

Consolidated Financial Statements

**THE CORPORATION OF
THE TOWN OF COBOURG**

Year ended December 31, 2013

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2013

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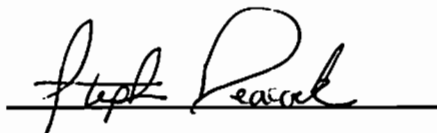
Management's Responsibility for the Consolidated Financial Statements

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.

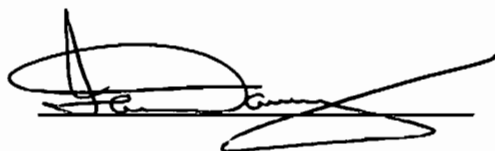
The Town's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely 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, 2013, 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, 2013, 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 Professional Accountants, Licensed Public Accountants

June 23, 2014

Kingston, Canada

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
Financial assets:		
Cash	\$ 5,992,039	\$ 3,342,945
Investments (note 3)	799,504	799,801
Taxes receivable	3,471,438	3,369,245
Receivables - grant	200,352	654,658
Receivables - other	2,045,713	2,246,081
Other financial assets	148,400	170,352
Note receivable from Town of Cobourg Holdings Inc. (note 6(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 6)	9,897,353	9,699,732
	<u>29,554,799</u>	<u>27,282,814</u>
Liabilities:		
Demand loans (note 5)	–	4,000,000
Accounts payable and accrued liabilities	6,114,877	6,094,384
Deferred revenue	532,588	375,321
Deferred revenue - obligatory reserve funds (note 8)	7,388,242	8,845,883
Employee future benefit liability (note 9)	2,492,830	2,467,673
Mortgage payable (note 10)	5,062,500	6,164,856
Promissory note payable to Town of Cobourg Holdings Inc. (note 6(d))	720,000	765,000
Net long-term liabilities (note 11)	11,061,474	7,658,781
	<u>33,372,511</u>	<u>36,371,898</u>
Total net debt	(3,817,712)	(9,089,084)
Non-financial assets:		
Tangible capital assets (note 16)	172,185,301	172,187,917
Other assets	1,302,133	1,269,525
	<u>173,487,434</u>	<u>173,457,442</u>
Accumulated surplus (note 12)	\$ 169,669,722	\$ 164,368,358

Commitments (note 15)
Contingent liabilities (note 18)

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, 2013, with comparative information for 2012

	Budget 2013	Actual 2013	Actual 2012
	(note 17)		
Revenue:			
Taxation:			
Property taxation	\$ 20,285,461	\$ 20,195,479	\$ 19,516,042
Payments in lieu of taxation	111,700	170,807	166,058
User charges	11,742,461	11,851,295	11,051,879
Development charges	–	2,435,849	459,715
Grants:			
Province of Ontario	156,680	414,409	449,246
Government of Canada	558,992	950,337	248,559
Other municipalities	232,427	329,439	298,866
Other:			
Rental income	4,509,607	4,466,660	4,534,037
Penalty and interest	650,000	689,917	633,828
Other income	–	1,047,782	960,564
Donations	–	254,077	1,257,734
Interest income - Town of Cobourg Holdings Inc. (note 6(c))	507,500	507,500	507,500
Interest and dividend income	970,000	489,553	713,726
Gain on sale of assets	50,000	99,886	–
Net equity increase (decrease) in investment in Town of Cobourg Holdings Inc. (note 6)	–	197,621	714,221
Total revenue	39,774,828	44,100,611	41,511,975
Expenses (note 13):			
General government	4,843,920	3,641,597	2,930,153
Protection to persons and property	9,342,501	9,749,426	9,568,384
Transportation services	5,152,575	5,776,410	5,242,329
Environmental services	8,260,460	8,163,599	7,613,359
Recreation and cultural services	6,595,397	7,743,223	7,523,081
Social and family services	42,000	76,867	54,610
Planning and development	959,293	1,051,481	1,068,821
Industrial property	3,914,423	2,596,644	2,923,815
Total expenses	39,110,569	38,799,247	36,924,552
Annual surplus	664,259	5,301,364	4,587,423
Accumulated surplus, beginning of year		164,368,358	159,780,935
Accumulated surplus, end of year (note 12)		\$ 169,669,722	\$ 164,368,358

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Change in Net Debt

Year ended December 31, 2013, with comparative information for 2012

	Actual 2013	Actual 2012
Annual surplus	\$ 5,301,364	\$ 4,587,423
Acquisition of tangible capital assets	(6,969,236)	(5,140,094)
Decrease (increase) in construction-in-progress	658,769	(1,241,786)
Amortization of tangible capital assets	6,279,546	6,229,985
Loss (gain) on disposal of tangible capital assets	(99,886)	30,151
Proceeds on disposal of tangible capital assets	133,423	16,513
Acquisition of other assets	(32,608)	(3,631)
	5,271,372	4,478,561
Net debt, beginning of year	(9,089,084)	(13,567,645)
Net debt, end of year	\$ (3,817,712)	\$ (9,089,084)

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Operations:		
Annual surplus	\$ 5,301,364	\$ 4,587,423
Items not involving cash:		
Amortization of tangible capital assets	6,279,546	6,229,985
Increase in employee future benefit liability	25,157	27,797
Changes in non-cash working capital balances:		
Taxes receivable	(102,193)	(41,902)
Receivables - grant	454,306	1,372,876
Receivables - other	200,368	456,991
Other financial assets	21,952	321,817
Other assets	(32,608)	(3,631)
Accounts payable and accrued liabilities	20,493	(323,500)
Deferred revenue	157,267	(765,828)
Deferred revenue - obligatory reserve funds	(1,457,641)	1,059,696
Net change in cash from operations	10,868,011	12,921,724
Capital activities:		
Cash used to acquire capital assets	(6,969,236)	(5,140,094)
Decrease (increase) in construction-in-progress	658,769	(1,241,786)
Loss (gain) on disposal of tangible capital assets	(99,886)	30,151
Proceeds on disposal of tangible capital assets	133,423	16,513
Net change in cash from capital activities	(6,276,930)	(6,335,216)
Investing activities:		
Increase in investment in Town of Cobourg Holdings Inc.	(197,621)	(714,221)
Decrease (increase) in investments	297	(299,801)
Net change in cash from investing activities	(197,324)	(1,014,022)
Financing activities:		
Repayment of mortgage payable	(1,102,356)	(1,002,402)
Repayment of long-term liabilities	(2,305,390)	(2,290,347)
Proceeds from long-term liabilities	5,708,083	-
Repayment of demand loan	(4,000,000)	(2,340,000)
Repayment of promissory note	(45,000)	(45,000)
Net change in cash from financing activities	(1,744,663)	(5,677,749)
Increase (decrease) in cash	2,649,094	(105,263)
Cash, beginning of year	3,342,945	3,448,208
Cash, end of year	\$ 5,992,039	\$ 3,342,945
Supplemental cash flow information:		
Cash paid for interest	\$ 446,192	\$ 547,821
Cash received from interest	611,953	621,226

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2013

1. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Consolidated entities:

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

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

Downtown Business Improvement Area

Library Board

Waterworks of the Town of Cobourg

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

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

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

(iii) Accounting for school board and County transactions:

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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.

(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.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(g) Workplace safety and insurance compensation:

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

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

(h) Government transfers:

Government transfers are recognized as revenue in the financial statements when the transfer is authorized, any eligibility criteria are met and a reasonable estimate of the amount can be made except, when and to the extent that, stipulations by the transferor give rise to an obligation that meets the definition of a liability. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

(i) Use of estimates:

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

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

(j) Land held for resale:

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

(k) Property taxation:

Property taxation revenue is recognized on the accrual basis using the approved tax rates and the anticipated assessment related to the current year.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(l) Non-financial assets:

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

(i) Tangible capital assets:

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

Asset		Years
Land improvements	Straight-line	20 to 80
Buildings and building improvements	Straight-line	15 to 95
Roads, sewer, water infrastructure	Straight-line	20 to 80
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, 2013

1. Significant accounting policies (continued):

(l) Non-financial assets (continued):

(v) Inventories of supplies:

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

(vi) Interest capitalization:

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

2. Change in accounting policies:

Property taxation:

The Town adopted Public Sector Accounting Standard *PS 3510, Tax Revenue* effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3510, municipalities recognize property tax revenue using the approved tax rate and the anticipated assessment. Taxes receivable and tax revenue are recognized when they meet the definition of an asset, the tax is authorized and the taxable event has occurred. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the statement of operations. There were no adjustments as a result of the adoption of this standard.

Government transfers:

The Town adopted Public Sector Accounting Standard *PS 3410, Government Transfers* effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3410, government contribution transfers received or receivable are recognized in revenue once the eligibility criteria, if any, are met unless they meet the definition of a liability. Government transfers distributed are recognized as a liability and an expense when the transfer is authorized and all eligibility criteria have been met by the recipient. There were no adjustments as a result of the adoption of this standard.

3. Investments:

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

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

	School Boards		County of Northumberland	
	2013	2012	2013	2012
Amounts requisitioned and collected	\$ 8,795,542	\$ 8,667,613	\$ 11,284,769	\$ 10,749,122

5. 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, 2013, \$8,000,000 had been advanced to the Town and \$Nil (2012 - \$4,000,000) was outstanding.

In 2011, the Town was advanced \$1,340,000 from the bank to fund current operating expenses. At December 31, 2013, \$Nil (2012 - \$ Nil) was outstanding.

6. Investment in Town of Cobourg Holdings Inc.:

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

	2013	2012
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	2,697,587	1,983,366
Pro-rata share of net income during the year	582,721	1,314,221
Dividend	(385,100)	(600,000)
Total investment in Town of Cobourg Holdings Inc.	\$ 9,897,353	\$ 9,699,732

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2013 and December 31, 2012 and its results of operations for both years:

(a) Financial position:

	2013	2012
Current assets	\$ 10,740,293	\$ 9,877,180
Capital assets	15,686,491	15,446,898
Other assets	962,300	1,064,400
Total assets	27,389,084	26,388,478
Current liabilities	4,058,299	3,461,162
Long-term liabilities	13,433,432	13,227,584
Total liabilities	17,491,731	16,688,746
Net assets	\$ 9,897,353	\$ 9,699,732

(b) Results of operations:

	2013	2012
Revenue	\$ 31,569,142	\$ 29,610,369
Expenses	30,986,421	28,296,148
Net income for the period	\$ 582,721	\$ 1,314,221

(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 (2012 - \$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 2013 was \$41,310 (2012 - \$43,740).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

7. 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	2013	2012
Land	\$ 3,125,000	\$ –	\$ 3,125,000	\$ 3,125,000
Land improvements	902,768	189,753	713,015	728,691
Buildings	19,543,922	6,558,576	12,985,346	12,909,202
	\$ 23,571,690	\$ 6,748,329	\$ 16,823,361	\$ 16,762,893

Cost and accumulated amortization at December 31, 2012 amounted to \$22,812,715 and \$6,049,822 respectively.

(a) Financial position:

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

	2013	2012
Cash	\$ 1,051,465	\$ 1,037,671
Accounts receivable	533,515	435,505
Prepaid expenses	17,283	16,258
Industrial property	16,823,361	16,762,893
Total assets	18,425,624	18,252,327
Accounts payable and accrued liabilities	135,688	234,405
Deferred revenue	105,190	–
Mortgage payable	5,062,500	6,164,856
Total liabilities	5,303,378	6,399,261
Net equity in industrial property	\$ 13,122,246	\$ 11,853,066

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

7. Industrial property (continued):

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

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

	2013	2012
Gross rental income	\$ 3,290,815	\$ 3,392,091
Operating expenses	(1,534,762)	(1,558,205)
Operating expenses recovery	1,150,010	1,141,946
Administrative expenses	(200,465)	(293,837)
Interest on long-term debt	(162,811)	(362,806)
Amortization	(698,607)	(708,967)
Net income for the period	\$ 1,844,180	\$ 1,610,222
Equity, beginning of the year	\$ 10,853,066	\$ 9,962,844
Net income for the period	1,844,180	1,610,222
Transfer to reserves	(575,000)	(720,000)
Capital reserve	1,000,000	1,000,000
Equity, end of year	\$ 13,122,246	\$ 11,853,066

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, 2013

8. Deferred revenue – obligatory reserve funds:

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

	2013	2012
Balance, beginning of year	\$ 8,845,883	\$ 7,786,187
Recreational land	40,000	20,540
Federal grant - gasoline tax	558,592	558,592
Provincial grant - gasoline tax transit	187,922	188,267
Development contributions	1,480,526	998,241
Building code	107,700	55,820
Sub-divider contributions	47,250	43,215
Investment income	107,046	92,977
Utilization - capital	(3,601,252)	(249,867)
Utilization - operating	(385,425)	(648,089)
Balance, end of year	\$ 7,388,242	\$ 8,845,883
Analyzed as follows:		
Sub-divider contributions	\$ 204,820	\$ 159,920
Recreational land	299,312	296,208
Development charges	5,790,173	7,021,757
Gasoline tax:		
Provincial	-	(1,871)
Federal	723,194	1,099,369
Provincial - Investing in Ontario	98,371	164,672
Building code	272,372	105,828
	\$ 7,388,242	\$ 8,845,883

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

9. 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 2012.

At December 31, 2013, the Town's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$1,943,028 (2012 - \$1,884,944).

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:

	2013	2012
Accrued benefit liability, January 1	\$ 1,988,903	\$ 1,932,386
Service cost	70,314	65,809
Benefits paid for the period	(101,035)	(83,274)
Interest cost	88,805	85,871
Amortization of actuarial gain	(11,889)	(11,889)
Accrued benefit liability, December 31	\$ 2,035,098	\$ 1,988,903

The accrued benefit liability at December 31, 2013, includes the following components:

	2013	2012
Accrued benefit obligation	\$ 1,943,028	\$ 1,884,944
Unamortized actuarial gain	92,070	103,959
Accrued benefit liability, end of year	\$ 2,035,098	\$ 1,988,903

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

9. Employee future benefit liability (continued):

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

(ii) Waterworks of the Town of Cobourg:

The Waterworks of the Town of Cobourg (the "Waterworks") provides extended health, dental and life insurance benefits for retired employees. An independent actuarial valuation was undertaken as at December 31, 2012.

At December 31, 2013, the accrued benefit liability relating to post-retirement benefit plans is \$311,296 (2012 - \$311,410).

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

Discount rate	4.5% per annum
Inflation rate	2.0% per annum
Salary escalation	3.3% per annum
Dental benefits escalation	4.89% per annum
Health benefits escalation	7.47% in 2013 decreasing by 0.53% per annum until 2018

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

	2013	2012
Accrued benefit liability, January 1	\$ 311,410	\$ 316,699
Service cost	5,980	5,145
Benefits paid for the period	(26,713)	(31,465)
Interest cost	20,619	21,031
Accrued benefit liability, December 31	\$ 311,296	\$ 311,410

(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 2012.

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

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

9. Employee future benefit liability (continued):

(b) Workplace safety and insurance (continued):

At December 31, 2013, the Town's accrued benefit obligation relating to future payments on Workplace Safety and Insurance Board claims is \$96,669 (2012 - \$104,868).

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

	2013	2012
Accrued benefit, beginning of year	\$ 167,360	\$ 190,791
Benefits paid for the period	(12,874)	(15,820)
Interest cost	4,675	5,114
Amortization of actuarial gain	(12,725)	(12,725)
Accrued benefit liability, end of year	\$ 146,436	\$ 167,360

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

	2013	2012
Accrued benefit obligation	\$ 96,669	\$ 104,868
Unamortized actuarial gain	49,767	62,492
Accrued benefit liability	\$ 146,436	\$ 167,360

(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, 2013 amount to \$732,179 (2012 - \$752,939) and are included in accounts payable and accrued liabilities.

(d) Employee future benefit liability:

	2013	2012
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 2,035,098	\$ 1,988,903
Workplace safety and insurance	146,436	167,360
	2,181,534	2,156,263
Health, dental and life insurance benefits - Waterworks	311,296	311,410
	\$ 2,492,830	\$ 2,467,673

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

10. Mortgage payable on industrial property:

	2013	2012
Royal Bank of Canada: 2.33%, due on March 5, 2018, blended monthly payments of principal and interest in the amount of \$104,352, secured by industrial property	\$ 5,062,500	\$ 6,164,856

Principal payments for the next five years are as follows:

2014	\$ 1,146,446
2015	1,177,690
2016	1,200,917
2017	1,229,542
2018	307,905
	<hr/>
	\$ 5,062,500

11. 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:

	2013	2012
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 11,061,474	\$ 7,658,781

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

2014	\$ 2,321,509
2015	1,592,702
2016	1,268,521
2017	828,252
2018	749,140
Thereafter	4,301,350
	<hr/>
	\$ 11,061,474

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

11. 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 11(a) issued in the name of the Town.
- (d) Total interest on long-term liabilities that are reported on the Consolidated Statement of Operations amount to \$404,882 (2012 - \$457,821). The long-term liabilities bear interest at rates ranging from 2.93% to 5.23% with term renewals to take place in 2014 through 2033.

12. Accumulated surplus:

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

	2013	2012
Surplus:		
Operations	\$ (2,134,073)	\$ (1,611,042)
Waterworks	2,876,381	3,236,008
Downtown Business Improvement Area	66,816	66,806
Town of Cobourg Public Library Board	18,140	38,968
Unfinanced capital	(7,412,505)	(16,088,969)
Invested in tangible capital assets	172,185,301	172,187,917
Long-term debt	(11,061,474)	(7,658,781)
Mortgage	(5,062,500)	(6,164,856)
Unfunded:		
Employee benefits	(2,492,830)	(2,467,673)
Investment in Town of Cobourg Holdings Inc.	7,000,000	9,699,732
Note receivable from Town of Cobourg Holdings Inc.	9,897,353	7,000,000
Promissory note payable to Town of Cobourg Holdings Inc.	(720,000)	(765,000)
Total surplus	163,160,609	157,473,110
Reserves:		
Contingencies	26,440	26,440
Parking	115,051	136,801
Current:		
Health services	4,207	4,207
Library	164,100	70,901
Other	11,290	11,290
Capital:		
General government	1,886,874	1,452,223
Protection services	1,141,901	798,213
Transportation services	645,617	796,619
Environmental services	1,612,407	2,730,181
Recreation and cultural services	369,453	322,367
Planning and development	531,773	546,006
Total reserves	6,509,113	6,895,248
Total accumulated surplus	\$ 169,669,722	\$ 164,368,358

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

13. Classification of expenses by object:

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

	2013	2012
Salary, wages and employee benefits	\$ 18,172,484	\$ 16,984,045
Operating materials and supplies	5,207,685	4,936,840
Contracted services	7,520,094	7,281,002
Rents and financial expenses	625,061	358,501
External transfers to other	548,185	557,468
Interest on long-term debt	446,192	546,560
Amortization of tangible capital assets	6,279,546	6,229,985
Loss on disposal of tangible capital assets	–	30,151
	<u>\$ 38,799,247</u>	<u>\$ 36,924,552</u>

14. 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, 2013, the amount contributed for and included as current service pension costs expenses on the Consolidated Statement of Operations is \$1,243,461 (2012 - \$1,072,092).

15. Commitments:

Lease commitments at December 31, 2013 for equipment under lease obligations are as follows:

2014	\$ 44,852
2015	34,286
2016	10,961
2017	3,659
2018	915
	<u>\$ 94,673</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

16. Tangible capital assets:

Cost	Balance at December 31, 2012	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2013
Land	\$ 15,179,349	\$ –	\$ –	\$ 15,179,349
Land improvements	9,375,421	115,790	–	9,491,211
Buildings	59,906,905	1,125,939	–	61,032,844
Machinery and equipment	11,528,725	1,147,317	–	12,676,042
Vehicles	10,072,402	1,108,800	1,194,909	9,986,293
Roads infrastructure	30,280,087	258,103	118,504	30,419,686
Sewer infrastructure	78,135,744	2,239,249	286	80,374,707
Water infrastructure	30,983,718	860,642	24,458	31,819,902
Books and periodicals	1,067,408	113,396	120,818	1,059,986
Construction-in-progress	2,214,500	1,852,856	2,511,625	1,555,731
	\$ 248,744,259	\$ 8,822,092	\$ 3,970,600	\$ 253,595,751

Accumulated amortization	Balance at December 31, 2012	Amortization expense	Disposals/ transfers/ write-offs	Balance at December 31, 2013
Land improvements	\$ 2,626,140	\$ 263,152	\$ –	\$ 2,889,292
Buildings	12,599,263	1,732,383	–	14,331,646
Machinery and equipment	4,935,818	1,181,569	–	6,117,387
Vehicles	4,894,425	520,861	1,161,372	4,253,914
Roads infrastructure	11,480,924	754,523	118,504	12,116,943
Sewer infrastructure	26,145,081	1,435,105	286	27,579,900
Water infrastructure	13,277,812	257,370	24,458	13,510,724
Books and periodicals	596,879	134,583	120,818	610,644
	\$ 76,556,342	\$ 6,279,546	\$ 1,425,438	\$ 81,410,450

	Net book value December 31, 2012	Net book value December 31, 2013
Land	\$ 15,179,349	\$ 15,179,349
Land improvements	6,749,281	6,601,919
Buildings	47,307,642	46,701,198
Machinery and equipment	6,592,907	6,558,655
Vehicles	5,177,977	5,732,379
Roads infrastructure	18,799,163	18,302,743
Sewer infrastructure	51,990,663	52,794,807
Water infrastructure	17,705,906	18,309,178
Books and periodicals	470,529	449,342
Construction-in-progress	2,214,500	1,555,731
	\$ 172,187,917	\$ 172,185,301

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

16. Tangible capital assets (continued):

(a) Construction-in-progress:

Construction-in-progress having a value of \$1,555,731 (2012 - \$2,214,500) 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 (2012 - \$Nil).

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

17. Budget figures:

Budget figures reported on the Consolidated Statement of Operations are based on the 2013 municipal and other local board operating budgets as approved by Council on March 4, 2013 and March 18, 2013.

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 2013
Total revenue as reported on the statement of operations:	
Operating budget	\$ 27,200,241
Water budget	3,651,480
Wastewater budget	4,413,500
Northam Industrial Park budget	4,509,607
	<u>39,774,828</u>
Total expenses as reported on the statement of operations:	
Operating budget	28,378,704
Water budget	3,546,002
Wastewater budget	3,271,440
Northam Industrial Park budget	3,914,423
	<u>39,110,569</u>
Annual operating surplus	664,259
Budget not reported on statements:	
Net transfer from/to reserves	1,178,463
Operating transfer from reserves - water	(105,478)
Operating transfer to reserves - wastewater	(1,142,060)
Operating transfer to reserves - Northam Industrial Park	(595,184)
Total budgeted surplus not reported on statements	<u>\$ (664,259)</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

18. 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, 2013, 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.

19. Comparative information:

Certain information has been reclassified to conform to the current year financial statement presentation.

20. 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, 2013

20. 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, 2013

	General Government Administration	Protection Services	Transporation Services	Environmental Services	Industrial Property
Revenue:					
User fees and service charges	\$ 105,697	\$ 801,137	\$ 289,420	\$ 4,511,628	\$ –
Federal grants	–	–	950,337	–	–
Government of Ontario Grants	189,900	7,458	186,051	–	–
Other municipalities	–	–	–	–	–
Rent, license, permits	612,528	–	–	–	4,440,825
Investment income	64,104	–	–	–	–
	972,229	808,595	1,425,808	4,511,628	4,440,825
Expenses:					
Salaries, wages and employee benefits	1,962,429	8,733,911	1,892,109	1,291,524	–
Long-term debt charges (interest)	5,098	30,787	147,580	147,561	–
Materials	513,165	123,265	1,276,308	1,114,062	–
Contracted services	350,096	284,709	1,477,670	406,509	1,898,138
Rents and financial expenses	601,981	–	–	–	–
External transfers	–	198,150	–	–	–
Amortization	208,828	378,604	982,743	1,496,240	698,506
	3,641,597	9,749,426	5,776,410	4,455,896	2,596,644
Excess of revenue over expenses (expenses over revenue)	(2,669,368)	(8,940,831)	(4,350,602)	55,732	1,844,181
Funded through:					
Taxation					
Payments in lieu of taxation					
Penalties and interest					
Other					
Excess of revenue over expenses (expenses over revenue)	\$ (2,669,368)	\$ (8,940,831)	\$ (4,350,602)	\$ 55,732	\$ 1,844,181

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2013

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
Revenue:					
User fees and service charges	\$ 3,526,837	\$ –	\$ 2,519,355	\$ 97,221	\$ 11,851,295
Federal grants	–	–	–	–	950,337
Government of Ontario grants	–	–	31,000	–	414,409
Other municipalities	–	–	316,939	12,500	329,439
Rent, license, permits	–	–	–	–	5,053,353
Investment income	40,349	–	–	–	104,453
	3,567,186	–	2,867,294	109,721	18,703,286
Expenses:					
Salaries, wages and employee benefits	–	–	3,372,559	919,952	18,172,484
Long-term debt charges (interest)	–	–	115,166	–	446,192
Materials	–	–	2,190,939	(10,054)	5,207,685
Contracted services	2,667,549	29,548	264,292	141,583	7,520,094
Rents and financial expenses	–	–	23,080	–	625,061
External transfers	–	42,268	307,767	–	548,185
Amortization	1,040,154	5,051	1,469,420	–	6,279,546
	3,707,703	76,867	7,743,223	1,051,481	38,799,247
Excess of revenue over expenses (expenses over revenue)	(140,517)	(76,867)	(4,875,929)	(941,760)	(20,095,961)
Funded through:					
Taxation					20,195,479
Payments in lieu of taxation					170,807
Penalties and interest					689,917
Other					4,341,122
					25,397,325
Excess of revenue over expenses (expenses over revenue)	\$ (140,517)	\$ (225,667)	\$ (4,875,929)	\$ (792,960)	\$ 5,301,364