



By Email

July 15, 2016

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Lakefront Utilities Inc. (Lakefront Utilities)  
2017 Distribution Rate Application  
Cobourg Taxpayers Association Interrogatories  
OEB File No. EB-2016-0089

In accordance with Procedural Order No. 1, please find attached the Cobourg Taxpayers Association (CTA) interrogatories in the above noted proceeding. Lakefront Utilities and all intervenors have been copied on this filing.

I believe that Lakefront Utilities' responses to interrogatories are due by August 5, 2016.

Yours truly,

*Original Signed By*

Ken Strauss,  
Advisory Committee,  
Cobourg Taxpayers Association

Attachments

**Requestor Name** Cobourg Taxpayers Association (CTA)  
**Information Request Round:** # 1  
**To:** Lakefront Utilities Inc. (Lakefront)  
**Date:** July 15, 2016  
**Case Number:** EB-2016-0089  
**Application:** 2017 Distribution Rate Application

## **Exhibit 1 – Administration**

### **1-CTA-01**

#### **Corporate and Utility Organization Structure**

**Ref: Ex. 1/Tab 2/Sch.2 – Corporate and Utility Organization Structure, Page 22**

It is stated that, historically, Lakefront Utilities had three other subsidiary companies: Lakefront Generation Inc. (LGI), Lakefront Lighting Inc. (LLI) and Cobourg Networks Inc. (CNI). In search of further efficiencies by Lakefront Utilities' parent company (the Town of Cobourg Holdings Inc. (Holdco), effective January 1, 2013, Lakefront Generation Inc. was amalgamated into Lakefront Utilities Services Inc. (LUSI) and effective January 1, 2015 Lakefront Lighting Inc. was amalgamated into Cobourg Networks Inc. Following these amalgamations, CNI was amalgamated into LUSI effective January 1, 2016.

- a) Prior to Lakefront Lighting Inc. (LLI) being amalgamated into CNI and CNI subsequently being amalgamated into LUSI, CNI was mostly a fibre optics company that supplied internet service to a variety of companies in the Town of Cobourg. Please describe if LUSI now provides this fibre optics internet service, and, if so, why this is not included in LUSI's profile in Holdco's 2015 annual statement.
- b) If LUSI now provides this fibre optics internet service, please provide a detailed breakdown of revenue and expenses, including the allocation of employee costs.
- c) LLI purchased Luxlite induction lighting that was later subject to a successful lawsuit which ruled against LLI (*Osrham Sylvania Inc. et al. v. Lakefront Lighting Inc. et al.* Fed. Ct. T-1511-09, initiated in September of 2009 and finally settled in July of 2012). Please detail what the quantity and value of the remaining inventory was at that time, and how it was disposed of and at what price.

It is our understanding that sister companies (same parent) can be amalgamated without a gain/loss. Related companies (different parents) can only be amalgamated after a sale from one parent to the other. Based on this understanding:

- a) What was the gain or loss on each of these transactions?
- b) Was (will) the gain/loss be passed on to LUI's customers?

### **1-CTA-02**

#### **Community Relations**

**Ref: Ex.1/Tab 4/Sch.5- Overview of Operation Maintenance and Administrative Costs,Page 40**

Table 1.5 proposes an increase of Community Relations expenses by over 196% to \$20,219 in 2017.

- a) Please provide the rationale for this increase together with details of the proposed activities and their associated costs.
- b) What are the expected benefits for the user of electricity in Cobourg?
- c) What are the planned expenditures in this category for future years?

#### **1-CTA-03**

##### **Other Taxes**

**Ref: Ex.1/Tab 4/Sch.5 - Overview of Operation Maintenance and Administrative Costs, Page 40**

In Table 1.5, Taxes other than Income Taxes for 2017 is estimated at \$62,359.  
What do these "other Taxes" relate to?

#### **1-CTA-04**

##### **Recoverable OM&A Expenses**

**Ref: Ex.1/Tab 4/Sch.5 Overview of Operation Maintenance and Administrative Costs, Page 40**

In Table 1.5: Summary of Recoverable OM&A Expenses, Billing and Collecting shows a cost increase of \$153,929 or 37.33%.

Please explain this increase in light of the cost saving expected from outsourcing the billing function.

#### **1-CTA-05**

##### **CPI**

**Ref: Ex.1/Tab 4/Sch.5 - Overview of Operation Maintenance and Administrative Costs, Page 42**

A CPI of 1.95% has been used for the estimate calculations for the 2017 Test Year.  
The CPI at the end of 2015 was about 1.5%.  
How was the CPI 1.95% rate determined?

#### **1-CTA-06**

##### **Employees**

**Ref: Ex.1/Tab 4/Sch.5 - Overview of Operation Maintenance and Administrative Costs, Page 42**

**Ref: Ex.4/Tab 1/Sch.1 – Overview of Operating Expenses Page 7**

**Ref: Town of Cobourg Holdings Inc.- 2015 Annual Report Page 11**

LUI applied for an estimated increase for 2017 Test Year based on the CPI of 1.95% and budgeted increase in distribution revenue and customer growth.

Salaries for non-union staff are adjusted in accordance with the Collective Agreement which can be found in Exhibit 4. Overall employee costs have decreased 9.71% or \$185,678 since 2012 Board Approved. This includes a reduction of 3.70 FTE from the 2012 Board Approved.

The chart “Employee Flowchart” (Exhibit 4 – Operating Expenses page 7) indicates a reduction of 6 FTE from 1/1/2012 to 31/12/2015 and an increase of 2 FTE in 2016 leaving a net decrease of 4 FTE from 2012-2017

The table “Lakefront Utilities, Inc., At a Glance” (Town of Cobourg Holdings Inc. 2015 Annual Report page 7) indicates that LUI had 16 employees at the end of 2015. The Employee Flowchart noted above indicates 20 employees. Further, the text on page 7 indicates that LUI has no employees: “the electrical system is operated by the employees of Lakefront Utility Services Inc. (LUSI).”

- a) Please explain the apparent inconsistencies.
- b) Throughout the documentation provided by LUI, “HOLDCO”, “LUI” and “LUSI” seem to be used interchangeably. Is this a correct interpretation?

#### **1-CTA-07**

##### **Overview of Deferral and Variance Account Disposition**

**Ref: Ex.1/Tab 4/Sch.8 - Overview of Deferral and Variance Account Disposition, Page 46**

- a) Please quantify the components of these accounts that resulted from:
  - the \$1,428,792.20 paid to Horizon Plastics as settlement of a multi-year billing error
  - the \$737,547 related to underpayment for electricity
- b) Why are these amounts charged to customers instead of being recovered from shareholder dividends?
- c) What is the effect of these errors on the proposed rates?

#### **1-CTA-08**

##### **Customer Survey**

**Ref: Ex.1/Tab 5/Sch.2 - Customer Satisfaction Survey, Page 51**

Lakefront Utilities developed its own survey after concluding that using a third party would lead to prohibitive costs. Lakefront Utilities indicates that it received 243 responses to its survey.

- a) Receiving only 243 replies from Lakefront’s customer base of more than 10,000 appears to be a small sample. Considering the very poor response rate, are the results statistically relevant? Please explain.
- b) What steps have been considered to improve the response rate?
- c) What is the distribution of the responders: Commercial/industry, multi-residential, residential small (single/2 adults), residential large (family of 4), etc? How does this compare with the customer base demographic?

- d) What is distribution of the responder's income and age? Is this reflective of the distribution of actual customer incomes and ages?
- e) Are the responses skewed by the demographics?
- f) What steps were taken to compensate for any demographic skewing?
- g) Was there a significant difference in responses between the 221 respondents who self-identified as "residential" and the other respondents?
- h) How was this difference, if any, incorporated into the conclusions of the survey?
- i) What prior objectives and business plans of Lakefront were modified based on the survey results?

#### **1-CTA-09**

##### **Operating Revenue and Expenses**

**Ref: Ex.1/Tab 6/Sch.1 – Historical Financial Statements, Pages 72 and 116**

- a) The 2014 LUI financial statements show Other Operating Revenue (2014) as \$646,247 (page 72)  
The 2015 LUI financial statements show Other Operating Revenue (2014) as \$599,150 (page 116)  
Why are they different?
- b) What is Feed-in Tariff Invoicing?
- c) Why has this FIT revenue decreased from \$85K in 2014 to \$5.6K in 2015?
- d) Isn't billing handled by LUSI and isn't it out-sourced?
- e) What is Sewer Billing? Isn't billing handled by LUSI and isn't it out-sourced?

#### **1-CTA-10**

##### **Due From Shareholder**

**Ref: Financial Information Ex.1/Tab 6/Sch.1 – Historical Financial Statements, Page 78**

**Ref: CTA Appendix 1, Town of Cobourg Holdings Inc 2014 Audited Financial Statements**

**Ref: CTA Appendix 2, Town of Cobourg 2015 Audited Financial Statements**

Note 5 in the 2014 Audited Financial Statements of Town of Cobourg Holdings Inc. and the Liability section and Note 5 (d) of the 2015 Audited Financial Statements of the Corporation of the Town of Cobourg reference a promissory note from the Town payable to Town of Cobourg Holdings Inc. related to a project completed by the Company for the shareholder. As at December 31, 2015 the outstanding amount of the note was \$630,000. The loan requires annual repayments of \$45,000, bears interest at a rate of 5.4% and matures December 2029.

- a) Please identify what the specific project was.
- b) Please advise what the original amount of the note was and the number of years to maturity at the time it was issued.
- c) Please explain the basis upon which the 5.4% interest rate was selected.
- d) Please explain the basis upon the maturity date was determined.

- e) Please explain why the note was not offset against the \$7,000,000 affiliated note payable by Town of Cobourg Holdings, Inc. to the Corporation of the Town of Cobourg.

**1-CTA-11**

**Key Management Personnel**

**Ref: Ex.1/Tab 6/Sch.1 – Historical Financial Statements**

**LUI Financial Statements 2015, Note 16**

**Due to related parties and related party transactions page 114**

LUI Financial Statements 2015, Note 16

The note states that the total wages and benefits paid to key management personnel was \$412,969 in 2015, down from \$568,916 in 2014, a decrease of \$155,947.

- a) How many FTE does this decrease represent?
- b) Were new hires made or planned for 2016, 2017?
- c) What is the incremental cost (actual/planned)?

**1-CTA-12**

**Board Qualifications**

**Ref: Ex.1/Tab 8/Sch.3 - Board Mandate, Page 134**

“The Agreement provides that the Board of Directors consists of individuals with a cross-section of skills and experience. Board members are recruited based on assessments of their sound judgement and integrity and a set of qualifications that may include:

1. Financial expertise – experience regarding significant commercial transactions, marketing, product development, corporate mergers and acquisitions;
2. Awareness of public policy issues related to the Corporation or a Subsidiary as applicable;
3. Regulated industry knowledge, including, but not limited to Ontario’s electricity sector, water industry and/or telecommunication services;
4. Network/infrastructure industry experience; and
5. Knowledge and experience with risk management strategy.”

- a) Please indicate details of the extent to which these qualifications are provided by the current board members.
- b) Are there plans to better align board membership with the documented desired qualifications?

## **Exhibit 4 – Operating Costs**

### **4-CTA-13**

#### **FTE Aggregation**

**Ref: Ex.4/Tab 3/Sch.3 – Employee Compensation, Page 27**

In accordance with Board policy which states that: “Where there are three, or fewer, full-time equivalents (FTEs) in any category, Lakefront Utilities Inc. may aggregate this category with the category to which it is most closely related. This higher level of aggregation may be continued, if required, to ensure that no category contains three, or fewer, FTEs”. LUI has separated out its Executive and Management employees in the FTEs but has lumped them in with the non-union employees for all other reporting in OEB Appendix 2-K.”

OEB Appendix 2-K – Employee Compensation on the same page shows that Management (including executive) was 3.65 FTE in 2013 and 4.05 FTE in 2014 which are greater than 3. However, management compensation is listed as \$0 for those years.

What is the rationale for the omission of separate entries for Management (including executive) for 2013 and 2014?

### **4-CTA-14**

#### **Wage Increases**

**Ref: Ex.4/Table 4.9: Summary of Wage Increases by Year, Page 29**

Table 4.9 shows annual increases of 3.00%, 3.00%, 1.75%, 1.75% and 2.00% and a cumulative total of 11.50%. If the increases are compound, the cumulative increase would be 12.034% rather than 11.50% as indicated.

Are all of the increases based on February 1, 2011 or are they compound increases?

## Exhibit 5 – Cost of Capital and Capital Structure

### 5-CTA-15

#### Long Term Note

**Ref: Ex.5, Attachment A - Long Term Note Payable to Town of Cobourg, Page 11**

**Ref: Appendix 2 of this OEB submission**

Lakefront has an affiliated debt of \$7,000,000 owed to The Corporation of the Town of Cobourg bearing interest at the rate of 7.25% per annum. This rate is significantly higher than rates that are currently widely available for similar debt.

Town of Cobourg Audited Financial Statements 2015, note 5c. Investment in Town of Cobourg Holdings Inc. (document provided to OEB as Appendix 2 to this submission) states:

“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 (2014 - \$507,500). Fair value of the note receivable is indeterminable as it is a non-arm's length loan.”

- a) Please explain why maintaining this debt at far above market rates is advantageous to the customers of Lakefront.
- b) Please detail your plans to renegotiate this debt at a rate closer to the current norm.
- c) Please provide your assessment of when “replacement term financing” will be in place.



## **AnnRep -- Town of Cobourg Holdings Annual Report 2015**

### **AnnRep-CTA-16**

#### **Holdco Dividend**

**Ref: AnnRep, Financial Performance, Page 2**

It is stated that in 2015 Holdco's Board of Directors announced a dividend of \$340,400 to the Town of Cobourg, in addition to \$507,500 in interest paid to the shareholder. It is further stated *"This dividend and interest payment is consistent with targeting a payout ratio of 50 percent in 2015, expressed relative to net income."*

- a) Please explain what the payout target was in each of the past five years.
- b) Please explain why the dividend in 2015 was \$44,700 less than in 2014.

### **AnnRep-CTA-17**

#### **Services**

**Ref: AnnRep, Company Profile, Page 4**

LUSI provides services to Municipalities related to the design, operation and maintenance of electrical and water systems.

Please explain why LUSI is responsible for water yet not the related wastewater/sewage systems but is responsible for recommending sewer rates to Town of Cobourg Council.

### **AnnRep-CTA-18**

#### **Allocation of Costs**

**Ref: AnnRep, Human Resources and Overhead Costs, Page 6**

*"Lakefront Utility Services (LUSI) provides the human resources, administrative, financial and operational services to Holdco and its subsidiaries, in compliance with applicable regulations."*

- a) Please explain how management and common overhead costs are allocated between electricity, water systems and other systems.
- b) Please detail individual salary and benefit costs for senior management.

### **AnnRep-CTA-19**

#### **Board and Board Meetings**

**Ref: AnnRep, About Lakefront Utility Services, Inc., Page 9**

The annual report notes that LUI has a separate board with three members.

- a) What are the qualifications of the board members that are relevant to operating an electrical distribution utility?
- b) What is their remuneration?

LUI is owned by the Town of Cobourg which means that the *de facto* shareholders are the taxpayers of the town.

- a) Are board meetings public?
- b) Are minutes of board meetings recorded?
- c) How can the public access copies of the minutes?
- d) Is there a public Annual General Meeting?
- e) If meetings are not open to the residents and taxpayers of the Town of Cobourg (owners of LUI) then why are they not open?

#### **AnnRep-CTA-20**

##### **Other Income**

**Ref: AnnRep, Other Income, Page 9**

The "AT A GLANCE" table indicates "Other Income: \$56,259".

- a) Please provide the details of this "Other Income".
- b) Where is this "Other Income" reported in the other submissions by Lakefront?

#### **AnnRep-CTA-21**

##### **Health and Safety Incidents**

**Ref: AnnRep, Health and Safety, Page 11**

The Health and Safety data shows 8, 6, 15, 7 incidents in 2011, 2012, 2013 and 2014 respectively with an average of only 1.2 incidents per year.

Please explain this apparent discrepancy.

#### **AnnRep-CTA-22**

##### **Financial Statements**

**Ref: AnnRep, Financial and Regulatory Performance, Page 18**

Only very limited, unaudited financial information is available in the Annual Report.

Please explain why the Annual Report does not contain a complete Audited Financial Statement for each entity and consolidated operations which is a customary practice in business.

#### **AnnRep-CTA-23**

##### **Water Heater Business**

**Ref: AnnRep-Financial and Regulatory Performance, Page 18**

It is stated that an increase in net income included a one-time gain of \$693,239 on the sale of the water heater assets.

- a) Please explain why the water heater assets were sold.
- b) Please provide evidence that the price received was fair market value.

- c) Please explain if the price received represented a net gain or loss on the book value of the assets.

**AnnRep-CTA-24**

**Consolidated Information**

**Ref: AnnRep, Financial and Regulatory Performance, Pages 20-22**

The financial information in the Annual Report consolidates information from LUI, LUSI and other entities. This makes it impossible to determine the financial situation of LUI alone.

- a) Does LUI produce an annual report that is specific to its own operations?  
b) If so, please provide copies for 2011 to 2013.  
c) If annual reports for LUI are not available please provide audited financial statements for LUI for 2011 to 2013.

**AnnRep-CTA-25**

**Community Support**

**Ref: AnnRep, Community Pride, Page 24**

The report lists support for many organizations by "Lakefront".

Is this support by LUI or by LUSI?

If LUI contributes to these support activities, please provide details of:

- a) How the supported organizations are selected,  
b) The names of the supported organizations,  
c) The financial details of the past and planned future support  
d) The benefits of the support to the customers of Lakefront.

**AnnRep-CTA-26**

**Provision for Income Taxes**

**Ref: AnnRep, Income Statement, Page 20**

The provision for income taxes decreased from \$252,181 in 2014 to \$60,224 in 2015, a 75% reduction. Income before income taxes, however increased by 84% from \$931,835 in 2014 to \$1,710,709 in 2015.

Please explain why the tax provision was reduced by 75% while the income increased.

**AnnRep-CTA-27**

**Annual Report Production**

**Ref: AnnRep, Entire Document**

Did LUI contribute to the production of the Town of Cobourg Holdings Annual Report 2015?

- a) Please provide details of any contribution by LUI.  
b) Is this contribution documented in the submissions?

**PILS – Payments in Lieu**

**PILS-CTA-28**

**Meals and Entertainment**

**Ref: LakefrontUtilities\_APPL\_2017COS\_Test\_year\_Income\_Tax\_PILs\_Workform\_20160429.xls,  
Tab T1 Taxable Income Test Year**

Non-deductible Meals & Entertainment Expense \$6,072

T2S1 Line 121

- a) What is LUI's policy regarding meals and entertainment expenses.
- b) Please outline with examples.

**PILS-CTA-29**

**Non-deductible Interest**

**Ref: LakefrontUtilities\_APPL\_2017COS\_Test\_year\_Income\_Tax\_PILs\_Workform\_20160429.xls,  
Tab H1 Adj Taxable Income Historic Year**

**Tab T1 Taxable Income Test Year**

Non-deductible interest \$0

T2S1 Line 227

The affiliated loan bears interest at the rate of 7.25% which is somewhat above market.

- a) Given the non-arms-length nature of the transaction, is a portion of the interest expense deemed to be non-deductible by the Canadian income tax acts (Federal and Provincial)?
- b) If no, why?
- c) If yes, by how much and how is this reflected in the rate application?

## **Other – Documents Supplied by CTA Regarding Previous OEB Submissions**

### **Other-CTA-30**

#### **OEB Audit Report**

**Ref: Audit of LUI Group 1 Deferral & Variance Accounts (included in this document as Appendix 3)**

As stated in the letter in Appendix 3, the OEB audit report identified several areas of non-conformity with the APH and internal control. Further concerns were expressed about weaknesses with respect to LUI's regulatory accounting and IESO settlement process. The letter further notes that LUI's management outlined a corrective action plan to be taken for each item identified in the audit.

- a) Please outline and quantify each audit finding.
- b) What effect did/will these errors have on customer rates?
- c) Please explain how these errors occurred.
- d) Why did management oversight not detect the errors in a timely manner?
- e) Have the corrective action plans been implemented?
- f) If no, when will they be implemented?
- g) If yes, have the results been tested and verified?

# **Appendix 1**

**Town of Cobourg Holdings**

**2014**

**Audited Financial Statements**

**CONSOLIDATED  
FINANCIAL STATEMENTS OF**

**TOWN OF COBOURG HOLDINGS INC.**

**December 31, 2014**

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Collins Barrow

Chartered Accountants

Collins Barrow Kawarthas LLP  
272 Charlotte Street  
Peterborough, Ontario  
K9J 2V4

## INDEPENDENT AUDITORS' REPORT

To the Shareholder of  
Town of Cobourg Holdings Inc.

T: 705.742.3418  
F: 705.742.9775

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### *Report on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Town of Cobourg Holdings Inc., which comprise the consolidated balance sheet as at December 31, 2014, and the consolidated statements of retained earnings, income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines are 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the company'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 company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Town of Cobourg Holdings Inc. as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Collins Barrow Kawarthas LLP*

Chartered Professional Accountants  
Peterborough, Ontario  
April 24, 2015



**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED BALANCE SHEET**  
As at December 31, 2014

	2014	2013
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	2,698,078	3,947,270
Accounts receivable	2,575,440	1,983,219
Unbilled revenue	3,553,308	4,218,564
Inventory (note 3)	234,333	344,078
Prepaid expenses	1,615	31,893
Income taxes receivable	278,072	184,719
Current portion of due from shareholder (note 5)	45,000	45,000
	<u>9,385,846</u>	<u>10,754,743</u>
<b>Other assets</b>		
Property, plant and equipment (note 4)	16,107,101	15,686,491
Future income taxes (note 11)	180,000	287,300
Due from shareholder (note 5)	630,000	675,000
Deferral accounts (note 6)	289,895	-
	<u>17,206,996</u>	<u>16,648,791</u>
	<u>26,592,842</u>	<u>27,403,534</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	4,460,731	3,801,067
Customer deposits refundable within one year	46,647	56,497
Operating loan (note 16)	490,000	-
Current portion of long-term debt (note 8)	223,801	215,185
	<u>5,221,179</u>	<u>4,072,749</u>
<b>Long-term liabilities</b>		
Long-term debt (note 8)	10,815,500	11,039,301
Customer deposits	52,757	55,710
Employee future benefits (note 9)	293,644	282,730
Deferral accounts (note 6)	-	2,055,691
	<u>11,161,901</u>	<u>13,433,432</u>
<b>Shareholder's equity</b>		
Share capital (note 10)	7,002,145	7,002,145
Retained earnings	3,207,617	2,895,208
	<u>10,209,762</u>	<u>9,897,353</u>
	<u>26,592,842</u>	<u>27,403,534</u>

Approved on behalf of the Board

\_\_\_\_\_ Director

\_\_\_\_\_ Director

*The accompanying notes are an integral part of these financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
For the year ended December 31, 2014

	2014 \$	2013 \$
<b>Retained earnings - beginning of year</b>	2,895,208	2,697,587
Net income for the year	680,842	582,721
Dividends paid	(385,100)	(385,100)
Refundable dividend tax	(357)	-
Refundable dividend tax recovered	17,024	-
<b>Retained earnings - end of year</b>	<b>3,207,617</b>	<b>2,895,208</b>

*The accompanying notes are an integral part of these financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended December 31, 2014

	2014 \$	2013 \$
<b>Revenue</b>		
Service revenue	4,079,922	4,239,332
Cost of power revenue	26,772,828	26,129,213
Commercial revenue	539,444	498,525
	<u>31,392,194</u>	<u>30,867,070</u>
<b>Cost of sales</b>		
Cost of power	26,772,828	26,129,213
Cost of goods sold	70,508	107,500
	<u>26,843,336</u>	<u>26,236,713</u>
<b>Gross profit</b>	4,548,858	4,630,357
<b>Other operating revenue</b>	1,177,447	793,132
<b>Gross income from operations</b>	5,726,305	5,423,489
<b>Expenses</b>		
Amortization	1,011,990	953,315
Community initiatives	61,256	38,400
Customer billing and collecting	604,936	575,842
Interest	736,442	686,328
General and administration	1,526,022	1,555,639
Repairs and maintenance	852,636	892,050
	<u>4,793,282</u>	<u>4,701,574</u>
<b>Income before income taxes</b>	933,023	721,915
<b>Provision for income taxes (note 11)</b>		
Current	144,881	82,094
Future	107,300	57,100
	<u>252,181</u>	<u>139,194</u>
<b>Net income for the year</b>	<u>680,842</u>	<u>582,721</u>

*The accompanying notes are an integral part of these financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2014

	2014	2013
	\$	\$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>Operating activities</b>		
Net income for the year	680,842	582,721
Items not affecting cash		
Amortization	1,011,990	953,315
Future income taxes	107,300	57,100
Employee future benefits	10,914	10,868
Loss (gain) on disposal of capital assets	11,230	(9,250)
	1,822,276	1,594,754
Change in non-cash working capital items (note 12)	779,367	105,850
	2,601,643	1,700,604
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,459,329)	(1,192,908)
Proceeds on disposal of property, plant and equipment	15,500	9,250
Due from shareholder	45,000	45,000
	(1,398,829)	(1,138,658)
<b>Financing activities</b>		
Repayment of long-term debt	(215,185)	(118,890)
Decrease in customer deposits	(12,802)	(14,247)
Deferral accounts	(2,345,586)	436,887
Dividends paid	(385,100)	(385,100)
Refundable dividend tax	(357)	-
Refundable dividend tax recovered	17,024	-
	(2,942,006)	(81,350)
<b>Increase (decrease) in cash</b>	(1,739,192)	480,596
<b>Cash - beginning of year</b>	3,947,270	3,466,674
<b>Cash - end of year</b>	2,208,078	3,947,270
<b>Cash consists of:</b>		
Cash	2,698,078	3,947,270
Operating loan	(490,000)	-
	2,208,078	3,947,270

*The accompanying notes are an integral part of these financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

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**1. NATURE OF OPERATIONS**

Town of Cobourg Holdings Inc. was incorporated under the Business Corporations Act (Ontario) on April 12, 2000 and is engaged in the distribution of electricity and associated business activities.

The financial statements include the assets, liabilities and operations of the Company and its wholly owned subsidiaries: Lakefront Utilities Inc., Lakefront Utilities Services Inc., Cobourg Networks Inc. and its wholly owned subsidiary Lakefront Lighting Inc.. All significant intercompany transactions and balances have been eliminated on consolidation.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

*(a) Electricity regulation*

The Company is regulated by the OEB under the authority of the Ontario Energy Board Act, 1988. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring that distribution companies meet their obligations to connect and service customers. The following regulatory policies are practiced in a rate regulated environment.

*Deferral accounts*

Deferral accounts represent future revenue or expenses incurred in current or prior periods, that are expected to be recovered through the rate setting process. These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. Deferral accounts recognized at December 31, 2014 are disclosed in Note 6.

*(b) Revenue recognition*

Revenue is recognized on the accrual basis when the energy is supplied to the users, whether billed or unbilled.

Commercial revenue is recognized upon delivery of the goods.

Revenues related to Conservation and Demand Management ("CDM") agreements with the Ontario Power Authority ("OPA") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

*(c) Inventory*

Inventory is recorded at the lower of cost and net realizable value, where cost is generally determined using the average cost basis.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2014**

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2. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(d) *Property, plant and equipment*

Property, plant and equipment are recorded at cost. The company provides for amortization using the straight-line method at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	10-50 years
Equipment and other	5-10 years
Transportation equipment	5-8 years
Distribution stations	45 years
Meters	25 years
Distribution lines - overhead	25-55 years
Distribution lines - underground	25-55 years
Transformers	40 years

Capital contributions in aid of construction toward the cost of constructing distribution assets are recorded with capital assets as a contra account. Contributions are amortized based on the useful life of the asset.

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long lived assets. If the carrying value of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

Property, plant and equipment categorized as Construction in progress are not amortized until they are put into service.

(e) *Customer deposits*

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

(f) *Pension plan*

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined benefit plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2014**

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**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

*(g) Employee future benefits*

The Company pays certain medical and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health care costs.

The excess of the net actuarial gains (losses) over 10% of the accrued benefit obligation are amortized on a straight-line basis over the average remaining service life of the active employees. Details related to the employee future benefits are detailed in Note 9.

*(h) Management estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Key areas where management has made complex or subjective judgments (often as a result of matters that are inherently uncertain) include, among others, impairment of assets; inventory provisions, useful lives, amortization and carrying values of property, plant and equipment; carrying value of regulatory assets and liabilities, unbilled revenue, allowance for doubtful accounts, employee future benefits and income taxes. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

*(i) New accounting pronouncements*

**International Financial Reporting Standards (IFRS)**

In 2008, the Accounting Standards Board (AcSB) confirmed that IFRS will be required to be adopted by publicly accountable enterprises and certain government enterprises for annual reporting purposes for fiscal years beginning on or after January 1, 2011. In 2010, the AcSB allowed the option of a one year deferral of IFRS adoption for entities subject to rate regulation. Subsequent to this, through a series of additional one year extensions, the mandatory change over date for entities with rate regulated activities has been extended to January 1, 2015.

The Company will be adopting IFRS effective January 1, 2015. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

**3. INVENTORY**

Inventory is comprised of the following:

	2014	2013
	\$	\$
Lakefront Utilities Inc.	231,824	271,215
Lakefront Lighting Inc.	-	70,508
Cobourg Networks Inc.	2,509	2,355
	<b>234,333</b>	<b>344,078</b>

**4. PROPERTY, PLANT AND EQUIPMENT**

	Cost	Accumulated amortization	2014 Net book value	2013 Net book value
	\$	\$	\$	\$
Land	219,284	-	219,284	219,284
Buildings	1,201,211	210,710	990,501	966,277
Equipment and other	2,676,328	1,342,395	1,333,933	1,197,367
Transportation equipment	1,154,767	610,169	544,598	612,835
Construction in progress	297,013	-	297,013	330,404
Distribution stations	3,057,582	1,828,583	1,228,999	1,202,765
Meters	3,147,550	1,025,795	2,121,755	2,233,803
Distribution lines - overhead	7,970,513	1,721,272	6,249,241	5,775,881
Distribution lines - underground	4,955,403	2,563,546	2,391,857	2,473,498
Transformers	5,794,769	2,828,108	2,966,661	3,015,663
	<b>30,474,420</b>	<b>12,130,578</b>	<b>18,343,842</b>	<b>18,027,777</b>
Contributions in aid of construction	<b>(3,168,764)</b>	<b>(932,023)</b>	<b>(2,236,741)</b>	<b>(2,341,286)</b>
	<b>27,305,656</b>	<b>11,198,555</b>	<b>16,107,101</b>	<b>15,686,491</b>

**5. DUE FROM SHAREHOLDER**

The amount due from shareholder of \$675,000 (2013 - 720,000) relates to a project completed by the Company for the shareholder. The loan requires annual principal repayments of \$45,000, bears interest at a rate of 5.4% and matures December 2029.



**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

**6. DEFERRAL ACCOUNTS**

	2014 \$	2013 \$
Cost of power variance account	(597,623)	(1,055,468)
Retail settlement variance accounts	(645,547)	(992,666)
2011/2012 IESO Form 1598 adjustments	737,547	-
Low voltage variance	344,024	180,315
Regulatory balances - recovery and disposition	434,099	(130,322)
Other deferral accounts	17,395	(57,550)
	<b>289,895</b>	<b>(2,055,691)</b>

The deferral accounts are accumulated as prescribed by regulatory policy and will be subject to review and disposition through future rate review processes. The Company continually assesses the likelihood of the recovery (repayment) of these deferral accounts.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2014 \$	2013 \$
Accounts payable - energy purchased	3,242,095	2,975,427
Other accounts payable and accrued	1,174,680	480,562
Deferred revenue - CDM Program	43,956	345,078
	<b>4,460,731</b>	<b>3,801,067</b>

**8. LONG-TERM DEBT**

	2014 \$	2013 \$
Bank loan, 5.4%, blended repayments of \$6,155 monthly, due February 29, 2020	764,036	795,708
Demand note payable, Cororation of the Town of Cobourg, 7.25%	7,000,000	7,000,000
Infrastructure Ontario Loan, 4.03%, blended repayments of \$82,668 semi-annually, due September 5, 2028	1,755,867	1,847,658
Infrastructure Ontario Loan, 3.83% per annum, blended repayments of \$72,708 semi-annually, due October 1, 2027	1,519,398	1,611,120
	<b>11,039,301</b>	<b>11,254,486</b>
Less principal payments due within one year	223,801	215,185
Due beyond one year	<b>10,815,500</b>	<b>11,039,301</b>

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

**8. LONG-TERM DEBT, continued**

The note payable to the Town of Cobourg has been classified as a long-term liability as the Town has indicated that they will not demand repayment prior to January 1, 2016. During the year the Company paid \$507,500 in interest on the loan.

Estimated principal re-payments are as follows:

	\$
2015	223,801
2016	232,773
2017	242,115
2018	251,844
2019	259,802
	1,210,335
Subsequent years	9,828,966
	<u>11,039,301</u>

**9. EMPLOYEE FUTURE BENEFITS**

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for the year ended December 31, 2012.

Significant actuarial assumptions employed for the valuations are as follows: future general inflation level of 2%, discount rate of 4%, salary and wage level increases at 3.3% per annum. A 4.8% annual rate of increase in the per capita cost of covered dental costs was assumed for 2014 and thereafter. A 6.93% annual rate of increase for health costs was assumed for 2014, decreasing by 0.53% per annum until 2018.

Information about the Company's defined benefit plan is as follows:

	2014	2013
	\$	\$
Accrued Benefit Obligation, beginning of the year	282,730	271,862
Current service cost	13,887	13,353
Interest on accrued benefit obligation	16,744	16,464
Benefits paid	(19,717)	(18,949)
Accrued Benefit Obligation, end of the year	<u>293,644</u>	<u>282,730</u>

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

10. **SHARE CAPITAL**

Authorized

Unlimited number of Class D non-voting, retractable,  
redeemable, preferred shares

Issued

	2014	2013
	\$	\$
11,300,000 Common shares	7,002,145	7,002,145

11. **INCOME TAXES**

a) The components of future income tax balances are as follows:

	2014	2013
	\$	\$
Future income tax asset		
Non-capital loss carry-forwards	-	45,000
Tax basis of equipment in excess of carrying amount	102,190	167,375
Reserves deductible when paid	77,810	74,925
	180,000	287,300

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 38.5% (2013 - 38.5%) to the income for the years as follows:

	2014	2013
	\$	\$
Income for the year before income taxes	933,000	722,000
Expected tax at statutory rates of 38.5%	359,205	277,970
Recognition of benefit of prior year losses due to amalgamation	-	(45,000)
Utilization of losses carried forward	(2,700)	(16,000)
Benefit of income tax loss carry-forwards not recognized	22,565	30,700
Ontario small business deduction	(11,800)	(14,513)
General rate reduction	(111,960)	(86,640)
Other	(3,329)	(7,323)
Provision for income taxes	252,181	139,194

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

**11. INCOME TAXES, continued**

Subsidiaries of the Company have tax loss carry-forwards in the amount of \$1,162,880 from prior years which is available to reduce taxable income in the future. An amount of \$278,072 is receivable and represents tax installments paid in excess of the taxes payable for the year.

**12. STATEMENT OF CASH FLOWS**

(a) Change in non-cash working capital items

	2014	2013
	\$	\$
Decrease (increase) in accounts receivable	(592,221)	467,135
Decrease (increase) in unbilled revenue	665,256	(814,553)
Decrease in inventory	109,745	106,866
Decrease in prepaid expenses	30,278	51,565
Increase in income taxes receivable	(93,353)	(184,719)
Increase in accounts payable and accrued liabilities	659,662	622,396
Decrease in income taxes payable	-	(142,840)
	<b>779,367</b>	<b>105,850</b>
Interest paid	696,564	647,650
Income tax paid	197,786	271,000

**13. RELATED PARTY TRANSACTIONS**

The Corporation of the Town of Cobourg is the majority shareholder of the Company with the Township of Cramahe (Colborne) owning one share. As at the year end, included in accounts receivable is \$43,812 (2013 - nil) due from the Corporation of the Town of Cobourg. The Company owes the shareholder a note payable in the amount of \$7,000,000 as described in Note 8. The Company also has a promissory note receivable in the amount of \$675,000 with interest receivable of \$38,880 from the shareholder as described in note 5.

The Company provides water and sewage billing and collection services to the customers of the Corporation of the Town of Cobourg, the Township of Cramahe (Colborne) and the Hamlet of Grafton, as well as supplying street light energy and streetlight maintenance services to the Corporation of the Town of Cobourg and the Township of Cramahe (Colborne). The Company received a billing service recovery of \$30,000 (2013 - \$30,000) from the Corporation of the Town of Cobourg. The amount is in the normal course of business and is measured at its exchange value.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

**14. CAPITAL DISCLOSURES**

The Company's primary objective when managing capital is to address the expectations as outlined in the Shareholder Agreement between the Company's shareholder, Town of Cobourg Holdings Inc. and its shareholder, the Corporation of the Town of Cobourg. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

The Company's current capital structure is defined as follows:

	2014	2013
	\$	\$
Infrastructure Ontario loan	3,275,265	3,458,778
Note payable	7,000,000	7,000,000
Bank loan	764,036	795,708
	<b>11,039,301</b>	<b>11,254,486</b>

	2014	2013
	\$	\$
Share capital	7,002,145	7,002,145
Retained earnings	3,207,617	2,895,208
	<b>10,209,762</b>	<b>9,897,353</b>

**15. PENSION AGREEMENT**

The Company makes contributions to the Ontario Municipal Employees' Retirement System (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount that the Company contributed to O.M.E.R.S. for the year ended was \$147,632 (2013 - \$138,415).

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2014**

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**16. CREDIT FACILITIES**

The Company has a \$2,500,000 (2013 - \$2,500,000) credit facility consisting of \$1,000,000 (2013 - \$1,000,000) operating line and \$1,500,000 (2013 - \$1,500,000 in) stand-by letters of guarantee. The operating line bears interest at prime rate plus 0.5% per year and is secured by a General Security Agreement covering substantially all of the Company's assets.

The Company has posted \$1,500,000 (2013 - \$1,222,663) in stand-by letters of credit with the Independent Electricity System Operator, as required by regulation. The facility bears interest at 0.75% per annum.

**17. ASSET RETIREMENT OBLIGATION**

The Company recognizes that there may be a future costs for the environmental remediation of certain properties and for future removal and handling costs related to distribution equipment currently in service. The Company assumes that these sites will remain in use for perpetuity and therefore no retirement obligation exists. If factors indicate that a particular site will not remain in use for perpetuity and an obligation to remediate the site exists, only at this time will the Company attempt to value the liability.

**18. CONTINGENCY**

The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

**19. FINANCIAL INSTRUMENTS**

*Fair value*

The Company's carrying value of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities and customer deposits approximates its fair value due to the immediate or short-term maturity of these instruments.

The amount due from shareholder approximates its fair value as the interest rate is consistent with market rates.

The carrying value of the long-term debt approximates its fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2014

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**19. FINANCIAL INSTRUMENTS, continued**

*Interest rate risk*

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

*Credit risk*

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. The Company carries out credit checks on its customers on a continuing basis, retains a deposit where allowed by OEB regulation and maintains provisions for contingent credit losses. The Company has a significant number of customers which minimizes concentration of credit risk.

**20. COMPARATIVE AMOUNTS**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

**21. SUBSEQUENT EVENT**

*Amalgamation*

On January 1, 2015, Lakefront Lighting Inc. and Cobourg Networks Inc., subsidiaries of the Company, were amalgamated.

## **Appendix 2**

**Corporation of the Town of Cobourg**

**2015**

**Audited Financial Statements**



Consolidated Financial Statements

**THE CORPORATION OF  
THE TOWN OF COBOURG**

Year ended December 31, 2015

# THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2015

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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.

A handwritten signature in black ink, appearing to read "Stephen Peacock", written over a horizontal line.

Stephen Peacock  
Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Ian Davey", written over a horizontal line.

Ian Davey  
Treasurer



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Internet [www.kpmg.ca](http://www.kpmg.ca)

## **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, 2015, 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, 2015, 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*

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Chartered Professional Accountants, Licensed Public Accountants

May 24, 2016

Kingston, Canada

# THE CORPORATION OF THE TOWN OF COBOURG

## Consolidated Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Financial assets:		
Cash	\$ 2,963,901	\$ 3,933,872
Investments (note 3)	971,912	813,117
Taxes receivable	3,359,601	3,183,574
Receivables - grant	170,944	283,932
Receivables - other	2,375,291	1,938,276
Other financial assets	166,200	345,278
Note receivable from Town of Cobourg Holdings Inc. (note 5(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 5(a))	11,368,769	10,209,762
	<u>28,376,618</u>	<u>27,707,811</u>
Liabilities:		
Accounts payable and accrued liabilities	7,679,315	6,387,025
Deferred revenue	515,403	432,577
Deferred revenue - obligatory reserve funds (note 7)	8,584,236	8,515,005
Employee future benefit liability (note 8(d))	2,555,625	2,527,990
Mortgage payable (note 9)	2,742,630	3,916,061
Promissory note payable to Town of Cobourg Holdings Inc. (note 5(d))	630,000	675,000
Net long-term liabilities (note 10)	7,147,650	8,739,577
	<u>29,854,859</u>	<u>31,193,235</u>
Total net debt	(1,478,241)	(3,485,424)
Non-financial assets:		
Tangible capital assets (note 15)	176,162,120	174,496,963
Other assets	1,331,855	1,345,059
	<u>177,493,975</u>	<u>175,842,022</u>
Accumulated surplus (note 11)	<u>\$ 176,015,734</u>	<u>\$ 172,356,598</u>

Commitments (note 14)  
Contingent liabilities (note 17)

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, 2015, with comparative information for 2014

	Budget 2015	Actual 2015	Actual 2014
	(note 16)		
Revenue:			
Taxation:			
Property taxation	\$ 21,645,446	\$ 21,749,395	\$ 20,962,515
Payments in lieu of taxation	110,400	186,623	172,846
User charges	12,981,763	14,215,661	12,458,940
Development charges	–	522,762	508,148
Grants:			
Province of Ontario	176,319	477,637	714,722
Government of Canada	536,225	1,215,508	353,352
Other municipalities	250,136	760,104	606,685
Other:			
Rental income	4,173,109	3,971,708	4,415,770
Penalty and interest	625,000	492,725	639,126
Other income	–	925,208	1,535,946
Donations	–	293,871	168,364
Interest income - Town of Cobourg Holdings Inc. (note 5(c))	507,500	507,500	507,500
Interest and dividend income	1,070,000	438,534	538,903
Gain on sale of assets	35,000	25,088	18,135
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 5)	–	1,159,007	312,409
<b>Total revenue</b>	<b>42,110,898</b>	<b>46,941,331</b>	<b>43,913,361</b>
Expenses (note 12):			
General government	5,426,177	3,514,788	4,217,545
Protection to persons and property	9,814,301	12,814,523	10,965,536
Transportation services	5,582,079	5,667,396	5,775,632
Environmental services	8,782,067	8,532,035	8,280,582
Recreation and cultural services	6,770,151	8,820,967	8,119,111
Social and family services	59,750	69,485	103,672
Planning and development	1,095,564	1,197,815	1,111,355
Industrial property	2,675,087	2,665,186	2,653,052
<b>Total expenses</b>	<b>40,205,176</b>	<b>43,282,195</b>	<b>41,226,485</b>
<b>Annual surplus</b>	<b>1,905,722</b>	<b>3,659,136</b>	<b>2,686,876</b>
Accumulated surplus, beginning of year		172,356,598	169,669,722
<b>Accumulated surplus, end of year (note 11)</b>		<b>\$ 176,015,734</b>	<b>\$ 172,356,598</b>

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, 2015, with comparative information for 2014

	2015	2014
Annual surplus	\$ 3,659,136	\$ 2,686,876
Acquisition of tangible capital assets	(4,937,588)	(8,815,366)
Decrease (increase) in construction-in-progress	(3,243,153)	36,032
Amortization of tangible capital assets	6,515,584	6,419,963
Gain on disposal of tangible capital assets	(25,088)	(18,135)
Proceeds on disposal of tangible capital assets	25,088	65,844
Disposal (acquisition) of other assets	13,204	(42,926)
	2,007,183	332,288
Net debt, beginning of year	(3,485,424)	(3,817,712)
Net debt, end of year	\$ (1,478,241)	\$ (3,485,424)

See accompanying notes to consolidated financial statements.



# THE CORPORATION OF THE TOWN OF COBOURG

## Consolidated Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
<b>Operations:</b>		
Annual surplus	\$ 3,659,136	\$ 2,686,876
Items not involving cash:		
Amortization of tangible capital assets	6,515,584	6,419,963
Increase in employee future benefit liability	27,635	35,160
Changes in non-cash working capital balances:		
Taxes receivable	(176,027)	287,864
Receivables - grant	112,988	(83,580)
Receivables - other	(437,015)	107,437
Other financial assets	179,078	(196,878)
Other assets	13,204	(42,926)
Accounts payable and accrued liabilities	1,292,290	272,148
Deferred revenue	82,826	(100,011)
Deferred revenue - obligatory reserve funds	69,231	1,126,763
Net change in cash from operations	11,338,930	10,512,816
<b>Capital activities:</b>		
Cash used to acquire capital assets	(4,937,588)	(8,815,366)
Decrease (increase) in construction-in-progress	(3,243,153)	36,032
Gain on disposal of tangible capital assets	(25,088)	(18,135)
Proceeds on disposal of tangible capital assets	25,088	65,844
Net change in cash from capital activities	(8,180,741)	(8,731,625)
<b>Investing activities:</b>		
Increase in investment in Town of Cobourg Holdings Inc.	(1,159,007)	(312,409)
Increase in investments	(158,795)	(13,613)
Net change in cash from investing activities	(1,317,802)	(326,022)
<b>Financing activities:</b>		
Repayment of mortgage payable	(1,173,431)	(1,146,439)
Repayment of long-term liabilities	(1,591,927)	(2,321,897)
Repayment of promissory note	(45,000)	(45,000)
Net change in cash from financing activities	(2,810,358)	(3,513,336)
Decrease in cash	(969,971)	(2,058,167)
Cash, beginning of year	3,933,872	5,992,039
Cash, end of year	\$ 2,963,901	\$ 3,933,872
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 334,470	\$ 424,122
Cash received from interest	492,725	639,126

See accompanying notes to consolidated financial statements.

# THE CORPORATION OF THE TOWN OF COBOURG

## Notes to Consolidated Financial Statements

Year ended December 31, 2015

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### 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, 2015

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## 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, 2015

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## 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, 2015

## 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, 2015

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## 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. Changes in accounting policies:

The Town has implemented Canadian Public Sector Accounting Standards (PSAS) Section 3260 Liability for Contaminated Sites. Section 3260 requires governments to record a liability in their financial statements if they have a contaminated site that meets the requirements set out in the standard. The standard defines contamination as the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The standard generally applies to sites that are not in productive use. Sites that are in productive use are only considered contaminated if there was an unexpected event that resulted in contamination. This change has been applied retroactively without the restatement of prior periods.

The adoption of this standard did not have an impact on the Town's financial statements.

## 3. 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.

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

#### 4. 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	
	2015	2014	2015	2014
Amounts requisitioned and collected	\$ 8,812,983	\$ 8,812,041	\$ 12,006,337	\$ 11,634,437

#### 5. 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:

	2015	2014
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	3,056,347	2,895,208
Pro-rata share of net income during the year	1,623,091	680,842
Dividend	(340,400)	(385,100)
Refundable dividend tax	–	(357)
Refundable dividend tax recovered	13,025	17,024
Accumulated other comprehensive income change	14,561	–
<b>Total investment in Town of Cobourg Holdings Inc.</b>	<b>\$ 11,368,769</b>	<b>\$ 10,209,762</b>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 5. 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, 2015 and December 31, 2014 and its results of operations for both years:

### (a) Financial position:

	2015	2014
Current assets	\$ 8,441,886	\$ 9,385,846
Capital assets	18,536,691	16,107,101
Other assets	4,782,643	1,099,895
<b>Total assets</b>	<b>31,761,220</b>	<b>26,592,842</b>
Current liabilities	3,458,708	5,221,179
Long-term liabilities	13,319,486	11,161,901
Regulatory deferral account credit balances	3,614,257	–
<b>Total liabilities</b>	<b>20,392,451</b>	<b>16,383,080</b>
<b>Net assets</b>	<b>\$ 11,368,769</b>	<b>\$ 10,209,762</b>

### (b) Results of operations:

	2015	2014
Revenue	\$ 34,297,559	\$ 32,569,641
Expenses	32,674,468	31,888,799
<b>Net earnings for the period</b>	<b>\$ 1,623,091</b>	<b>\$ 680,842</b>

(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 (2014 - \$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 2015 was \$36,450 (2014 - \$38,880).



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 6. 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	2015	2014
Land	\$ 3,125,000	\$ –	\$ 3,125,000	\$ 3,125,000
Land improvements	902,768	259,272	643,496	677,364
Buildings	21,194,487	7,925,317	13,269,170	13,618,723
	<u>\$ 25,222,255</u>	<u>\$ 8,184,589</u>	<u>\$ 17,037,666</u>	<u>\$ 17,421,087</u>

Cost and accumulated amortization at December 31, 2014 amounted to \$24,884,798 and \$7,463,711, respectively.

### (a) Financial position:

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

	2015	2014
Cash	\$ 994,306	\$ 1,192,874
Accounts receivable	351,465	379,790
Prepaid expenses	19,891	23,681
Industrial property	17,037,666	17,421,087
<u>Total assets</u>	<u>18,403,328</u>	<u>19,017,432</u>
Accounts payable and accrued liabilities	383,462	793,242
Deferred revenue	96,032	102,338
Mortgage payable	2,742,630	3,916,061
<u>Total liabilities</u>	<u>3,222,124</u>	<u>4,811,641</u>
<u>Net equity in industrial property</u>	<u>\$ 15,181,204</u>	<u>\$ 14,205,791</u>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 6. Industrial property (continued):

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

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

	2015	2014
Gross rental income	\$ 2,749,730	\$ 3,188,739
Operating expenses	(1,701,728)	(1,642,071)
Operating expenses recovery	1,194,269	1,200,608
Administrative expenses	(165,814)	(191,793)
Interest on long-term debt	(76,766)	(103,805)
Amortization	(720,878)	(715,383)
<b>Net income for the year</b>	<b>\$ 1,278,813</b>	<b>\$ 1,736,295</b>
Equity, beginning of the year	\$ 13,205,791	\$ 12,122,246
Net income for the period	1,278,813	1,736,295
Transfer to reserves	(303,400)	(652,750)
Capital reserve	1,000,000	1,000,000
<b>Equity, end of year</b>	<b>\$ 15,181,204</b>	<b>\$ 14,205,791</b>

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, 2015

## 7. 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:

	2015	2014
Balance, beginning of year	\$ 8,515,005	\$ 7,388,242
Recreational land	4,825	49,100
Federal grant - gasoline tax	536,225	551,149
Provincial grant - gasoline tax transit	188,719	232,187
Development contributions	677,110	1,155,686
Building code	6,000	286,916
Sub-divider contributions	-	61,940
Investment income	87,474	86,967
Utilization - capital	(808,012)	(734,758)
Utilization - operating	(623,110)	(562,424)
<b>Balance, end of year</b>	<b>\$ 8,584,236</b>	<b>\$ 8,515,005</b>
Analyzed as follows:		
Sub-divider contributions	\$ 201,584	\$ 226,759
Recreational land	104,950	148,169
Development charges	6,797,949	6,522,993
Building code	478,913	546,404
Gasoline tax:		
Provincial	44,274	45,187
Federal	956,566	1,025,493
	<b>\$ 8,584,236</b>	<b>\$ 8,515,005</b>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 8. 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, 2015, the Town's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$2,145,384 (2014 - \$2,091,411).

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	6.0% in 2015 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:

	2015	2014
Accrued benefit liability, January 1	\$ 2,091,411	\$ 2,035,098
Service cost	80,377	75,227
Benefits paid for the period	(126,171)	(116,097)
Interest cost	100,351	97,767
Amortization of actuarial gains and losses	(584)	(584)
Accrued benefit liability, December 31	\$ 2,145,384	\$ 2,091,411

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

	2015	2014
Accrued benefit obligation	\$ 2,190,139	\$ 2,135,582
Unamortized actuarial loss	(44,755)	(44,171)
Accrued benefit liability, end of year	\$ 2,145,384	\$ 2,091,411

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 8. 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, 2014.

At December 31, 2015, the accrued benefit liability relating to post-retirement benefit plans is \$298,691 (2014 - \$307,872).

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

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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	6.5% in 2015 decreasing by 0.25% per annum until 2023

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

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	2015	2014
Accrued benefit liability, January 1	\$ 307,872	\$ 311,296
Service cost	7,921	6,219
Benefits paid for the period	(51,390)	(29,941)
Interest cost	17,666	20,298
Adjustment to liability at January 1, 2015	16,622	-
Accrued benefit liability, December 31	\$ 298,691	\$ 307,872

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(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 March 2014.

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 CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 8. Employee future benefit liability (continued):

### (b) Workplace safety and insurance (continued):

At December 31, 2015, the Town's accrued benefit obligation relating to future payments on Workplace Safety and Insurance Board claims is \$111,550 (2014 - \$128,707).

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

	2015	2014
Accrued benefit, beginning of year	\$ 128,707	\$ 146,436
Benefits paid for the period	(5,758)	(6,461)
Interest cost	3,225	3,356
Amortization of actuarial gain	(14,624)	(14,624)
Accrued benefit liability, end of year	\$ 111,550	\$ 128,707

The accrued benefit liability at December 31, 2015, includes the following components:

	2015	2014
Accrued benefit obligation	\$ 68,247	\$ 70,780
Unamortized actuarial gain	43,303	57,927
Accrued benefit liability	\$ 111,550	\$ 128,707

### (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, 2015 amount to \$968,935 (2014 - \$887,724) and are included in accounts payable and accrued liabilities.

### (d) Employee future benefit liability:

	2015	2014
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 2,145,384	\$ 2,091,411
Workplace safety and insurance	111,550	128,707
	2,256,934	2,220,118
Health, dental and life insurance benefits - Waterworks	298,691	307,872
	\$ 2,555,625	\$ 2,527,990

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 9. Mortgage payable on industrial property:

	2015	2014
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	\$ 2,742,630	\$ 3,916,061

Principal payments for the next three years are as follows:

2016	\$ 1,200,816
2017	1,229,440
2018	312,374
	<u>\$ 2,742,630</u>

## 10. 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:

	2015	2014
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 7,147,650	\$ 8,739,577

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

2016	\$ 1,268,769
2017	828,381
2018	749,140
2019	582,880
2020	421,561
Thereafter	3,296,919
	<u>\$ 7,147,650</u>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 10. 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 \$334,470 (2014 - \$424,122). The long-term liabilities bear interest at rates ranging from 2.93% to 5.23% with term renewals to take place in 2015 through 2033.

## 11. Accumulated surplus:

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

	2015	2014
Surplus:		
Operations	\$ (6,107,109)	\$ (4,499,900)
Unfinanced capital	(8,040,720)	(6,701,801)
Invested in tangible capital assets	176,162,120	174,496,963
Long-term debt	(7,147,650)	(8,739,577)
Mortgage	(2,742,630)	(3,916,061)
Unfunded:		
Employee benefits	(2,555,625)	(2,527,990)
Promissory note payable to Town of Cobourg Holdings Inc.	(630,000)	(675,000)
Net surplus Town unconsolidated	148,938,386	147,436,634
Waterworks	1,174,576	1,236,855
Downtown Business Improvement Area	49,951	34,375
Town of Cobourg Public Library Board	69,882	(64,665)
Note receivable from Town of Cobourg Holdings Inc.	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc.	11,368,769	10,209,762
Total surplus	168,601,564	165,852,961
Reserves:		
Contingencies	66,440	26,440
Parking	315,936	226,496
Current:		
Health services	4,207	4,207
Library	168,634	166,503
Other	11,290	11,290
Capital:		
General government	1,649,695	1,127,983
Protection services	1,659,829	1,448,625
Transportation services	906,485	832,353
Environmental services	1,550,139	1,577,950
Recreation and cultural services	496,272	503,940
Planning and development	585,243	577,850
Total reserves	7,414,170	6,503,637
Total accumulated surplus	\$ 176,015,734	\$ 172,356,598



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 12. Classification of expenses by object:

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

	2015	2014
Salary, wages and employee benefits	\$ 22,012,812	\$ 19,916,685
Operating materials and supplies	6,629,574	6,410,379
Contracted services	7,456,126	7,697,012
Rents and financial expenses	333,629	620,305
External transfers to other	–	(261,981)
Interest on long-term debt	334,470	424,122
Amortization of tangible capital assets	6,515,584	6,419,963
	<u>\$ 43,282,195</u>	<u>\$ 41,226,485</u>

## 13. 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, 2015, the amount contributed for and included as current service pension costs expenses on the Consolidated Statement of Operations is \$1,335,488 (2014 - \$1,268,133).

## 14. Commitments:

Lease commitments at December 31, 2015 for equipment under lease obligations are as follows:

2016	\$ 36,779
2017	31,302
2018	28,557
2019	20,683
2020	10,940
	<u>\$ 128,261</u>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 15. Tangible capital assets:

Cost	Balance at December 31, 2014	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2015
Land	\$ 15,287,471	\$ 39,207	\$ –	\$ 15,326,678
Land improvements	9,665,037	132,361	–	9,797,398
Buildings and building improvements	63,879,691	685,063	–	64,564,754
Machinery and equipment	13,954,406	912,703	–	14,867,109
Vehicles	9,903,856	713,247	176,310	10,440,793
Roads infrastructure	31,083,639	237,995	37,287	31,284,347
Sewer infrastructure	81,315,729	698,172	–	82,013,901
Water infrastructure	34,012,527	1,433,987	44,535	35,401,979
Books and periodicals	1,044,887	84,853	128,349	1,001,391
Construction-in-progress	1,519,699	3,721,597	478,444	4,762,852
	<b>\$ 261,666,942</b>	<b>\$ 8,659,185</b>	<b>\$ 864,925</b>	<b>\$ 269,461,202</b>

Accumulated amortization	Balance at December 31, 2014	Amortization expense	Disposals/ transfers/ write-offs	Balance at December 31, 2015
Land improvements	\$ 3,151,586	\$ 267,464	\$ –	\$ 3,419,050
Buildings and building improvements	16,074,893	1,824,796	–	17,899,689
Machinery and equipment	6,891,719	726,219	–	7,617,938
Vehicles	4,423,257	544,823	176,310	4,791,770
Roads infrastructure	12,765,907	761,353	37,287	13,489,973
Sewer infrastructure	29,047,085	1,489,431	–	30,536,516
Water infrastructure	14,194,874	775,049	44,535	14,925,388
Books and periodicals	620,658	126,449	128,349	618,758
	<b>\$ 87,169,979</b>	<b>\$ 6,515,584</b>	<b>\$ 386,481</b>	<b>\$ 93,299,082</b>

	Net book value December 31, 2014	Net book value December 31, 2015
Land	\$ 15,287,471	\$ 15,326,678
Land improvements	6,513,451	6,378,348
Buildings and building improvements	47,804,798	46,665,065
Machinery and equipment	7,062,687	7,249,171
Vehicles	5,480,599	5,649,023
Roads infrastructure	18,317,732	17,794,374
Sewer infrastructure	52,268,644	51,477,385
Water infrastructure	19,817,653	20,476,591
Books and periodicals	424,229	382,633
Construction-in-progress	1,519,699	4,762,852
	<b>\$ 174,496,963</b>	<b>\$ 176,162,120</b>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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## 15. Tangible capital assets (continued):

(a) Construction-in-progress:

Construction-in-progress having a value of \$4,762,852 (2014 - \$1,519,699) 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 (2014 - \$Nil).

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

## 16. Budget figures:

Budget figures reported on the Consolidated Statement of Operations are based on the 2015 municipal and other local board operating budgets as approved by Council on April 27, 2015 and May 19, 2015.

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 2015
Total revenue as reported on the statement of operations:	
Operating budget	\$ 29,075,347
Water budget	3,920,526
Wastewater budget	4,941,916
Northam Industrial Park budget	4,173,109
	<u>42,110,898</u>
Total expenses as reported on the statement of operations:	
Operating budget	30,742,459
Water budget	3,505,558
Wastewater budget	3,282,072
Northam Industrial Park budget	2,675,087
	<u>40,205,176</u>
Annual operating surplus	1,905,722
Budget not reported on statements:	
Net transfer from/to reserves	1,667,112
Operating transfer from reserves - water	(414,968)
Operating transfer to reserves - wastewater	(1,659,844)
Operating transfer to reserves - Northam Industrial Park	(1,498,022)
	<u>\$ (1,905,722)</u>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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## 17. 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, 2015, 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.
- (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.

## 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) 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, 2015

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## 18. 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.

# THE CORPORATION OF THE TOWN OF COBOURG

## Consolidated Schedule of Segment Information

Year ended December 31, 2015

	General Government Administration	Protection Services	Transporation Services	Environmental Services	Industrial Property
<b>Revenue:</b>					
User fees and service charges	\$ 183,618	\$ 1,707,490	\$ 652,011	\$ 4,972,323	\$ -
Federal grants	-	23,529	1,141,982	-	-
Government of Ontario Grants	24,325	37,674	190,347	-	-
Other municipalities	-	406,248	-	-	-
Rent, license, permits	521,548	-	-	-	3,943,999
Investment income	83,625	-	-	-	-
	813,116	2,174,941	1,984,340	4,972,323	3,943,999
<b>Expenses:</b>					
Salaries, wages and employee benefits	2,135,870	11,924,546	1,964,174	1,438,406	-
Long-term debt charges (interest)	-	11,246	71,867	126,566	-
Materials	571,333	626,618	1,215,107	1,395,680	-
Contracted services	351,238	353,664	1,319,967	303,084	1,944,308
Rents and financial expenses	243,992	-	46,376	-	-
External transfers	-	-	-	-	-
Amortization	212,355	435,064	1,049,905	1,576,236	720,878
	3,514,788	13,351,138	5,667,396	4,839,972	2,665,186
Excess of revenue over expenses (expenses over revenue)	(2,701,672)	(11,176,197)	(3,683,056)	132,351	1,278,813
<b>Funded through:</b>					
Taxation					
Payments in lieu of taxation					
Penalties and interest					
Other					
Excess of revenue over expenses (expenses over revenue)	\$ (2,701,672)	\$ (11,176,197)	\$ (3,683,056)	\$ 132,351	\$ 1,278,813

# THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2015

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
<b>Revenue:</b>					
User fees and service charges	\$ 3,883,600	\$ –	\$ 2,673,070	\$ 143,549	\$ 14,215,661
Federal grants	–	–	49,997	–	1,215,508
Government of Ontario grants	–	–	89,734	6,357	348,437
Other municipalities	–	–	341,356	12,500	760,104
Rent, license, permits	–	–	–	–	4,465,547
Investment income	14,509	–	–	–	98,134
	3,898,109	–	3,154,157	162,406	21,103,391
<b>Expenses:</b>					
Salaries, wages and employee benefits	–	–	3,699,854	849,962	22,012,812
Long-term debt charges (interest)	–	–	124,791	–	334,470
Materials	–	–	2,742,547	78,292	6,629,577
Contracted services	2,655,731	–	234,008	277,023	7,439,023
Rents and financial expenses	–	–	43,261	–	333,629
External transfers	–	17,100	–	–	17,100
Amortization	1,036,333	–	1,482,184	2,629	6,515,584
	3,692,064	17,100	8,326,645	1,207,906	43,282,195
Excess of revenue over expenses (expenses over revenue)	206,045	(17,100)	(5,172,488)	(1,045,500)	(22,178,804)
<b>Funded through:</b>					
Taxation					21,748,221
Payments in lieu of taxation					183,319
Penalties and interest					649,562
Other					3,256,838
					25,837,940
Excess of revenue over expenses (expenses over revenue)	\$ 206,045	\$ (17,100)	\$ (5,172,488)	\$ (1,045,500)	\$ 3,659,136



## **Appendix 3**

**Letter from**  
**Mr. Dereck C. Paul, President**  
**Lakefront Utilities**  
**to**  
**Mr. D. Babaie**  
**Manager, Audit & Performance Assessment**  
**Ontario Energy Board**

**October 20, 2014**



**Lakefront  
Utilities  
Inc.**

207 Division St., P.O. Box 577, Cobourg, ON. K9A 4L3 • [www.lusi.on.ca](http://www.lusi.on.ca) • Tel: (905) 372-2193 • Fax: (905) 372-2581

October 20, 2014

Mr. D. Babaie, P. Eng., CPA, CMA  
Manager, Audit & Performance Assessment  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 24<sup>th</sup> Floor  
Toronto, Ontario M4P 1E4

**Re: Audit Report – Audit of Lakefront Utilities Inc. Group 1 Deferral and Variance Accounts**

Dear Mr. Babaie,

Pursuant to your letter dated April 14<sup>th</sup>, 2014, the Ontario Energy Board (“OEB”) Audit and Performance Assessment group (“Audit”) conducted an audit of Lakefront Utilities Inc. (“LUI”) Group 1 deferral and variance (“DVA”) balances as at December 31, 2012. The objective of the audit was to determine whether LUI’s Group 1 DVA account balances as at December 31, 2012 that were approved on an interim basis for disposition in Lakefront Utilities’ 2013 rate proceeding are reasonable, as well as whether accounting policies and procedures for these accounts are properly and consistently applied and reported to the Board in accordance with the Accounting Procedures Handbook (“APH”), Reporting and Record-keeping Requirements (“RRR”) and regulated guidelines.

Your team, Audit, completed its field work at the end of September and you provided me with a draft written report (“Audit Report”) on October 1<sup>st</sup>.

During the field work, although a review of the IESO Form 1598 submissions may be outside the scope of the OEB audit, LUI staff felt it was prudent to identify errors associated with the monthly Form 1598 IESO submissions as those submissions can impact the 1588 and 1589 accounts.

The Audit Report identified several areas of non-conformity by LUI with the APH and internal control and raised concerns for weaknesses with respect to LUI’s regulatory accounting and IESO settlement processes. LUI agrees with the Audit findings and concerns as outlined in the audit report. Immediate corrective actions were required by Audit so that LUI can file its next IRM application which is due on November 2<sup>nd</sup>, 2014 for rates effective May 1, 2015. Management outlined the corrective action plans taken for each item identified by Audit in LUI’s Audit Report’s response.

A copy of the Audit Report was shared with LUI's board of directors, LUI's internal audit committee and LUI's external auditors. LUI's board acknowledge the findings and concerns made by the OEB Audit team and recognize the challenges LUI faced over the last three years due to several staff turnovers in the Finance department. Having said that, the LUI board recognizes that necessary steps must be taken to ensure proper controls are in place and procedures are in line with the OEB's APH.

**Action Plans looking ahead:**

- A complete review of LUI's finance team is currently being conducted to ensure the proper structure is in place and staff has the appropriate competency, knowledge, tools, and training to effectively review the regulatory accounting information and perform the work at the required level.
- Effective immediately, LUI has implemented changes to follow the relevant OEB guidelines, including the APH, to ensure that DVA balances are generated in accordance with the Board's requirements. Finance staff will conduct additional reviews to ensure the accuracy of all RRR filings.
- Although the scope of the OEB audit was limited to examination of Group 1 DVAs for the periods of 2011 and 2012, LUI will conduct a thorough reconciliation of all Group 1 DVAs for the periods of 2013 and 2014, as well as all Group 2 DVAs for 2011 through 2014. This work is expected to be done by Q1, 2015. We will also work with our external auditors to ensure that the appropriate adjustments are made to the 2013 and 2014 DVA balances. We will also share this information with your team.
- LUI will make adjustments to the IESO form 1598 for the month of November 2014 for the reconciliation of 2011 and 2012 year. Staff will continue the initiative of reconciling all of 2013 and 2014 to date.
- LUI will work with the OEB's Audit team to re-file RRR 2.1.7 and any other applicable RRR reports for 2013 (and all relevant periods) for Group 1 DVAs in accordance with the APH.
- Effective November 1, 2014, LUI will ensure that monthly entries are made to record the variance between purchases and sales and entries recorded in the DVAs, including principal and interest calculations, monthly unbilled revenues, appropriate GA charges split, etc.
- The LUI board recommended an additional annual external audit review by a third party of LUI's regulatory books to be conducted.
- Over the next three months, LUI is updating all regulatory accounting procedures and policies in line with the APH and Board guidelines.

In summary, LUI appreciates the audit work performed by Audit and welcomes the opportunity to review and enhance its internal controls as part of our ongoing operational improvements and efficiencies. LUI considers the findings and concerns of the Audit very seriously to ensure we continue to meet licensing requirements with the OEB. LUI is optimistic, moving forward, and considers the audit as a learning exercise for regulatory improvement. Some steps have already been taken, including external training arrangements for Finance staff. We are confident that the strengthening of internal processes and procedures will allow the organization to address the control gaps identified through this process.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Dereck C. Paul', is written over the 'Yours truly,' text. The signature is fluid and somewhat abstract, with several loops and a long horizontal stroke extending to the left.

Dereck C. Paul, President  
Lakefront Utilities Inc.