

Consolidated Financial Statements

**THE CORPORATION OF  
THE TOWN OF COBOURG**

Year ended December 31, 2016

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# THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2016

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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 Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Town's consolidated financial statements.

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Stephen Peacock  
Chief Administrative Officer

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Ian Davey  
Treasurer

## 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, 2016, 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, 2016, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

July 17, 2017

Kingston, Canada

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# THE CORPORATION OF THE TOWN OF COBOURG

## Consolidated Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial assets:</b>		
Cash	\$ 3,288,882	\$ 2,963,901
Investments (note 2)	2,498,622	971,912
Taxes receivable	2,632,275	3,359,601
Receivables - grant	145,444	170,944
Receivables - other	3,218,976	2,430,236
Other financial assets	133,350	168,362
Note receivable (note 4(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 4(a))	11,801,744	11,368,769
	<u>30,719,293</u>	<u>28,433,725</u>
<b>Liabilities:</b>		
Temporary borrowings (note 8(a))	7,000,000	-
Accounts payable and accrued liabilities	10,179,567	7,628,309
Deferred revenue	602,871	586,224
Deferred revenue - obligatory reserve funds (note 6)	9,303,919	8,584,236
Employee future benefit liability (note 7(d))	2,580,171	2,555,625
Mortgage payable (note 8(b))	1,541,820	2,742,630
Promissory note payable (note 4(d))	585,000	630,000
Net long-term liabilities (note 9)	5,878,523	7,147,650
	<u>37,671,871</u>	<u>29,874,674</u>
<b>Total net debt</b>	<b>(6,952,578)</b>	<b>(1,440,949)</b>
<b>Non-financial assets:</b>		
Tangible capital assets (note 13)	186,053,672	176,162,120
Other assets	1,485,621	1,309,368
	<u>187,539,293</u>	<u>177,471,488</u>
<b>Accumulated surplus (note 10)</b>	<b>\$ 180,586,715</b>	<b>\$ 176,030,539</b>

Contingent liabilities (note 15)

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, 2016, with comparative information for 2015

	Budget 2016	Actual 2016	Actual 2015
	(note 14)		
Revenue:			
Taxation:			
Property taxation	\$ 22,253,323	\$ 21,497,720	\$ 21,749,395
Payments in lieu of taxation	59,500	187,741	186,623
User charges	13,530,612	15,517,951	13,964,544
Development charges	—	477,748	488,462
Contributed tangible capital assets	—	1,413,952	—
Grants:			
Government of Canada	563,037	256,467	721,111
Province of Ontario	140,900	990,228	1,289,851
Other municipalities	730,900	771,670	760,104
Other:			
Rental income	4,038,354	3,801,750	4,016,709
Penalty and interest	600,000	491,461	492,725
Other income	789,500	933,968	960,807
Donations	—	31,458	293,871
Interest income - Town of Cobourg Holdings Inc. (note 4(c))	507,500	507,500	507,500
Interest and dividend income	678,400	267,313	438,534
Gain on sale of assets	—	17,440	25,088
Net equity increase in investment in Town of Cobourg Holdings Inc. (note 4)	—	432,975	1,159,007
<b>Total revenue</b>	<b>43,892,026</b>	<b>47,597,342</b>	<b>47,054,331</b>
Expenses (note 11):			
General government	3,789,524	3,582,247	3,489,488
Protection to persons and property	11,430,191	11,920,114	12,887,849
Transportation services	4,858,049	5,662,387	5,565,416
Environmental services	7,736,214	8,946,553	8,532,035
Recreation and cultural services	7,715,870	9,162,797	8,902,273
Social and family services	45,500	59,309	59,394
Planning and development	1,019,368	1,076,164	1,261,282
Industrial property	1,993,904	2,631,595	2,665,186
<b>Total expenses</b>	<b>38,588,620</b>	<b>43,041,166</b>	<b>43,362,923</b>
<b>Annual surplus</b>	<b>5,303,406</b>	<b>4,556,176</b>	<b>3,691,408</b>
Accumulated surplus, beginning of year		176,030,539	172,339,131
<b>Accumulated surplus, end of year (note 10)</b>		<b>\$ 180,586,715</b>	<b>\$ 176,030,539</b>

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, 2016, with comparative information for 2015

	2016	2015
Annual surplus	\$ 4,556,176	\$ 3,691,408
Acquisition of tangible capital assets	(8,838,930)	(4,937,588)
Increase in construction-in-progress	(8,094,558)	(3,243,153)
Amortization of tangible capital assets	7,034,878	6,515,584
Gain on disposal of tangible capital assets	(17,440)	(25,088)
Proceeds on disposal of tangible capital assets	24,500	25,088
Disposal (acquisition) of other assets	(176,255)	18,224
	(5,511,629)	2,044,475
Net debt, beginning of year	(1,440,949)	(3,485,424)
Net debt, end of year	\$ (6,952,578)	\$ (1,440,949)

See accompanying notes to consolidated financial statements.

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# THE CORPORATION OF THE TOWN OF COBOURG

## Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Operations:		
Annual surplus	\$ 4,556,176	\$ 3,659,136
Items not involving cash:		
Amortization of tangible capital assets	7,034,878	6,515,584
Increase in employee future benefit liability	24,546	27,635
Changes in non-cash working capital balances:		
Taxes receivable	727,326	(176,027)
Receivables - grant	25,500	112,988
Receivables - other	(788,741)	(437,015)
Other financial assets	35,012	179,078
Other assets	(176,253)	13,204
Accounts payable and accrued liabilities	2,551,257	1,292,290
Deferred revenue	16,647	82,826
Deferred revenue - obligatory reserve funds	719,683	69,231
Net change in cash from operations	14,726,031	11,338,930
Capital activities:		
Cash used to acquire capital assets	(8,838,930)	(4,937,588)
Increase in construction-in-progress	(8,094,558)	(3,243,153)
Gain on disposal of tangible capital assets	(17,440)	(25,088)
Proceeds on disposal of tangible capital assets	24,500	25,088
Net change in cash from capital activities	(16,926,428)	(8,180,741)
Investing activities:		
Increase in investment in Town of Cobourg Holdings Inc.	(432,975)	(1,159,007)
Increase in investments	(1,526,710)	(158,795)
Net change in cash from investing activities	(1,959,685)	(1,317,802)
Financing activities:		
Repayment of mortgage payable	(1,200,810)	(1,173,431)
Repayment of long-term liabilities	(1,269,127)	(1,591,927)
Repayment of promissory note	(45,000)	(45,000)
Temporary borrowings	7,000,000	-
Net change in cash from financing activities	4,485,063	(2,810,358)
Increase (decrease) in cash	324,981	(969,971)
Cash, beginning of year	2,963,901	3,933,872
Cash, end of year	\$ 3,288,882	\$ 2,963,901

See accompanying notes to consolidated financial statements.

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2016

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## 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, 2016

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## 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 expended.

### (d) Employee future benefit liability:

The Town accrues its obligations for employee benefit plans which require funding in future periods. 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 (2016 -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.

Investment income earned on current available funds and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balance.

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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## 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 12 years (2016 - 12 years).

### (h) Government transfers:

Government transfers are recognized as revenue in the consolidated 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 consolidated 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.

### (k) Property taxation:

The Town recognizes 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 consolidated statement of operations.



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 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
Machinery and equipment	Straight-line	3 to 30
Vehicles	Straight-line	6 to 20
Books and periodicals	Straight-line	7
Industrial property - land improvements and buildings	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 consolidated 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, 2016

**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. 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	
	2016	2015	2016	2015
Amounts requisitioned and collected	\$ 8,852,999	\$ 8,812,983	\$ 12,557,463	\$ 12,006,337



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 4. Investment in Town of Cobourg Holdings Inc.:

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

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:

	2016	2015
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	4,201,024	3,056,347
Pro-rata share of net income during the year	821,575	1,623,091
Dividend	(223,000)	(340,400)
Refundable dividend tax recovered	-	13,025
Accumulated other comprehensive income change	-	14,561
<b>Total investment in Town of Cobourg Holdings Inc.</b>	<b>\$ 11,801,744</b>	<b>\$ 11,368,769</b>

The following tables provide condensed supplementary financial information with respect to the Corporation's investment in TCHI as at December 31, 2016 and December 31, 2015 and its results of operations for both years:

### (a) Financial position:

	2016	2015
Current assets	\$ 9,495,136	\$ 8,441,886
Capital assets	20,085,112	18,536,691
Other assets	3,703,270	4,782,643
<b>Total assets</b>	<b>33,283,518</b>	<b>31,761,220</b>
Current liabilities	4,836,581	3,458,708
Long-term liabilities	13,230,502	13,319,486
Regulatory deferral account credit balances	3,414,691	3,614,257
<b>Total liabilities</b>	<b>21,481,774</b>	<b>20,392,451</b>
<b>Net assets</b>	<b>\$ 11,801,744</b>	<b>\$ 11,368,769</b>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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

### (b) Results of operations:

	2016	2015
Revenue	\$ 36,917,256	\$ 34,160,806
Expenses	36,095,681	32,517,003
Net earnings for the period	\$ 821,575	\$ 1,643,803

(c) The note receivable bears interest at 7.25% per annum. The Town does not intend to demand repayment from LUI, a wholly-owned subsidiary of TCHJ, prior to January 1, 2018. Interest earned on this note amounted to \$507,500 (2015 - \$507,500). Fair value of the note receivable is indeterminable as it is a non-arm's length loan.

(d) The promissory note payable to LUI 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 2016 was \$34,020 (2015 - \$36,450).

## 5. 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	2016	2015
Land	\$ 3,125,000	\$ -	\$ 3,125,000	\$ 3,125,000
Land improvements	902,768	291,446	611,322	643,496
Buildings	22,977,150	8,630,981	14,346,169	13,269,170
	\$ 27,004,918	\$ 8,922,427	\$ 18,082,491	\$ 17,037,666

Cost and accumulated amortization at December 31, 2015 amounted to \$25,222,255 and \$8,184,589, respectively.



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 5. 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:

	2016	2015
Cash	\$ 10,871	\$ 994,306
Accounts receivable	303,779	351,465
Prepaid expenses	11,136	19,891
Industrial property	18,082,491	17,037,666
<b>Total assets</b>	<b>18,408,277</b>	<b>18,403,328</b>
Accounts payable and accrued liabilities	457,746	383,462
Deferred revenue	136,333	96,032
Mortgage payable	1,541,820	2,742,630
<b>Total liabilities</b>	<b>2,135,899</b>	<b>3,222,124</b>
<b>Net equity in industrial property</b>	<b>\$ 16,272,378</b>	<b>\$ 15,181,204</b>

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

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

	2016	2015
Gross rental income	\$ 2,577,210	\$ 2,749,730
Operating expenses	(1,633,569)	(1,701,728)
Operating expenses recovery	1,145,558	1,194,269
Administrative expenses	(210,945)	(165,814)
Interest on long-term debt	(49,243)	(76,766)
Amortization	(737,837)	(720,878)
<b>Net income for the year</b>	<b>\$ 1,091,174</b>	<b>\$ 1,278,813</b>
Equity, beginning of the year	\$ 14,181,204	\$ 13,205,791
Net income for the period	1,091,174	1,278,813
Transfer to reserves	—	(303,400)
Capital reserve	1,000,000	—
<b>Equity, end of year</b>	<b>\$ 16,272,378</b>	<b>\$ 14,181,204</b>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 5. Industrial property (continued):

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.

## 6. 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:

	2016	2015
Balance, beginning of year	\$ 8,584,236	\$ 8,515,005
Recreational land	63,801	4,825
Federal grant - gasoline tax	563,037	536,225
Provincial grant - gasoline tax transit	189,122	188,719
Development contributions	806,049	677,110
Building code	6,000	6,000
Sub-divider contributions	-	-
Investment income	80,544	87,474
Utilization - capital	(411,122)	(808,012)
Utilization - operating	(577,748)	(623,110)
<b>Balance, end of year</b>	<b>\$ 9,303,919</b>	<b>\$ 8,584,236</b>
Analyzed as follows:		
Sub-divider contributions	\$ 227,592	\$ 201,584
Recreational land	75,301	104,950
Development charges	7,171,964	6,797,949
Building code	502,707	478,913
Gasoline tax:		
Provincial	46,784	44,274
Federal	1,279,571	956,566
	<b>\$ 9,303,919</b>	<b>\$ 8,584,236</b>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 7. Employee future benefit liability:

(a) Extended health care and dental benefits:

(i) The Corporation of the Town of Cobourg:

The Town provides extended health care and dental benefits to its employees. An independent actuarial study of the post-retirement and post-employment benefits was undertaken at April 2014.

At December 31, 2016, the Town's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$2,206,388 (2015 - \$2,145,384).

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	5.4% in 2016 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:

	2016	2015
Accrued benefit liability, January 1	\$ 2,145,384	\$ 2,091,411
Service cost	85,878	80,377
Benefits paid for the period	(127,338)	(126,171)
Interest cost	103,048	100,351
Amortization of actuarial gain	(584)	(584)
Accrued benefit liability, December 31	\$ 2,206,388	\$ 2,145,384

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

	2016	2015
Accrued benefit obligation	\$ 2,251,727	\$ 2,190,139
Unamortized actuarial loss	(45,339)	(44,755)
Accrued benefit liability, end of year	\$ 2,206,388	\$ 2,145,384



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 7. Employee future benefit liability (continued):

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

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

The Waterworks of the Town of Cobourg (the "Waterworks") provides extended health, dental and life insurance benefits for retired employees. An independent actuarial valuation was undertaken as at December 31, 2015.

At December 31, 2016, the accrued benefit liability relating to post-retirement benefit plans is \$ 278,954 (2015 - \$298,691).

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

Discount rate	4.3% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.5% per annum
Health benefits escalation	6.25% in 2016 decreasing by 0.25% per annum until 2023

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

	2016	2015
Accrued benefit liability, January 1	\$ 298,691	\$ 307,872
Service cost	7,431	7,921
Benefits paid for the period	(43,073)	(51,390)
Interest cost	15,905	17,666
Adjustment to liability at January 1, 2015	-	16,622
<b>Accrued benefit liability, December 31</b>	<b>\$ 278,954</b>	<b>\$ 298,691</b>

### (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 work place Safety and Insurance Board liabilities was completed March 2014.

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, 2016

## 7. Employee future benefit liability (continued):

### (b) Workplace safety and insurance (continued):

At December 31, 2016, the Town's accrued benefit liability relating to future payments on Workplace Safety and Insurance Board claims is \$94,829 (2015 - \$111,550).

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

	2016	2015
Accrued benefit liability, beginning of year	\$ 111,550	\$ 128,707
Benefits paid for the period	(5,215)	(5,758)
Interest cost	3,118	3,225
Amortization of actuarial gain	(14,624)	(14,624)
Accrued benefit liability, end of year	\$ 94,829	\$ 111,550

The accrued benefit liability at December 31, 2016, includes the following components:

	2016	2015
Accrued benefit obligation	\$ 66,150	\$ 68,247
Unamortized actuarial gain	28,679	43,303
Accrued benefit liability	\$ 94,829	\$ 111,550

### (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, 2016 amount to \$918,425 (2015 - \$968,935) and are included in accounts payable and accrued liabilities on the consolidated statement of financial position.

### (d) Employee future benefit liability:

	2016	2015
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 2,206,388	\$ 2,145,384
Workplace safety and insurance	94,829	111,550
	2,301,217	2,256,934
Health, dental and life insurance benefits - Waterworks	278,954	298,691
	\$ 2,580,171	\$ 2,555,625

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 8. Temporary borrowings and mortgage payable:

### (a) Temporary borrowings:

The Town has construction loans through its bank to bridge finance certain costs of construction. The loans are due on demand and are repayable in full no later than September 30, 2017. Interest is payable at the bank's prime rate plus 0.75% per annum.

### (b) Mortgage payable:

	2016	2015
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	\$ 1,541,820	\$ 2,742,630
Principal payments for the next two years are as follows:		
2017		\$ 1,229,440
2018		312,380
		\$ 1,541,820

## 9. Net long-term liabilities:

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

	2016	2015
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 5,878,523	\$ 7,147,650

(b) Of the net long-term liabilities reported in note 9(a) of this note, principal payments are payable from general municipal revenues as follows:

2017	\$ 828,338
2018	749,203
2019	582,596
2020	421,467
2021	344,505
Thereafter	2,952,414
	\$ 5,878,523



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 9. Net long-term liabilities (continued):

(c) Approval of the Ontario Municipal Board or by-law as required has been obtained for the long-term liabilities in note 9(a) issued in the name of the Town.

(d) Total interest on long-term liabilities that are reported on the Consolidated Statement of Operations amount to \$261,347 (2015 - \$334,470). The long-term liabilities bear interest at rates ranging from 2.22% to 5.23% with term renewals to take place in 2017 through 2033.

## 10. Accumulated surplus:

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

	2016	2015
Surplus (deficit):		
Operations	\$ (7,585,312)	\$ (6,092,304)
Unfinanced capital	(16,978,530)	(8,040,720)
Invested in tangible capital assets	186,053,672	176,162,120
Long-term debt	(5,878,523)	(7,147,650)
Mortgage	(1,541,820)	(2,742,630)
Unfunded:		
Employee benefits	(2,580,171)	(2,555,625)
Promissory note payable to Town of Cobourg Holdings Inc.	(585,000)	(630,000)
Waterworks	1,156,365	1,174,576
Downtown Business Improvement Area	100,962	49,951
Town of Cobourg Public Library Board	(2,928)	69,882
Note receivable from Town of Cobourg Holdings Inc.	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc.	11,801,744	11,368,769
<b>Total surplus</b>	<b>170,960,459</b>	<b>168,616,369</b>
Reserves:		
Contingencies	53,613	66,440
Parking	474,117	315,936
Current:		
Health services	4,207	4,207
Library	230,013	168,634
Other	-	11,290
Capital:		
General government	2,169,596	1,649,695
Protection services	1,955,889	1,659,829
Transportation services	1,031,497	906,485
Environmental services	2,653,808	1,550,139
Recreation and cultural services	589,492	496,272
Planning and development	464,024	585,243
<b>Total reserves</b>	<b>9,626,256</b>	<b>7,414,170</b>
<b>Total accumulated surplus</b>	<b>\$ 180,586,715</b>	<b>\$ 176,030,539</b>



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 11. Classification of expenses by object:

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

	2016	2015
Salary, wages and employee benefits	\$ 19,402,537	\$ 20,367,960
Operating materials and supplies	6,779,094	7,197,300
Contracted services	8,522,619	8,087,714
Rents and financial expenses	333,148	334,640
External transfers to other	707,543	525,255
Interest on long-term debt	261,347	334,470
Amortization of tangible capital assets	7,034,878	6,515,584
	<b>\$ 43,041,166</b>	<b>\$ 43,362,923</b>

## 12. Pension agreements:

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

For the year ended December 31, 2016, the amount contributed for and included as current service pension costs expenses on the Consolidated Statement of Operations is \$1,363,357 (2015 - \$1,335,488).

## 13. Tangible capital assets:

Cost	Balance at December 31, 2015	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2016
Land	\$ 15,326,678	\$ -	\$ -	\$ 15,326,678
Land improvements	9,797,398	487,388	25,000	10,259,786
Buildings and building improvements	64,567,754	2,462,042	-	67,029,796
Machinery and equipment	14,867,109	908,637	749,369	15,026,377
Vehicles	10,440,793	548,171	218,117	10,770,847
Roads infrastructure	31,284,347	1,323,580	55,266	32,552,661
Sewer infrastructure	82,013,901	1,378,158	-	83,392,059
Water infrastructure	35,401,979	1,661,254	-	37,063,233
Books and periodicals	1,001,391	69,702	147,779	923,314
Construction-in-progress	4,762,852	11,689,728	3,595,170	12,857,410
	<b>\$ 269,464,202</b>	<b>\$ 20,528,660</b>	<b>\$ 4,790,701</b>	<b>\$ 285,202,161</b>

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 13. Tangible capital assets (continued):

Accumulated amortization	Balance at December 31, 2015	Amortization expense	Disposals/transfers/write-offs	Balance at December 31, 2016
Land improvements	\$ 3,419,050	\$ 284,322	\$ 25,000	\$ 3,678,372
Buildings and building improvements	17,902,689	1,856,142	–	19,758,831
Machinery and equipment	7,617,938	868,113	749,369	7,736,682
Vehicles	4,791,770	679,044	211,057	5,259,757
Roads infrastructure	13,489,973	808,848	55,266	14,243,555
Sewer infrastructure	30,536,516	1,621,809	–	32,158,325
Water infrastructure	14,925,388	800,880	–	15,726,268
Books and periodicals	618,758	115,720	147,779	586,699
	\$ 93,302,082	\$ 7,034,878	\$ 1,188,471	\$ 99,148,489

	Net book value December 31, 2015	Net book value December 31, 2016
Land	\$ 15,326,678	\$ 15,326,678
Land improvements	6,378,348	6,581,414
Buildings and building improvements	46,665,065	47,270,965
Machinery and equipment	7,249,171	7,289,695
Vehicles	5,649,023	5,511,090
Roads infrastructure	17,794,374	18,309,106
Sewer infrastructure	51,477,385	51,233,734
Water infrastructure	20,476,591	21,336,965
Books and periodicals	382,633	336,615
Construction-in-progress	4,762,852	12,857,410
	\$ 176,162,120	\$ 186,053,672

(a) Construction-in-progress:

Construction-in-progress having a value of \$12,857,410 (2015 - \$4,762,852) 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 (2015 - \$Nil).



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 14. Budget figures:

Budget figures reported on the Consolidated Statement of Operations are based on the 2016 municipal and other local board operating budgets as approved by Council on April 25, 2016.

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

	Budget 2016
Total revenue as reported on the consolidated statement of operations:	
Operating budget	\$ 30,450,028
Water budget	4,362,907
Wastewater budget	5,066,887
Northam Industrial Park budget	4,012,204
	43,892,026
Total expenses as reported on the consolidated statement of operations:	
Operating budget	29,652,798
Water budget	3,649,971
Wastewater budget	3,291,947
Northam Industrial Park budget	1,993,904
	38,588,620
Annual operating surplus	5,303,406
Budget not reported on consolidated financial statements:	
Net transfer from/to reserves	(797,230)
Operating transfer from reserves - water	(712,936)
Operating transfer to reserves - wastewater	(1,774,940)
Operating transfer to reserves - Northam Industrial Park	(2,018,300)
Total budgeted surplus not reported on consolidated financial statements	\$ (5,303,406)

## 15. Contingent liabilities:

- (a) 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, 2016, management believes that the Town 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.



# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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## 15. Contingent liabilities (continued):

- (b) In 2014, the Town assumed ownership of property that was identified as being contaminated. In accordance with the site management plan established by the Town, regular monitoring and sampling of ground water is performed. To date, this monitoring has indicated that certain levels of contaminants have decreased. Until the Town is required to complete a zoning amendment that would identify the need for another Phase II environmental assessment, the estimates for remediation, if any, remains uncertain and unmeasurable.

## 16. 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) **General Government 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.

# THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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## 16. Segmented information (continued):

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

For each segment separately reported, the segment revenue and 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.

## 17. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

# THE CORPORATION OF THE TOWN OF COBOURG

## Consolidated Schedule of Segment Information

Year ended December 31, 2016

	General Government Administration	Protection Services	Transportation Services	Environmental Services	Industrial Property
<b>Revenue:</b>					
Tax Revenue Distributed	\$ 1,995,484	\$ 8,869,324	\$ 4,191,709	\$ 65,442	\$ --
PIL Revenue Distributed	9,258	20,531	41,391	62,289	--
Penalty and Interest on Tax	24,235	53,744	108,353	163,059	--
User Fees and Service Charges	262,587	1,993,545	688,301	5,194,557	--
Development Charges	41,748	--	--	--	--
Contributed tangible capital assets	--	--	423,130	990,822	--
Grants	--	--	--	--	--
Government of Canada	--	--	250,472	--	--
Province of Ontario	109,900	254,438	475,467	53,295	--
Other municipalities	--	439,076	--	--	--
Other Income	433,930	424,430	146,110	12,098	3,722,768
Interest and Dividend Income	763,686	--	22,500	--	--
Gain (Loss) on Sale of Assets	--	(5,060)	--	--	--
	3,640,830	12,050,028	6,347,433	6,541,562	3,722,768
<b>Expenses:</b>					
Salaries, wages and employee benefits	2,147,704	9,146,638	1,874,027	1,404,104	--
Long-term debt charges (interest)	--	1,433	46,464	93,449	--
Materials	514,464	953,237	1,074,024	1,451,624	--
Contracted services	515,133	1,041,172	1,454,973	383,207	1,893,757
Rents and financial expenses	147,931	--	63,803	94,936	--
External transfers	--	207,666	--	--	--
Amortization	257,015	569,988	1,149,096	1,729,265	737,838
	3,582,247	11,920,114	5,662,387	5,156,585	2,631,595
<b>Excess of revenue over expenses</b>	<b>\$ 58,583</b>	<b>\$ 129,914</b>	<b>\$ 685,046</b>	<b>\$ 1,384,977</b>	<b>\$ 1,091,173</b>



# THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2016

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
<b>Revenue:</b>					
Tax Revenue Distributed	\$ -	\$ 59,309	\$ 5,336,756	\$ 979,696	\$ 21,497,720
PIL Revenue Distributed	-	-	54,177	95	187,741
Penalty and Interest on Tax	-	-	141,822	248	491,461
User Fees and Service Charges	4,376,420	-	2,922,609	79,932	15,517,951
Development Charges	-	-	436,000	-	477,748
Contributed tangible capital assets	-	-	-	-	1,413,952
Grants	-	-	-	-	-
Government of Canada	-	-	5,995	-	256,467
Province of Ontario	-	-	92,950	4,178	990,228
Other municipalities	-	-	332,594	-	771,670
Other Income	265,482	-	181,718	12,615	5,200,151
Interest and Dividend Income	10,128	-	997	-	774,813
Gain (Loss) on Sale of Assets	-	-	-	-	17,440
	4,653,030	59,309	9,505,618	1,076,764	47,597,342
<b>Expenses:</b>					
Salaries, wages and employee benefits	-	-	4,044,909	785,155	19,402,537
Long-term debt charges (interest)	-	-	120,001	-	261,347
Materials	-	-	2,634,413	151,332	6,779,094
Contracted services	2,704,949	-	392,380	137,048	8,522,619
Rents and financial expenses	-	-	26,478	-	333,148
External transfers	-	59,309	440,568	-	707,543
Amortization	1,085,019	-	1,504,048	2,629	7,034,878
	3,789,968	59,309	9,162,797	1,076,164	43,041,166
<b>Excess of revenue over expenses</b>	\$ 863,062	\$ -	\$ 342,821	\$ 600	\$ 4,556,176