

Consolidated Financial Statements

**THE CORPORATION OF
THE TOWN OF COBOURG**

Year ended December 31, 2014

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2014

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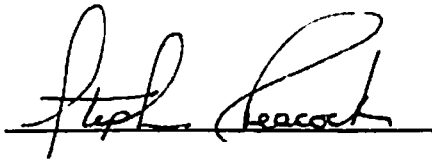
Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of The Corporation of the Town of Cobourg (the "Town") are the responsibility of the Town's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards. A summary of the significant accounting policies are described in Note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

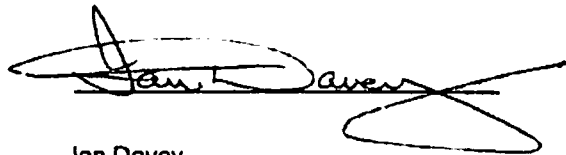
The Town's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The audit committee meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the Town. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Town's consolidated financial statements.



Stephen Peacock
Chief Administrative Officer



Ian Davey
Treasurer



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Corporation of The Town of Cobourg, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 our 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, we consider 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 consolidated financial position of The Corporation of The Town of Cobourg as at December 31, 2014, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

July 13, 2015

Kingston, Canada

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
Financial assets:		
Cash	\$ 3,933,872	\$ 5,992,039
Investments (note 2)	813,117	799,504
Taxes receivable	3,183,574	3,471,438
Receivables - grant	283,932	200,352
Receivables - other	1,938,276	2,045,713
Other financial assets	345,278	148,400
Note receivable from Town of Cobourg Holdings Inc. (note 4(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 4)	10,209,762	9,897,353
	<u>27,707,811</u>	<u>29,554,799</u>
Liabilities:		
Accounts payable and accrued liabilities	6,387,025	6,114,877
Deferred revenue	432,577	532,588
Deferred revenue - obligatory reserve funds (note 6)	8,515,005	7,388,242
Employee future benefit liability (note 7(d))	2,527,990	2,492,830
Mortgage payable (note 8)	3,916,061	5,062,500
Promissory note payable to Town of Cobourg Holdings Inc. (note 4(d))	675,000	720,000
Net long-term liabilities (note 9)	8,739,577	11,061,474
	<u>31,193,235</u>	<u>33,372,511</u>
Total net debt	(3,485,424)	(3,817,712)
Non-financial assets:		
Tangible capital assets (note 14)	174,496,963	172,185,301
Other assets	1,345,059	1,302,133
	<u>175,842,022</u>	<u>173,487,434</u>
Accumulated surplus (note 10)	<u>\$ 172,356,598</u>	<u>\$ 169,669,722</u>

Commitments (note 13)

Contingent liabilities (note 16)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2014, with comparative information for 2013

	Budget 2014	Actual 2014	Actual 2013
	(note 15)		
Revenue:			
Taxation:			
Property taxation	\$ 20,935,347	\$ 20,962,515	\$ 20,195,479
Payments in lieu of taxation	115,800	172,846	170,807
User charges	12,480,007	12,458,940	12,002,501
Development charges	–	508,148	2,435,849
Grants:			
Province of Ontario	211,680	714,722	414,409
Government of Canada	536,225	353,352	950,337
Other municipalities	244,036	606,685	578,189
Other:			
Rental income	4,383,111	4,415,770	4,466,660
Penalty and interest	720,000	639,126	689,917
Other income	–	1,535,946	1,047,782
Donations	–	168,364	254,077
Interest income - Town of Cobourg Holdings Inc. (note 4(c))	507,500	507,500	507,500
Interest and dividend income	1,075,000	538,903	489,553
Gain on sale of assets	40,000	18,135	99,886
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 4)	–	312,409	197,621
Total revenue	41,248,706	43,913,361	44,500,567
Expenses (note 11):			
General government	5,243,766	4,217,545	3,641,597
Protection to persons and property	9,571,796	10,965,536	10,149,382
Transportation services	5,317,111	5,775,632	5,776,410
Environmental services	8,116,766	8,280,582	8,163,599
Recreation and cultural services	6,911,712	8,119,111	7,743,223
Social and family services	42,250	103,672	76,867
Planning and development	983,842	1,111,355	1,051,481
Industrial property	4,611,278	2,653,052	2,596,644
Total expenses	40,798,521	41,226,485	39,199,203
Annual surplus	450,185	2,686,876	5,301,364
Accumulated surplus, beginning of year		169,669,722	164,368,358
Accumulated surplus, end of year (note 10)		\$ 172,356,598	\$ 169,669,722

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Change in Net Debt

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Annual surplus	\$ 2,686,876	\$ 5,301,364
Acquisition of tangible capital assets	(8,815,366)	(6,969,236)
Decrease in construction-in-progress	36,032	658,769
Amortization of tangible capital assets	6,419,963	6,279,546
Gain on disposal of tangible capital assets	(18,135)	(99,886)
Proceeds on disposal of tangible capital assets	65,844	133,423
Acquisition of other assets	(42,926)	(32,608)
	332,288	5,271,372
Net debt, beginning of year	(3,817,712)	(9,089,084)
Net debt, end of year	\$ (3,485,424)	\$ (3,817,712)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Operations:		
Annual surplus	\$ 2,686,876	\$ 5,301,364
Items not involving cash:		
Amortization of tangible capital assets	6,419,963	6,279,546
Increase in employee future benefit liability	35,160	25,157
Changes in non-cash working capital balances:		
Taxes receivable	287,864	(102,193)
Receivables - grant	(83,580)	454,306
Receivables - other	107,437	200,368
Other financial assets	(196,878)	21,952
Other assets	(42,926)	(32,608)
Accounts payable and accrued liabilities	272,148	20,493
Deferred revenue	(100,011)	157,267
Deferred revenue - obligatory reserve funds	1,126,763	(1,457,641)
Net change in cash from operations	10,512,816	10,868,011
Capital activities:		
Cash used to acquire capital assets	(8,815,366)	(6,969,236)
Decrease in construction-in-progress	36,032	658,769
Gain on disposal of tangible capital assets	(18,135)	(99,886)
Proceeds on disposal of tangible capital assets	65,844	133,423
Net change in cash from capital activities	(8,731,625)	(6,276,930)
Investing activities:		
Increase in investment in Town of Cobourg Holdings Inc.	(312,409)	(197,621)
Decrease (increase) in investments	(13,613)	297
Net change in cash from investing activities	(326,022)	(197,324)
Financing activities:		
Repayment of mortgage payable	(1,146,439)	(1,102,356)
Repayment of long-term liabilities	(2,321,897)	(2,305,390)
Proceeds from long-term liabilities	-	5,708,083
Repayment of demand loan	-	(4,000,000)
Repayment of promissory note	(45,000)	(45,000)
Net change in cash from financing activities	(3,513,336)	(1,744,663)
Increase (decrease) in cash	(2,058,167)	2,649,094
Cash, beginning of year	5,992,039	3,342,945
Cash, end of year	\$ 3,933,872	\$ 5,992,039
Supplemental cash flow information:		
Cash paid for interest	\$ 424,122	\$ 446,192
Cash received from interest	639,126	611,953

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2014

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the Town of Cobourg (“the Town”) are the representations of management. They have been prepared in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Town are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

The consolidated financial statements reflect the assets, liabilities, revenue, expenses and fund balances of the current, capital and reserves of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards which are owned or controlled by the Town.

Interdepartmental and interorganizational transactions and balances between these organizations are eliminated. These consolidated financial statements include:

Downtown Business Improvement Area

Library Board

Waterworks of the Town of Cobourg

These consolidated financial statements also include the assets, liabilities, revenue and expenses of the industrial property, which is 100% owned by the Town.

(ii) Investment in Town of Cobourg Holdings Inc.:

Town of Cobourg Holdings Inc. (“TCHI”) and its subsidiaries are accounted for on a modified equity basis, consistent with Canadian public sector accounting standards. Under the modified equity basis of accounting, the business enterprise’s accounting principles are not adjusted to conform to those of the Corporation, and inter-organizational transactions and balances are not eliminated. The Town recognizes its equity interest in the annual income or loss of TCHI in its Consolidated Statement of Operations with a corresponding increase or decrease in its investment asset account. Any dividends that the Town may receive from TCHI will be reflected as reductions in the investment asset account.

(iii) Accounting for school board and County transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards, and the County of Northumberland are not reflected in the municipal fund balances of these consolidated financial statements. Overlevies (underlevies) are reported on the Consolidated Statement of Financial Position.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(b) Basis of accounting:

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as they become earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Deferred revenue - obligatory reserve funds:

The Town receives restricted contributions under the authority of federal and provincial legislation and Town by-laws. These funds by their nature are restricted in their use and until applied to applicable costs are recorded as deferred revenue. Amounts applied to qualifying expenses are recorded as revenue in the fiscal period they are expended.

(d) Employee future benefit liability:

The Town accrues its obligations for employee benefit plans which require funding in future periods. The cost of post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued benefit obligation, are amortized over the average remaining service life of the related employee groups, which is estimated to be 12 years.

(e) Deferred revenue:

The Town receives contributions pursuant to legislation, regulations or agreement that may only be used for certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed.

(f) Investments:

Investments are recorded at cost plus accrued interest and amortization of purchase premiums and discounts. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

Investment income earned on current available funds and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balance.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(g) Workplace safety and insurance compensation:

The Town bears the cost of certain insurance and pension benefits awarded under workplace safety and insurance legislation and accrues the actuarially determined cost of these obligations.

Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued obligation, are amortized over the mean term of the liabilities which is estimated to be 12 years.

(h) Government transfers:

Government transfers are recognized as revenue in the consolidated financial statements when the transfer is authorized, any eligibility criteria are met and a reasonable estimate of the amount can be made except, when and to the extent that, stipulations by the transferor give rise to an obligation that meets the definition of a liability. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

(i) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes.

Due to the inherent uncertainty in making estimates, actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recognized in the consolidated financial statements in the period in which they become known.

(j) Land held for resale:

Land held for resale is recorded at the lower of cost and net realizable value. Cost includes amounts for land acquisition and improvement to prepare the land for sale or servicing.

(k) Property taxation:

The Town recognizes property tax revenue using the approved tax rate and the anticipated assessment. Taxes receivable and tax revenue are recognized when they meet the definition of an asset, the tax is authorized and the taxable event has occurred. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the statement of operations.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(l) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight line basis over their estimated useful lives as follows:

Asset		Years
Land improvements	Straight-line	20 to 80
Buildings and building improvements	Straight-line	15 to 95
Roads, sewer, water infrastructure	Straight-line	20 to 80
Machinery and equipment	Straight-line	3 to 30
Vehicles	Straight-line	6 to 20
Books and periodicals	Straight-line	7
Industrial property - land improvements and buildings	Declining balance	5%

Annual amortization is charged for months in use. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets:

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

(iii) Natural resources:

Natural resources that have not been purchased are not recognized as assets in the financial statements.

(iv) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(l) Non-financial assets (continued):

(v) Inventories of supplies:

Inventories of supplies held for consumption are stated at the lower of cost and replacement cost.

(vi) Interest capitalization:

The Town does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

2. Investments:

Investments, which consist of guaranteed investment certificates, are recorded on the Consolidated Statement of Financial Position at cost plus accrued interest which also approximates market value. These investments are being held in trust from a developer and all investment income earned is payable to the developer.

3. Operations of school boards and the County of Northumberland:

Requisitions were made by the school boards and the County of Northumberland requiring the Town to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

	School Boards		County of Northumberland	
	2014	2013	2014	2013
Amounts requisitioned and collected	\$ 8,812,041	\$ 8,795,542	\$ 11,634,437	\$ 11,284,769

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investment in Town of Cobourg Holdings Inc.:

In compliance with provincial legislation enacted to restructure the electricity industry in Ontario, Council approved the incorporation of the electricity distribution business of the former Public Utilities Commission - Electric Department of Cobourg (the "Commission") in April 2000. Through its 99.9% interest in Town of Cobourg Holdings Inc. ("TCHI"), the Town retains its interest in the electricity business conducted by TCHI.

As part of electricity restructuring, incorporated distribution utilities have been allowed to take on commercial debt structures and have the ability to earn a regulated commercial rate of return. Effective May 1, 2000, the electricity distribution business formerly conducted by the Commission was transferred to TCHI. The Corporation's consolidated financial statements as a result of this transaction are comprised of the following:

	2014	2013
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	2,895,208	2,697,587
Pro-rata share of net income during the year	680,842	582,721
Dividend	(385,100)	(385,100)
Refundable dividend tax	(357)	–
Refundable dividend tax recovered	17,024	–
Total investment in Town of Cobourg Holdings Inc.	\$ 10,209,762	\$ 9,897,353

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investment in Town of Cobourg Holdings Inc. (continued):

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2014 and December 31, 2013 and its results of operations for both years:

(a) Financial position:

	2014	2013
Current assets	\$ 9,385,846	\$ 10,740,293
Capital assets	16,107,101	15,686,491
Other assets	1,099,895	962,300
Total assets	26,592,842	27,389,084
Current liabilities	5,221,179	4,058,299
Long-term liabilities	11,161,901	13,433,432
Total liabilities	16,383,080	17,491,731
Net assets	\$ 10,209,762	\$ 9,897,353

(b) Results of operations:

	2014	2013
Revenue	\$ 32,569,641	\$ 31,569,142
Expenses	31,888,799	30,986,421
Net income for the period	\$ 680,842	\$ 582,721

(c) The note receivable bears interest at 7.25% per annum. The Town does not intend to demand repayment from TCHI until replacement term financing is in place. Interest earned on this note amounted to \$507,500 (2013 - \$507,500). Fair value of the note receivable is indeterminable as it is a non-arm's length loan.

(d) The promissory note payable bears interest at 5.4% and is due in annual repayments of \$45,000 plus interest with the total balance due on January 1, 2029. Interest paid in 2014 was \$38,880 (2013 - \$41,310).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

5. Industrial property:

Non-financial assets of the Industrial property represent the unamortized cost of the land, land improvements and buildings purchased by the Town of Cobourg and rented out.

	Cost	Accumulated Amortization	2014	2013
Land	\$ 3,125,000	\$ –	\$ 3,125,000	\$ 3,125,000
Land improvements	902,768	225,404	677,364	713,015
Buildings	20,857,030	7,238,307	13,618,723	12,985,346
	\$ 24,884,798	\$ 7,463,711	\$ 17,421,087	\$ 16,823,361

Cost and accumulated amortization at December 31, 2013 amounted to \$23,571,690 and \$6,748,329, respectively.

(a) Financial position:

Included in the Consolidated Statement of Financial Position are the following assets and liabilities pertaining to the industrial property operations:

	2014	2013
Cash	\$ 1,192,874	\$ 1,051,465
Accounts receivable	379,790	533,515
Prepaid expenses	23,681	17,283
Industrial property	17,421,087	16,823,361
Total assets	19,017,432	18,425,624
Accounts payable and accrued liabilities	793,242	135,688
Deferred revenue	102,338	105,190
Mortgage payable	3,916,061	5,062,500
Total liabilities	4,811,641	5,303,378
Net equity in industrial property	\$ 14,205,791	\$ 13,122,246

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

5. Industrial property (continued):

(b) Results of operations and change in net equity:

The following table provides condensed financial information for the industrial property operations:

	2014	2013
Gross rental income	\$ 3,188,739	\$ 3,290,815
Operating expenses	(1,642,071)	(1,534,762)
Operating expenses recovery	1,200,608	1,150,010
Administrative expenses	(191,793)	(200,465)
Interest on long-term debt	(103,805)	(162,811)
Amortization	(715,383)	(698,607)
Net income for the year	\$ 1,736,295	\$ 1,844,180
Equity, beginning of the year	\$ 12,122,246	\$ 10,853,066
Net income for the period	1,736,295	1,844,180
Transfer to reserves	(652,750)	(575,000)
Capital reserve	1,000,000	1,000,000
Equity, end of year	\$ 14,205,791	\$ 13,122,246

The industrial property is managed by an independent management company under a year-to-year contract. Rental income is recognized on a straight-line basis over the term of the tenants' respective lease agreements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

6. Deferred revenue - obligatory reserve funds:

A requirement of the Canadian public sector accounting standards is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial and municipal legislation restricts how these funds may be used. The balances in the obligatory reserve funds of the Town are summarized below:

	2014	2013
Balance, beginning of year	\$ 7,388,242	\$ 8,845,883
Recreational land	49,100	40,000
Federal grant - gasoline tax	551,149	558,592
Provincial grant - gasoline tax transit	232,187	187,922
Development contributions	1,155,686	1,480,526
Building code	286,916	107,700
Sub-divider contributions	61,940	47,250
Investment income	86,967	107,046
Utilization - capital	(734,758)	(3,601,252)
Utilization - operating	(562,424)	(385,425)
Balance, end of year	\$ 8,515,005	\$ 7,388,242
Analyzed as follows:		
Sub-divider contributions	\$ 226,759	\$ 204,820
Recreational land	148,169	299,312
Development charges	6,522,993	5,790,173
Gasoline tax:		
Provincial	45,187	-
Federal	1,025,493	723,194
Provincial - Investing in Ontario	-	98,371
Building code	546,404	272,372
	\$ 8,515,005	\$ 7,388,242

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

7. Employee future benefit liability:

(a) Extended health care and dental benefits:

(i) The Corporation of the Town of Cobourg:

The Town provides extended health care and dental benefits to its employees. An independent actuarial study of the post-retirement and post-employment benefits was undertaken at April 2014.

At December 31, 2014, the Town's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$2,091,411 (2013 - \$1,943,028).

The significant actuarial assumptions adopted in estimating the Town's accrued benefit obligation are as follows:

Discount rate	4.75% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	4.0% in 2014 reducing by .33% per year to 4.0% in 2020
Expected average remaining service life	12 years

Information with respect to the Town's post-retirement and post-employment obligations is as follows:

	2014	2013
Accrued benefit liability, January 1	\$ 2,035,098	\$ 1,988,903
Service cost	75,227	70,314
Benefits paid for the period	(116,097)	(101,035)
Interest cost	97,767	88,805
Amortization of actuarial gains and losses	(584)	(11,889)
Accrued benefit liability, December 31	\$ 2,091,411	\$ 2,035,098

The accrued benefit liabilities at December 31, includes the following components:

	2014	2013
Accrued benefit obligation	\$ 2,135,582	\$ 1,943,028
Unamortized actuarial gain (loss)	(44,171)	92,070
Accrued benefit liability, end of year	\$ 2,091,411	\$ 2,035,098

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

7. Employee future benefit liability (continued):

(a) Extended health care and dental benefits (continued):

(ii) Waterworks of the Town of Cobourg:

The Waterworks of the Town of Cobourg (the "Waterworks") provides extended health, dental and life insurance benefits for retired employees. An independent actuarial valuation was undertaken as at December 31, 2012.

At December 31, 2014, the accrued benefit liability relating to post-retirement benefit plans is \$307,872 (2013 - \$311,296).

The significant actuarial assumptions adopted in estimating the Waterworks' accrued benefit obligation are as follows:

Discount rate	4.0% per annum
Inflation rate	2.0% per annum
Salary escalation	3.3% per annum
Dental benefits escalation	4.8% per annum
Health benefits escalation	6.93% in 2014 decreasing by 0.53% per annum until 2018

Information with respect to the Waterworks' post-retirement and post-employment obligations is as follows:

	2014	2013
Accrued benefit liability, January 1	\$ 311,296	\$ 311,410
Service cost	6,219	5,980
Benefits paid for the period	(29,941)	(26,713)
Interest cost	20,298	20,619
Accrued benefit liability, December 31	\$ 307,872	\$ 311,296

(b) Workplace safety and insurance:

Effective March 31, 2010, the Town is included in Workplace Safety and Insurance Board Schedule 1 and therefore has no additional liability for Workplace Safety and Insurance Board claims on or after that date.

The Town was an employer under Schedule 2 of the Act until March, 2010. It self-insures the risk of its own Schedule 2 WSIB claims and is responsible for all costs relating to its workers Schedule 2 WSIB claim. An independent actuarial study of the Workplace Safety and Insurance Board liabilities was completed December 2013.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

7. Employee future benefit liability (continued):

(b) Workplace safety and insurance (continued):

At December 31, 2014, the Town's accrued benefit obligation relating to future payments on Workplace Safety and Insurance Board claims is \$128,707 (2013 - \$146,436).

Information with respect to the Town's Workplace Safety and Insurance Board future payments is as follows:

	2014	2013
Accrued benefit, beginning of year	\$ 146,436	\$ 167,360
Benefits paid for the period	(6,461)	(12,874)
Interest cost	3,356	4,675
Amortization of actuarial gain	(14,624)	(12,725)
Accrued benefit liability, end of year	\$ 128,707	\$ 146,436

The accrued benefit liability at December 31, 2014, includes the following components:

	2014	2013
Accrued benefit obligation	\$ 70,780	\$ 96,669
Unamortized actuarial gain	57,927	49,767
Accrued benefit liability	\$ 128,707	\$ 146,436

(c) Liability for vacation credits:

Compensated vacation expense is accrued for employees as entitlement to these payments is earned in accordance with the Town's benefit plans for vacation time. Vacation credits earned as at December 31, 2014 amount to \$887,724 (2013 - \$732,179) and are included in accounts payable and accrued liabilities.

(d) Employee future benefit liability:

	2014	2013
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 2,091,411	\$ 2,035,098
Workplace safety and insurance	128,707	146,436
	2,220,118	2,181,534
Health, dental and life insurance benefits - Waterworks	307,872	311,296
	\$ 2,527,990	\$ 2,492,830

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

8. Mortgage payable on industrial property:

	2014	2013
Royal Bank of Canada: 2.33%, due on March 5, 2018, blended monthly payments of principal and interest in the amount of \$104,352, secured by industrial property	\$ 3,916,061	\$ 5,062,500

Principal payments for the next four years are as follows:

2015	\$ 1,177,690
2016	1,200,917
2017	1,229,542
2018	307,912
	<u>\$ 3,916,061</u>

9. Net long-term liabilities:

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

	2014	2013
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 8,739,577	\$ 11,061,474

(b) Of the net long-term liabilities reported in (a) of this note, principal payments are payable from general municipal revenues as follows:

2015	\$ 1,592,297
2016	1,268,525
2017	828,257
2018	749,140
2019	582,880
Thereafter	3,718,478
	<u>\$ 8,739,577</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

9. Net long-term liabilities (continued):

- (c) Approval of the Ontario Municipal Board or by-law as required has been obtained for the long-term liabilities in note 9(a) issued in the name of the Town.
- (d) Total interest on long-term liabilities that are reported on the Consolidated Statement of Operations amount to \$424,122 (2013 - \$446,192). The long-term liabilities bear interest at rates ranging from 2.93% to 5.23% with term renewals to take place in 2014 through 2033.

10. Accumulated surplus:

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

	2014	2013
Surplus:		
Operations	\$ (4,499,900)	\$ (2,134,073)
Unfinanced capital	(6,701,801)	(7,412,505)
Invested in tangible capital assets	174,496,963	172,185,301
Long-term debt	(8,739,577)	(11,061,474)
Mortgage	(3,916,061)	(5,062,500)
Unfunded:		
Employee benefits	(2,527,990)	(2,492,830)
Promissory note payable to Town of Cobourg Holdings Inc.	(675,000)	(720,000)
Net surplus Town unconsolidated	147,436,634	143,301,919
Waterworks	1,236,855	2,876,381
Downtown Business Improvement Area	34,375	66,816
Town of Cobourg Public Library Board	(64,665)	18,140
Note receivable from Town of Cobourg Holdings Inc.	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc.	10,209,762	9,897,353
Total surplus	165,852,961	163,160,609
Reserves:		
Contingencies	26,440	26,440
Parking	226,496	115,051
Current:		
Health services	4,207	4,207
Library	166,503	164,100
Other	11,290	11,290
Capital:		
General government	1,127,983	1,886,874
Protection services	1,448,625	1,141,901
Transportation services	832,353	645,617
Environmental services	1,577,950	1,612,407
Recreation and cultural services	503,940	369,453
Planning and development	577,850	531,773
Total reserves	6,503,637	6,509,113
Total accumulated surplus	\$ 172,356,598	\$ 169,669,722

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

11. Classification of expenses by object:

The Consolidated Statement of Operations presents the expenses by function, whereas the following classifies those same expenses by object:

	2014	2013
Salary, wages and employee benefits	\$ 19,916,685	\$ 18,172,484
Operating materials and supplies	6,410,379	5,207,685
Contracted services	7,697,012	7,520,094
Rents and financial expenses	620,305	625,061
External transfers to other	(261,981)	948,141
Interest on long-term debt	424,122	446,192
Amortization of tangible capital assets	6,419,963	6,279,546
	<u>\$ 41,226,485</u>	<u>\$ 39,199,203</u>

12. Pension agreements:

The Town makes contributions to the Ontario Municipal Employees Retirement Fund (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.

For the year ended December 31, 2014, the amount contributed for and included as current service pension costs expenses on the Consolidated Statement of Operations is \$1,268,133 (2013 - \$1,243,461).

13. Commitments:

Lease commitments at December 31, 2014 for equipment under lease obligations are as follows:

2015	\$ 44,276
2016	24,265
2017	16,963
2018	14,219
2019	7,761
	<u>\$ 107,484</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

14. Tangible capital assets:

Cost	Balance at December 31, 2013	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2014
Land	\$ 15,179,349	\$ 108,122	\$ –	\$ 15,287,471
Land improvements	9,491,211	173,826	–	9,665,037
Buildings and building improvements	61,032,844	2,846,847	–	63,879,691
Machinery and equipment	12,676,042	1,278,364	–	13,954,406
Vehicles	9,986,293	353,665	436,102	9,903,856
Roads infrastructure	30,419,686	762,577	98,624	31,083,639
Sewer infrastructure	80,374,707	941,022	–	81,315,729
Water infrastructure	31,819,902	2,243,625	51,000	34,012,527
Books and periodicals	1,059,986	107,318	122,417	1,044,887
Construction-in-progress	1,555,731	1,644,664	1,680,696	1,519,699
	\$ 253,595,751	\$ 10,460,030	\$ 2,388,839	\$ 261,666,942

Accumulated amortization	Balance at December 31, 2013	Amortization expense	Disposals/ transfers/ write-offs	Balance at December 31, 2014
Land improvements	\$ 2,889,292	\$ 262,294	\$ –	\$ 3,151,586
Buildings and building improvements	14,331,646	1,746,247	3,000	16,074,893
Machinery and equipment	6,117,387	774,332	–	6,891,719
Vehicles	4,253,914	554,736	385,393	4,423,257
Roads infrastructure	12,116,943	747,588	98,624	12,765,907
Sewer infrastructure	27,579,900	1,467,185	–	29,047,085
Water infrastructure	13,510,724	735,150	51,000	14,194,874
Books and periodicals	610,644	132,431	122,417	620,658
	\$ 81,410,450	\$ 6,419,963	\$ 660,434	\$ 87,169,979

	Net book value December 31, 2013	Net book value December 31, 2014
Land	\$ 15,179,349	\$ 15,287,471
Land improvements	6,601,919	6,513,451
Buildings and building improvements	46,701,198	47,804,798
Machinery and equipment	6,558,655	7,062,687
Vehicles	5,732,379	5,480,599
Roads infrastructure	18,302,743	18,317,732
Sewer infrastructure	52,794,807	52,268,644
Water infrastructure	18,309,178	19,817,653
Books and periodicals	449,342	424,229
Construction-in-progress	1,555,731	1,519,699
	\$ 172,185,301	\$ 174,496,963

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

14. Tangible capital assets (continued):

(a) Construction-in-progress:

Construction-in-progress having a value of \$1,519,699 (2013 - \$1,555,731) has not been amortized. Amortization of this asset will commence when the asset is put into service.

(b) Tangible capital assets disclosed at nominal value:

Where an estimate of fair value could not be made, the tangible asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

(c) Write-down of tangible capital assets

The write-down of tangible capital assets during the year \$Nil (2013 - \$Nil).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

15. Budget figures:

Budget figures reported on the Consolidated Statement of Operations are based on the 2014 municipal and other local board operating budgets as approved by Council on March 4, 2014 and March 31, 2014.

Approved budget figures also include council approved budget estimates for Public Sector Accounting Board (PSAB) reporting requirements. The chart below reconciles the approved Town operating budgets and PSAB budget estimates to the total consolidated budget figures as reported on the Consolidated Statement of Operations.

	Budget 2014
Total revenue as reported on the statement of operations:	
Operating budget	\$ 28,352,292
Water budget	4,010,100
Wastewater budget	4,503,203
Northam Industrial Park budget	4,383,111
	<u>41,248,706</u>
Total expenses as reported on the statement of operations:	
Operating budget	29,691,486
Water budget	3,313,524
Wastewater budget	3,182,233
Northam Industrial Park budget	4,611,278
	<u>40,798,521</u>
Annual operating surplus	450,185
Budget not reported on statements:	
Net transfer from/to reserves	1,339,194
Operating transfer from reserves - water	(696,576)
Operating transfer to reserves - wastewater	(1,320,970)
Operating transfer to reserves - Northam Industrial Park	228,167
	<u>\$ (450,185)</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

16. Contingent liabilities:

The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2014, management believes that the Corporation has valid defenses and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the consolidated financial statements.

17. Comparative information:

Certain information has been reclassified to conform to the current year financial statement presentation.

18. Segmented information:

The Town is a municipal government institution that provides a range of services to its citizens, including police, fire, transportation, recreational and environmental. For management reporting purposes the Town's operations and activities are organized and reported by department. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

Municipal services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

- (a) Administration: Includes administration, corporate services and governance of the Town. Administration as a segment includes human resource management, support to Council for policy development, by-law development in compliance with the Municipal Act, tax billing and collection responsibilities, financial management reporting, monitoring and overall budget status as well as frontline reception and customer service.
- (b) Protection Services: Includes policing, fire protection, conservation authority, protective inspection and control and emergency measures. The mandate of the police services 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. Fire protection includes inspection, extinguishing and suppression services; emergency medical first response; and prevention education and training programs. Inspection and control includes building inspection, by-law enforcement and dog control services.
- (c) Transportation Services: This department provides the winter and summer maintenance, the repair and the construction of the municipal roads system including bridges and culverts.
- (d) Environmental Services: Includes the management and maintenance of the wastewater plant and sanitary sewer distribution services.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

18. Segmented information (continued):

- (e) Water Services: Includes the management and maintenance of water treatment and distribution.
- (f) Industrial property: Includes the management and maintenance of the Industrial Park.
- (g) Health and Social Services: Provides resources to assist with community physician recruitment and retention and assistance with one specific housing project.
- (h) Parks, Recreation and Culture: Provides services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure programs and facilities including community halls, libraries, parks, recreation fields, arena and marina.
- (i) Planning and Development: Manages development for business interests, environmental concerns, heritage matters, local neighbourhoods and community development. It facilitates economic development by providing services for the approval of all land development plans, the application and enforcement of the zoning by-law and official plan, and the provision of geomatics services.

For each segment separately reported, the segment revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. These municipal services are funded primarily by property tax revenue.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information

Year ended December 31, 2014

	General Government Administration	Protection Services	Transporation Services	Environmental Services	Industrial Property
Revenue:					
User fees and service charges	\$ 91,655	\$ 990,984	\$ 310,147	\$ 4,699,793	\$ –
Federal grants	–	12,884	340,468	–	–
Government of Ontario Grants	170,889	227,462	285,371	–	–
Other municipalities	–	275,000	–	–	–
Rent, license, permits	818,684	–	–	–	4,389,346
Investment income	89,303	–	–	–	–
	1,170,531	1,506,330	935,986	4,699,793	4,389,346
Expenses:					
Salaries, wages and employee benefits	2,599,883	9,635,623	1,974,552	1,310,083	–
Long-term debt charges (interest)	1,835	21,098	107,571	159,037	–
Materials	517,080	1,001,441	1,221,976	1,188,839	–
Contracted services	338,031	470,631	1,379,982	379,175	1,937,669
Rents and financial expenses	537,253	–	45,232	–	–
External transfers	–	(575,138)	–	–	–
Amortization	223,463	411,881	1,046,319	1,538,866	715,383
	4,217,545	10,965,536	5,775,632	4,576,000	2,653,052
Excess of revenue over expenses (expenses over revenue)	(3,047,014)	(9,459,206)	(4,839,646)	123,793	1,736,294
Funded through:					
Taxation					
Payments in lieu of taxation					
Penalties and interest					
Other					
Excess of revenue over expenses (expenses over revenue)	\$ (3,047,014)	\$ (9,459,206)	\$ (4,839,646)	\$ 123,793	\$ 1,736,294

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2014

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
Revenue:					
User fees and service charges	\$ 3,631,402	\$ -	\$ 2,671,816	\$ 63,143	\$ 12,458,940
Federal grants	-	-	-	-	353,352
Government of Ontario grants	-	-	31,000	-	714,722
Other municipalities	-	-	319,185	12,500	606,685
Rent, license, permits	-	-	-	-	5,208,030
Investment income	64,500	-	-	-	153,803
	3,695,902	-	-3,022,001	75,643	-19,495,532
Expenses:					
Salaries, wages and employee benefits			3,534,803	861,741	19,916,685
Long-term debt charges (interest)			134,581		424,122
Materials			2,398,553	82,490	6,410,379
Contracted services	2,680,444		313,750	197,330	7,697,012
Rents and financial expenses			37,820		620,305
External transfers		68,293	244,864		(261,981)
Amortization	1,024,138	2,666	1,454,740	2,507	6,419,963
	3,704,582	70,959	8,119,111	1,144,068	41,226,485
Excess of revenue over expenses (expenses over revenue)	(8,680)	(70,959)	(5,097,110)	(1,068,425)	(21,730,953)
Funded through:					
Taxation					20,962,515
Payments in lieu of taxation					172,846
Penalties and interest					639,126
Other					2,643,342
					24,417,829
Excess of revenue over expenses (expenses over revenue)	\$ (8,680)	\$ (70,959)	\$ (5,097,110)	\$ (1,068,425)	\$ 2,686,876