

Consolidated Financial Statements

**THE CORPORATION OF
THE TOWN OF COBOURG**

Year ended December 31, 2007

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2007

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AUDITORS' REPORT

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

We have audited the consolidated statement of financial position of The Corporation of the Town of Cobourg as at December 31, 2007 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2006 were reported on by another firm of chartered accountants.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

April 21, 2008

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006 (restated - note 2)
Assets		
Financial assets:		
Cash and cash equivalents	\$ 7,531,733	\$ 4,835,307
Taxes receivable	3,180,946	2,957,624
Receivables - grant	207,789	299,912
Receivables - other	1,785,830	2,111,968
Other assets	795,132	700,298
Investment in Town of Cobourg Holdings Inc. (note 6)	15,655,463	15,827,343
Total financial assets	29,156,893	26,732,452
Liabilities		
Short-term bank loan (note 9)	—	4,080,000
Accounts payable and accrued liabilities	3,746,673	3,481,462
Deferred revenue	2,102,131	960,793
Deferred revenue - obligatory reserve funds (note 8)	4,591,709	3,330,059
Employee future benefit liability (note 10)	2,060,753	1,936,029
Mortgage payable (note 11)	10,671,209	11,435,097
Net long-term liabilities (note 12)	14,630,152	12,359,453
	37,802,627	37,582,893
Total net financial assets	(8,645,734)	(10,850,441)
Non-financial assets:		
Industrial property (note 7)	15,606,437	15,922,113
Net assets	\$ 6,960,703	\$ 5,071,672
Municipal position		
Current fund (note 13)	\$ 10,856,201	\$ 9,154,847
Capital fund (note 13)	(6,762,993)	(8,583,750)
Reserves (note 14)	4,203,829	3,329,499
Net equity in Town of Cobourg Holdings Inc. (note 7)	15,655,463	15,827,343
	23,952,500	19,727,939
Amounts to be recovered (note 15)	(16,991,797)	(14,656,267)
Total municipal position	\$ 6,960,703	\$ 5,071,672

Commitments (note 18)
Contingent liabilities (note 21)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Activities

Year ended December 31, 2007, with comparative figures for 2006

	Actual 2007	Actual 2006 (restated - note 2)
Revenues:		
Taxation and user charges:		
Property taxation	\$ 15,808,448	\$ 14,864,672
Payments in lieu of taxation	138,757	183,689
User charges	9,018,349	7,799,636
Transfer from deferred obligation reserve fund	1,101,335	1,893,917
Grants:		
Province of Ontario	574,359	1,795,169
Government of Canada	348,171	525,584
Other municipalities	95,723	2,071,804
Other:		
Rental income	4,824,987	4,740,946
Penalty and interest	417,546	359,662
Other income	410,330	197,327
Donations	112,899	-
Interest income – Town of Cobourg Holdings Inc.	507,500	507,500
Interest and dividend income	1,502,517	997,849
Sale of industrial land	125,009	72,261
Sale of assets	125,795	-
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 6)	(171,880)	404,512
Total revenues	34,939,845	36,414,528
Expenditures:		
Current:		
General government	2,670,884	2,761,552
Protection to persons and property	7,770,416	7,585,621
Transportation services	3,484,757	2,512,634
Environmental services	4,837,714	4,234,816
Recreation and cultural services	3,913,858	3,686,849
Social and family services	64,205	33,029
Planning and development	904,026	643,265
Industrial property	3,243,869	4,045,079
Total current expenditures	26,889,729	25,502,845
Capital:		
General government	153,618	273,493
Protection to persons and property	1,075,113	1,037,068
Transportation services	2,418,027	5,398,439
Environmental services	1,618,850	3,221,045
Recreation and cultural services	531,458	1,050,075
Planning and development	48,343	142,545
Total capital expenditures	5,845,409	11,122,665
Total expenditures	32,735,138	36,625,510
Net revenues (expenditures)	2,204,707	(210,982)

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Activities (continued)

Year ended December 31, 2007, with comparative figures for 2006

	Actual 2007	Actual 2006 (restated - note 2)
Net revenues (expenditures)	\$ 2,204,707	\$ (210,982)
Financial transfers:		
Increase in accrued interest on long-term liabilities	(3,290)	4,278
Debt principal repayments	(1,542,302)	(1,182,755)
Issuance of new debt	3,813,000	3,150,000
Increase in employee future benefit liability	113,208	173,605
Decrease in vacation pay liability	(45,087)	143,954
Change in non-financial assets	(315,676)	652,321
	2,019,853	2,941,403
Increase in fund balances for the year	\$ 4,224,560	\$ 2,730,421

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Changes in Financial Position

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006 (restated - note 2)
Operations:		
Net revenues (expenditures)	\$ 2,204,707	\$ (210,982)
Items not involving cash:		
Amortization of industrial property	640,190	639,510
Net equity increase in Town of Cobourg Holdings Inc.	171,880	(404,512)
Changes in non-cash working capital balances:		
Increase in taxes receivable	(223,322)	(212,479)
Decrease (increase) in receivables - grant	92,123	(200,339)
Decrease in receivables – other	326,138	885,091
Increase in other assets	(94,834)	(188,001)
Increase (decrease) in accounts payable and accrued liabilities	254,838	(240,810)
Increase in deferred revenue	1,141,338	6,355
Increase in employee future benefit liability	124,724	184,713
Increase in deferred revenue - obligatory reserve funds	1,261,650	(376,392)
Increase (decrease) in non-financial assets	(315,676)	652,321
Net change in cash from operations	5,583,756	534,475
Investments:		
Additions to industrial property	(314,140)	(1,296,638)
Net change in cash from investments	(314,140)	(1,296,638)
Financing:		
Increase (decrease) in bank indebtedness	(4,080,000)	430,000
Repayment of mortgage payable	(763,888)	(725,220)
Issuance of new debt	3,813,000	3,150,000
Repayment of long-term liabilities	(1,542,302)	(1,182,755)
Net change in cash from financing	(2,573,190)	1,672,025
Increase in cash	2,696,426	909,862
Cash, beginning of year	4,835,307	3,925,445
Cash, end of year	\$ 7,531,733	\$ 4,835,307

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2007

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the Town of Cobourg (“the Corporation”) are the representations of management. They have been prepared in accordance with Canadian generally accepting accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the Town are as follows:

(a) Reporting entity:

(i) Basis of consolidation:

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures 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 Corporation.

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

(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 generally accepted accounting principles as recommended by PSAB for government business enterprises. 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 Corporation recognizes its equity interest in the annual income or loss of TCHI in its statement of financial activities with a corresponding increase or decrease in its investment asset account. Any dividends that the Corporation may receive from TCHI will be reflected as reductions in the investment asset account.

(iii) Accounting for school board transactions:

The taxation, other revenues, expenditures, 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 financial statements. Overlevies (underlevies) are reported on the Consolidated Balance Sheet.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(b) Basis of accounting:

Revenue and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

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

(c) Deferred revenue – obligatory reserve funds:

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

(d) Industrial property:

Industrial property is recorded at cost less accumulated amortization. Amortization is provided based on the estimated useful life of the asset on a declining balance basis at 5%.

(e) Capital assets:

The historical cost and accumulated amortization for capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the year of acquisition.

(f) Employee future benefits:

The Corporation accrues its obligations for employee benefit plans. 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 16 years.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(g) Workplace safety and insurance compensation:

The Corporation 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 10 years.

(h) Reserves:

Certain amounts, as approved by the Town Council, are set aside in reserves for future operating and capital purposes. Transfers to and/or from reserves are an adjustment to the appropriate fund balance.

(i) Amounts to be recovered:

Amounts to be recovered are reported in the municipal position on the consolidated statement of financial position. The balance represents the outstanding principal portion of unmatured long-term liabilities, accrued interest on long-term liabilities, employee future benefits liabilities and accrued vacation pay.

(j) Financial instruments:

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from its financial instruments and the carrying amount of its financial instruments approximate their fair value.

(k) Government transfers:

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

(l) Use of estimates:

The preparation of financial statements in conformity 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 financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

2. Change in accounting policy:

During 2007, the Corporation has included accrued vacation pay, accrued payroll, prepaid insurance expense and the consolidated assets, liabilities, revenue and expenditures for the Waterworks of the Town of Cobourg in the financial statements restated to conform with the accounting policies that were adopted for the current year. Key elements of the changes to the balances reported include:

- Recording a liability on the Corporation's accounts for accrued payroll:

The restated "Consolidated Statement of Financial Activities" includes these payroll costs recorded in the period earned as of December 31, 2007, in the amount of \$33,669 (2006 - \$10,093) and the restated "Consolidated Statement of Financial Position" includes the accrued payroll as of December 31, 2007 of \$465,489 (2006 - \$431,820) and a change in the beginning surplus of \$441,913 as of December 31, 2006.

- Recording accrued vacation pay for employees as entitlement to these payments is earned in accordance with the Corporation's benefit plans for vacation time:

The restated "Consolidated Statement of Financial Activities" includes the cost for entitlement earned as of December 31, 2007 in the amount of (\$45,087) (2006 - \$249,206) and the restated "Consolidated Statement of Financial Position" includes the accrued vacation pay of \$540,780 (2006 - \$585,867). The future impact of these obligations of \$540,780 (2006 - \$585,867) will be recovered from future revenues and appropriately reported in amounts to be recovered on the restated "Consolidated Statement of Financial Position" and as an increase in benefits on the "Consolidated Statement of Financial Activities".

- Recording prepaid insurance in the Corporation's other asset accounts as of December 31, 2007 in the amount of \$248,623 (2006 - \$252,917) and a change in the beginning surplus of \$237,124 as of December 31, 2006 on the "Consolidated Statement of Financial Position" and adjusting the insurance expense cost recorded on the "Consolidated Statement of Financial Activities" by (\$4,295) as of December 31, 2007 (2006 - \$15,783).
- Recording assets and liabilities as of December 31, 2007 on the "Consolidated Statement of Financial Position", current fund accumulated surplus of \$4,697,320 (2006 - \$4,204,716) and a change to the beginning balance for current fund surplus of \$4,491,719 as of December 31, 2006 and revenue and expenditures on the "Consolidated Statement of Financial Activities" with a change in fund balance of \$492,604 as of December 31, 2007 (2006 - (\$287,001)) for the Waterworks of the Town of Cobourg.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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

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

	School Boards		County of Northumberland	
	2007	2006	2007	2006
Amounts requisitioned and collected	\$ 8,748,896	\$ 8,658,852	\$ 8,767,932	\$ 8,229,237

4. Restricted assets:

Cash and investments in the amount of \$4,591,709 (2006 - \$3,336,414) have been restricted to support reserve funds.

5. Bank indebtedness:

The Corporation's financial agreement with its bank provides for an operating credit facility of up to \$10,000,000 to finance expenses, pending receipt of property taxes and other income. Interest on funds drawn is charged at the bank's prime rate less 0.5%. As at December 31, 2007, there was \$Nil (2006 - \$Nil) drawn on the operating credit facility.

6. 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 Corporation retains its interest in the electricity business conducted by TCHI.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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

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 financial statements as a result of this transaction are comprised of the following:

	2007	2006
Note receivable from TCHI ⁽¹⁾	\$ 7,000,000	\$ 7,000,000
9,999,999 common shares of TCHI	7,002,145	7,002,144
Retained earnings, beginning of year	1,825,199	2,020,687
Pro-rata share of net income during the year	428,120	404,512
Dividend	(600,000)	(600,000)
Total investment in Town of Cobourg Holdings Inc.	\$ 15,655,464	\$ 15,827,343

⁽¹⁾ The note receivable bears interest at 7.25% per annum. The Corporation does not intend to demand repayment from TCHI until replacement term financing is in place. Interest earned on this note amounted to \$507,500 (2006 - \$507,500). Fair value of the note receivable is indeterminable as it is an intercompany loan.

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2007 and December 31, 2006 and its operations for both years:

(a) Financial position:

	2007	2006
Current assets	\$ 8,058,588	\$ 10,459,788
Capital assets	10,834,271	10,728,095
Other assets	666,419	-
Total assets	19,559,278	21,187,883
Current liabilities	3,473,911	4,895,052
Long-term liabilities	7,429,903	7,465,487
Total liabilities	10,903,814	12,360,539
Net assets	\$ 8,655,464	\$ 8,827,344

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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

(b) Results of operations:

	2007	2006
Revenues	\$ 24,680,853	\$ 24,703,557
Expenses	24,252,733	24,299,045
Net income for the period	\$ 428,120	\$ 404,512

7. Industrial property:

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

	Cost	Accumulated Amortization	2007	2006
Land	\$ 3,125,000	\$ –	\$ 3,125,000	\$ 3,125,000
Buildings	15,268,137	2,786,700	12,481,437	12,797,113
	\$ 18,393,137	\$ 2,786,700	\$ 15,606,437	\$ 15,922,113

Cost and accumulated amortization at December 31, 2006 amounted to \$18,078,997 and \$2,156,884 respectively.

(a) Financial position:

Included in the consolidated statement of financial position are the following assets and liabilities pertaining to the industrial property operations:

	2007	2006
Cash	\$ 1,747,517	\$ 1,025,146
Accounts receivable	96,771	123,333
Prepaid expenses	13,126	12,849
Industrial property	15,606,437	15,922,113
Total assets	17,463,851	17,083,441
Accounts payable and accrued liabilities	475,142	596,286
Mortgage payable	10,671,209	11,435,097
Total liabilities	11,146,351	12,031,383
Net equity in industrial property	\$ 6,317,500	\$ 5,052,058

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

7. Industrial property (continued):

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

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

	2007	2006
Gross rental income	\$ 3,441,222	\$ 3,373,424
Operating expenses	(1,820,107)	(1,844,109)
Operating expenses recovery	1,383,765	1,367,522
Administrative expenses	(221,376)	(217,220)
Interest on long-term debt	(602,872)	(641,919)
Amortization	(640,190)	(639,510)
Net income for the period	\$ 1,540,442	\$ 1,398,188
Equity, beginning of the year	\$ 5,052,058	\$ 3,703,870
Net income for the period	1,540,442	1,398,188
Transfer to reserves	(275,000)	(50,000)
Equity, end of year	\$ 6,317,500	\$ 5,052,058

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, 2007

8. Deferred revenue – obligatory reserve funds:

A requirement of the public sector accounting standards of the Canadian Institute of Chartered Accountants 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 Corporation are summarized below:

	2007	2006
Balance, beginning of year	\$ 3,336,414	\$ 2,909,506
Recreational land	55,676	126,479
Federal grant - gasoline tax	223,204	167,872
Federal grant - gasoline tax transit	15,703	–
Provincial grant - gasoline tax transit	137,444	–
Development contributions	1,634,310	1,566,600
Building code	42,669	116,398
Sub-divider contributions	15,617	39,128
Investment income	134,007	–
Transfers to capital fund	(614,900)	(1,863,426)
Transfers to (from) operating fund	(388,435)	273,857
Balance, end of year	\$ 4,591,709	\$ 3,336,414
Analyzed as follows:		
Sub-divider contributions	\$ 496,530	\$ 470,392
Recreational land	50,945	39,128
Development charges	3,510,887	2,341,994
Gasoline tax:		
Provincial	7,715	88,633
Federal	295,738	194,745
Federal transit	15,703	–
Building code	214,191	201,522
	\$ 4,591,709	\$ 3,336,414

9. Short-term bank loan:

The loan is unsecured, due on demand and bears interest at the bank's prime rate minus 0.75% calculated and payable monthly. As at December 31, 2007, there was \$Nil (2006 - \$4,080,000) drawn on this short-term bank loan.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

10. Employee future benefit liability:

(a) Extended health care and dental benefits:

(i) The Corporation of the Town of Cobourg:

The Corporation 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 February 2006. An actuarial update of the employee future benefits was completed for December 31, 2007.

At December 31, 2007, the Corporation's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$1,560,246 (2006 - \$1,470,843).

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

Discount rate	3.0% per annum
Inflation rate	3.0% per annum
Salary escalation	4.0% per annum
Dental benefits escalation	5.0% per annum
Health benefits escalation	10.0% per annum in 2005
Expected average remaining service life	16 years

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

	2007	2006
Accrued benefit liability, January 1	\$ 1,470,843	\$ 1,373,998
Service cost	68,244	64,423
Benefits paid for the period	(67,125)	(76,142)
Interest cost	—	83,587
Prior period cost of plan amendment	88,284	24,977
Accrued benefit liability, December 31	\$ 1,560,246	\$ 1,470,843

(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, 2005.

At December 31, 2007, the accrued benefit liability relating to post-retirement benefit plans is \$267,261 (2006 - \$255,745).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

10. Employee future benefit liability (continued):

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

(ii) Waterworks of the Town of Cobourg (continued):

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

Discount rate	5.0% per annum
Inflation rate	2.0% per annum
Salary escalation	3.1% per annum
Dental benefits escalation	5.0% per annum
Health benefits escalation	10.0% per annum in 2005
Expected average remaining service life	16 years

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

	2007	2006
Accrued benefit liability, January 1	\$ 255,745	\$ 244,637
Service cost	8,010	7,629
Benefits paid for the period	(9,446)	(8,912)
Interest cost	12,952	12,391
Accrued benefit liability, December 31	\$ 267,261	\$ 255,745

(b) Workplace safety and insurance:

In common with other Schedule 2 employers, the Corporation funds 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 Workplace Safety and Insurance Board liabilities was completed October 2005. An actuarial update of these liabilities was completed for December 31, 2007.

At December 31, 2007, the Corporation's accrued benefit liability relating to future payments on Workplace Safety and Insurance Board claims is \$233,246 (2006 - \$209,441).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

10. Employee future benefit liability (continued):

(b) Workplace safety and insurance (continued):

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

	2007	2006
Accrued benefit liability, beginning of year	\$ 209,441	\$ 132,681
Service cost	64,248	92,888
Benefits paid for the period	(53,337)	(26,093)
Interest cost	12,894	9,965
Accrued benefit liability, end of year	\$ 233,246	\$ 209,441

(c) Liability for vacation credits:

Compensated vacation expense is accrued for employees as entitlement to these payments is earned in accordance with the Corporation's benefit plans for vacation time. Vacation credits earned as at December 31, 2007 amount to \$540,780 (2006 - \$585,867).

(d) Employee future benefit liability:

	2007	2006
Employee future benefit liability are comprised of:		
Health and dental benefits - Town	\$ 1,560,246	\$ 1,470,843
Workplace safety and insurance	233,246	209,441
Health, dental and life insurance benefits - Waterworks	267,261	255,745
	\$ 2,060,753	\$ 1,936,029

11. Mortgage payable on industrial property:

	2007	2006
Royal Bank of Canada: 5.45%, due on March 4, 2013, blended monthly payments of principal and interest in the amount of \$114,021, secured by industrial property (note 2)	\$ 10,671,209	\$ 11,435,097

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

11. Mortgage payable on industrial property (continued):

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

2008	\$	803,494
2009		848,395
2010		895,806
2011		945,865
2012		1,007,815
Thereafter		6,169,834
		<hr/>
		\$ 10,671,209

12. 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:

	2007	2006
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 14,630,152	\$ 12,359,453

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

2008	\$	1,742,495
2009		1,835,250
2010		1,930,227
2011		1,945,208
2012		1,988,393
Thereafter		5,188,579
		<hr/>
		\$ 14,630,152

(c) Approval of the Ontario Municipal Board or by-law as required has been obtained for the long-term liabilities in note 12(a) issued in the name of the Corporation.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

12. Net long-term liabilities (continued):

- (d) Total charges for the year for net long-term liabilities which are reported on the Consolidated Statement of Financial Activities are as follows:

	2007	2006
Principal payments	\$ 1,542,302	\$ 1,182,755
Interest	715,391	590,058
	<u>\$ 2,257,693</u>	<u>\$ 1,772,813</u>

- (e) The long-term liabilities bear interest at varying rates of 4.33% to 6.76% per annum.

13. Municipal fund balances at the end of the year:

- (a) The current fund balance on the "Consolidated Statement of Financial Position" of \$10,856,201 (2006 - \$9,154,847) at the end of the year is comprised of the following:

	2007	2006
To be applied to/from operations of the operating fund for the following year	\$ (232,552)	\$ (146,944)
To be applied to operations of the Waterworks	4,697,320	4,204,716
Surplus – Downtown Business Improvement Area	46,410	38,332
Surplus – Town of Cobourg Public Library Board	27,523	6,685
Industrial property net equity	6,317,500	5,052,058
	<u>\$ 10,856,201</u>	<u>\$ 9,154,847</u>

- (b) The capital fund balance on the "Consolidated Statement of Financial Position" of (\$6,762,993) (2006 – (\$8,583,750)) at the end of the year is comprised of the following:

	2007	2006
Unapplied capital receipts	\$ 2,977,104	\$ 1,755,025
Capital expenditures to be financed from the proceeds of long-term liabilities	–	(3,150,000)
Capital expenditures to be financed from taxation or user charges	(9,740,097)	(7,188,775)
	<u>\$ (6,762,993)</u>	<u>\$ (8,583,750)</u>

Approval by by-law has been obtained for those pending issues of long-term liabilities and commitments to be financed by revenues beyond the term of Council. The principal and interest payments required to service these pending issues and commitments are within the debt repayment limit prescribed by the Ministry of Municipal Affairs & Housing.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

14. Reserves:

(a) Continuity of reserves:

	2007	2006
Balance, beginning of year	\$ 3,329,499	\$ 3,195,167
Revenue:		
Interest earned	2,036	17,422
Transfer from obligatory reserve fund	98,000	-
Other	3,083	-
Net transfers from (to) other funds:		
Transfers from the current fund	1,527,326	458,047
Transfers from the capital fund	(756,115)	(341,137)
Net change in reserves	874,330	134,332
Balance, end of year	\$ 4,203,829	\$ 3,329,499

(b) Year end position of reserves:

	2007	2006
Reserves:		
Working capital	\$ 317,200	\$ 574,200
Contingencies	19,965	19,965
Parking	50,849	46,812
Current expenditure:		
General government	168,525	163,441
Protection services	406	406
Health services	3,801	3,801
Recreation and cultural services	2,433	2,433
Library	102,666	49,932
Planning and development	32,250	2,000
Other	16,921	16,563
Capital expenditure:		
General government	121,171	50,590
Protection services	622,970	200,681
Transportation services	753,910	958,023
Environmental services	1,209,321	(201,646)
Health services	-	838,292
Recreation and cultural services	423,864	343,068
Planning and development	339,542	239,475
Other	18,035	21,463
	\$ 4,203,829	\$ 3,329,499

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

15. Amounts to be recovered:

	2007	2006
Capital outlay financed by long-term liabilities and to be recovered in future years (note 9)	\$ 14,630,152	\$ 12,359,453
Employee future benefits	1,793,492	1,680,284
Accrued interest on long-term debt	27,373	30,663
Accrued vacation	540,780	585,867
	<u>\$ 16,991,797</u>	<u>\$ 14,656,267</u>

16. Classification of expenditures by object:

The Consolidated Statement of Financial Activities presents the expenditures by function, whereas the following classifies those same expenditures by object:

	2007	2006
Salary, wages and employee benefits	\$ 13,178,304	\$ 12,043,088
Operating materials and supplies	3,630,882	3,428,650
Contracted services	8,278,855	8,377,005
Rents and financial expenses	529,813	616,994
External transfers to other	568,000	442,597
Interest on long-term debt	715,391	594,511
	<u>\$ 26,901,245</u>	<u>\$ 25,502,845</u>

17. Pension agreements:

The municipality 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, 2007, the amount contributed for and included as current service pension costs expenditure on the "Consolidated Statement of Financial Activities" is \$743,726 (2006 - \$761,138).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

18. Commitments:

The Corporation has entered into contractual obligations for completion of various construction projects and does so on a continuing basis.

Lease commitments as at December 31, 2007 for equipment under lease obligations are as follows:

2008	\$ 98,428
2009	91,168
2010	31,636
2011	10,616
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	\$ 231,848

19. Tangible capital assets:

Commencing with the fiscal year beginning January 1, 2009, the Corporation will be adopting CICA Public Sector Accounting Handbook Section PS 3150, "Tangible Capital Assets". This section establishes standards on how to account for and report tangible capital assets in government financial statements. Tangible assets include such diverse items as roads, bridges, lands and buildings, vehicles and equipment and water and wastewater.

Effective January 1, 2007, the Corporation adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 – Tangible Capital Assets comes into effect on January 1, 2009.

During 2007, the Corporation continued to work towards compliance with the new recommendations for accounting for tangible capital assets. Significant progress has been made on compiling preliminary asset inventory listings for most asset categories.

As of December 31 2007, the Corporation does not have relevant information to disclose cost, accumulated amortization and net book values for any specific tangible capital asset category. Tangible capital assets are reported as an expenditure on the "Consolidated Statement of Financial Activities" in the year of acquisition.

20. Budget figures:

The Corporation reviews its operating and capital budgets annually. The approved operating and capital budgets for 2007 are reflected on the Schedules of Current and Capital Fund Operations. Budget figures have not been audited and are presented for information purposes only.

Budgets established for capital funds are based on a project-oriented basis, the costs of which may be carried out over one or more years.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

21. Contingent liabilities:

- (i) 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, 2007, management believes that the Corporation has valid defences 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 financial statements.
- (ii) The Corporation is currently in negotiations with the County of Northumberland with respect to its obligations for landfill closing costs. The Corporation has been paying for landfill closing costs to date. The Corporation's ultimate liability pertaining to these costs is not currently determinable and hence has not been recorded in these financial statements.

22. Financial instruments:

The fair value of the Corporation's financial instruments that are comprised of cash and short-term investments, taxes receivable, accounts receivable, other current assets, temporary loans, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

It is not practical to determine the fair value of investment in government business enterprises due to the lack of market information available.

The fair value of long-term liabilities and mortgages payable is based on rates currently available to the municipality with similar terms and maturities and approximates its carrying value.

Unless otherwise noted, it is management's opinion that the municipality is not exposed to significant interest, currency or credit risks arising from these financial instruments.

CORPORATION OF THE TOWN OF COBOURG

Schedule of Current Fund Operations

Year ended December 31, 2007, with comparative figures for 2006

	Budget 2007	Actual 2007	Actual 2006 (restated)
Revenues:			
Taxation and user charges:			
Property taxation	\$ 15,681,486	\$ 15,808,448	\$ 14,864,672
Payments in lieu of taxation	108,025	138,757	183,689
User charges	4,793,791	9,018,349	7,799,635
Transfer from deferred revenue – obligatory reserve funds	250,000	388,435	65,216
Grants:			
Province of Ontario	699,000	517,444	583,080
Government of Canada and other municipalities	–	344,441	200,000
Other:			
Rental income	–	4,824,987	4,740,946
Penalty and interest	315,000	417,546	359,662
Other income	–	340,646	91,375
Interest income – Town of Cobourg Holdings Inc.	507,500	507,500	507,500
Interest and dividend income	1,000,000	1,500,480	980,427
Sale of industrial land	125,000	125,009	72,261
Total revenues	23,479,802	33,932,042	30,448,463
Expenditures:			
General government	3,921,186	2,670,884	2,761,552
Protection to persons and property	8,073,052	7,770,416	7,585,621
Transportation services	3,728,907	3,484,757	2,512,634
Environmental services	2,250,960	4,837,714	4,234,816
Recreation and cultural services	3,634,922	3,913,858	3,686,849
Social and family services	38,500	64,205	33,029
Planning and development	611,738	904,026	643,265
Industrial property	–	3,243,869	4,045,079
Total current expenditures	22,259,265	26,889,729	25,502,845
Net revenues for the year	1,220,537	7,042,313	4,945,618
Financing and transfers:			
Debt principal repayments	–	(1,542,302)	(1,182,755)
Increase (decrease) in accrued interest on long- term liabilities	–	(3,290)	4,278
Decrease in vacation liability	–	(45,087)	143,954
Increase in employee future benefits	–	113,208	173,605
Transfers to capital fund operations	(1,220,537)	(2,020,486)	(3,187,811)
Transfers to reserves	–	(1,527,326)	(499,868)
Change in non-financial assets	–	(315,676)	652,321
	(1,220,537)	(5,340,959)	(3,896,276)
Change in fund balance for the year	–	1,701,354	1,049,342
Current fund, beginning of the year	–	9,154,847	88,821
Prior period adjustment (note 2)	–	–	8,016,684
Current fund, end of the year	\$ –	\$ 10,856,201	\$ 9,154,847

THE CORPORATION OF THE TOWN OF COBOURG

Schedule of Capital Fund Operations

Year ended December 31, 2007, with comparative figures for 2006

	Budget 2007	Actual 2007	Actual 2006 (restated)
Revenues:			
Grants:			
Province of Ontario	\$ 1,535,000	\$ 56,915	\$ 1,212,089
Government of Canada	1,519,520	3,730	325,584
Other municipalities	222,000	95,723	2,071,804
Sale of assets	–	125,795	–
Donations	64,080	112,899	–
Transfer from obligatory reserve funds	552,400	614,900	1,828,702
Other income	–	66,601	105,952
	<u>3,893,000</u>	<u>1,076,563</u>	<u>5,544,131</u>
Expenditures:			
General government	481,557	153,618	273,493
Protection to persons and property	1,329,869	1,075,113	1,037,068
Transportation services	2,487,750	2,418,027	5,398,439
Environmental services	4,415,000	1,618,850	3,221,045
Recreation and cultural services	307,450	531,456	1,050,075
Planning and development	332,480	48,343	142,545
Total current expenditures	<u>9,354,106</u>	<u>5,845,407</u>	<u>11,122,665</u>
Net expenditures for the year	(5,461,106)	(4,768,844)	(5,578,534)
Transfers:			
Issuance of new debt	2,000,000	3,813,000	3,150,000
Transfers from current fund operations	1,220,537	2,020,486	3,187,811
Transfers from reserves	1,460,569	756,115	341,137
Transfers from net equity in industrial property	–	–	50,000
	<u>4,681,106</u>	<u>6,589,601</u>	<u>6,728,948</u>
Change in fund balance for the year	(780,000)	1,820,757	1,150,414
Capital fund, beginning of the year	780,000	(8,583,750)	(9,734,164)
Capital fund, end of the year	\$ –	\$ (6,762,993)	\$ (8,583,750)