

**CONSOLIDATED
FINANCIAL STATEMENTS OF**

TOWN OF COBOURG HOLDINGS INC.

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 22, 2020



TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

	2019	2018
	\$	\$
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	4,140,390	2,913,632
Customer deposits refundable within one year (note 15)	26,197	46,647
Income taxes payable	21,905	43,365
Current portion of long-term debt (note 13)	827,950	282,931
	<u>5,016,442</u>	<u>3,286,575</u>
Non current		
Long-term debt (note 13)	10,148,400	10,976,351
Contributions in aid of construction (note 14)	2,625,609	2,578,135
Deferred tax liability (note 9)	396,479	285,391
Customer deposits (note 15)	261,032	238,348
Employee future benefits (note 16)	419,141	420,900
	<u>13,850,661</u>	<u>14,499,125</u>
	<u>18,867,103</u>	<u>17,785,700</u>
Shareholder's equity		
Share capital (note 18)	7,002,145	7,002,145
Retained earnings	5,468,605	5,153,485
Accumulated other comprehensive loss	(22,234)	(22,234)
	<u>12,448,516</u>	<u>12,133,396</u>
	<u>31,315,619</u>	<u>29,919,096</u>
Regulatory deferral account credit balances (note 10)	<u>2,162,886</u>	<u>2,065,846</u>
	<u>33,478,505</u>	<u>31,984,942</u>

Approved on behalf of the Board

Larry H. Lutteridge Director
May 12/20

John Henderson Director
May 27/20

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2019

	2019	2018
	\$	\$
Revenue		
Revenue (note 19)	4,547,060	4,728,299
Cost of power revenue	29,531,634	25,882,435
Contribution in aid of construction (note 14)	89,416	76,873
	34,168,110	30,687,607
Cost of power purchased	29,963,422	25,376,708
Gross profit	4,204,688	5,310,899
Other operating revenue (note 20)	949,089	1,120,429
Gross income from operations	5,153,777	6,431,328
Expenses		
Amortization	1,125,562	1,105,890
Operating expenses (note 21)	3,234,286	3,337,612
	4,359,848	4,443,502
Income before undernoted items and income taxes	793,929	1,987,826
Finance income (note 23)	(144,571)	(139,715)
Finance costs (note 23)	776,308	756,040
	631,737	616,325
Income before income taxes and net movement in regulatory deferral accounts	162,192	1,371,501
Provision for income taxes (note 9)		
Current	30,793	141,739
Deferred	98,067	131,966
	128,860	273,705
Income before net movement in regulatory deferral accounts	33,332	1,097,796
Net movement in regulatory deferral accounts	(431,788)	505,727
Net income for the year	465,120	592,069

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2019

	2019	2018
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	465,120	592,069
Adjustments not requiring cash payment		
Amortization of property, plant and equipment	1,220,203	1,185,033
Amortization of intangible asset	(94,641)	(79,143)
Change in deferred income taxes	98,067	131,966
Current income tax	30,793	141,739
Net financing costs	631,738	616,325
Change in employee future benefits	(1,759)	(413)
Recognition of contribution in aid of construction	(89,416)	(76,873)
Change in regulatory deferral accounts	(489,376)	508,387
	1,770,729	3,019,090
<u>Change in non-cash working capital items (note 22)</u>	<u>980,305</u>	<u>(169,016)</u>
	<u>2,751,034</u>	<u>2,850,074</u>
Investing activities		
Purchase of property, plant and equipment	(1,548,066)	(1,444,744)
Contribution in aid of construction received	136,890	381,990
	<u>(1,411,176)</u>	<u>(1,062,754)</u>
Financing activities		
Repayment of operating loan	-	(460,000)
Due to/from shareholder	47,430	47,430
Repayment of long-term debt	(282,932)	(251,645)
Proceeds of long-term debt	-	1,170,315
Interest paid	(776,309)	(756,040)
Dividends paid	(150,000)	(150,000)
	<u>(1,161,811)</u>	<u>(399,940)</u>
Increase in cash	178,047	1,387,380
Cash - beginning of year	1,408,876	21,496
Cash - end of year	1,586,923	1,408,876

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(b) *Electricity regulation*

LUI is licensed and regulated by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1988. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring that distribution companies meet their obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

Regulatory accounts

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods, that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood of repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2019 and December 31, 2018 are disclosed in note 10.

(c) *Revenue recognition*

The Company recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the company is entitled to consideration as a result of completion or the performance obligation.

Service Revenue

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of Power Revenue

Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator ("IESO").

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are amortized using the straight-line or declining balance method over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the above rates on buildings, equipment and vehicles and distribution equipment.

The residual value, useful life and amortization method applied to each class of assets are reassessed at each reporting date.

The amortization rates applicable for each class of asset are as follows on a straight-line basis:

Buildings	50 years
Equipment and vehicles	5-20 years
Distribution equipment	15 to 55 years

(g) *Intangible assets*

Intangible assets include computer software. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	5 - 15 years straight-line
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Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

(h) *Contributions in aid of construction*

When capital contributions in aid of construction are received toward the cost of constructing distribution assets, they are initially recorded at fair value with the corresponding amount recognized as contributions in aid of construction on the statement of income. Contributions are amortized based on the useful life of the related asset.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES, continued

(k) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined contribution plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last valuation performed was as at December 31, 2017. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in Note 16.

(l) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 9.

(m) Related parties

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 17.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES, continued

(p) Significant accounting estimates and judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgments and assumptions include the following:

Unbilled revenue - The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

Useful lives of depreciable assets - Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Corporation estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

Payment in lieu of taxes payable - The company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgment is required in determining the deferred liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions for among other things, the discount rate, retirement age, health care costs and inflation.

Accounts receivable impairment - In determining the allowance for doubtful accounts, the Company considers the life-time expected credit losses that result from all possible default events over the expected life of the account balance.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

4. SIGNIFICANT ACCOUNTING POLICIES, continued

(q) Financial instruments, continued

(iii) At fair value through profit or loss

Financial instruments at fair value through profit or loss include instruments that are designated as financial instruments at fair value through profit or loss or those financial instruments that do not meet the criteria for classification under any other category. Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income.

(iv) Impairment of financial assets at amortized cost

The policy for accounts receivable and unbilled revenue allowances is to measure at an amount equal to the life-time expected credit losses that result from all possible default events over the expected life of a financial instrument. The policy for other financial assets is at life-time expected credit loss if credit risk increased significantly, if not, then at 12-month expected loss.

(r) Change in accounting policies

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The Company applied IFRS 16 with a date of initial application of 1 January 2019, using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. The adoption resulted in no impact to the opening balances of retained earnings as of January 1, 2019 as there were no significant leases.

The new Standard requires the Company to measure and recognize a right-of-use assets and related lease liability in connection with any operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The Company's updated accounting policies resulting from the implementation of the new standard are set out in the right-of-use asset and lease liabilities section of the significant accounting policies.

The change had no impact on the Company's consolidated financial statements.

TOWN OF COBourg HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2019	1,347,138	2,973,658	22,319,868	285,177	26,925,841
Additions	8,348	158,333	1,186,900	450,013	1,803,594
Transfers	-	-	-	(255,528)	(255,528)
Disposals	-	(313,813)	(29,164)	-	(342,977)
At December 31, 2019	1,355,486	2,818,178	23,477,604	479,662	28,130,930
Accumulated amortization					
At January 1, 2019	160,701	1,656,571	3,628,731	-	5,446,003
Amortization	34,470	335,997	849,736	-	1,220,203
Disposals	-	(313,813)	(29,164)	-	(342,977)
At December 31, 2019	195,171	1,678,755	4,449,303	-	6,323,229
Net book value at December 31, 2019	1,160,315	1,139,423	19,028,301	479,662	21,807,701
	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2018	1,332,072	2,822,474	21,273,154	53,398	25,481,098
Additions	15,066	151,184	1,046,714	303,073	1,516,037
Transfers	-	-	-	(71,294)	(71,294)
At December 31, 2018	1,347,138	2,973,658	22,319,868	285,177	26,925,841
Accumulated amortization					
At January 1, 2018	126,464	1,322,492	2,812,013	-	4,260,969
Amortization	34,237	334,079	816,718	-	1,185,034
At December 31, 2018	160,701	1,656,571	3,628,731	-	5,446,003
Net book value at December 31, 2018	1,186,437	1,317,087	18,691,137	285,177	21,479,838

Included in land and building is land with a cost of \$219,284 (2018 - \$219,284).

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

9. INCOME TAXES, continued

(b) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2018 - 39.5%) to the income for the years as follows:

	2019 \$	2018 \$
Income for the year	162,192	1,371,501
Net movement in regulatory deferral accounts	431,788	(505,727)
	593,980	865,774
Anticipated income tax	234,622	341,981
Tax effect of the following:		
Effect of items not deductible for tax	4,486	2,080
Timing income differences	(14,596)	(30,528)
General rate reduction	(10,314)	(57,133)
Refundable tax for investment income	(10,016)	4,415
CCA in excess of amortization	(173,898)	(123,896)
Future tax expense amounts	98,067	131,966
Other	509	4,820
Provision for income taxes	128,860	273,705

10. REGULATORY DEFERRAL ACCOUNTS

	Note	Remaining recovery/ reversal period (years)	December 31, 2018 \$	Balances arising in the period \$	Recovery/ reversal \$	December 31, 2019 \$
Regulatory deferral account debit						
Low voltage	i	1-2	1,098,720	561,279	-	1,659,999
Other DVA	ii	1-2	58,736	(62,891)	-	(4,155)
Retail settlement	iv	1-2	139,861	117,404	-	257,265
Recovery account	v	1-2	96,717	(29,374)	-	67,343
			1,394,036	586,418	-	1,980,452
Regulatory deferral account credit						
Cost of power	iii	1-2	1,237,176	139,801	-	1,376,977
Retail settlement	iv	1-2	737,113	(72,217)	-	664,896
Recovery account	v	1-2	91,470	(3,300)	-	88,170
Other DVA	ii	1-2	87	32,756	-	32,843
			2,065,846	97,040	-	2,162,886

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	\$	\$
Accounts payable - energy purchased	3,077,869	1,838,163
Other trade accounts payable and accrued liabilities	1,097,456	849,478
Deferred revenue (receivable) - CDM Program	(99,504)	40,419
Deferred revenue - AFT	62,294	83,483
HST Payable	2,275	100,687
HST Payable - AFT	-	1,402
	4,140,390	2,913,632

12. CREDIT FACILITIES

The Company has a \$2,500,000 (2018 - \$2,500,000) credit facility consisting of \$1,000,000 (2018 - \$1,000,000) operating line and \$1,500,000 (2018 - \$1,500,000) stand-by letters of guarantee.

The operating line bears interest at prime rate plus 0.5% per year and is secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the Company had drawn \$Nil from this line (2018 - \$Nil). The bank agreements require the Company to maintain certain financial covenants. At December 31, 2019, the Company was in compliance with the financial covenants.

The Company has posted \$1,222,663 (2018 - \$1,222,663) in stand-by letters of guarantee with the Independent Electricity System Operator, as required by regulation. The facility bears interest at 0.75% per annum.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

14. CONTRIBUTION IN AID OF CONSTRUCTION

The continuity of deferred customer contributions in aid of construction is as follows:

	2019	2018
	\$	\$
Deferred contributions, net, beginning of year	2,578,135	2,273,018
Contributions in aid of construction received	136,890	381,990
Contributions in aid of construction recognized as revenue	(89,416)	(76,873)
Deferred contributions, net, end of year	2,625,609	2,578,135

15. CUSTOMER DEPOSITS

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

16. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for the year ended December 31, 2017.

Information about the Company's defined benefit plan is as follows:

	2019	2018
	\$	\$
Accrued benefit obligation, beginning of period	420,900	421,313
Current service cost	23,229	23,238
Interest on accrued benefit obligation	14,048	14,086
Benefits paid	(39,036)	(37,737)
	419,141	420,900

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

17. DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS, continued

At year-end, included in accounts receivable is \$166,661 (2018 - \$173,165) due from the Town of Cobourg. Included in accounts payable was \$86,316 (2018 - \$284) due to the Town of Cobourg.

The Company is also engaged in transactions in the normal course of operations with the Waterworks of the Town of Cobourg (Waterworks). The parties are related due to common control. During the year, the Company collected rent recoveries of \$53,004 (2018 - \$51,965) from Waterworks.

The key management personnel of the corporation has been identified as members of its board of directors and management team members. Total wages and benefits to these individuals total \$462,593 (2018 - \$478,471).

18. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2019	2018
	\$	\$
11,300,000 Common shares	7,002,145	7,002,145

19. REVENUE

	2019	2018
	\$	\$
Commercial revenue	128,734	289,706
Distribution revenue	4,418,326	4,438,593
	4,547,060	4,728,299

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

23. FINANCE INCOME COSTS

Finance income, recognized in net income consists of the following:

	2019	2018
	\$	\$
Interest income on accounts receivable	43,394	58,366
Interest income on bank deposits	54,203	47,168
Interest income on regulatory deferral accounts	46,974	34,181
	144,571	139,715

Finance costs, recognized in net income consist of the following:

	2019	2018
	\$	\$
Interest on long term debt	677,015	676,551
Interest cost on regulatory deferral accounts	72,359	51,366
Other interest	12,886	14,037
Interest on employee future benefits	14,048	14,086
	776,308	756,040

24. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement System (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The Actuarial Opinion contained in the 2019 Annual Report disclosed actuarial liabilities of \$107,687 million in respect of benefits accrued for service with actuarial assets of \$104,290 million indicating an actuarial deficit of \$3,397 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the organization does not recognize any share of the OMERS pension surplus or deficit.

The amount that the Company contributed to O.M.E.R.S. for the year ended was \$145,775 (2018 - \$146,634).

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019

26. **FINANCIAL INSTRUMENTS, continued**

(b) *Interest rate risk*

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

(c) *Credit risk*

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2019 is \$20,000 (2018 - \$30,000). The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 10,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2019, the Company holds security deposits in the amount of \$287,229 (2018 - \$284,995).

The following table sets out the maturities of accounts receivable:

	Trade accounts receivable \$	Accounts receivable - recoverable work \$	Allowance for doubtful accounts \$	Total \$
0-30 days	2,796,867	204,983	-	3,001,850
31-60 days	17,718	12,561	-	30,279
61-90 days	5,737	4,831	-	10,568
90+ days	81,661	9,697	(20,000)	71,358
	2,901,983	232,072	(20,000)	3,114,055

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28. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Company's operations. The extent of the impact of this outbreak and related containment measures on the entity's operations cannot be reliably estimated at this time, and no amounts have been recorded in these consolidated financial statements.

On March 25, 2020 the Ontario Energy Board acknowledged that electricity distributors may incur incremental costs as a result of the ongoing COVID-19 pandemic, the severity and duration of which is uncertain at this time. The OEB established Account 1509 – Impacts Arising from the COVID 19 Emergency, together with three sub-accounts, for electricity distributors to use to track any increments costs and lost revenues related to the COVID-19 pandemic.

29. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.