

Consolidated Financial Statements

**THE CORPORATION OF THE
TOWN OF COBOURG**

Year ended December 31, 2017

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2017

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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.

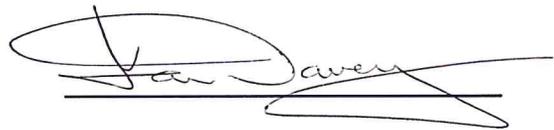
The Town's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely 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, 2017, 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, 2017, 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

Kingston, Canada

July 3, 2018

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial assets:		
Cash	\$ 5,625,559	\$ 3,288,882
Investments (note 2)	3,272,466	2,498,622
Taxes receivable	2,062,893	2,632,275
Receivables - grant	582,935	145,444
Receivables - other	5,522,105	3,218,976
Other financial assets	196,567	133,350
Note receivable (note 4(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 4(a))	11,691,324	11,801,744
	<u>35,953,849</u>	<u>30,719,293</u>
Liabilities:		
Temporary borrowings (note 8(a))	5,500,000	7,000,000
Accounts payable and accrued liabilities	10,122,764	10,179,567
Deferred revenue	171,240	602,871
Deferred revenue - obligatory reserve funds (note 6)	10,424,159	9,303,919
Employee future benefit liability (note 7(d))	2,641,860	2,580,171
Mortgage payable (note 8(b))	312,387	1,541,820
Promissory note payable (note 4(d))	540,000	585,000
Net long-term liabilities (note 9)	9,550,191	5,878,523
	<u>39,262,601</u>	<u>37,671,871</u>
Total net debt	(3,308,752)	(6,952,578)
Non-financial assets:		
Tangible capital assets (note 13)	187,410,812	186,053,672
Other assets	1,645,696	1,485,621
	<u>189,056,508</u>	<u>187,539,293</u>
Contingent liabilities (note 15)		
Accumulated surplus (note 10)	\$ 185,747,756	\$ 180,586,715

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, 2017, with comparative information for 2016

	Budget 2017	Actual 2017	Actual 2016
	(note 14)		
Revenue:			
Taxation:			
Property taxation	\$ 22,209,551	\$ 22,477,198	\$ 21,497,720
Payments in lieu of taxation	59,500	172,897	187,741
User charges	14,542,823	16,506,925	15,517,951
Development charges	1,445,546	438,500	477,748
Contributed tangible capital assets	–	–	1,413,952
Grants:			
Government of Canada	776,500	158,401	256,467
Province of Ontario	1,693,849	1,577,327	990,228
Other municipalities	665,457	855,103	771,670
Other:			
Rental income	4,510,723	4,484,544	3,801,750
Penalty and interest	465,000	394,784	491,461
Other income	935,294	1,633,963	933,968
Donations		87,317	31,458
Interest income - Town of Cobourg			
Holdings Inc. (note 4(c))	507,500	507,500	507,500
Interest and dividend income	277,808	267,615	267,313
Gain on sale of assets	–	214,379	17,440
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 4)	–	(110,420)	432,975
Total revenue	48,089,551	49,666,033	47,597,342
Expenses (note 11):			
General government	3,271,155	3,912,980	3,582,247
Protection to persons and property	12,092,592	12,671,109	11,920,114
Transportation services	5,308,717	5,700,930	5,662,387
Environmental services	8,158,590	8,971,796	8,946,553
Recreation and cultural services	8,349,939	9,430,212	9,162,797
Social and family services	56,600	61,155	59,309
Planning and development	1,077,408	1,182,746	1,076,164
Industrial property	2,936,367	2,574,064	2,631,595
Total expenses	41,251,368	44,504,992	43,041,166
Annual surplus	6,838,183	5,161,041	4,556,176
Accumulated surplus, beginning of year		180,586,715	176,030,539
Accumulated surplus, end of year (note 10)		\$ 185,747,756	\$ 180,586,715

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, 2017, with comparative information for 2016

	2017	2016
Annual surplus	\$ 5,161,041	\$ 4,556,176
Acquisition of tangible capital assets	(12,974,381)	(8,838,930)
Decrease (increase) in construction-in-progress	4,373,202	(8,094,558)
Amortization of tangible capital assets	7,113,664	7,034,878
Gain on disposal of tangible capital assets	(214,379)	(17,440)
Proceeds on disposal of tangible capital assets	344,754	24,500
Acquisition of other assets	(160,075)	(176,255)
	3,643,826	(5,511,629)
Net debt, beginning of year	(6,952,578)	(1,440,949)
Net debt, end of year	\$ (3,308,752)	\$ (6,952,578)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Operations:		
Annual surplus	\$ 5,161,041	\$ 4,556,176
Items not involving cash:		
Amortization of tangible capital assets	7,113,664	7,034,878
Increase in employee future benefit liability	61,689	24,546
Changes in non-cash working capital balances:		
Taxes receivable	569,382	727,326
Receivables - grant	(437,491)	25,500
Receivables - other	(2,303,129)	(788,741)
Other financial assets	(63,217)	35,012
Other assets	(160,075)	(176,253)
Accounts payable and accrued liabilities	(56,803)	2,551,257
Deferred revenue	(431,631)	16,647
Deferred revenue - obligatory reserve funds	1,120,240	719,683
Net change in cash from operations	10,573,670	14,726,031
Capital activities:		
Cash used to acquire capital assets	(12,974,381)	(8,838,930)
Decrease (increase) in construction-in-progress	4,373,202	(8,094,558)
Gain on disposal of tangible capital assets	(214,379)	(17,440)
Proceeds on disposal of tangible capital assets	344,754	24,500
Net change in cash from capital activities	(8,470,804)	(16,926,428)
Investing activities:		
Decrease (increase) in investment in Town of Cobourg Holdings Inc.	110,420	(432,975)
Increase in investments	(773,844)	(1,526,710)
Net change in cash from investing activities	(663,424)	(1,959,685)
Financing activities:		
Repayment of mortgage payable	(1,229,433)	(1,200,810)
Proceeds of long-term liabilities	4,500,000	-
Repayment of long-term liabilities	(828,332)	(1,269,127)
Repayment of promissory note	(45,000)	(45,000)
Temporary borrowings	(1,500,000)	7,000,000
Net change in cash from financing activities	897,235	4,485,063
Increase in cash	2,336,677	324,981
Cash, beginning of year	3,288,882	2,963,901
Cash, end of year	\$ 5,625,559	\$ 3,288,882

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2017

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, 2017

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 9 years (2016 -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, 2017

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 (2016 - 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.

(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 consolidated statement of operations.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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 consolidated 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, 2017

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	
	2017	2016	2017	2016
Amounts requisitioned and collected	\$ 8,481,178	\$ 8,852,999	\$ 12,866,925	\$ 12,557,463

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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:

	2017	2016
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	4,799,599	4,201,024
Restatement of retained earnings, beginning of year	(357,887)	-
Revised retained earnings, beginning of year	4,441,712	4,201,024
Pro-rata share of net income during the year	469,701	821,575
Dividend	(200,000)	(223,000)
Accumulated other comprehensive income change	(22,234)	-
Total investment in Town of Cobourg Holdings Inc.	\$ 11,691,324	\$ 11,801,744

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2017 and December 31, 2016 and its results of operations for both years:

(a) Financial position:

	2017	2016
Current assets	\$ 6,789,533	\$ 9,495,136
Capital assets	21,220,129	20,085,112
Other assets	3,322,981	3,703,270
Total assets	31,332,643	33,283,518
Current liabilities	5,806,788	4,836,581
Long-term liabilities	13,200,282	13,230,502
Regulatory deferral account credit balances	634,249	3,414,691
Total liabilities	19,641,319	21,481,774
Net assets	\$ 11,691,324	\$ 11,801,744

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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

(b) Results of operations:

	2017	2016
Revenue	\$ 34,561,023	\$ 36,917,256
Expenses	34,091,322	36,095,681
Net earnings for the period	\$ 469,701	\$ 821,575

(c) The note receivable bears interest at 7.25% per annum. The Town does not intend to demand repayment from LUI, a wholly-owned subsidiary of TCHI, prior to January 1, 2018. Interest earned on this note amounted to \$507,500 (2016 - \$507,500). Fair value of the note receivable is indeterminable as it is a non-arm's length loan.

(d) The promissory note payable to LUI 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 2017 was \$31,590 (2016 - \$34,020).

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 and rented out.

	Cost	Accumulated amortization	2017	2016
Land	\$ 3,125,000	\$ —	\$ 3,125,000	\$ 3,125,000
Land improvements	957,349	323,377	633,972	611,322
Buildings	23,409,559	9,356,736	14,052,823	14,346,169
	\$ 27,491,908	\$ 9,680,113	\$ 17,811,795	\$ 18,082,491

Cost and accumulated amortization at December 31, 2016 amounted to \$27,004,918 and \$8,922,427, respectively.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

5. Industrial property (continued):

(a) Financial position:

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

	2017	2016
Cash	\$ 504,171	\$ 10,871
Accounts receivable	233,041	303,779
Prepaid expenses	11,915	11,136
Industrial property	17,811,796	18,082,491
Total assets	18,560,923	18,408,277
Accounts payable and accrued liabilities	266,403	457,746
Deferred revenue	131,720	136,333
Mortgage payable	312,387	1,541,820
Total liabilities	710,510	2,135,899
Net equity in industrial property	\$ 17,850,413	\$ 16,272,378

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

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

	2017	2016
Gross rental income	\$ 3,219,294	\$ 2,577,210
Operating expenses	(1,532,142)	(1,633,569)
Operating expenses recovery	1,173,805	1,145,558
Administrative expenses	(263,468)	(210,945)
Interest on long-term debt	(20,767)	(49,243)
Amortization	(757,687)	(737,837)
Net earnings for the year	\$ 1,819,035	\$ 1,091,174
Equity, beginning of the year	\$ 15,272,378	\$ 14,181,204
Net income for the period	1,819,035	1,091,174
Transfer to reserves	(241,000)	-
Capital reserve	1,000,000	1,000,000
Equity, end of year	\$ 17,850,413	\$ 16,272,378

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

5. Industrial property (continued):

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.

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:

	2017	2016
Balance, beginning of year	\$ 9,303,919	\$ 8,584,236
Recreational land	118,869	63,801
Federal grant - gasoline tax	573,004	563,037
Provincial grant - gasoline tax transit	197,354	189,122
Development contributions	825,137	806,049
Building code	77,351	6,000
Ontario Community Infrastructure Fund	35,376	-
Investment income	106,133	80,544
Utilization - capital	(275,184)	(411,122)
Utilization - operating	(537,800)	(577,748)
Balance, end of year	\$ 10,424,159	\$ 9,303,919
Analyzed as follows:		
Sub-divider contributions	\$ 287,123	\$ 227,592
Recreational land	73,336	75,301
Ontario Community Infrastructure Fund	35,376	-
Development charges	7,621,948	7,171,964
Building code	580,058	502,707
Gasoline tax:		
Provincial	57,695	46,784
Federal	1,768,623	1,279,571
	\$ 10,424,159	\$ 9,303,919

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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 in January 2017.

At December 31, 2017, the Town's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$2,235,846 (2016 - \$2,206,388).

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

Discount rate	4.00% per annum
Inflation rate	1.75% per annum
Salary escalation	2.75% per annum
Dental benefits escalation	3.75% per annum
Health benefits escalation	4.75% in 2017 reducing by 0.33% per year to 3.75% in 2020

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

	2017	2016
Accrued benefit liability, January 1	\$ 2,206,388	\$ 2,145,384
Service cost	79,004	85,878
Benefits paid for the period	(167,479)	(127,338)
Interest cost	96,298	103,048
Amortization of actuarial loss (gain)	21,635	(584)
Accrued benefit liability, December 31	\$ 2,235,846	\$ 2,206,388

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

	2017	2016
Accrued benefit obligation	\$ 2,459,520	\$ 2,251,727
Unamortized actuarial loss	(223,674)	(45,339)
Accrued benefit liability, end of year	\$ 2,235,846	\$ 2,206,388

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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, 2016.

At December 31, 2017, the accrued benefit liability relating to post-retirement benefit plans is \$326,884 (2016 - \$278,954).

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

Discount rate	3.5% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.5% per annum
Health benefits escalation	6.25% in 2017 decreasing by 0.25% per annum until 2023

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

	2017	2016
Accrued benefit liability, January 1	\$ 278,954	\$ 298,691
Actuarial adjustments to opening liability	45,036	–
Revised accrued benefit liability, January 1	323,990	298,691
Service cost	7,751	7,431
Past service cost	36,643	–
Benefits paid for the period	(49,851)	(43,073)
Actuarial gain	(3,194)	–
Interest cost	11,545	15,905
Accrued benefit liability, December 31	\$ 326,884	\$ 278,954

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

7. Employee future benefit liability (continued):

(b) Workplace safety and insurance:

In common with other Schedule 2 employers, the Town funded its obligations to the Workplace Safety and Insurance Board on a "pay-as-you-go" basis for employees under Schedule 2. An independent actuarial study of the work place Safety and Insurance Board liabilities was completed July 2017.

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.

At December 31, 2017, the Town's accrued benefit liability relating to future payments on Workplace Safety and Insurance Board claims is \$79,130 (2016 - \$94,829).

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

	2017	2016
Accrued benefit liability, beginning of year	\$ 94,829	\$ 111,550
Benefits paid for the period	(5,834)	(5,215)
Survivor award	542	—
Interest cost	3,091	3,118
Amortization of actuarial gain	(13,498)	(14,624)
Accrued benefit liability, end of year	\$ 79,130	\$ 94,829

The accrued benefit liability at December 31, 2017, includes the following components:

	2017	2016
Accrued benefit obligation	\$ 77,458	\$ 66,150
Unamortized actuarial gain	1,672	28,679
Accrued benefit liability	\$ 79,130	\$ 94,829

(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, 2017 amount to \$1,041,357 (2016 - \$918,425) and are included in accounts payable and accrued liabilities on the consolidated statement of financial position.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

7. Employee future benefit liability (continued):

(d) Employee future benefit liability:

	2017	2016
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 2,235,846	\$ 2,206,388
Workplace safety and insurance	79,130	94,829
	2,314,976	2,301,217
Health, dental and life insurance benefits - Waterworks	326,884	278,954
	\$ 2,641,860	\$ 2,580,171

8. Temporary borrowings and mortgage payable:

(a) Temporary borrowings:

The Town has construction loans through its bank to bridge finance certain costs of construction. The loans are due on demand and are repayable in full no later than June 30, 2018, unless an extension is filed. Interest is payable at the bank's prime rate minus 0.75% per annum.

(b) Mortgage payable:

	2017	2016
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	\$ 312,387	\$ 1,541,820

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:

	2017	2016
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 9,550,191	\$ 5,878,523

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

9. Net long-term liabilities (continued):

- (b) Of the net long-term liabilities reported in note 9(a) of this note, principal payments are payable from general municipal revenues as follows:

2018	\$ 1,605,059
2019	1,459,989
2020	1,320,785
2021	1,266,654
2022	1,300,747
Thereafter	2,596,957
	<hr/>
	\$ 9,550,191

- (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 \$218,335 (2016 - \$261,347). The long-term liabilities bear interest at rates ranging from 2.22% to 5.23% with term renewals to take place in 2018 through 2033.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

10. Accumulated surplus:

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

	2017	2016
Surplus (deficit):		
Operations	\$ (6,130,852)	\$ (7,585,312)
Unfinanced capital	(13,169,012)	(16,978,530)
Invested in tangible capital assets	187,410,810	186,053,672
Long-term debt	(9,550,191)	(5,878,523)
Mortgage	(312,387)	(1,541,820)
Unfunded:		
Employee benefits	(2,641,860)	(2,580,171)
Promissory note payable to Town of Cobourg Holdings Inc.	(540,000)	(585,000)
Waterworks	1,436,737	1,156,365
Downtown Business Improvement Area	94,934	100,962
Town of Cobourg Public Library Board	49,147	(2,928)
Note receivable from Town of Cobourg Holdings Inc.	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc.	11,691,324	11,801,744
Total surplus	175,338,650	170,960,459
Reserves:		
Contingencies	53,613	53,613
Parking	547,787	474,117
Current:		
Health services	4,207	4,207
Library	186,477	230,013
Other		-
Capital:		
General government	2,077,317	2,169,596
Protection services	2,626,628	1,955,889
Transportation services	684,391	1,031,497
Environmental services	3,236,159	2,653,808
Recreation and cultural services	651,009	589,492
Planning and development	341,518	464,024
Total reserves	10,409,106	9,626,256
Total accumulated surplus	\$ 185,747,756	\$ 180,586,715

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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:

	2017	2016
Salary, wages and employee benefits	\$ 20,844,105	\$ 19,402,537
Operating materials and supplies	7,025,561	6,779,094
Contracted services	8,264,853	8,522,619
Rents and financial expenses	432,145	333,148
External transfers to other	606,329	707,543
Interest on long-term debt	218,335	261,347
Amortization of tangible capital assets	7,113,664	7,034,878
	<hr/>	<hr/>
	\$ 44,504,992	\$ 43,041,166

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. As a result, the Town does not recognize any share of the OMERS pension surplus or deficit. The last available report for the OMERS plan was December 31, 2017. At that time, the plan reported at \$5.4 billion actuarial deficit (2016 - \$5.7 billion actuarial deficit). 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, 2017, the amount contributed for and included as current service pension costs expenses on the Consolidated Statement of Operations and Accumulated Surplus is \$1,403,569 (2016 - \$1,363,357).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

13. Tangible capital assets:

Cost	Balance at December 31, 2016	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2017
Land	\$ 15,326,678	\$ –	\$ –	\$ 15,326,678
Land improvements	10,259,786	298,812	4,705	10,553,893
Buildings and building improvements	67,029,796	6,020,527	14,978	73,035,345
Machinery and equipment	15,026,377	1,438,267	–	16,464,644
Vehicles	10,770,847	1,268,037	500,510	11,538,374
Roads infrastructure	32,552,661	2,265,576	77,581	34,740,656
Sewer infrastructure	83,392,059	902,453	–	84,294,512
Water infrastructure	37,063,233	699,628	–	37,762,861
Books and periodicals	923,314	81,082	156,980	847,416
Construction-in-progress	12,857,410	6,186,338	10,559,540	8,484,208
	\$ 285,202,161	\$ 19,160,720	\$ 11,314,294	\$ 293,048,587

Accumulated amortization	Balance at December 31, 2016	Amortization expense	Disposals/ transfers/ write-offs	Balance at December 31, 2017
Land improvements	\$ 3,678,372	\$ 298,073	\$ 4,015	\$ 3,972,430
Buildings and building improvements	19,758,831	1,908,583	14,978	21,652,436
Machinery and equipment	7,736,682	990,465	–	8,727,147
Vehicles	5,259,757	651,672	370,825	5,540,604
Roads infrastructure	14,243,555	788,139	77,581	14,954,113
Sewer infrastructure	32,158,325	1,536,594	–	33,694,919
Water infrastructure	15,726,268	835,280	–	16,561,548
Books and periodicals	586,699	104,859	156,980	534,578
	\$ 99,148,489	\$ 7,113,665	\$ 624,379	\$ 105,637,775

	Net book value December 31, 2016	Net book value December 31, 2017
Land	\$ 15,326,678	\$ 15,326,678
Land improvements	6,581,414	6,581,463
Buildings and building improvements	47,270,965	51,382,909
Machinery and equipment	7,289,695	7,737,497
Vehicles	5,511,090	5,997,770
Roads infrastructure	18,309,106	19,786,543
Sewer infrastructure	51,233,734	50,599,593
Water infrastructure	21,336,965	21,201,313
Books and periodicals	336,615	312,838
Construction-in-progress	12,857,410	8,484,208
	\$ 186,053,672	\$ 187,410,812

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

13. Tangible capital assets (continued):

(a) Construction-in-progress:

Construction-in-progress having a value of \$8,484,208 (2016 - \$12,857,410) 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 (2016 - \$Nil).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

14. Budget figures:

The unaudited budget figures reported on the Consolidated Statement of Operations are based on the 2017 municipal and other local board operating and capital budgets as approved by Council on January 29, 2018.

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 and Accumulated Surplus.

	Budget 2017
Total revenue as reported on the consolidated statement of operations:	
Operating budget	\$ 30,295,665
Capital budget	3,320,879
Water budget	4,517,612
Wastewater budget	5,524,172
Northam Industrial Park budget	4,431,223
	<u>48,089,551</u>
Total expenses as reported on the consolidated statement of operations:	
Operating budget	30,960,636
Water budget	3,706,861
Wastewater budget	3,406,504
Northam Industrial Park budget	3,177,367
	<u>41,251,368</u>
Annual operating surplus	6,838,183
Budget not reported on consolidated financial statements:	
Operating net transfer (to)/from reserves	664,971
Capital income for asset expenditures	(3,320,879)
Operating transfer to reserves - water	(810,751)
Operating transfer to reserves - wastewater	(2,117,668)
Operating transfer to reserves - Northam Industrial Park	(1,253,856)
Total budgeted surplus not reported on consolidated financial statements	<u>\$ (6,838,183)</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

15. Contingent liabilities:

- (a) 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, 2017, management believes that the Town 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.
- (b) In 2014, the Town assumed ownership of property that was identified as being contaminated. In accordance with the site management plan established by the Town, regular monitoring and sampling of ground water is performed. To date, this monitoring has indicated that certain levels of contaminants have decreased. Until the Town is required to complete a zoning amendment that would identify the need for another Phase II environmental assessment, the estimates for remediation, if any, remains uncertain and unmeasurable.

16. 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) General Government 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.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

16. Segmented information (continued):

- (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.
- (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.

17. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2017

	General Government Administration	Protection Services	Transportation Services	Environmental Services	Industrial Property	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
Revenue:										
Tax revenue distributed	\$ 3,000,961	\$ 9,280,248	\$ 3,743,395	\$ (418,434)	\$ -	\$ -	\$ 61,155	\$ 5,731,698	\$ 1,078,175	\$ 22,477,198
PIL revenue distributed	8,771	20,912	38,255	54,653	-	-	-	50,059	247	172,897
Penalty and interest on tax	20,029	47,749	87,349	124,792	-	-	-	114,301	564	394,784
User fees and service charges	248,643	2,319,130	533,938	5,792,609	-	4,467,056	-	3,056,008	89,541	16,506,925
Development charges	2,500	-	-	-	-	-	-	436,000	-	438,500
Grants:										
Government of Canada	-	-	100,482	-	-	-	-	57,919	-	158,401
Province of Ontario	93,500	354,592	1,045,281	-	-	-	-	76,566	7,388	1,577,327
Other municipalities	-	501,766	-	-	-	-	-	348,045	5,292	855,103
Other income	(97,860)	446,804	482,718	339,238	4,393,099	244,239	-	282,082	5,084	6,095,404
Interest and dividend income	762,312	-	-	-	-	12,803	-	-	-	775,115
Gain (loss) on sale of assets	-	-	218,485	-	-	-	-	(4,106)	-	214,379
	4,038,856	12,971,201	6,249,903	5,892,858	4,393,099	4,724,098	61,155	10,148,572	1,186,291	49,666,033
Expenses:										
Salaries, wages and employee benefits	2,381,056	9,819,427	1,980,427	1,410,448	-	-	-	4,434,698	818,049	20,844,105
Long-term debt charges (interest)	-	81	35,459	67,060	-	-	-	115,735	-	218,335
Materials	501,138	1,180,116	935,983	1,522,511	-	-	-	2,704,607	181,206	7,025,561
Contracted services	510,385	833,614	1,552,395	378,348	1,816,377	2,672,388	-	325,234	176,112	8,264,853
Rents and financial expenses	258,355	-	53,837	97,486	-	-	-	22,467	-	432,145
External transfers	-	213,153	-	-	-	-	61,155	332,021	-	606,329
Amortization	262,046	624,718	1,142,829	1,632,711	757,687	1,190,844	-	1,495,450	7,379	7,113,664
	3,912,980	12,671,109	5,700,930	5,108,564	2,574,064	3,863,232	61,155	9,430,212	1,182,746	44,504,992
Excess of revenue over expenses	\$ 125,876	\$ 300,092	\$ 548,973	\$ 784,294	\$ 1,819,035	\$ 860,866	\$ -	\$ 718,360	\$ 3,545	\$ 5,161,041