

Consolidated Financial Statements

**THE CORPORATION OF
THE TOWN OF COBOURG**

Year ended December 31, 2012

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2012

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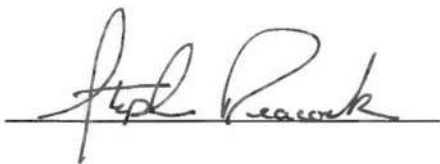
Management's Responsibility for the Consolidated Financial Statements

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

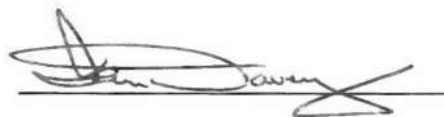
The Town's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely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

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

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



Stephen Peacock
Chief Administrative Officer



Ian Davey
Treasurer



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Corporation of The Town of Cobourg, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Corporation of The Town of Cobourg as at December 31, 2012, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

August 12, 2013

Kingston, Canada

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2012, with comparative figures for 2011

	2012	2011
Financial assets:		
Cash	\$ 3,342,945	\$ 3,448,208
Investments (note 2)	799,801	500,000
Taxes receivable	3,369,245	3,327,343
Receivables - grant	654,658	2,027,534
Receivables - other	2,246,081	2,703,072
Other financial assets	170,352	492,169
Note receivable from Town of Cobourg Holdings Inc. (note 5(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 5)	9,699,732	8,985,511
	27,282,814	28,483,837
Liabilities:		
Demand loans (note 4)	4,000,000	6,340,000
Accounts payable and accrued liabilities	6,094,384	6,417,884
Deferred revenue	375,321	1,141,149
Deferred revenue - obligatory reserve funds (note 7)	8,845,883	7,786,187
Employee future benefit liability (note 8)	2,467,673	2,439,876
Mortgage payable (note 9)	6,164,856	7,167,258
Promissory note payable to Town of Cobourg Holdings Inc. (note 5(d))	765,000	810,000
Net long-term liabilities (note 10)	7,658,781	9,949,128
	36,371,898	42,051,482
Total net debt	(9,089,084)	(13,567,645)
Non-financial assets:		
Tangible capital assets (note 15)	172,187,917	172,082,686
Other assets	1,269,525	1,265,894
	173,457,442	173,348,580
Accumulated surplus (note 11)	\$ 164,368,358	\$ 159,780,935
Commitments (note 14)		
Contingent liabilities (note 17)		

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2012, with comparative figures for 2011

	Budget 2012 (Unaudited, note 16)	Actual 2012	Actual 2011
Revenue:			
Taxation:			
Property taxation	\$ 19,566,262	\$ 19,516,042	\$ 19,060,159
Payments in lieu of taxation	110,200	166,058	167,535
User charges	11,114,978	11,051,879	9,918,979
Development charges	—	459,715	140,000
Grants:			
Province of Ontario	241,800	449,246	2,753,189
Government of Canada	558,992	248,559	2,638,572
Other municipalities	259,680	298,866	314,366
Other:			
Rental income	4,874,641	4,534,037	4,726,004
Penalty and interest	600,000	633,828	648,206
Other income	—	960,564	1,169,585
Donations	—	1,257,734	—
Interest income - Town of Cobourg Holdings Inc. (note 5(c))	507,500	507,500	507,500
Interest and dividend income	1,185,000	713,726	709,517
Sale of industrial land	50,000	—	—
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 5)	—	714,221	(517,236)
Total revenue	39,069,053	41,511,975	42,236,376
Expenses (note 12):			
General government	5,123,018	2,930,153	3,011,986
Protection to persons and property	9,257,053	9,568,384	9,160,189
Transportation services	4,873,551	5,242,329	5,301,413
Environmental services	7,974,348	7,613,359	7,827,477
Recreation and cultural services	6,228,889	7,523,081	6,227,572
Social and family services	41,500	54,610	39,027
Planning and development	854,743	1,068,821	956,297
Industrial property	2,457,318	2,923,815	2,959,290
Total expenses	36,810,420	36,924,552	35,483,251
Annual surplus	2,258,633	4,587,423	6,753,125
Accumulated surplus, beginning of year		159,780,935	153,027,810
Accumulated surplus, end of year (note 11)		\$ 164,368,358	\$ 159,780,935

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Change in Net Debt

Year ended December 31, 2012, with comparative figures for 2011

	Actual 2012	Actual 2011
Annual surplus	\$ 4,587,423	\$ 6,753,125
Acquisition of tangible capital assets	(6,381,880)	(12,952,651)
Amortization of tangible capital assets	6,229,985	5,170,009
Loss on disposal of tangible capital assets	30,151	24,449
Proceeds on disposal of tangible capital assets	16,513	—
Acquisition of other assets	(3,631)	(62,880)
	4,478,561	(1,067,948)
Net debt, beginning of year	(13,567,645)	(12,499,697)
Net debt, end of year	\$ (9,089,084)	\$ (13,567,645)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Operations:		
Annual surplus	\$ 4,587,423	\$ 6,753,125
Items not involving cash:		
Amortization of tangible capital assets	6,229,985	5,170,009
Increase in employee future benefit liability	27,797	117,897
Changes in non-cash working capital balances:		
Decrease (increase) in taxes receivable	(41,902)	9,295
Decrease in receivables - grant	1,372,876	3,152,433
Decrease in receivables - other	456,991	2,022,286
Decrease (increase) in other financial assets	321,817	(206,762)
Increase in other assets	(3,631)	(62,880)
Decrease in accounts payable and accrued liabilities	(323,500)	(5,228,342)
Increase (decrease) in deferred revenue	(765,828)	255,449
Increase in deferred revenue - obligatory reserve funds	1,059,696	1,150,740
Net change in cash from operations	12,921,724	13,133,250
Capital activities:		
Cash used to acquire capital assets	(6,381,880)	(12,952,651)
Loss on disposal of tangible capital assets	30,151	24,449
Proceeds on disposal of tangible capital assets	16,513	—
Net change in cash from capital activities	(6,335,216)	(12,928,202)
Investing activities:		
Decrease (increase) in investment in Town of Cobourg Holdings Inc.	(714,221)	517,236
Increase in investments	(299,801)	(500,000)
Net change in cash from investing activities	(1,014,022)	17,236
Financing activities:		
Repayment of mortgage payable	(1,002,402)	(952,015)
Repayment of long-term liabilities	(2,290,347)	(2,236,835)
Proceeds from demand loan	—	1,340,000
Repayment of demand loan	(2,340,000)	(3,000,000)
Repayment of promissory note	(45,000)	(45,000)
Net change in cash from financing activities	(5,677,749)	(4,893,850)
Decrease in cash	(105,263)	(4,671,566)
Cash, beginning of year	3,448,208	8,119,774
Cash, end of year	\$ 3,342,945	\$ 3,448,208
Supplemental cash flow information:		
Cash paid for interest	\$ 547,821	\$ 984,341
Cash received from interest	621,226	616,387

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2012

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the Town of Cobourg ("the Town") are the representations of management. They have been prepared in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Town are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

The consolidated financial statements reflect the assets, liabilities, revenue, expenses and fund balances of the current, capital and reserves of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards which are owned or controlled by the Town.

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

Downtown Business Improvement Area

Library Board

Waterworks of the Town of Cobourg

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

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

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

(iii) Accounting for school board and County transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the school boards, and the County of Northumberland are not reflected in the municipal fund balances of these consolidated financial statements. Overlevies (underlevies) are reported on the Consolidated Statement of Financial Position.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(b) Basis of accounting:

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

(c) Deferred revenue - obligatory reserve funds:

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(f) Investments:

Investments are recorded at cost plus accrued interest and amortization of purchase premiums and discounts. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

(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 requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes.

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

(j) Land held for resale:

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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. Investments:

Investments, which consist of guaranteed investment certificates, are recorded on the Consolidated Statement of Financial Position at cost plus accrued interest which also approximates market value. These investments are being held in trust from a developer and all investment income earned is payable to the developer.

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

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

	School Boards		County of Northumberland	
	2012	2011	2012	2011
Amounts requisitioned and collected	\$ 8,667,613	\$ 8,989,935	\$ 10,749,122	\$ 10,407,461

4. 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, 2012, \$8,000,000 had been advanced to the Town and \$4,000,000 (2011 - \$5,000,000) was outstanding.

In 2011, the Town was advanced \$1,340,000 from the bank to fund current operating expenses. At December 31, 2012, \$Nil (2011 - \$1,340,000) was outstanding.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

5. Investment in Town of Cobourg Holdings Inc.:

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

As part of electricity restructuring, incorporated distribution utilities have been allowed to take on commercial debt structures and have the ability to earn a regulated commercial rate of return. Effective May 1, 2000, the electricity distribution business formerly conducted by the Commission was transferred to TCHI. The Corporation's consolidated financial statements as a result of this transaction are comprised of the following:

	2012	2011
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	1,983,366	2,500,602
Pro-rata share of net income during the year	1,314,221	82,764
Dividend	(600,000)	(600,000)
Total investment in Town of Cobourg Holdings Inc.	\$ 9,699,732	\$ 8,985,511

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2012 and December 31, 2011 and its operations for both years:

(a) Financial position:

	2012	2011
Current assets	\$ 9,877,180	\$ 10,470,131
Capital assets	15,446,898	11,651,637
Other assets	1,064,400	2,205,911
Total assets	26,388,478	24,327,679
Current liabilities	3,461,162	3,599,633
Long-term liabilities	13,227,584	11,742,535
Total liabilities	16,688,746	15,342,168
Net assets	\$ 9,699,732	\$ 8,985,511

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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

(b) Results of operations:

	2012	2011
Revenues	\$ 29,610,369	\$ 27,863,405
Expenses	28,296,148	27,780,641
Net income for the period	\$ 1,314,221	\$ 82,764

(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 (2011 - \$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 2012 was \$43,740 (2011 - \$34,786).

6. Industrial property:

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

	Cost	Accumulated Amortization	2012	2011
Land	\$ 3,125,000	\$ —	\$ 3,125,000	\$ 3,125,000
Land improvements	881,477	152,786	728,691	750,287
Buildings	18,806,238	5,897,036	12,909,202	13,370,013
	\$ 22,812,715	\$ 6,049,822	\$ 16,762,893	\$ 17,245,300

Cost and accumulated amortization at December 31, 2011 amounted to \$22,586,156 and \$5,340,856 respectively.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

6. Industrial property (continued):

(a) Financial position:

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

	2012	2011
Cash	\$ 1,037,671	\$ 1,705,313
Accounts receivable	435,505	403,727
Prepaid expenses	16,258	15,623
Industrial property	16,762,893	17,245,300
Total assets	18,252,327	19,369,963
Accounts payable and accrued liabilities	234,405	1,239,862
Mortgage payable	6,164,856	7,167,258
Total liabilities	6,399,261	8,407,120
Net equity in industrial property	\$ 11,853,066	\$ 10,962,843

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

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

	2012	2011
Gross rental income	\$ 3,392,091	\$ 3,593,218
Operating expenses	(1,558,205)	(1,563,072)
Operating expenses recovery	1,141,946	1,132,786
Administrative expenses	(293,837)	(298,343)
Interest on long-term debt	(362,806)	(413,753)
Amortization	(708,967)	(684,125)
Net income for the period	\$ 1,610,222	\$ 1,766,711
Equity, beginning of the year	\$ 9,962,844	\$ 8,741,132
Net income for the period	1,610,222	1,766,712
Transfer to reserves	(720,000)	(545,000)
Capital reserve	1,000,000	1,000,000
Equity, end of year	\$ 11,853,066	\$ 10,962,844

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, 2012

7. Deferred revenue – obligatory reserve funds:

A requirement of the public sector accounting standards is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial and municipal legislation restricts how these funds may be used. The balances in the obligatory reserve funds of the Town are summarized below:

	2012	2011
Balance, beginning of year	\$ 7,786,187	\$ 6,635,448
Recreational land	20,540	8,700
Federal grant - gasoline tax	558,592	558,592
Provincial grant - gasoline tax transit	188,267	182,731
Development contributions	998,241	1,014,713
Building code	55,820	19,924
Sub-divider contributions	43,215	10,965
Investment income	92,977	78,671
Utilization - capital	(249,867)	(439,510)
Utilization - operating	(648,089)	(284,047)
Balance, end of year	\$ 8,845,883	\$ 7,786,187
Analyzed as follows:		
Sub-divider contributions	\$ 159,920	\$ 116,704
Recreational land	296,208	272,265
Development charges	7,021,757	6,403,191
Gasoline tax:		
Provincial	(1,871)	(3,178)
Federal	1,099,369	759,496
Provincial - Investing in Ontario	164,672	131,880
Building code	105,828	105,829
	\$ 8,845,883	\$ 7,786,187

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

8. Employee future benefit liability:

(a) Extended health care and dental benefits:

(i) The Corporation of the Town of Cobourg:

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

At December 31, 2012, the Town's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$1,884,944 (2011 - \$1,816,538).

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 2012 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:

	2012	2011
Accrued benefit liability, January 1	\$ 1,932,386	\$ 1,795,579
Service cost	65,809	59,464
Benefits paid for the period	(83,274)	(71,345)
Interest cost	85,871	82,642
Amortization of actuarial gain	(11,889)	(11,889)
Plan amendments during the year	—	77,935
Accrued benefit liability, December 31	\$ 1,988,903	\$ 1,932,386

The accrued benefit liability at December 31, 2012, includes the following components:

	2012	2011
Accrued benefit obligation	\$ 1,884,944	\$ 1,816,538
Unamortized actuarial gain	103,959	115,848
Accrued benefit liability, end of year	\$ 1,988,903	\$ 1,932,386

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 14, 2009.

At December 31, 2012, the accrued benefit liability relating to post-retirement benefit plans is \$311,410 (2011 - \$316,699).

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:

	2012	2011
Accrued benefit liability, January 1	\$ 316,699	\$ 308,465
Service cost	5,145	8,886
Benefits paid for the period	(31,465)	(16,075)
Interest cost	21,031	15,423
Accrued benefit liability, December 31	\$ 311,410	\$ 316,699

(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, 2012, the Town's accrued benefit obligation relating to future payments on Workplace Safety and Insurance Board claims is \$104,868 (2011 - \$115,574).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

8. 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:

	2012	2011
Accrued benefit, beginning of year	\$ 190,791	\$ 217,935
Benefits paid for the period	(15,820)	(20,116)
Interest cost	5,114	5,697
Amortization of actuarial gain	(12,725)	(12,725)
Accrued benefit liability, end of year	\$ 167,360	\$ 190,791

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

	2012	2011
Accrued benefit obligation	\$ 104,868	\$ 115,574
Unamortized actuarial gain	62,492	75,217
Accrued benefit liability	\$ 167,360	\$ 190,791

(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, 2012 amount to \$644,014 (2011 - \$660,078) and are included in accounts payable and accrued liabilities.

(d) Employee future benefit liability:

	2012	2011
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 1,988,903	\$ 1,932,386
Workplace safety and insurance	167,360	190,791
	2,156,263	2,123,177
Health, dental and life insurance benefits - Waterworks	311,410	316,699
	\$ 2,467,673	\$ 2,439,876

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

9. Mortgage payable on industrial property:

	2012	2011
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	\$ 6,164,856	\$ 7,167,258

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

2013	\$ 1,054,533
2014	1,113,463
2015	1,175,685
2016	1,241,385
2017	1,310,756
Thereafter	269,034
	<u>\$ 6,164,856</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:

	2012	2011
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 7,658,781	\$ 9,949,128

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

2013	\$ 2,233,220
2014	2,004,528
2015	1,265,572
2016	932,328
2017	480,980
Thereafter	742,153
	<u>\$ 7,658,781</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

10. Net long-term liabilities (continued):

- (c) Approval of the Ontario Municipal Board or by-law as required has been obtained for the long-term liabilities in note 9(a) issued in the name of the Town.
- (d) Total interest on long-term liabilities that are reported on the Consolidated Statement of Operations amounted to \$457,821 (2011 - \$533,003). The long-term liabilities bear interest at rates ranging from 3.47% to 6.76% with term renewals to take place in 2013 through 2020.

11. Accumulated surplus:

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

	2012	2011
Surplus:		
Operations	\$ (1,611,042)	\$ (605,756)
Waterworks	3,236,008	3,184,061
Downtown Business Improvement Area	66,806	63,648
Town of Cobourg Public Library Board	38,968	34,628
Unfinanced capital	(16,088,969)	(15,703,772)
Invested in tangible capital assets	172,187,917	172,082,686
Long-term debt	(7,658,781)	(9,949,128)
Mortgage	(6,164,856)	(7,167,258)
Unfunded:		
Employee benefits	(2,467,673)	(2,783,255)
Investment in Town of Cobourg Holdings Inc.	9,699,732	8,985,511
Note receivable from Town of Cobourg Holdings Inc.	7,000,000	7,000,000
Promissory note payable to Town of Cobourg Holdings Inc.	(765,000)	(810,000)
Total surplus	157,473,110	154,331,365
Reserves:		
Contingencies	26,440	26,440
Parking	136,801	107,079
Current:		
Health services	4,207	4,207
Library	70,901	26,953
Other	11,290	11,290
Capital:		
General government	1,452,223	1,122,698
Protection services	798,213	1,115,750
Transportation services	796,619	651,716
Environmental services	2,730,181	1,748,786
Recreation and cultural services	322,367	243,711
Planning and development	546,006	390,940
Total reserves	6,895,248	5,449,570
Total accumulated surplus	\$ 164,368,358	\$ 159,780,935

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. Classification of expenses by object:

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

	2012	2011
Salary, wages and employee benefits	\$ 16,984,045	\$ 15,931,177
Operating materials and supplies	4,936,840	5,156,163
Contracted services	7,281,002	7,542,908
Rents and financial expenses	358,501	580,969
External transfers to other	557,468	509,788
Interest on long-term debt	546,560	567,788
Amortization	6,229,985	5,170,009
Loss on disposal of tangible capital assets	30,151	24,449
	\$ 36,924,552	\$ 35,483,251

13. Pension agreements:

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

For the year ended December 31, 2012, the amount contributed for and included as current service pension costs expenses on the Consolidated Statement of Operations is \$1,072,092 (2011 - \$962,070).

14. Commitments:

Lease commitments at December 31, 2012 for equipment under lease obligations are as follows:

2013	\$ 41,815
2014	31,010
2015	18,084
2016	5,167
2017	3,659
	\$ 99,735

THE CORPORATION OF THE TOWN OF COBourg

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

15. Tangible capital assets:

Cost	Balance at December 31, 2011	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2012
Land	\$ 15,043,035	\$ 136,314	\$ —	\$ 15,179,349
Land improvements	9,349,279	26,142	—	9,375,421
Buildings	59,075,098	831,807	—	59,906,905
Machinery and equipment	10,427,945	1,100,780	—	11,528,725
Vehicles	9,361,477	811,526	100,601	10,072,402
Roads infrastructure	29,750,858	604,250	75,021	30,280,087
Sewer infrastructure	77,498,876	637,760	892	78,135,744
Water infrastructure	30,108,280	875,438	—	30,983,718
Books and periodicals	1,110,125	116,077	158,794	1,067,408
Construction-in-progress	972,714	2,070,109	828,323	2,214,500
	\$ 242,697,687	\$ 7,210,203	\$ 1,163,631	\$ 248,744,259

Accumulated amortization	Balance at December 31, 2011	Amortization expense	Disposals/ transfers/ write-offs	Balance at December 31, 2012
Land improvements	\$ 2,362,325	\$ 263,815	\$ —	\$ 2,626,140
Buildings	10,882,540	1,716,723	—	12,599,263
Machinery and equipment	4,330,323	605,495	—	4,935,818
Vehicles	4,386,059	572,410	64,044	4,894,425
Roads infrastructure	10,780,542	765,296	64,914	11,480,924
Sewer infrastructure	24,717,255	1,428,718	892	26,145,081
Water infrastructure	12,535,840	741,972	—	13,277,812
Books and periodicals	620,117	135,556	-158,794	596,879
	\$ 70,615,001	\$ 6,229,985	\$ 288,644	\$ 76,556,342

	Net book value December 31, 2011	Net book value December 31, 2012
Land	\$ 15,043,035	\$ 15,179,349
Land improvements	6,986,954	6,749,281
Buildings	48,192,558	47,307,642
Machinery and equipment	6,097,622	6,592,907
Vehicles	4,975,418	5,177,977
Roads infrastructure	18,970,316	18,799,163
Sewer infrastructure	52,781,621	51,990,663
Water infrastructure	17,572,440	17,705,906
Books and periodicals	490,008	470,529
Construction-in-progress	972,714	2,214,500
	\$ 172,082,686	\$ 172,187,917

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

15. Tangible capital assets (continued):

(a) Construction-in-progress:

Construction-in-progress having a value of \$2,214,500 (2011 - \$972,711) 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 (2011 - \$Nil).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

16. 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 2012 municipal and other local board operating budgets as approved by Council on April 9, 2012.

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 2012
Total revenue as reported on the statement of operations:	
Operating budget	\$ 26,622,683
Water budget	3,558,229
Wastewater budget	4,013,500
Northam Industrial Park budget	4,874,641
	<u>39,069,053</u>
Total expenses as reported on the statement of operations:	
Operating budget	27,640,211
Water budget	3,682,909
Wastewater budget	3,029,982
Northam Industrial Park budget	2,457,318
	<u>36,810,420</u>
Annual operating surplus	<u>2,258,633</u>
Budget not reported on statements:	
Net transfer from/to reserves	1,017,528
Operating transfer from reserves - water	124,680
Operating transfer to reserves - wastewater	(983,518)
Operating transfer to reserves - Northam Industrial Park	(2,417,323)
Total budgeted surplus not reported on statements	<u>\$ (2,258,633)</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

17. 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, 2012, management believes that the Corporation has valid defenses and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the consolidated financial statements.

18. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

19. 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.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

19. Segmented information (continued):

- (e) Water Services: Includes the management and maintenance of water treatment and distribution.
- (f) Industrial property: Includes the management and maintenance of the Industrial Park.
- (g) Health and Social Services: Provides resources to assist with community physician recruitment and retention and assistance with one specific housing project.
- (h) Parks, Recreation and Culture: Provides services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure programs and facilities including community halls, libraries, parks, recreation fields, arena and marina.
- (i) Planning and Development: Manages development for business interests, environmental concerns, heritage matters, local neighbourhoods and community development. It facilitates economic development by providing services for the approval of all land development plans, the application and enforcement of the zoning by-law and official plan, and the provision of geomatics services.

For each segment separately reported, the segment revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. These municipal services are funded primarily by property tax revenue.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information

Year ended December 31, 2012

	General Government		Protection	Transportation	Environmental	Industrial
	Administration		Services	Services	Services	Property
Revenue:						
User fees and service charges	\$ 49,934	\$ 551,730	\$ 328,760	\$ 4,262,427	\$ -	-
Federal grants	-	-	228,213	20,346	-	-
Government of Ontario Grants	210,900	-	187,000	20,346	-	-
Other municipalities	-	-	-	-	-	-
Rent, license, permits	596,855	-	-	-	-	4,534,037
Investment Income	149,812	-	-	-	-	-
	1,007,501	551,730	743,973	4,303,119	4,534,037	
Expenses:						
Salaries, wages and employee benefits	1,593,533	8,538,302	1,727,758	1,218,253	-	-
Long-term debt charges (interest)	8,321	40,180	199,709	179,068	-	-
Materials	464,827	180,535	966,296	1,016,933	-	-
Contracted services	333,974	256,353	1,295,011	379,770	2,214,849	
Rents and financial expenses	335,460	-	-	-	-	-
External transfers	-	233,316	-	-	-	-
Loss on disposal of tangible capital assets	194,038	18,924	10,107	-	-	-
Amortization	-	300,774	1,054,656	1,487,402	708,966	
	2,930,153	9,568,384	5,253,537	4,281,426	2,923,815	
Excess of revenue over expenses (expenses over revenue)	(1,922,652)	(9,016,654)	(4,509,564)	21,693	1,610,222	
Funded through:						
Taxation	-	-	-	-	-	-
Payments in lieu of taxation	-	-	-	-	-	-
Penalties and interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
	-	-	-	-	-	-
Excess of revenue over expenses (expenses over revenue)	\$ (1,922,652)	\$ (9,016,654)	\$ (4,509,564)	\$ 21,693	\$ 1,610,222	

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2012

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
Revenue:					
User fees and service charges	\$ 3,214,196	\$ -	\$ 2,582,060	\$ 62,772	\$ 11,051,878
Federal grants	-	-	-	-	248,559
Government of Ontario grants	-	-	31,000	-	449,246
Other municipalities	-	-	286,366	12,500	298,866
Rent, license, permits	-	-	-	-	5,130,892
Investment income	47,414	-	-	-	197,226
	3,261,610	-	2,899,426	75,272	17,376,668
Expenses:					
Salaries, wages and employee benefits	-	-	3,098,446	807,753	16,984,045
Long-term debt charges (interest)	-	-	119,282	-	546,560
Materials	-	-	2,291,373	16,876	4,936,840
Contracted services	2,303,109	150,319	245,932	101,685	7,281,002
Rents and financial expenses	-	-	23,041	-	358,501
External transfers	-	41,747	282,405	-	557,468
Loss on disposal of tangible capital assets	-	-	1,120	-	30,151
Amortization	1,017,616	2,544	1,461,482	2,507	6,229,985
	3,320,725	194,610	7,523,081	928,821	36,924,552
Excess of revenue over expenses (expenses over revenue)	(59,115)	(194,610)	(4,623,655)	(853,549)	(19,547,884)
Funded through:					
Taxation	-	-	-	-	19,516,042
Payments in lieu of taxation	-	-	-	-	166,058
Penalties and interest	-	-	-	-	633,828
Other	-	-	-	-	3,819,379
	-	-	-	-	24,135,307
Excess of revenue over expenses (expenses over revenue)	\$ (59,115)	\$ (194,610)	\$ (4,623,655)	\$ (853,549)	\$ 4,587,423