

Consolidated Financial Statements

**THE CORPORATION OF
THE TOWN OF COBOURG**

Year ended December 31, 2011

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2011

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THE CORPORATION OF THE TOWN OF COBOURG

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File No.

Management's Responsibility for the Consolidated Financial Statements

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

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

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

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

Stephen Peacock
Chief Administrative Officer

Ian Davey
Treasurer



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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Corporation of The Town of Cobourg, which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Corporation of The Town of Cobourg as at December 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

January 28, 2013

Kingston, Canada

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2011, with comparative figures for 2010

	2011	2010
Financial Assets:		
Cash and cash equivalents	\$ 3,948,208	\$ 8,119,774
Taxes receivable	3,327,343	3,336,638
Receivables - grant	2,027,534	5,179,967
Receivables - other	2,703,072	4,725,358
Other financial assets	492,169	285,407
Note receivable from Town of Cobourg Holdings Inc. (note 4(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 4)	8,985,511	9,502,747
	<u>28,483,837</u>	<u>38,149,891</u>
Liabilities:		
Demand loans (note 3)	6,340,000	8,000,000
Accounts payable and accrued liabilities	6,417,884	11,646,226
Deferred revenue	1,141,149	885,700
Deferred revenue - obligatory reserve funds (note 6)	7,786,187	6,635,447
Employee future benefit liability (note 7)	2,439,876	2,321,979
Mortgage payable (note 8)	7,167,258	8,119,273
Promissory note payable to Town of Cobourg Holdings Inc. (note 4(d))	810,000	855,000
Net long-term liabilities (note 9)	9,949,128	12,185,963
	<u>42,051,482</u>	<u>50,649,588</u>
Total net debt	(13,567,645)	(12,499,697)
Non-financial assets:		
Tangible capital assets (note 14)	172,082,686	164,324,481
Other assets	1,265,894	1,203,026
	<u>173,348,580</u>	<u>165,527,507</u>
Accumulated surplus (note 10)	<u>\$ 159,780,935</u>	<u>\$ 153,027,810</u>

Commitments (note 13)
Contingent liabilities (note 16)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2011, with comparative figures for 2010

	Budget 2011 (Unaudited, note 15)	Actual 2011	Actual 2010
Revenue:			
Taxation:			
Property taxation	\$ 18,938,806	\$ 19,060,159	\$ 18,392,624
Payments in lieu of taxation	110,500	167,535	263,963
User charges	10,488,330	9,918,979	9,418,262
Development charges	–	140,000	331,815
Grants:			
Province of Ontario	349,300	2,753,189	8,474,600
Government of Canada	558,992	2,638,572	8,632,583
Other municipalities	–	314,366	341,330
Other:			
Rental income	4,881,251	4,726,004	4,790,875
Penalty and interest	500,000	648,206	777,114
Other income	–	1,169,585	1,237,340
Interest income – Town of Cobourg Holdings Inc. (note 4(c))	507,500	507,500	507,500
Interest and dividend income	1,200,000	709,517	681,347
Sale of industrial land	50,000	–	–
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 4)	–	(517,236)	(21,408)
Total revenue	37,584,679	42,236,376	53,827,945
Expenses (note 11):			
General government	4,955,686	3,011,986	3,323,873
Protection to persons and property	8,818,256	9,160,189	9,003,104
Transportation services	5,066,066	5,301,413	4,974,887
Environmental services	7,596,936	7,827,477	8,381,179
Recreation and cultural services	5,548,507	6,227,572	4,675,638
Social and family services	42,000	179,027	251,568
Planning and development	877,481	816,297	765,229
Industrial property	2,458,538	2,959,290	3,061,816
Total expenses	35,363,470	35,483,251	34,437,294
Annual surplus	2,221,209	6,753,125	19,390,651
Accumulated surplus, beginning of year		153,027,810	133,637,159
Accumulated surplus, end of year (note 10)	\$ 2,221,209	\$ 159,780,935	\$ 153,027,810

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Change in Net Debt

Year ended December 31, 2011, with comparative figures for 2010

	Actual 2011	Actual 2010
Annual surplus	\$ 6,753,125	\$ 19,390,651
Acquisition of tangible capital assets	(12,952,651)	(26,430,271)
Amortization of tangible capital assets	5,170,009	4,331,158
Loss on disposal of tangible capital assets	24,449	43,964
Acquisition of other assets	(62,880)	(338,411)
	(1,067,948)	(3,002,909)
Net debt, beginning of year	(12,499,697)	(9,496,788)
Net debt, end of year	\$ (13,567,645)	\$ (12,499,697)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Operations:		
Annual surplus	\$ 6,753,125	\$ 19,390,651
Items not involving cash:		
Amortization of tangible capital assets	5,170,009	4,331,158
Increase in employee future benefit liability	117,897	100,047
Changes in non-cash working capital balances:		
Decrease (increase) in taxes receivable	9,295	(13,952)
Decrease (increase) in receivables - grant	3,152,433	(4,074,515)
Decrease (increase) in receivables - other	2,022,286	(2,322,430)
Increase in other financial assets	(206,762)	(41,687)
Increase in other assets	(62,880)	(338,411)
Increase (decrease) in accounts payable and accrued liabilities	(5,228,342)	4,542,962
Increase in deferred revenue	255,449	656,213
Increase in deferred revenue - obligatory reserve funds	1,150,740	571,400
Net change in cash from operations	13,133,250	22,801,436
Capital activities:		
Cash used to acquire capital assets	(12,952,651)	(27,430,271)
Loss on disposal of tangible capital assets	24,449	43,964
Net change in cash from capital activities	(12,928,202)	(27,386,307)
Investment activities:		
Decrease in investment in Town of Cobourg Holdings Inc.	517,236	21,408
Financing activities:		
Repayment of mortgage payable	(952,015)	(895,424)
Increase in bank indebtedness	-	(801,709)
Issuance of new debt	-	1,000,000
Repayment of long-term liabilities	(2,236,835)	(2,146,986)
Proceeds from demand loan	1,340,000	8,000,000
Repayment of demand loan	(3,000,000)	-
Proceeds from promissory note	-	899,800
Repayment of promissory note	(45,000)	(44,800)
Net change in cash from financing activities	(4,893,850)	6,010,881
Increase (decrease) in cash and cash equivalents	(4,171,566)	2,447,418
Cash and cash equivalents, beginning of year	8,119,774	5,672,356
Cash and cash equivalents, end of year	\$ 3,948,208	\$ 8,119,774
Supplemental cash flow information:		
Cash paid for interest	\$ 984,341	\$ 1,078,978
Cash received from interest	616,387	588,846

The Town 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, 2011

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the Town of Cobourg (“the Town”) are the representations of management. They have been prepared in accordance with Canadian generally accepted accounting principles. 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 Town.

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

Downtown Business Improvement Area

Library Board

Waterworks of the Town of Cobourg

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

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

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

(iii) Accounting for school board and County transactions:

The taxation, other 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 Statement of Financial Position.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(b) Basis of accounting:

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

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 Town, and is the difference between its assets and liabilities. This provides information about the Town's overall future revenue requirements and its ability to finance activities and meet its obligations.

(c) Deferred revenue – obligatory reserve funds:

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

(d) Employee future benefits:

The Town 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 12 years.

(e) Deferred revenue:

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(f) 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.

(g) Workplace safety and insurance compensation:

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

Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued obligation, are amortized over the mean term of the liabilities which is estimated to be 10 years.

(h) 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.

(i) 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 in the financial statements and accompanying notes.

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

(j) Land held for resale:

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(k) Non-financial assets:

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

(i) Tangible capital assets:

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

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

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

(ii) Contributions of tangible capital assets:

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

(iii) Natural resources:

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

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

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(k) Non-financial assets (continued):

(v) Inventories of supplies:

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

(vi) Interest capitalization:

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

2. 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	
	2011	2010	2011	2010
Amounts requisitioned and collected	\$ 8,989,935	\$ 8,959,278	\$10,407,461	\$ 9,947,585

3. Demand loans:

In 2011, the Town entered into a temporary financing agreement with Infrastructure Ontario for up to \$10,183,334 in construction advances. As at December 31, 2011, \$8,000,000 had been advanced to the Town and \$5,000,000 (2010 - \$8,000,000) was outstanding.

In 2011, the Town was advanced \$1,340,000 from the bank to fund current operating expenditures.

4. Investment in Town of Cobourg Holdings Inc.:

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

4. 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:

	2011	2010
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	2,500,602	2,522,010
Pro-rata share of net income during the year	82,764	578,592
Dividend	(600,000)	(600,000)
Total investment in Town of Cobourg Holdings Inc.	\$ 8,985,511	\$ 9,502,747

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2011 and December 31, 2010 and its operations for both years:

(a) Financial position:

	2011	2010
Current assets	\$ 10,469,120	\$ 10,361,958
Capital assets	11,651,637	11,396,854
Other assets	2,205,911	2,721,373
Total assets	24,326,668	24,480,185
Current liabilities	3,598,622	3,228,816
Long-term liabilities	11,742,535	11,748,622
Total liabilities	15,341,157	14,977,438
Net assets	\$ 8,985,511	\$ 9,502,747

(b) Results of operations:

	2011	2010
Revenues	\$ 27,863,405	\$ 26,564,161
Expenses	27,780,641	25,985,569
Net income for the period	\$ 82,764	\$ 578,592

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

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

- (c) The note receivable bears interest at 7.25% per annum. The Town does not intend to demand repayment from TCHI until replacement term financing is in place. Interest earned on this note amounted to \$507,500 (2010 - \$507,500). Fair value of the note receivable is indeterminable as it is a non-arms length loan.
- (d) The promissory note payable bears interest at 5.4% and is due in annual repayments of \$45,000 plus interest with the total balance due on January 1, 2029. Interest paid in 2011 was \$34,786 (2010 - \$Nil).

5. 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	2011	2010
Land	\$ 3,125,000	\$ -	\$ 3,125,000	\$ 3,125,000
Buildings	19,461,156	5,340,856	14,120,300	12,655,083
	\$ 22,586,156	\$ 5,340,856	\$ 17,245,300	\$ 15,780,083

Cost and accumulated amortization at December 31, 2010 amounted to \$20,436,814 and \$4,656,731 respectively.

(a) Financial position:

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

	2011	2010
Cash	\$ 1,705,313	\$ 2,118,236
Accounts receivable	403,727	494,765
Prepaid expenses	15,623	15,055
Industrial property	17,245,300	15,780,083
Total assets	19,369,963	18,408,139
Accounts payable and accrued liabilities	1,239,862	547,735
Mortgage payable	7,167,258	8,119,272
Total liabilities	8,407,120	8,667,007
Net equity in industrial property	\$ 10,962,843	\$ 9,741,132

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

5. Industrial property (continued):

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

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

	2011	2010
Gross rental income	\$ 3,593,218	\$ 3,518,815
Operating expenses	(1,563,072)	(1,681,183)
Operating expenses recovery	1,132,786	1,272,061
Administrative expenses	(298,343)	(289,058)
Interest on long-term debt	(413,753)	(465,437)
Amortization	(684,125)	(626,138)
Net income for the period	\$ 1,766,711	\$ 1,729,060
Equity, beginning of the year	\$ 8,741,132	\$ 7,862,072
Net income for the period	1,766,711	1,729,060
Transfer to reserves	(545,000)	(850,000)
Capital reserve	1,000,000	1,000,000
Equity, end of year	\$ 10,962,843	\$ 9,741,132

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, 2011

6. 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 Town are summarized below:

	2011	2010
Balance, beginning of year	\$ 6,635,448	\$ 6,064,049
Recreational land	8,700	20,350
Federal grant - gasoline tax	558,592	560,382
Provincial grant - gasoline tax transit	182,731	183,909
Development contributions	1,014,713	1,055,250
Building code	19,924	6,404
Sub-divider contributions	10,965	11,476
Investment income	78,671	9,052
Utilization - capital	(439,510)	(1,047,424)
Utilization - operating	(284,047)	(228,000)
Balance, end of year	\$ 7,786,187	\$ 6,635,448
Analyzed as follows:		
Sub-divider contributions	\$ 116,704	\$ 123,986
Recreational land	272,265	260,311
Development charges	6,403,191	5,460,224
Gasoline tax:		
Provincial	(3,178)	1,078
Federal	759,496	572,064
Provincial - Investing in Ontario	131,880	105,829
Building code	105,829	111,956
	\$ 7,786,187	\$ 6,635,448

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

7. Employee future benefit liability:

(a) Extended health care and dental benefits:

(i) The Corporation of the Town of Cobourg:

The Town provides extended health care and dental benefits to its employees. An independent actuarial study of the post-retirement and post-employment benefits was undertaken at December 2011.

At December 31, 2011, the Town's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$1,816,538 (2010 - \$1,656,524).

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

Discount rate	4.75% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	6.67% in 2011 reducing by .33% per year to 4.0% in 2020
Expected average remaining service life	12 years

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

	2011	2010
Accrued benefit liability, January 1	\$ 1,795,579	\$ 1,738,744
Service cost	59,464	58,023
Benefits paid for the period	(71,345)	(74,391)
Interest cost	82,642	81,800
Amortization of actuarial gain	(11,889)	(8,597)
Plan amendments during the year	77,935	-
Accrued benefit liability, December 31	\$ 1,932,386	\$ 1,795,579

The accrued benefit liability at December 31, 2011, includes the following components:

	2011	2010
Accrued benefit obligation	\$ 1,816,538	\$ 1,656,524
Unamortized actuarial gain	115,848	139,055
Accrued benefit liability, end of year	\$ 1,932,386	\$ 1,795,579

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

7. Employee future benefit liability (continued):

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

(ii) Waterworks of the Town of Cobourg:

The Waterworks of the Town of Cobourg (the "Waterworks") provides extended health, dental and life insurance benefits for retired employees. An independent actuarial valuation was undertaken as at December 14, 2009.

At December 31, 2011, the accrued benefit liability relating to post-retirement benefit plans is \$316,699 (2010 - \$308,465).

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	3.3% per annum
Dental benefits escalation	5.0% per annum

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

	2011	2010
Accrued benefit liability, January 1	\$ 308,465	\$ 293,584
Service cost	8,886	8,463
Benefits paid for the period	(16,075)	(8,676)
Interest cost	15,423	15,094
Accrued benefit liability, December 31	\$ 316,699	\$ 308,465

(b) Workplace safety and insurance:

In common with other Schedule 2 employers, the Town funded its obligations to the Workplace Safety and Insurance Board on a "pay-as-you-go" basis for employees under Schedule 2. An independent actuarial study of the Workplace Safety and Insurance Board liabilities was completed December 2011.

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

At December 31, 2011, the Town's accrued benefit obligation relating to future payments on Workplace Safety and Insurance Board claims is \$115,574 (2010 - \$129,993).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

7. Employee future benefit liability (continued):

(b) Workplace safety and insurance (continued):

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

	2011	2010
Accrued benefit, beginning of year	\$ 217,935	\$ 189,604
Service cost	-	15,218
Benefits paid for the period	(20,116)	(20,909)
Interest cost	5,697	6,146
Amortization of actuarial gain	(12,725)	(13,103)
Plan amendments during the year	-	40,979
Accrued benefit liability, end of year	\$ 190,791	\$ 217,935

The accrued benefit liability at December 31, 2010, includes the following components:

	2011	2010
Accrued benefit obligation, beginning of year	\$ 115,574	\$ 129,993
Unamortized actuarial gain	75,217	87,942
Accrued benefit liability, end of year	\$ 190,791	\$ 217,935

(c) Liability for vacation credits:

Compensated vacation expense is accrued for employees as entitlement to these payments is earned in accordance with the Town's benefit plans for vacation time. Vacation credits earned as at December 31, 2011 amount to \$660,078 (2010 - \$360,367).

(d) Employee future benefit liability:

	2011	2010
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 1,932,386	\$ 1,795,579
Workplace safety and insurance	190,791	217,935
	2,123,177	2,013,514
Health, dental and life insurance benefits - Waterworks	316,699	308,465
	\$ 2,439,876	\$ 2,321,979

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

8. Mortgage payable on industrial property:

	2011	2010
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	\$ 7,167,258	\$ 8,119,273

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

2012	\$ 998,722
2013	1,054,533
2014	1,113,463
2015	1,175,685
2016	1,241,385
Thereafter	1,583,470
	<u>\$ 7,167,258</u>

9. Net long-term liabilities:

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

	2011	2010
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 9,949,128	\$ 12,185,963

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

2012	\$ 2,291,622
2013	2,233,097
2014	2,003,762
2015	1,265,893
2016	932,067
Thereafter	1,222,687
	<u>\$ 9,949,128</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

9. Net long-term liabilities (continued):

- (c) Approval of the Ontario Municipal Board or by-law as required has been obtained for the long-term liabilities in note 9(a) issued in the name of the Town.
- (d) Total interest on long-term liabilities that are reported on the Consolidated Statement of Operations amounted to \$533,003 (2010 - \$620,835). The long-term liabilities bear interest at rates ranging from 3.47% to 6.76% with term renewals to take place in 2011 through 2020.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

10. Accumulated surplus:

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

	2011	2010
Surplus:		
Operations	\$ (605,756)	\$ 1,191,481
Waterworks	3,184,061	3,228,587
Downtown Business Improvement Area	63,648	39,573
Town of Cobourg Public Library Board	34,628	23,514
Unfinanced capital	(15,703,772)	(12,691,485)
Invested in tangible capital assets	172,082,686	164,324,481
Long-term debt	(9,949,128)	(12,185,963)
Mortgage	(7,167,258)	(8,119,273)
Unfunded:		
Employee benefits	(2,783,255)	(2,373,881)
Investment in Town of Cobourg Holdings Inc.	8,985,511	9,502,747
Note receivable from Town of Cobourg Holdings Inc.	7,000,000	7,000,000
Promissory note payable to Town of Cobourg Holdings Inc.	(810,000)	(855,000)
Total surplus	154,331,365	149,084,781
Reserves:		
Contingencies	26,440	26,440
Parking	107,079	37,549
Current:		
Health services	4,207	4,207
Recreation and cultural services	29,539	114,976
Library	26,953	25,215
Other	11,290	11,290
Capital:		
General government	1,122,698	890,109
Protection services	1,115,750	798,680
Transportation services	651,716	383,921
Environmental services	1,748,786	1,126,448
Recreation and cultural services	243,711	142,792
Planning and development	361,401	381,402
Total reserves	5,449,570	3,943,029
Total accumulated surplus	\$ 159,780,935	\$ 153,027,810

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

11. Classification of expenditures by object:

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

	2011	2010
Salary, wages and employee benefits	\$ 15,931,177	\$ 15,250,144
Operating materials and supplies	5,156,163	5,415,528
Contracted services	7,542,908	7,253,145
Rents and financial expenses	580,969	539,727
External transfers to other	509,788	982,794
Interest on long-term debt	567,788	620,834
Amortization	5,170,009	4,331,158
Loss on disposal of tangible capital assets	24,449	43,964
	<u>\$ 35,483,251</u>	<u>\$ 34,437,294</u>

12. Pension agreements:

The Town makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

For the year ended December 31, 2011, the amount contributed for and included as current service pension costs expenditure on the Consolidated Statement of Operations is \$962,070 (2010 - \$833,214).

13. Commitments:

Lease commitments at December 31, 2011 for equipment under lease obligations are as follows:

2012	\$	43,262
2013		39,597
2014		26,727
2015		14,425
2016		1,507
	<u>\$</u>	<u>125,518</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

14. Tangible capital assets:

Cost	Balance at December 31, 2010	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2011
Land	\$ 15,043,035	\$ 1,709	\$ –	\$ 15,044,744
Land improvements	9,302,526	115,044	70,000	9,347,570
Buildings	31,340,142	27,749,434	14,478	59,075,098
Machinery and equipment	7,709,178	2,790,535	126,194	10,373,519
Vehicles	9,124,358	341,304	104,184	9,361,478
Roads infrastructure	27,682,469	2,098,911	30,522	29,750,858
Sewer infrastructure	75,400,663	2,106,302	8,091	77,498,874
Water infrastructure	29,383,957	724,323	–	30,108,280
Books and periodicals	1,115,435	183,556	134,439	1,164,552
Construction-in-progress	24,131,167	1,655,977	24,814,430	972,714
	\$ 230,232,930	\$ 37,767,095	\$ 25,302,338	\$ 242,697,687

Accumulated amortization	Balance at December 31, 2010	Amortization expense	Disposals/ transfers/ write-offs	Balance at December 31, 2011
Land improvements	\$ 2,152,885	\$ 279,440	\$ 70,000	\$ 2,362,325
Buildings	9,934,427	962,591	14,478	10,882,540
Machinery and equipment	4,088,662	359,320	126,194	4,321,788
Vehicles	3,868,869	598,277	81,087	4,386,059
Roads infrastructure	10,095,171	714,551	29,180	10,780,542
Sewer infrastructure	23,342,817	1,382,529	8,091	24,717,255
Water infrastructure	11,809,096	726,744	–	12,535,840
Books and periodicals	616,524	146,557	134,429	628,652
	\$ 65,908,451	\$ 5,170,009	\$ 463,459	\$ 70,615,001

	Net book value December 31, 2010	Net book value December 31, 2011
Land	\$ 15,043,035	\$ 15,044,744
Land improvements	7,149,641	6,985,245
Buildings	21,405,715	48,192,558
Machinery and equipment	3,620,516	6,051,731
Vehicles	5,255,490	4,975,419
Roads infrastructure	17,587,299	18,970,316
Sewer infrastructure	52,057,846	52,781,619
Water infrastructure	17,574,861	17,572,440
Books and periodicals	498,911	535,900
Construction-in-progress	24,131,167	972,714
	\$ 164,324,481	\$ 172,082,686

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

14. Tangible capital assets (continued):

(a) Construction-in-progress:

Construction-in-progress having a value of \$972,711 (2010 - \$24,131,167) has not been amortized. Amortization of this asset will commence when the asset is put into service.

(b) Tangible capital assets disclosed at nominal value:

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

(c) Write-down of tangible capital assets

The write-down of tangible capital assets during the year \$Nil (2010 - \$Nil).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

15. Budget figures:

Budget figures have not been audited and are presented for information purposes only. Budget figures reported on the Consolidated Statement of Operations are based on the 2011 municipal and other local board operating budgets as approved by Council on March 28, 2011.

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

	Budget 2011
Total revenue as reported on the statement of operations:	
Operating budget	\$ 25,552,165
Water budget	3,280,000
Wastewater budget	3,871,263
Northam Industrial Park budget	4,881,251
	37,584,679
Total expenses as reported on the statement of operations:	
Operating budget	26,573,676
Water budget	3,458,000
Wastewater budget	2,873,256
Northam Industrial Park budget	2,458,538
	35,363,470
Annual operating surplus	2,221,209
Budget not reported on statements:	
Net transfer from/to reserves	1,021,511
Operating transfer from reserves - water	178,000
Operating transfer to reserves - wastewater	(998,007)
Operating transfer to reserves - Northam Industrial Park	(2,422,713)
Total budgeted surplus not reported on statements	\$ (2,221,209)

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

16. Contingent liabilities:

The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2011, management believes that the Corporation has valid defenses and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the financial statements.

17. Segmented information:

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

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

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

18. Segmented information (continued):

- (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

Consolidated Schedule of Segment Information

Year ended December 31, 2011

	General Government Administration	Protection Services	Transporation Services	Environmental Services	Industrial Property
Revenue:					
User fees and service charges	\$ 31,151	\$ 545,649	\$ 347,675	\$ 3,808,435	\$ –
Federal grants	–	–	483,310	3,936	–
Government of Ontario Grants	318,300	–	292,000	3,936	–
Other municipalities	–	–	–	–	–
Rent, license, permits	482,779	–	–	–	4,726,004
Investment income	699,781	–	–	–	–
	1,532,011	545,649	1,122,985	3,816,307	4,726,004
Expenses:					
Salaries, wages and employee benefits	1,560,123	8,112,425	1,665,368	1,181,543	–
Long-term debt charges (interest)	11,246	48,691	239,132	207,352	–
Materials	526,064	489,702	1,140,627	1,026,722	–
Contracted services	257,908	374,576	1,170,949	363,449	2,275,165
Rents and financial expenses	471,140	–	86,810	–	–
External transfers	–	(171,000)	–	–	–
Amortization	185,505	305,795	997,185	1,429,731	684,125
Loss on disposal of tangible capital assets	–	–	1,342	–	–
	3,011,986	9,160,189	5,301,413	4,208,797	2,959,290
Excess of revenue over expenses (expenses over revenue)	(1,479,975)	(8,614,540)	(4,178,428)	(392,490)	1,766,714
Funded through:					
Taxation	–	–	–	–	–
Payments in lieu of taxation	–	–	–	–	–
Penalties and interest	–	–	–	–	–
Other	–	–	–	–	–
	–	–	–	–	–
	\$ (1,479,975)	\$ (8,614,540)	\$ (4,178,428)	\$ (392,490)	\$ 1,766,714

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2011

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
Revenue:					
User fees and service charges	\$ 3,134,940	\$ –	\$ 1,991,779	\$ 59,350	\$ 9,918,979
Federal grants	–	–	2,151,325	–	2,638,571
Government of Ontario grants	–	–	2,138,953	–	2,753,189
Other municipalities	–	–	301,866	12,500	314,366
Rent, license, permits	–	–	–	–	5,208,783
Investment income	–	–	–	–	699,781
	3,134,940	–	6,583,923	71,850	21,533,669
Expenses:					
Salaries, wages and employee benefits	–	–	2,659,105	752,613	15,931,177
Long-term debt charges (interest)	–	–	61,367	–	567,788
Materials	–	–	1,972,889	159	5,156,163
Contracted services	2,676,007	137,116	226,720	61,018	7,542,908
Rents and financial expenses	–	–	23,019	–	580,969
External transfers	–	41,911	638,877	–	509,788
Amortization	942,673	–	622,488	2,507	5,170,009
Loss on disposal of tangible capital assets	–	–	23,107	–	24,449
	3,618,680	179,027	6,227,572	816,297	35,483,251
Excess of revenue over expenses (expenses over revenue)	(483,740)	(179,027)	356,351	(744,447)	(13,949,582)
Funded through:					
Taxation	–	–	–	–	19,060,159
Payments in lieu of taxation	–	–	–	–	167,535
Penalties and interest	–	–	–	–	648,206
Other	–	–	–	–	826,807
	–	–	–	–	20,702,707
Excess of revenue over expenses (expenses over revenue)	\$ (483,740)	\$ (179,027)	\$ 356,351	\$ (744,447)	\$ 6,753,125