

EB-2016-0089

Lakefront Utilities Inc.

**Application for electricity distribution rates beginning
January 1, 2017**

**SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

October 17, 2016

**LAKEFRONT UTILITIES INC.
2017 RATES CASE
EB-2016-0089**

SUBMISSIONS OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

Lakefront Utilities Inc. ("Lakefront") filed an application with the Ontario Energy Board ("OEB") on April 29, 2016 under section 78 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15 (Schedule B) seeking approval for changes to the rates that Lakefront charges for electricity distribution, to be effective January 1, 2017.

The OEB issued a Notice of Hearing on June 6, 2016 and the OEB issued an approved issues list for this proceeding on August 19, 2016. A settlement conference was held on August 22 and 23, 2016 and Lakefront filed a Settlement Proposal between all parties to the proceeding on September 21, 2016.

The Settlement Proposal reflected a partial settlement of the issues in this proceeding. The one outstanding unsettled issue was the proposed long-term debt cost for the affiliated debt.

On October 6, 2016 the OEB accepted the proposed partial settlement agreement and also accepted the parties' settlement proposal request to address the unsettled issue by way of a written hearing.

The following are the submissions of the Energy Probe Research Foundation ("Energy Probe") with respect to the unsettled issue related to the proposed long-term debt cost for Lakefront's affiliated debt.

B - SUBMISSIONS

i) The Affiliate Debt

Lakefront has a \$7 million promissory note with the Town of Cobourg, which through its ownership of Lakefront, is an affiliate of the electricity distributor. The note has an effective date of May 1, 2000.

The note is payable on demand, at an interest rate of 7.25% and has no specific terms of repayment (Exhibit 5, page 7). The interest rate of 7.25% per annum was based on the debt rate established by the OEB as set out in Chapter 3 of the OEB's electricity distribution rate handbook issued March 9, 2000.

As the promissory note is callable in the test year, Lakefront has proposed that the OEB's deemed long-term debt rate be applicable to this note. Lakefront has used the OEB's long-term debt rate of 4.54% as set out in the OEB's October 15, 2015 Cost of Capital Parameter Updates for 2016 Cost of Service Applications.

The use of the 4.54% rate is a place holder until the Board issues its cost of capital parameter updates for 2017 cost of service applications. Lakefront has indicated that it is committed to updating the evidence to reflect the OEB's updated cost of capital parameters for January 1, 2017 applications (Exhibit 5, page 3 & 5-Staff-53-d). This has also been confirmed in the September 21, 2016 Settlement Proposal that has been accepted by the Board (page 20 of 84).

As shown in Appendix A to Exhibit 5, the principle amount associated with the promissory note was increased from \$4 million to \$7 million on November 30, 2006. However, no change was made to the interest rate of 7.25%. Over the same period the Selected Government of Canada Benchmark Bond Yield: Long Term fell from 5.63% in May, 2000 to 4.02% in November, 2006 (Statistics Canada, Cansim Table 176-0043).

The \$7 million affiliate debt represents more than 72% of Lakefront's total actual long-term debt, nearly 64% of its' deemed long-term debt, and represents financing of nearly 36% of the total rate base (Settlement Proposal, Table 7). Clearly this debt instrument constitutes a major component of the financing of the distributor.

ii) The Issue – Can Lakefront Pay Off the Affiliate Debt?

The issue with respect to the affiliate debt is whether the OEB's deemed long-term debt rate should be applied to the affiliate promissory note or whether some other market based rate should be applied.

Lakefront has proposed that the OEB's deemed long-term debt rate should be applied to the affiliate promissory note. Energy Probe submits that a market based rate should be applied.

While no direct evidence has been provided by Lakefront, the distributor appears to imply that it cannot pay off the affiliate promissory note without the approval of the

Town of Cobourg. As stated in the response to part (b) of 5-CTA-15 where Lakefront states that it has investigated the cost savings with replacing all or some part of the affiliate debt with a lower long-term rate. The response goes on to state that investigation is only in the preliminary stages and Lakefront has not had discussions with its shareholder regarding the potential restructuring of the debt. This was also stated in the response to part (c) of 5-Energy Probe-19.

In the pre-ADR clarification response related to 5-CTA-15 dated August 25, 2016, Lakefront states that the Town of Cobourg long-term note is a legally binding document and although Lakefront may have interest in negotiating a lower rate or paying it off entirely with another market rate, it is ultimately up to the Town of Cobourg to accept that proposition. Lakefront also indicates that it has had discussions with the Town since 2011 on the subject.

Energy Probe submits that this is not evidence that Lakefront is unable to pay off any or all of the \$7 million in affiliate debt.

First, the evidence in the responses noted above is contradictory. Lakefront indicated in the original response to the interrogatories that its investigation into replacing the debt was only in the preliminary stages and it had not had discussions with its shareholder regarding the potential restructuring of the debt, while the response to the pre-ADR clarification question states that it has had discussions with the Town since 2011 on the subject. Clearly both cannot be true.

Second, the note clearly is without any specific repayment terms. This is stated on page 25 on note 12 of the Lakefront Utilities Inc. 2015 Financial Statements provided in Exhibit 1, Tab 6, Schedule 1. The response to 5-Energy Probe-19 states that the promissory note does not indicate any principal repayment terms and that there is no mention of penalties associated with paying off all or any part of the affiliate loan.

However, the Notes to the Consolidated Financial Statements of the Corporation of the Town of Cobourg for the year ended December 31, 2015 (attached as Appendix A to this submission and originally attached to the interrogatories of the Cobourg Taxpayers Association) provide additional information on the affiliate promissory note.

In particular, Note 5(c) on page 14 of the above noted statements indicates that the town does not intend to demand repayment of the promissory note until replacement term financing is in place (emphasis added). Energy Probe submits that this implies that if Lakefront were to arrange for replacement financing, the Town of Cobourg would accept repayment of the promissory note.

In other words, if Lakefront were to obtain third party financing at market rates to replace the \$7 million in affiliate debt, the affiliate would call the loan and allow for its repayment. Given existing rates available from Infrastructure Ontario and third party rates that have been recently negotiated by other electricity distributors, Energy Probe submits that the Board should deem the long term interest rate applicable to the affiliate debt to be a market based rate.

In the EB-2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 the OEB stated (page 53) that:

"...the Board is of the view that the onus is on the electricity distribution utility to forecast the amount and cost of new or renewed long-term debt. The electricity distribution utility also bears the burden of establishing the need for and prudence of the amount and cost of long-term debt, both embedded and new."

If Lakefront has not had discussion with its shareholder regarding the potential restructuring of the affiliate debt, then Energy Probe submits that Lakefront has not established the prudence of the cost of the long-term debt associated with the promissory note. If the promissory note can be replaced with debt at a rate lower than the OEB's deemed rate, then not doing so is clearly not prudent. Further, Energy Probe submits that is not prudent for the distributor to continue to pay an amount that is significantly higher for its affiliate debt than is built into the revenue requirement because doing so harms the distributor's balance sheet. This is discussed in more detail in part (v) below. Energy Probe submits it is not prudent to continue to adversely impact the balance sheet of the distributor because of affiliate debt that can be replaced at a lower rate, eliminating the need for the payment of interest in excess of that built into the revenue requirement.

If, on the other hand, Lakefront has had discussions with the Town since 2011 on the subject of replacing the affiliate debt, then Energy Probe submits that Lakefront has again not met its obligation to establish the prudence of the cost associated with the affiliated long-term debt note. Nothing has come from these discussions and ratepayers are still saddled with higher debt costs than they should be. There is not even any evidence in this application that Lakefront has approached any third party lenders for preliminary discussions with respect to obtaining replacement financing.

The evidence in this proceeding is that the Town of Cobourg can demand payment of the affiliate promissory note if Lakefront obtains replacement financing. Lakefront has failed to provide any evidence that it has even looked to obtain this replacement financing. Clearly, in the submission of Energy Probe, doing nothing does not pass the prudency test. Lakefront has not justified the continued use of the Board's deemed long-term debt rate for the \$7 million in the affiliate promissory note.

iii) What Market Rate Should be Used?

If the Board determines that Lakefront has failed to establish the prudence of the cost of the affiliate promissory note, as submitted by Energy Probe, then the OEB will require a proxy for a market rate to be used in the calculation of the revenue requirement.

As the Board is aware through other cost of service applications, electricity distributors have recently been able to obtain long-term financing at rates in the 3% range. As examples, Wellington North Power Inc. (EB-2015-0101) obtained a rate of 3.28% for a 30 year term from Infrastructure Ontario (“IO”) in April, 2015; Waterloo North Hydro Inc. (EB-2015-0108) obtained a rate of 3.43% for a 20 year term from CIBC in June, 2015; and Milton Hydro Distribution Inc. (EB-2015-0089) obtained a rate of 3.58% for a 25 year term from TD in December, 2015.

Current rates from Infrastructure Ontario are shown in Appendix B to this submission. These rates are current as of October 11, 2016. The rate for a 15 year amortizer loan is 2.60%, while for a 10 year term the rate is 3.19%.

Energy Probe notes that Lakefront already has two other loans with IO, both with terms of 15 years. Lakefront cannot borrow the entire \$7 million it needs to replace the affiliate promissory note because IO will not lend money to replace existing debt. IO does, however, lend for new capital expenditures. The total capital expenditure forecast for the 2016 bridge and 2017 test years total approximately one-half of the \$7 million.

Energy Probe submits that the Board should deem a rate for Lakefront on the \$7 million affiliate debt somewhere in the range of 2.60% to 3.60%. This is the range of figures provided above.

Energy Probe recommends using a 50/50 weighting of the 15 year rate of 2.60% from IO and the 3.60% rate noted above (rounded) for Milton Hydro. This results in a rate of 3.10%. The weighting is appropriate, in the view of Energy Probe, because the 15 year term for the IO portion is consistent with the terms of other IO loans held by Lakefront, while the 3.60% reflects recent long term rates obtained by other distributors. The 3.10% rate is also close to the 3.19% IO rate for a 30 year term loan, as shown in Appendix B.

iv) The Impact

The rate used for the promissory note has a significant impact on the cost of debt included in the revenue requirement of Lakefront. The following tables replicate Tables

7 and 8 in the Settlement Proposal showing the impact of a 100 basis point reduction in the debt rate applied to the Town of Cobourg promissory note of \$7 million. The first table shows that if the promissory note rate of 4.54% is reduced by 100 basis points to 3.54%, the weighted average debt rate falls from 4.32% to 3.59%.

<u>Description</u>	<u>Amount</u>	Percentage of <u>Total</u>	Debt <u>Rate</u>	Pro- Rated Debt <u>Rate</u>
Town of Cobourg	7,000,000	72.29%	3.54%	2.56%
Infrastructure Ontario	1,225,224	12.65%	3.38%	0.43%
<u>Infrastructure Ontario</u>	<u>1,457,461</u>	<u>15.05%</u>	<u>4.03%</u>	<u>0.61%</u>
Total	9,682,685	100.00%	0.00%	3.59%

The second table shows the impact on the cost of capital. In particular, the cost of long term debt applied to the deemed long term debt falls from \$472,718 as shown in Table 8 in the Settlement Proposal to \$392,837, a decrease of nearly \$80,000.

		(%)		(\$)	(%)		(\$)
	Debt						
1	Long-term Debt	56.00%		\$10,942,542	3.59%		\$392,837
2	Short-term Debt	4.00%		\$781,610	1.65%		\$12,897
3	Total Debt	<u>60.00%</u>		<u>\$11,724,152</u>	<u>3.46%</u>		<u>\$405,734</u>
	Equity						
4	Common Equity	40.00%		\$7,816,101	9.19%		\$718,300
5	Preferred Shares	0.00%		\$ -	0.00%		\$ -
6	Total Equity	<u>40.00%</u>		<u>\$7,816,101</u>	<u>9.19%</u>		<u>\$718,300</u>
7	Total	<u>100.00%</u>		<u>\$19,540,253</u>	<u>5.75%</u>		<u>\$1,124,034</u>

This \$80,000 impact per 100 basis point reduction in the promissory note rate represents more than 1.8% of the base revenue requirement shown in the Settlement Proposal.

Based on the submission that an appropriate rate is 3.10%, and prorating for the above analysis, results in an estimated reduction in the revenue requirement of about \$114,000 and represents more than 2.5% of the base revenue requirement.

v) Impact on Financial Performance

One of the outcomes highlighted in the Renewed Regulatory Framework for Electricity Distributors (“RRFE”) is financial performance, which is defined as financial viability is maintained and savings from operational effectiveness are sustainable.

Energy Probe submits that Lakefront’s financial viability is threatened by the continual payment of interest costs that are well in excess of what is included in the revenue requirement. Even at a rate of 4.54%, Lakefront is paying its affiliate \$189,700 per year

more in interest costs than it is recovering in rates. This excess interest payment represents more than 4.3% of the base revenue requirement.

Energy Probe is concerned that this excess payment over what is included in rates may have a detrimental impact on the balance sheet of the distributor which may have an adverse impact on the ability of Lakefront to raise new and additional debt at favourable rates. This in turn would impact ratepayers as they could be saddled with higher than required interest costs that would be reflected in higher rates. This would also violate other outcomes of the RRFE.

Customer focus requires a distributor to deliver services in a manner that responds to identified customer preferences. Clearly a key customer preference is lower rates. Paying higher than required interest costs does not achieve this outcome.

Operational effectiveness requires a distributor to achieve continuous improvement in both productivity and cost performance. Paying higher than necessary interest costs does not reflect the achievement of improvement in cost performance.

In addition to deeming a long-term debt rate that is more reflective of market conditions, Energy Probe submits that the OEB should direct Lakefront to seek replacement financing for the affiliate long-term debt as soon as possible, and not wait until the next rebasing application. Energy Probe submits that steps should be taken as soon as possible in order to eliminate the ongoing impact on the balance sheet of paying substantially more in interest costs than what is recovered in rates every year.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe worked with other intervenors throughout the process to limit duplication while ensuring that the record was complete.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

October 17, 2016

**Randy Aiken
Consultant to Energy Probe**

Appendix A to Energy Probe Submission

Consolidated Financial Statements

THE CORPORATION OF THE TOWN OF COBOURG

Year ended December 31, 2015

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Financial Statements

Year ended December 31, 2015

	<u>Page</u>
Management's Responsibility	1
Independent Auditors' Report	2
Consolidated Statement of Financial Position	4
Consolidated Statement of Operations and Accumulated Surplus	5
Consolidated Statement of Change in Net Debt	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
Consolidated Schedule of Segment Information	29

Appendix A to Energy Probe Submission

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.

A handwritten signature in black ink, appearing to read "Stephen Peacock", written over a horizontal line.

Stephen Peacock
Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Ian Davey", written over a horizontal line.

Ian Davey
Treasurer



Appendix A to Energy Probe Submission

KPMG LLP
863 Princess Street Suite 400
Kingston ON K7L 5N4
Canada

Telephone (613) 549-1550
Fax (613) 549-6349
Internet www.kpmg.ca

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, 2015, 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.

Appendix A to Energy Probe Submission



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, 2015, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

May 24, 2016

Kingston, Canada

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Financial assets:		
Cash	\$ 2,963,901	\$ 3,933,872
Investments (note 3)	971,912	813,117
Taxes receivable	3,359,601	3,183,574
Receivables - grant	170,944	283,932
Receivables - other	2,375,291	1,938,276
Other financial assets	166,200	345,278
Note receivable from Town of Cobourg Holdings Inc. (note 5(c))	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc. (note 5(a))	11,368,769	10,209,762
	28,376,618	27,707,811
Liabilities:		
Accounts payable and accrued liabilities	7,679,315	6,387,025
Deferred revenue	515,403	432,577
Deferred revenue - obligatory reserve funds (note 7)	8,584,236	8,515,005
Employee future benefit liability (note 8(d))	2,555,625	2,527,990
Mortgage payable (note 9)	2,742,630	3,916,061
Promissory note payable to Town of Cobourg Holdings Inc. (note 5(d))	630,000	675,000
Net long-term liabilities (note 10)	7,147,650	8,739,577
	29,854,859	31,193,235
Total net debt	(1,478,241)	(3,485,424)
Non-financial assets:		
Tangible capital assets (note 15)	176,162,120	174,496,963
Other assets	1,331,855	1,345,059
	177,493,975	175,842,022
Accumulated surplus (note 11)	\$ 176,015,734	\$ 172,356,598

Commitments (note 14)

Contingent liabilities (note 17)

See accompanying notes to consolidated financial statements.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2015, with comparative information for 2014

	Budget 2015	Actual 2015	Actual 2014
	(note 16)		
Revenue:			
Taxation:			
Property taxation	\$ 21,645,446	\$ 21,749,395	\$ 20,962,515
Payments in lieu of taxation	110,400	186,623	172,846
User charges	12,981,763	14,215,661	12,458,940
Development charges	–	522,762	508,148
Grants:			
Province of Ontario	176,319	477,637	714,722
Government of Canada	536,225	1,215,508	353,352
Other municipalities	250,136	760,104	606,685
Other:			
Rental income	4,173,109	3,971,708	4,415,770
Penalty and interest	625,000	492,725	639,126
Other income	–	925,208	1,535,946
Donations	–	293,871	168,364
Interest income - Town of Cobourg			
Holdings Inc. (note 5(c))	507,500	507,500	507,500
Interest and dividend income	1,070,000	438,534	538,903
Gain on sale of assets	35,000	25,088	18,135
Net equity increase (decrease) in investment in Town of Cobourg			
Holdings Inc. (note 5)	–	1,159,007	312,409
Total revenue	42,110,898	46,941,331	43,913,361
Expenses (note 12):			
General government	5,426,177	3,514,788	4,217,545
Protection to persons and property	9,814,301	12,814,523	10,965,536
Transportation services	5,582,079	5,667,396	5,775,632
Environmental services	8,782,067	8,532,035	8,280,582
Recreation and cultural services	6,770,151	8,820,967	8,119,111
Social and family services	59,750	69,485	103,672
Planning and development	1,095,564	1,197,815	1,111,355
Industrial property	2,675,087	2,665,186	2,653,052
Total expenses	40,205,176	43,282,195	41,226,485
Annual surplus	1,905,722	3,659,136	2,686,876
Accumulated surplus, beginning of year		172,356,598	169,669,722
Accumulated surplus, end of year (note 11)		\$ 176,015,734	\$ 172,356,598

See accompanying notes to consolidated financial statements.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Change in Net Debt

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Annual surplus	\$ 3,659,136	\$ 2,686,876
Acquisition of tangible capital assets	(4,937,588)	(8,815,366)
Decrease (increase) in construction-in-progress	(3,243,153)	36,032
Amortization of tangible capital assets	6,515,584	6,419,963
Gain on disposal of tangible capital assets	(25,088)	(18,135)
Proceeds on disposal of tangible capital assets	25,088	65,844
Disposal (acquisition) of other assets	13,204	(42,926)
	2,007,183	332,288
Net debt, beginning of year	(3,485,424)	(3,817,712)
Net debt, end of year	\$ (1,478,241)	\$ (3,485,424)

See accompanying notes to consolidated financial statements.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Operations:		
Annual surplus	\$ 3,659,136	\$ 2,686,876
Items not involving cash:		
Amortization of tangible capital assets	6,515,584	6,419,963
Increase in employee future benefit liability	27,635	35,160
Changes in non-cash working capital balances:		
Taxes receivable	(176,027)	287,864
Receivables - grant	112,988	(83,580)
Receivables - other	(437,015)	107,437
Other financial assets	179,078	(196,878)
Other assets	13,204	(42,926)
Accounts payable and accrued liabilities	1,292,290	272,148
Deferred revenue	82,826	(100,011)
Deferred revenue - obligatory reserve funds	69,231	1,126,763
Net change in cash from operations	11,338,930	10,512,816
Capital activities:		
Cash used to acquire capital assets	(4,937,588)	(8,815,366)
Decrease (increase) in construction-in-progress	(3,243,153)	36,032
Gain on disposal of tangible capital assets	(25,088)	(18,135)
Proceeds on disposal of tangible capital assets	25,088	65,844
Net change in cash from capital activities	(8,180,741)	(8,731,625)
Investing activities:		
Increase in investment in Town of Cobourg Holdings Inc.	(1,159,007)	(312,409)
Increase in investments	(158,795)	(13,613)
Net change in cash from investing activities	(1,317,802)	(326,022)
Financing activities:		
Repayment of mortgage payable	(1,173,431)	(1,146,439)
Repayment of long-term liabilities	(1,591,927)	(2,321,897)
Repayment of promissory note	(45,000)	(45,000)
Net change in cash from financing activities	(2,810,358)	(3,513,336)
Decrease in cash	(969,971)	(2,058,167)
Cash, beginning of year	3,933,872	5,992,039
Cash, end of year	\$ 2,963,901	\$ 3,933,872
Supplemental cash flow information:		
Cash paid for interest	\$ 334,470	\$ 424,122
Cash received from interest	492,725	639,126

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements

Year ended December 31, 2015

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, 2015

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.

(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, 2015

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.

(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 statement of operations.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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 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, 2015

1. Significant accounting policies (continued):

(I) 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. Changes in accounting policies:

The Town has implemented Canadian Public Sector Accounting Standards (PSAS) Section 3260 Liability for Contaminated Sites. Section 3260 requires governments to record a liability in their financial statements if they have a contaminated site that meets the requirements set out in the standard. The standard defines contamination as the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The standard generally applies to sites that are not in productive use. Sites that are in productive use are only considered contaminated if there was an unexpected event that resulted in contamination. This change has been applied retroactively without the restatement of prior periods.

The adoption of this standard did not have an impact on the Town's financial statements.

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.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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	
	2015	2014	2015	2014
Amounts requisitioned and collected	\$ 8,812,983	\$ 8,812,041	\$ 12,006,337	\$ 11,634,437

5. Investment in Town of Cobourg Holdings Inc.:

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

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

	2015	2014
9,999,999 common shares of TCHI	\$ 7,002,145	\$ 7,002,145
Retained earnings, beginning of year	3,056,347	2,895,208
Pro-rata share of net income during the year	1,623,091	680,842
Dividend	(340,400)	(385,100)
Refundable dividend tax	—	(357)
Refundable dividend tax recovered	13,025	17,024
Accumulated other comprehensive income change	14,561	—
Total investment in Town of Cobourg Holdings Inc.	\$ 11,368,769	\$ 10,209,762

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

5. 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, 2015 and December 31, 2014 and its results of operations for both years:

(a) Financial position:

	2015	2014
Current assets	\$ 8,441,886	\$ 9,385,846
Capital assets	18,536,691	16,107,101
Other assets	4,782,643	1,099,895
Total assets	31,761,220	26,592,842
Current liabilities	3,458,708	5,221,179
Long-term liabilities	13,319,486	11,161,901
Regulatory deferral account credit balances	3,614,257	—
Total liabilities	20,392,451	16,383,080
Net assets	\$ 11,368,769	\$ 10,209,762

(b) Results of operations:

	2015	2014
Revenue	\$ 34,297,559	\$ 32,569,641
Expenses	32,674,468	31,888,799
Net earnings for the period	\$ 1,623,091	\$ 680,842

- (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 (2014 - \$507,500). Fair value of the note receivable is indeterminable as it is a non-arm's 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 2015 was \$36,450 (2014 - \$38,880).

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

6. Industrial property:

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

	Cost	Accumulated Amortization	2015	2014
Land	\$ 3,125,000	\$ —	\$ 3,125,000	\$ 3,125,000
Land improvements	902,768	259,272	643,496	677,364
Buildings	21,194,487	7,925,317	13,269,170	13,618,723
	\$ 25,222,255	\$ 8,184,589	\$ 17,037,666	\$ 17,421,087

Cost and accumulated amortization at December 31, 2014 amounted to \$24,884,798 and \$7,463,711, respectively.

(a) Financial position:

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

	2015	2014
Cash	\$ 994,306	\$ 1,192,874
Accounts receivable	351,465	379,790
Prepaid expenses	19,891	23,681
Industrial property	17,037,666	17,421,087
Total assets	18,403,328	19,017,432
Accounts payable and accrued liabilities	383,462	793,242
Deferred revenue	96,032	102,338
Mortgage payable	2,742,630	3,916,061
Total liabilities	3,222,124	4,811,641
Net equity in industrial property	\$ 15,181,204	\$ 14,205,791

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

6. Industrial property (continued):

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

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

	2015	2014
Gross rental income	\$ 2,749,730	\$ 3,188,739
Operating expenses	(1,701,728)	(1,642,071)
Operating expenses recovery	1,194,269	1,200,608
Administrative expenses	(165,814)	(191,793)
Interest on long-term debt	(76,766)	(103,805)
Amortization	(720,878)	(715,383)
Net income for the year	\$ 1,278,813	\$ 1,736,295
Equity, beginning of the year	\$ 13,205,791	\$ 12,122,246
Net income for the period	1,278,813	1,736,295
Transfer to reserves	(303,400)	(652,750)
Capital reserve	1,000,000	1,000,000
Equity, end of year	\$ 15,181,204	\$ 14,205,791

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.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

7. 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:

	2015	2014
Balance, beginning of year	\$ 8,515,005	\$ 7,388,242
Recreational land	4,825	49,100
Federal grant - gasoline tax	536,225	551,149
Provincial grant - gasoline tax transit	188,719	232,187
Development contributions	677,110	1,155,686
Building code	6,000	286,916
Sub-divider contributions	—	61,940
Investment income	87,474	86,967
Utilization - capital	(808,012)	(734,758)
Utilization - operating	(623,110)	(562,424)
Balance, end of year	\$ 8,584,236	\$ 8,515,005
Analyzed as follows:		
Sub-divider contributions	\$ 201,584	\$ 226,759
Recreational land	104,950	148,169
Development charges	6,797,949	6,522,993
Building code	478,913	546,404
Gasoline tax:		
Provincial	44,274	45,187
Federal	956,566	1,025,493
	\$ 8,584,236	\$ 8,515,005

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

8. Employee future benefit liability:

(a) Extended health care and dental benefits:

(i) The Corporation of the Town of Cobourg:

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

At December 31, 2015, the Town's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$2,145,384 (2014 - \$2,091,411).

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	6.0% in 2015 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:

	2015	2014
Accrued benefit liability, January 1	\$ 2,091,411	\$ 2,035,098
Service cost	80,377	75,227
Benefits paid for the period	(126,171)	(116,097)
Interest cost	100,351	97,767
Amortization of actuarial gains and losses	(584)	(584)
Accrued benefit liability, December 31	\$ 2,145,384	\$ 2,091,411

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

	2015	2014
Accrued benefit obligation	\$ 2,190,139	\$ 2,135,582
Unamortized actuarial loss	(44,755)	(44,171)
Accrued benefit liability, end of year	\$ 2,145,384	\$ 2,091,411

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

8. Employee future benefit liability (continued):

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

(ii) Waterworks of the Town of Cobourg:

The Waterworks of the Town of Cobourg (the "Waterworks") provides extended health, dental and life insurance benefits for retired employees. An independent actuarial valuation was undertaken as at December 31, 2014.

At December 31, 2015, the accrued benefit liability relating to post-retirement benefit plans is \$298,691 (2014 - \$307,872).

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

Discount rate	4.0% per annum
Inflation rate	2.0% per annum
Salary escalation	3.3% per annum
Dental benefits escalation	4.8% per annum
Health benefits escalation	6.5% in 2015 decreasing by 0.25% per annum until 2023

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

	2015	2014
Accrued benefit liability, January 1	\$ 307,872	\$ 311,296
Service cost	7,921	6,219
Benefits paid for the period	(51,390)	(29,941)
Interest cost	17,666	20,298
Adjustment to liability at January 1, 2015	16,622	—
Accrued benefit liability, December 31	\$ 298,691	\$ 307,872

(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.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

8. Employee future benefit liability (continued):

(b) Workplace safety and insurance (continued):

At December 31, 2015, the Town's accrued benefit obligation relating to future payments on Workplace Safety and Insurance Board claims is \$111,550 (2014 - \$128,707).

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

	2015	2014
Accrued benefit, beginning of year	\$ 128,707	\$ 146,436
Benefits paid for the period	(5,758)	(6,461)
Interest cost	3,225	3,356
Amortization of actuarial gain	(14,624)	(14,624)
Accrued benefit liability, end of year	\$ 111,550	\$ 128,707

The accrued benefit liability at December 31, 2015, includes the following components:

	2015	2014
Accrued benefit obligation	\$ 68,247	\$ 70,780
Unamortized actuarial gain	43,303	57,927
Accrued benefit liability	\$ 111,550	\$ 128,707

(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, 2015 amount to \$968,935 (2014 - \$887,724) and are included in accounts payable and accrued liabilities.

(d) Employee future benefit liability:

	2015	2014
Employee future benefit liability is comprised of:		
Health and dental benefits - Town	\$ 2,145,384	\$ 2,091,411
Workplace safety and insurance	111,550	128,707
	2,256,934	2,220,118
Health, dental and life insurance benefits - Waterworks	298,691	307,872
	\$ 2,555,625	\$ 2,527,990

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

9. Mortgage payable on industrial property:

	2015	2014
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	\$ 2,742,630	\$ 3,916,061
Principal payments for the next three years are as follows:		
2016	\$ 1,200,816	
2017	1,229,440	
2018	312,374	
	\$ 2,742,630	

10. Net long-term liabilities:

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

	2015	2014
Total long-term liabilities incurred by the municipality and outstanding at the end of the year	\$ 7,147,650	\$ 8,739,577

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

2016	\$ 1,268,769
2017	828,381
2018	749,140
2019	582,880
2020	421,561
Thereafter	3,296,919
	\$ 7,147,650

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

10. Net long-term liabilities (continued):

- (c) Approval of the Ontario Municipal Board or by-law as required has been obtained for the long-term liabilities in note 9(a) issued in the name of the Town.
- (d) Total interest on long-term liabilities that are reported on the Consolidated Statement of Operations amount to \$334,470 (2014 - \$424,122). The long-term liabilities bear interest at rates ranging from 2.93% to 5.23% with term renewals to take place in 2015 through 2033.

11. Accumulated surplus:

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

	2015	2014
Surplus:		
Operations	\$ (6,107,109)	\$ (4,499,900)
Unfinanced capital	(8,040,720)	(6,701,801)
Invested in tangible capital assets	176,162,120	174,496,963
Long-term debt	(7,147,650)	(8,739,577)
Mortgage	(2,742,630)	(3,916,061)
Unfunded:		
Employee benefits	(2,555,625)	(2,527,990)
Promissory note payable to Town of Cobourg Holdings Inc.	(630,000)	(675,000)
Net surplus Town unconsolidated	148,938,386	147,436,634
Waterworks	1,174,576	1,236,855
Downtown Business Improvement Area	49,951	34,375
Town of Cobourg Public Library Board	69,882	(64,665)
Note receivable from Town of Cobourg Holdings Inc.	7,000,000	7,000,000
Investment in Town of Cobourg Holdings Inc.	11,368,769	10,209,762
Total surplus	168,601,564	165,852,961
Reserves:		
Contingencies	66,440	26,440
Parking	315,936	226,496
Current:		
Health services	4,207	4,207
Library	168,634	166,503
Other	11,290	11,290
Capital:		
General government	1,649,695	1,127,983
Protection services	1,659,829	1,448,625
Transportation services	906,485	832,353
Environmental services	1,550,139	1,577,950
Recreation and cultural services	496,272	503,940
Planning and development	585,243	577,850
Total reserves	7,414,170	6,503,637
Total accumulated surplus	\$ 176,015,734	\$ 172,356,598

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

12. Classification of expenses by object:

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

	2015	2014
Salary, wages and employee benefits	\$ 22,012,812	\$ 19,916,685
Operating materials and supplies	6,629,574	6,410,379
Contracted services	7,456,126	7,697,012
Rents and financial expenses	333,629	620,305
External transfers to other	—	(261,981)
Interest on long-term debt	334,470	424,122
Amortization of tangible capital assets	6,515,584	6,419,963
	<u>\$ 43,282,195</u>	<u>\$ 41,226,485</u>

13. Pension agreements:

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

For the year ended December 31, 2015, the amount contributed for and included as current service pension costs expenses on the Consolidated Statement of Operations is \$1,335,488 (2014 - \$1,268,133).

14. Commitments:

Lease commitments at December 31, 2015 for equipment under lease obligations are as follows:

2016	\$ 36,779
2017	31,302
2018	28,557
2019	20,683
2020	10,940
	<u>\$ 128,261</u>

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

15. Tangible capital assets:

Cost	Balance at December 31, 2014	Additions	Disposals/ transfers/ write-offs	Balance at December 31, 2015
Land	\$ 15,287,471	\$ 39,207	\$ —	\$ 15,326,678
Land improvements	9,665,037	132,361	—	9,797,398
Buildings and building improvements	63,879,691	685,063	—	64,564,754
Machinery and equipment	13,954,406	912,703	—	14,867,109
Vehicles	9,903,856	713,247	176,310	10,440,793
Roads infrastructure	31,083,639	237,995	37,287	31,284,347
Sewer infrastructure	81,315,729	698,172	—	82,013,901
Water infrastructure	34,012,527	1,433,987	44,535	35,401,979
Books and periodicals	1,044,887	84,853	128,349	1,001,391
Construction-in-progress	1,519,699	3,721,597	478,444	4,762,852
	\$ 261,666,942	\$ 8,659,185	\$ 864,925	\$ 269,461,202

Accumulated amortization	Balance at December 31, 2014	Amortization expense	Disposals/ transfers/ write-offs	Balance at December 31, 2015
Land improvements	\$ 3,151,586	\$ 267,464	\$ —	\$ 3,419,050
Buildings and building improvements	16,074,893	1,824,796	—	17,899,689
Machinery and equipment	6,891,719	726,219	—	7,617,938
Vehicles	4,423,257	544,823	176,310	4,791,770
Roads infrastructure	12,765,907	761,353	37,287	13,489,973
Sewer infrastructure	29,047,085	1,489,431	—	30,536,516
Water infrastructure	14,194,874	775,049	44,535	14,925,388
Books and periodicals	620,658	126,449	128,349	618,758
	\$ 87,169,979	\$ 6,515,584	\$ 386,481	\$ 93,299,082

	Net book value December 31, 2014	Net book value December 31, 2015
Land	\$ 15,287,471	\$ 15,326,678
Land improvements	6,513,451	6,378,348
Buildings and building improvements	47,804,798	46,665,065
Machinery and equipment	7,062,687	7,249,171
Vehicles	5,480,599	5,649,023
Roads infrastructure	18,317,732	17,794,374
Sewer infrastructure	52,268,644	51,477,385
Water infrastructure	19,817,653	20,476,591
Books and periodicals	424,229	382,633
Construction-in-progress	1,519,699	4,762,852
	\$ 174,496,963	\$ 176,162,120

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

15. Tangible capital assets (continued):

(a) Construction-in-progress:

Construction-in-progress having a value of \$4,762,852 (2014 - \$1,519,699) 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 (2014 - \$Nil).

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

16. Budget figures:

Budget figures reported on the Consolidated Statement of Operations are based on the 2015 municipal and other local board operating budgets as approved by Council on April 27, 2015 and May 19, 2015.

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 2015
Total revenue as reported on the statement of operations:	
Operating budget	\$ 29,075,347
Water budget	3,920,526
Wastewater budget	4,941,916
Northam Industrial Park budget	4,173,109
	<u>42,110,898</u>
Total expenses as reported on the statement of operations:	
Operating budget	30,742,459
Water budget	3,505,558
Wastewater budget	3,282,072
Northam Industrial Park budget	2,675,087
	<u>40,205,176</u>
Annual operating surplus	1,905,722
Budget not reported on statements:	
Net transfer from/to reserves	1,667,112
Operating transfer from reserves - water	(414,968)
Operating transfer to reserves - wastewater	(1,659,844)
Operating transfer to reserves - Northam Industrial Park	(1,498,022)
Total budgeted surplus not reported on statements	<u>\$ (1,905,722)</u>

THE CORPORATION OF THE TOWN OF COBOURG

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

17. 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, 2015, 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.
- (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.

18. 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

18. 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.

Appendix A to Energy Probe Submission

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information

Year ended December 31, 2015

	General Government Administration	Protection Services	Transporation Services	Environmental Services	Industrial Property
Revenue:					
User fees and service charges	\$ 183,618	\$ 1,707,490	\$ 652,011	\$ 4,972,323	\$ –
Federal grants	–	23,529	1,141,982	–	–
Government of Ontario Grants	24,325	37,674	190,347	–	–
Other municipalities	–	406,248	–	–	–
Rent, license, permits	521,548	–	–	–	3,943,999
Investment income	83,625	–	–	–	–
	813,116	2,174,941	1,984,340	4,972,323	3,943,999
Expenses:					
Salaries, wages and employee benefits	2,135,870	11,924,546	1,964,174	1,438,406	–
Long-term debt charges (interest)	–	11,246	71,867	126,566	–
Materials	571,333	626,618	1,215,107	1,395,680	–
Contracted services	351,238	353,664	1,319,967	303,084	1,944,308
Rents and financial expenses	243,992	–	46,376	–	–
External transfers	–	–	–	–	–
Amortization	212,355	435,064	1,049,905	1,576,236	720,878
	3,514,788	13,351,138	5,667,396	4,839,972	2,665,186
Excess of revenue over expenses (expenses over revenue)	(2,701,672)	(11,176,197)	(3,683,056)	132,351	1,278,813
Funded through:					
Taxation					
Payments in lieu of taxation					
Penalties and interest					
Other					
Excess of revenue over expenses (expenses over revenue)	\$ (2,701,672)	\$ (11,176,197)	\$ (3,683,056)	\$ 132,351	\$ 1,278,813

THE CORPORATION OF THE TOWN OF COBOURG

Consolidated Schedule of Segment Information, continued

Year ended December 31, 2015

	Water Services	Health and Social Services	Parks Recreation and Culture	Planning and Development	Total
Revenue:					
User fees and service charges	\$ 3,883,600	\$ —	\$ 2,673,070	\$ 143,549	\$ 14,215,661
Federal grants	—	—	49,997	—	1,215,508
Government of Ontario grants	—	—	89,734	6,357	348,437
Other municipalities	—	—	341,356	12,500	760,104
Rent, license, permits	—	—	—	—	4,465,547
Investment income	14,509	—	—	—	98,134
	3,898,109	—	3,154,157	162,406	21,103,391
Expenses:					
Salaries, wages and employee benefits	—	—	3,699,854	849,962	22,012,812
Long-term debt charges (interest)	—	—	124,791	—	334,470
Materials	—	—	2,742,547	78,292	6,629,577
Contracted services	2,655,731	—	234,008	277,023	7,439,023
Rents and financial expenses	—	—	43,261	—	333,629
External transfers	—	17,100	—	—	17,100
Amortization	1,036,333	—	1,482,184	2,629	6,515,584
	3,692,064	17,100	8,326,645	1,207,906	43,282,195
Excess of revenue over expenses (expenses over revenue)	206,045	(17,100)	(5,172,488)	(1,045,500)	(22,178,804)
Funded through:					
Taxation					21,748,221
Payments in lieu of taxation					183,319
Penalties and interest					649,562
Other					3,256,838
					25,837,940
Excess of revenue over expenses (expenses over revenue)	\$ 206,045	\$ (17,100)	\$ (5,172,488)	\$ (1,045,500)	\$ 3,659,136

Appendix B to Energy Probe Submission

Major Projects
Infrastructure Lending
Eligible Borrowers
Lending Rates
Loan Payment Calculator
Strategic Partnership Program
FAQs - Loans
Loan Program Stats
Contact Customer Relations
Real Estate - Buildings
Real Estate - Lands
Commercial Projects

Lending Rates: Local Distribution Companies

Indicative Lending Rates as of 11/10/2016

Term	Construction	Serial	Amortizer
1 Month	1.65%	-	-
5 Year	-	1.75%	1.76%
10 Year	-	2.20%	2.22%
15 Year	-	2.57%	2.60%
20 Year	-	2.84%	2.89%
25 Year	-	3.01%	3.08%
30 Year	-	3.12%	3.19%

About our Lending Rates

Our online lending rates are updated frequently as we track the movement of our cost of borrowing in the capital markets.

Debentures - rates on debentures are fixed for the entire life of the loan once the debenture is purchased by Infrastructure Ontario.

Construction Loans - for construction loans, rates float throughout the term of the loan until they are replaced by a debenture. Construction loan requests over \$75 million are subject to funding availability and interest rates may vary from those posted.

**These interest rates are the all-in cost for loans of the term and type selected

Infrastructure Ontario

This site is maintained by Infrastructure Ontario, a Government of Ontario crown agency.

