26,637,972	-	56,763,519
Amortization	-	1,229,047	211,829	564,642	134,689	1,195,477	1,491,429	-	4,827,113
Disposals/writedowns	-	-	(30,049)	(44,717)	-	(8,278)	-	-	(83,044)
Accumulated amortization, end of year	-	10,128,189	2,454,611	4,085,303	563,554	16,146,530	28,129,401	-	61,507,588
Net carrying amount, end of year	22,709,930	33,693,270	2,339,802	6,076,310	539,850	41,748,079	72,076,841	5,774,319	184,958,401

The Corporation of the Town of Essex
Consolidated Schedule of Tangible Capital Assets - Schedule 1

December 31, 2011

2011

	Land	Buildings	Vehicles	Machinery & equipment	Murals & land improvements	Roads	Underground and other networks	Assets under construction	Total
Cost, beginning of year	\$ 20,988,423	\$ 39,938,477	\$ 4,269,437	\$ 8,638,658	\$ 1,103,404	\$ 54,844,871	\$ 98,294,096	\$ 3,407,428	\$ 231,484,794
Additions	1,402,673	2,514,956	146,207	922,829	-	1,089,120	649,124	1,009,095	7,734,004
Disposals/writedowns		-	(58,250)	(58,833)	-	(3,441)	-	(3,101,518)	(3,222,042)
Cost, end of year	22,391,096	42,453,433	4,357,394	9,502,654	1,103,404	55,930,550	98,943,220	1,315,005	235,996,756
Accumulated amortization, beginning of year	-	7,717,990	2,115,256	3,076,639	305,796	13,877,852	25,192,733	-	52,286,266
Amortization	-	1,181,152	200,010	519,722	123,069	1,083,175	1,445,239	-	4,552,367
Disposals/writedowns	-	-	(42,435)	(30,983)	-	(1,696)	-	-	(75,114)
Accumulated amortization, end of year	-	8,899,142	2,272,831	3,565,378	428,865	14,959,331	26,637,972	-	56,763,519
Net carrying amount, end of year	22,391,096	33,554,291	2,084,563	5,937,276	674,539	40,971,219	72,305,248	1,315,005	179,233,237

The Corporation of the Town of Essex
Schedule of Segment Disclosure - Schedule 2

For the year ended December 31,
2012

	General government	Protection to persons and property	Transportation	Environmental	Health services	Recreation and cultural services	Planning and development	2012 Total
Revenue								
Taxation	\$ 12,155,587	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,155,587
User charges	247,771	334,800	-	19,412	61,630	2,341,268	33,800	3,038,681
Grants	5,635,054	165,936	2,419	63,382	122,383	27,000	41,705	6,057,879
Interest	744,922	-	-	-	-	-	-	744,922
Landfill compensation	-	-	-	1,372,396	-	-	-	1,372,396
Share of income - government business enterprise	651,784	-	-	-	-	-	-	651,784
Commuted payments	-	-	-	47,001	-	-	-	47,001
Development contributions	361,710	-	-	-	-	-	-	361,710
Sewer and water charges	-	-	-	6,412,631	-	-	-	6,412,631
Other	248,778	294,710	-	6,006	-	126,556	37,865	713,915
Loss on disposal of tangible capital assets	(2,126)	(9,018)	(7,772)	(1,973)	-	(9,400)	-	(30,289)
	20,043,480	786,428	(5,353)	7,918,855	184,013	2,485,424	113,370	31,526,217
Expenses								
Salaries and benefits	1,833,451	1,226,063	1,213,867	390,713	113,052	2,380,602	360,557	7,518,305
Materials and supplies	623,570	512,959	1,150,988	952,217	113,791	1,816,285	127,690	5,297,500
Interest	-	7,701	-	239,510	-	452,120	19,864	719,195
Contract service	1,239	4,125,436	344,698	2,628,187	113	249,462	(2,371)	7,346,764
Amortization	84,527	208,925	2,032,232	1,263,059	3,387	1,160,949	74,017	4,827,096
Other	127,696	143,187	317,212	(88,440)	-	227,733	70,526	797,914
	2,670,483	6,224,271	5,058,997	5,385,246	230,343	6,287,151	650,283	26,506,774
Annual surplus for the year	17,372,997	(5,437,843)	(5,064,350)	2,533,609	(46,330)	(3,801,727)	(536,913)	5,019,443

The Corporation of the Town of Essex
Schedule of Segment Disclosure - Schedule 2

For the year ended December 31, 2011

	General government	Protection to persons and property	Transportation	Environmental	Health services	Recreation and cultural services	Planning and development	2011 Total
Revenue								
Taxation	\$ 12,136,940	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,136,940
User charges	119,432	257,994	-	12,937	61,260	2,386,431	32,209	2,870,263
Grants	6,704,287	58,379	18,889	56,036	119,990	709,717	(1,735)	7,665,563
Interest	736,230	-	-	-	-	-	-	736,230
Landfill compensation	-	-	-	1,694,661	-	-	-	1,694,661
Share of income government business enterprise	331,073	-	-	-	-	-	-	331,073
Commuted payments	-	-	-	32,148	-	-	-	32,148
Development contributions	409,693	-	-	-	-	800	-	410,493
Sewer and water charges	-	-	-	6,212,215	-	-	-	6,212,215
Other	117,179	97,682	7,496	4,023	-	81,942	21,866	330,188
Loss on disposal of tangible capital assets	(21,455)	(11,265)	(9,201)	-	-	(3,490)	-	(45,411)
	20,533,379	402,790	17,184	8,012,020	181,250	3,175,400	52,340	32,374,363
Expenses								
Salaries and benefits	1,621,689	1,166,304	1,276,006	382,011	112,636	2,255,113	406,650	7,220,409
Materials and supplies	653,805	453,466	1,640,412	1,472,200	112,157	1,706,433	164,897	6,203,370
Interest	6,965	1,996	-	288,838	-	491,593	17,385	806,777
Contract service	209	3,961,824	249,416	2,043,064	72	171,126	-	6,425,711
Amortization	68,842	204,253	1,914,339	1,206,507	1,382	1,094,376	62,668	4,552,367
Other	249,710	133,880	(13,889)	55,344	-	234	467,104	892,383
	2,601,220	5,921,723	5,066,284	5,447,964	226,247	5,718,875	1,118,704	26,101,017
Annual surplus for the year	17,932,159	(5,518,933)	(5,049,100)	2,564,056	(44,997)	(2,543,475)	(1,066,364)	6,273,346

The Corporation of the Town of Essex

Trust Funds

Financial Statements

For the year ended December 31, 2012



Telephone number: (519)776-6488
Fax number: (519)776-6090
www.bdo.ca

BDO Canada LLP
180 Talbot Street South
Essex Ontario N8M 1B6 Canada

Independent Auditor's Report

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

We have audited the balance sheet of the trust funds of The Corporation of the Town of Essex as at December 31, 2012 and the statement of continuity of the trust funds for the year ended and a summary of significant accounting policies (together "the financial statements").

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 necessary to enable the preparation of the 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 the 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 of 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, if any, made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial

position of the trust funds of The Corporation of the Town of Essex as at December 31, 2012 and the continuity thereof, in accordance with Canadian public sector accounting standards.

BDO Canada LLP
Chartered Accountants, Licensed Public Accountants
Essex, Ontario
July 08, 2013

The Corporation of the Town of Essex

Trust Funds

Balance Sheet

December 31, 2012

	Ontario Home Renewal Program		Cemetery and Headstone Care and Maintenance	
	2012	2011	2012	2011
Financial assets and liabilities				
Cash	\$0	\$0	\$313,817	\$303,677
Due (from) to general account	0	0	(28,055)	2,657
	\$0	\$0	\$285,762	\$306,334
Accumulated surplus	\$0	\$0	\$285,762	\$306,334

Statement of Continuity

For the year ended December 31, 2012

	Ontario Home Renewal Program		Cemetery and Headstone Care and Maintenance	
	2012	2011	2012	2011
Net receipts				
Interest and other	\$0	\$(60)	\$(20,572)	\$10,474
Net change in trust funds during the year	0	(60)	(20,572)	10,474
	0	60	306,334	295,860
Accumulated surplus	\$0	\$0	\$285,762	\$306,334

Note to Financial Statements

December 31, 2012

1. Summary of significant accounting policies

The Trust Fund financial statements are the representation of management and have been prepared in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Precise determination of some assets and liabilities may be dependent upon future events and involves the use of estimates and approximations. These estimates have been based upon the information available using careful judgment and review.

(a) Basis of accounting

- i) Sources of financing and expenditures are reported on the accrual basis of accounting
- ii) The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures 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.