

Consolidated Financial Statements

**THE CORPORATION OF
THE TOWN OF COBOURG**

Year ended December 31, 2008

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2008

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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, 2008 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, 2008 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.

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 long, horizontal, slightly curved line that underlines the text.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

April 2, 2009

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Financial assets:		
Cash and cash equivalents	\$ 7,228,481	\$ 7,531,733
Taxes receivable	2,428,622	3,180,946
Receivables - grant	123,821	207,789
Receivables - other	2,701,491	1,785,830
Other assets	847,917	795,132
Investment in Town of Cobourg Holdings Inc. (note 5)	15,824,372	15,655,463
Total financial assets	29,154,704	29,156,893

Liabilities

Accounts payable and accrued liabilities	5,282,063	3,746,673
Deferred revenue	109,444	2,102,131
Deferred revenue - obligatory reserve funds (note 7)	6,613,180	4,591,709
Employee future benefit liability (note 8)	1,929,855	2,060,753
Mortgage payable (note 9)	9,866,239	10,671,209
Net long-term liabilities (note 10)	12,887,219	14,630,152
	36,688,000	37,802,627
Total net financial liabilities	(7,533,296)	(8,645,734)
Non-financial assets:		
Industrial property (note 6)	15,615,478	15,606,437
Net assets	\$ 8,082,182	\$ 6,960,703

Municipal position

Current fund (note 11)	\$ 11,460,928	\$ 10,856,201
Capital fund (note 11)	(6,842,247)	(6,762,993)
Reserves (note 12)	2,670,283	4,203,829
Net equity in Town of Cobourg Holdings Inc. (note 5)	15,824,372	15,655,463
	23,113,336	23,952,500
Amounts to be recovered (note 13)	(15,031,154)	(16,991,797)
Total municipal position	\$ 8,082,182	\$ 6,960,703

Commitments (note 16)
Contingent liabilities (note 19)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Activities

Year ended December 31, 2008, with comparative figures for 2007

	Actual 2008	Actual 2007
Revenues:		
Taxation and user charges:		
Property taxation	\$ 16,446,216	\$ 15,808,448
Payments in lieu of taxation	149,276	138,757
User charges	9,070,471	9,018,349
Transfer from deferred obligation reserve fund	1,181,883	1,101,335
Grants:		
Province of Ontario	3,599,972	574,359
Government of Canada	-	348,171
Other municipalities	348,949	95,723
Other:		
Rental income	4,854,432	4,824,987
Penalty and interest	460,897	417,546
Other income	752,997	410,330
Donations	10,000	112,899
Interest income – Town of Cobourg Holdings Inc.	507,500	507,500
Interest and dividend income	1,292,790	1,502,517
Sale of industrial land	654,368	125,009
Sale of assets	-	125,795
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 5)	168,909	(171,880)
Total revenues	39,498,660	34,939,845
Expenditures:		
Current:		
General government	3,573,433	2,670,884
Protection to persons and property	7,857,273	7,770,416
Transportation services	3,758,765	3,484,757
Environmental services	4,881,207	4,837,714
Recreation and cultural services	3,777,996	3,913,858
Social and family services	95,882	64,205
Planning and development	972,142	904,026
Industrial property	3,498,250	3,243,869
Total current expenditures	28,414,948	26,889,729
Capital:		
General government	166,477	153,618
Protection to persons and property	472,090	1,075,113
Transportation services	2,767,389	2,418,027
Environmental services	4,700,077	1,618,850
Recreation and cultural services	1,701,113	531,458
Planning and development	16,352	48,343
Total capital expenditures	9,823,498	5,845,409
Reserve:		
Library	147,776	-
Total expenditures	38,386,222	32,735,138
Net revenues	1,112,438	2,204,707

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Activities (continued)

Year ended December 31, 2008, with comparative figures for 2007

	Actual 2008	Actual 2007
Net revenues	\$ 1,112,438	\$ 2,204,707
Financial transfers:		
Decrease (increase) in accrued interest on long-term liabilities	(2,852)	(3,290)
Debt principal repayments	(1,742,932)	(1,542,302)
Issuance of new debt	–	3,813,000
Increase (decrease) in employee future benefit liability	(142,637)	113,208
Decrease in vacation pay liability	(72,221)	(45,087)
Change in non-financial assets	9,040	(315,676)
	(1,951,602)	2,019,853
Increase (decrease) in fund balances for the year	\$ (839,164)	\$ 4,224,560

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, 2008, with comparative figures for 2007

	2008	2007
Operations:		
Net revenues	\$ 1,112,438	\$ 2,204,707
Items not involving cash:		
Amortization of industrial property	615,148	640,190
Net equity (increase) decrease in Town of Cobourg Holdings Inc.	(168,909)	171,880
Changes in non-cash working capital balances:		
Decrease (increases) in taxes receivable	752,324	(223,322)
Decrease in receivables - grant	83,968	92,123
Decrease (increase) in receivables – other	(915,661)	326,138
Increase in other assets	(52,785)	(94,834)
Increase in accounts payable and accrued liabilities	1,535,390	254,838
Increase (decrease) in deferred revenue	(1,992,687)	1,141,338
Increase (decrease) in employee future benefit liability	(130,898)	124,724
Increase in deferred revenue - obligatory reserve funds	2,021,471	1,261,650
Increase (decrease) in non-financial assets	9,041	(315,676)
Net change in cash from operations	2,868,840	5,583,756
Investments:		
Additions to industrial property	(624,190)	(314,140)
Net change in cash from investments	(624,190)	(314,140)
Financing:		
Decrease in bank indebtedness	–	(4,080,000)
Repayment of mortgage payable	(804,970)	(763,888)
Issuance of new debt	–	3,813,000
Repayment of long-term liabilities	(1,742,932)	(1,542,302)
Net change in cash from financing	(2,547,902)	(2,573,190)
Increase (decrease) in cash and cash equivalents	(303,252)	2,696,426
Cash and cash equivalents, beginning of year	7,531,733	4,835,307
Cash and cash equivalents, end of year	\$ 7,228,481	\$ 7,531,733

The Corporation considers cash and cash equivalents to be highly liquid investments with original maturities of three months or less.

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2008

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 accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) 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 and County 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, 2008

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 13 years.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

1. Significant accounting policies (continued):

(g) Deferred revenue:

The Corporation 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 expenditures are incurred or services performed.

(h) Investments:

Short-term 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

1. Significant accounting policies (continued):

(n) 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. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

2. 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	
	2008	2007	2008	2007
Amounts requisitioned and collected	\$ 8,990,169	\$ 8,748,896	\$ 9,381,224	\$ 8,767,932

3. Restricted assets:

Cash and cash equivalents in the amount of \$6,613,180 (2007 - \$4,591,709) have been restricted to support obligatory reserve funds.

4. Bank indebtedness:

The Corporation's financial agreement with its bank provides for an operating credit facility of up to \$6,000,000 to finance expenses, pending receipt of property taxes and other income. Interest on funds drawn is charged at the bank's prime rate less 0.75%. As at December 31, 2008, there was \$Nil (2007 - \$Nil) drawn on the operating credit facility.

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 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, 2008

5. 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:

	2008	2007
Note receivable from TCHI ⁽¹⁾	\$ 7,000,000	\$ 7,000,000
9,999,999 common shares of TCHI	7,002,145	7,002,145
Retained earnings, beginning of year	1,382,739	1,825,199
Pro-rata share of net income during the year	1,039,488	428,120
Dividend	(600,000)	(600,000)
Total investment in Town of Cobourg Holdings Inc.	\$ 15,824,372	\$ 15,655,464

⁽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 (2007 - \$507,500). Fair value of the note receivable is indeterminable as it is a non-arms length loan.

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2008 and December 31, 2007 and its operations for both years:

(a) Financial position:

	2008	2007
Current assets	\$ 8,826,595	\$ 7,946,995
Capital assets	11,281,337	10,834,271
Other assets	792,461	666,419
Total assets	20,900,393	19,447,685
Current liabilities	4,606,029	3,632,898
Long-term liabilities	7,469,992	7,429,903
Total liabilities	12,076,021	11,062,801
Net assets	\$ 8,824,372	\$ 8,384,884

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

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

(b) Results of operations:

	2008	2007
Revenues	\$ 25,079,977	\$ 24,680,853
Expenses	24,040,489	24,315,313
Net income for the period	\$ 1,039,488	\$ 365,540

6. 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	2008	2007
Land	\$ 3,125,000	\$ –	\$ 3,125,000	\$ 3,125,000
Buildings	15,892,326	3,401,848	12,490,478	12,481,437
	\$ 19,017,326	\$ 3,401,848	\$ 15,615,478	\$ 15,606,437

Cost and accumulated amortization at December 31, 2007 amounted to \$18,393,137 and \$2,786,700 respectively.

(a) Financial position:

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

	2008	2007
Cash	\$ 2,172,014	\$ 1,747,517
Accounts receivable	212,394	96,771
Prepaid expenses	12,660	13,126
Industrial property	15,615,478	15,606,437
Total assets	18,012,546	17,463,851
Accounts payable and accrued liabilities	463,585	475,142
Mortgage payable	9,866,239	10,671,209
Total liabilities	10,329,824	11,146,351
Net equity in industrial property	\$ 7,682,722	\$ 6,317,500

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

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:

	2008	2007
Gross rental income	\$ 3,501,836	\$ 3,441,222
Operating expenses	(1,779,093)	(1,820,107)
Operating expenses recovery	1,352,596	1,383,765
Administrative expenses	(236,530)	(221,376)
Interest on long-term debt	(558,438)	(602,872)
Amortization	(615,149)	(640,190)
Net income for the period	\$ 1,665,222	\$ 1,540,442
Equity, beginning of the year	\$ 6,317,500	\$ 5,052,058
Net income for the period	1,665,222	1,540,442
Transfer to reserves	(300,000)	(275,000)
Equity, end of year	\$ 7,682,722	\$ 6,317,500

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, 2008

7. 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:

	2008	2007
Balance, beginning of year	\$ 4,591,709	\$ 3,336,414
Recreational land	34,750	55,676
Federal grant - gasoline tax	278,986	223,204
Federal grant - gasoline tax transit	–	15,703
Provincial grant - gasoline tax transit	185,949	137,444
Development contributions	1,020,606	1,634,310
Building code	3,100	42,669
Sub-divider contributions	63,326	15,617
Investment income	130,065	134,007
Transfers to capital fund	(766,017)	(614,900)
Transfers to (from) operating fund	(415,966)	(388,435)
Provincial – Investing in Ontario	1,486,672	–
Balance, end of year	\$ 6,613,180	\$ 4,591,709
Analyzed as follows:		
Sub-divider contributions	\$ 108,961	\$ 50,945
Recreational land	488,474	496,530
Development charges	3,992,063	3,510,887
Gasoline tax:		
Provincial	899	7,715
Federal	434,527	295,738
Federal transit	16,355	15,703
Provincial - Investing in Ontario	1,486,672	–
Building code	85,229	214,191
	\$ 6,613,180	\$ 4,591,709

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

8. 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, 2008.

At December 31, 2008, the Corporation's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$1,572,882 (2007 - \$1,448,489).

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

Discount rate	5.0% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	7.33% in 2010 reducing by .33% per year to 4.0% in 2020
Expected average remaining service life	13 years

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

	2008	2007
Accrued benefit liability, January 1	\$ 1,448,489	\$ 1,470,843
Service cost	50,330	68,244
Benefits paid for the period	(65,907)	(67,125)
Interest cost	72,035	88,284
Amortization of actuarial gain	(8,597)	—
Plan amendments during the year	76,532	—
Actuarial gain	—	(111,757)
Accrued benefit liability, December 31	\$ 1,572,882	\$ 1,448,489

The accrued benefit liability at December 31, 2008, includes the following components:

	2008	2007
Accrued benefit obligation	\$ 1,676,042	\$ 1,560,246
Unamortized actuarial gain	(103,160)	(111,757)
Accrued benefit liability, end of year	\$ 1,572,882	\$ 1,448,489

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

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, 2005.

At December 31, 2008, the accrued benefit liability relating to post-retirement benefit plans is \$279,000 (2007 - \$267,261).

(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

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

	2008	2007
Accrued benefit liability, January 1	\$ 267,261	\$ 255,745
Service cost	8,411	8,010
Benefits paid for the period	(9,918)	(9,446)
Interest cost	13,246	12,952
Accrued benefit liability, December 31	\$ 279,000	\$ 267,261

(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, 2008.

At December 31, 2008, the Corporation's accrued benefit liability relating to future payments on Workplace Safety and Insurance Board claims is \$77,973 (2007 - \$233,246).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

8. 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:

	2008	2007
Accrued benefit liability, beginning of year	\$ 102,216	\$ 209,441
Service cost	49,592	64,248
Benefits paid for the period	(65,446)	(53,337)
Interest cost	4,714	12,894
Amortization of actuarial gain	(13,103)	-
Actuarial gain	-	(131,030)
Accrued benefit liability, end of year	\$ 77,973	\$ 102,216

The accrued benefit liability at December 31, 2008, includes the following components:

	2008	2007
Accrued benefit obligation, beginning of year	\$ 195,900	\$ 233,246
Unamortized actuarial gain	(117,927)	(131,030)
Accrued benefit obligation, end of year	\$ 77,973	\$ 102,216

(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, 2008 amount to \$555,811 (2007 - \$540,780).

(d) Employee future benefit liability:

	2008	2007
Employee future benefit liability are comprised of:		
Health and dental benefits - Town	\$ 1,572,882	\$ 1,560,246
Workplace safety and insurance	77,973	233,246
	1,650,855	1,793,492
Health, dental and life insurance benefits - Waterworks	279,000	267,261
	\$ 1,929,855	\$ 2,060,753

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

9. Mortgage payable on industrial property:

	2008	2007
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	\$ 9,866,239	\$ 10,671,209

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

2009	\$ 848,395
2010	895,806
2011	945,865
2012	998,722
2013	1,054,533
Thereafter	5,122,918
	<u>\$ 9,866,239</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:

	2008	2007
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 12,887,219	\$ 14,630,152

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

2009	\$ 1,835,250
2010	1,930,227
2011	1,945,209
2012	1,989,484
2013	1,915,534
Thereafter	3,271,515
	<u>\$ 12,887,219</u>

(c) Approval of the Ontario Municipal Board or by-law as required has been obtained for the long-term liabilities in note 10(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, 2008

10. 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:

	2008	2007
Principal payments	\$ 1,742,932	\$ 1,542,302
Interest	695,921	715,391
	<u>\$ 2,438,853</u>	<u>\$ 2,257,693</u>

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

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

(a) The current fund balance on the "Consolidated Statement of Financial Position" of \$11,460,928 (2007 - \$10,856,201) at the end of the year is comprised of the following:

	2008	2007
To be applied to/from operations of the operating fund for the following year	\$ (295,426)	\$ (232,552)
To be applied to operations of the Waterworks	3,985,003	4,697,320
Surplus – Downtown Business Improvement Area	41,242	46,410
Surplus – Town of Cobourg Public Library Board	47,387	27,523
Industrial property net equity	7,682,722	6,317,500
	<u>\$ 11,460,928</u>	<u>\$ 10,856,201</u>

(b) The capital fund balance on the "Consolidated Statement of Financial Position" of \$(6,842,247) (2007 – \$(6,762,993)) at the end of the year is comprised of the following:

	2008	2007
Unapplied capital receipts	\$ 2,967,645	\$ 2,977,104
Capital expenditures to be financed from taxation or user charges	(9,809,892)	(9,740,097)
	<u>\$ (6,842,247)</u>	<u>\$ (6,762,993)</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, 2008

12. Reserves:

(a) Continuity of reserves:

	2008	2007
Balance, beginning of year	\$ 4,203,829	\$ 3,329,499
Revenue:		
Interest earned	(71,224)	2,036
Transfer from obligatory reserve fund	–	98,000
Other	4,711	3,083
Expenditure:		
Library	(147,779)	–
Net transfers from (to) other funds:		
Transfers from the current fund	1,890,792	1,527,326
Transfers to the capital fund	(3,210,046)	(756,115)
Net change in reserves	(1,533,546)	874,330
Balance, end of year	\$ 2,670,283	\$ 4,203,829

(b) Year end position of reserves:

	2008	2007
Reserves:		
Working capital	\$ –	\$ 317,200
Contingencies	50,578	19,965
Parking	52,405	50,849
Current:		
General government	170,650	168,525
Protection services	–	406
Health services	4,207	3,801
Recreation and cultural services	2,433	2,433
Library	39,598	102,666
Planning and development	57,306	32,250
Other	11,290	16,921
Capital:		
General government	144,171	121,171
Protection services	768,368	622,970
Transportation services	688,460	753,910
Environmental services	(8,140)	1,209,321
Recreation and cultural services	331,380	423,864
Planning and development	339,542	339,542
Other	18,035	18,035
	\$ 2,670,283	\$ 4,203,829

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

13. Amounts to be recovered:

	2008	2007
Capital outlay financed by long-term liabilities and to be recovered in future years (note 10)	\$ 12,887,219	\$ 14,630,152
Employee future benefits	1,650,855	1,793,492
Accrued interest on long-term debt	24,521	27,373
Accrued vacation	555,811	540,780
Amounts previously funded from operations	(87,252)	–
	<u>\$ 15,031,154</u>	<u>\$ 16,991,797</u>

14. 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:

	2008	2007
Salary, wages and employee benefits	\$ 13,421,817	\$ 13,178,304
Operating materials and supplies	4,124,872	3,630,882
Contracted services	7,978,082	8,278,855
Rents and financial expenses	1,649,191	529,813
External transfers to other	547,917	568,000
Interest on long-term debt	693,069	715,391
	<u>\$ 28,414,948</u>	<u>\$ 26,901,245</u>

15. 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, 2008, the amount contributed for and included as current service pension costs expenditure on the "Consolidated Statement of Financial Activities" is \$760,149 (2007 - \$743,726).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

16. 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, 2008 for equipment under lease obligations are as follows:

2009	\$ 103,962
2010	41,797
2011	22,986
2012	16,117
2013	9,674
	<hr/>
	\$ 194,536

17. 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 2008, 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 2008, 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.

18. Budget figures:

The Corporation reviews its operating and capital budgets annually. The approved operating and capital budgets for 2008 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, 2008

19. 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, 2008, 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.

20. Financial instruments:

The fair value of the Corporation's financial instruments that are comprised of cash and cash equivalents, taxes receivable, receivables - grant and other, other assets and 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 Town of Cobourg Holdings Inc. due to the lack of market information available.

The fair value of long-term liabilities and mortgages payable approximates fair value primarily due to the market rate of returns attached to the instruments.

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.

21. Segmented information:

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

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

- (a) Administration: Includes administration, corporate services and governance of the Town. Administration as a segment includes human resource management, support to Council for policy development, by-law development in compliance with the Municipal Act, tax billing and collection responsibilities, financial management reporting, monitoring and overall budget status as well as frontline reception and customer service.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2008

21. Segmented information (continued):

- (b) Protection Services: Includes policing, fire protection, conservation authority, protective inspection and control and emergency measures. The mandate of the police services is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. Fire protection includes inspection, extinguishing and suppression services; emergency medical first response; and prevention education and training programs. Inspection and control includes building inspection, by-law enforcement and dog control services.
- (c) Transportation Services: This department provides the winter and summer maintenance, the repair and the construction of the municipal roads system including bridges and culverts.
- (d) Environmental Services: Includes the management and maintenance of the wastewater plant and sanitary sewer distribution services.
- (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 expenditures 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

Schedule of Current Fund Operations

Year ended December 31, 2008, with comparative figures for 2007

	Budget 2008	Actual 2008	Actual 2007
Revenues:			
Taxation and user charges:			
Property taxation	\$ 16,560,406	\$ 16,446,216	\$ 15,808,448
Payments in lieu of taxation	106,425	149,276	138,757
User charges	8,833,515	9,070,471	9,018,349
Transfer from deferred revenue – obligatory reserve funds	279,000	415,866	388,435
Grants:			
Province of Ontario	483,000	1,401,142	517,444
Government of Canada and other municipalities	212,180	263,494	344,441
Other:			
Rental income	4,943,686	4,854,432	4,824,987
Penalty and interest	250,000	460,897	417,546
Other income	75,000	292,939	340,646
Interest income – Town of Cobourg Holdings Inc.	507,500	507,500	507,500
Interest and dividend income	1,050,000	1,364,019	1,500,480
Sale of industrial land	125,000	654,368	125,009
Total revenues	33,425,712	35,880,620	33,932,042
Expenditures:			
General government	2,371,420	3,573,433	2,670,884
Protection to persons and property	8,064,520	7,857,273	7,770,416
Transportation services	3,938,175	3,758,765	3,484,757
Environmental services	4,895,609	4,881,207	4,837,714
Recreation and cultural services	4,018,068	3,777,996	3,913,858
Social and family services	40,000	95,882	64,205
Planning and development	839,359	972,142	904,026
Industrial property	3,442,443	3,498,250	3,243,869
Total current expenditures	27,609,594	28,414,948	26,889,729
Net revenues for the year	5,816,118	7,465,672	7,042,313
Financing and transfers:			
Debt principal repayments	(804,970)	(1,742,932)	(1,542,302)
Decrease in accrued interest on long-term liabilities	–	(2,852)	(3,290)
Decrease in vacation liability	–	(72,221)	(45,087)
Decrease (increase) in employee future benefits	–	(142,637)	113,208
Transfers to capital fund operations	(2,850,294)	(3,018,551)	(2,020,486)
Transfers to reserves	(2,160,854)	(1,890,792)	(1,527,326)
Change in non-financial assets	–	9,040	(315,676)
	(5,816,118)	(6,860,945)	(5,340,959)
Change in fund balance for the year	–	604,727	1,701,354
Current fund, beginning of the year	–	10,856,201	9,154,847
Current fund, end of the year	\$ –	\$ 11,460,928	\$ 10,856,201

THE CORPORATION OF THE TOWN OF COBOURG

Schedule of Capital Fund Operations

Year ended December 31, 2008, with comparative figures for 2007

	Budget 2008	Actual 2008	Actual 2007
Revenues:			
Grants:			
Province of Ontario	\$ 2,060,000	\$ 2,198,830	\$ 56,915
Government of Canada	40,000	–	3,730
Other municipalities	–	85,455	95,723
Sale of assets	–	–	125,795
Donations	6,500	10,000	112,899
Transfer from obligatory reserve funds	352,400	766,017	614,900
Other income	309,000	455,347	66,601
	<u>2,767,900</u>	<u>3,515,649</u>	<u>1,076,563</u>
Expenditures:			
General government	390,000	166,477	153,618
Protection to persons and property	630,558	472,090	1,075,113
Transportation services	2,346,250	2,767,389	2,418,027
Environmental services	1,490,000	4,700,077	1,618,850
Recreation and cultural services	1,887,400	1,701,113	531,456
Planning and development	6,000	16,352	48,343
Industrial park	700,544	–	–
Total current expenditures	<u>7,450,752</u>	<u>9,823,498</u>	<u>5,845,407</u>
Net expenditures for the year	(4,682,852)	(6,307,849)	(4,768,844)
Transfers:			
Issuance of new debt	380,000	–	3,813,000
Transfers from current fund operations	2,850,294	3,018,551	2,020,486
Transfers from reserves	1,452,558	3,210,044	756,115
	<u>4,682,852</u>	<u>6,228,595</u>	<u>6,589,601</u>
Change in fund balance for the year	–	(79,254)	1,820,757
Capital fund, beginning of the year	–	(6,762,993)	(8,583,750)
Capital fund, end of the year	\$ –	\$ (6,842,247)	\$ (6,762,993)

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information

Year ended December 31, 2008

	Unallocated	Administration	Protection Services	Transportation Services	Environmental Services	Industrial Property
Revenue:						
Taxation	\$ 16,446,216	\$ –	\$ –	\$ –	\$ –	\$ –
Payments in lieu of taxation	149,276	–	–	–	–	–
User fees and service charges	599,212	48,120	339,688	240,779	3,490,972	–
Transfers from deferred revenue – obligatory reserve funds	415,866	–	–	–	–	–
Government of Ontario	442,000	–	–	928,142	–	–
Other municipalities	–	–	–	9,126	–	–
Rental	–	–	–	–	–	4,854,432
Penalties and interest	460,897	–	–	–	–	–
Other	–	–	–	–	–	–
Investment income	1,871,519	–	–	–	–	–
Sale of land	654,368	–	–	–	–	–
	21,039,354	48,120	339,688	1,178,047	3,490,972	4,854,432
Expenditures:						
Salaries, wages and employee benefits	(215,133)	1,354,088	7,111,992	1,279,965	1,210,909	–
Long-term debt charges (interest)	(2,852)	21,540	72,348	362,452	126,811	–
Materials	–	452,733	258,055	966,317	1,023,754	–
Contracted services	309,040	310,442	209,170	1,150,031	388,466	3,189,210
Rents and financial expenses	1,625,612	–	–	–	–	–
External transfers	–	–	205,708	–	–	–
	1,716,667	2,138,803	7,857,273	3,758,765	2,749,940	3,189,210
Net revenue (expenditures)	19,322,687	(2,090,683)	(7,517,585)	(2,580,718)	741,032	1,665,222
Financing and transfers:						
Debt principal repayment	–	(53,851)	(142,422)	(921,574)	(299,698)	–
Decrease in accrued interest on long-term debt	(2,852)	–	–	–	–	–
Decrease in vacation pay liability	(72,221)	–	–	–	–	–
Decrease in employee future benefits	(142,637)	–	–	–	–	–
Transfers to capital fund	–	(345,000)	(281,200)	(570,863)	–	–
Transfers to reserves	(242,800)	(2,125)	(244,176)	(549,911)	(633,867)	–
Change in non-financial assets	9,040	–	–	–	–	–
	(451,470)	(400,976)	(667,798)	(2,042,348)	(933,565)	–
Change in fund balances for the year	\$ 18,871,217	\$ (2,491,659)	\$ (8,185,383)	\$ (4,623,066)	\$ (192,533)	\$ 1,665,222

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2008

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
Revenue:					
Taxation	\$ —	\$ —	\$ —	\$ —	\$ 16,446,216
Payments in lieu of taxation	—	—	—	—	149,276
User fees and service charges	2,761,222	—	1,520,493	69,985	9,070,471
Transfers from deferred revenue – obligatory reserve funds	—	—	—	—	415,866
Government of Ontario	—	—	31,000	—	1,401,142
Other municipalities	—	—	244,368	10,000	263,494
Rental	—	—	—	—	4,854,432
Penalties and interest	—	—	—	—	460,897
Other	229,293	—	42,826	20,820	292,939
Investment income	—	—	—	—	1,871,519
Sale of land	—	—	—	—	654,368
	2,990,515	—	1,838,687	100,805	35,880,620
Expenditures:					
Salaries, wages and employee benefits	—	—	2,047,341	632,655	13,421,817
Long-term debt charges (interest)	—	—	112,770	—	693,069
Materials	—	5,400	1,360,285	58,328	4,124,872
Contracted services	2,131,267	—	152,897	137,559	7,978,082
Rents and financial expenses	—	—	19,979	3,600	1,649,191
External transfers	—	90,482	251,727	—	547,917
	2,131,267	95,882	3,944,999	832,142	28,414,948
Net revenue (expenditures)	859,248	(95,882)	(2,106,312)	(731,337)	7,465,672
Financing and transfers:					
Debt principal repayment	—	—	(325,387)	—	(1,742,932)
Decrease in accrued interest on long-term debt	—	—	—	—	(2,852)
Decrease in vacation pay liability	—	—	—	—	(72,221)
Decrease in employee future benefits	—	—	—	—	(142,637)
Transfers to capital fund	(1,723,988)	—	(91,500)	(6,000)	(3,018,551)
Transfers to reserves	—	5,400	(196,257)	(27,056)	(1,890,792)
Change in non-financial assets	—	—	—	—	9,040
	(1,723,988)	5,400	(613,144)	(33,056)	(6,860,945)
Change in fund balances for the year	\$ (864,740)	\$ (90,482)	\$ (2,719,456)	\$ (764,393)	\$ 604,727
Current fund, beginning of year					\$ 10,856,201
Current fund, end of year					\$ 11,460,928