

Consolidated financial statements of

**The Corporation of the
City of Pickering**

December 31, 2012

The Corporation of the City of Pickering

December 31, 2012

Table of contents

Independent Auditor’s Report 1-2

Consolidated statement of financial position 3

Consolidated statement of operations 4

Consolidated statement of change in net financial assets 5

Consolidated statement of cash flows 6

Notes to the consolidated financial statements 7-24

Independent Auditor's Report

To the Members of Council, Inhabitants
and Ratepayers of the Corporation of
the City of Pickering

We have audited the accompanying consolidated financial statements of the Corporation of the City of Pickering, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of operations, change in net financial assets, and cash flows for the year then ended, and 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.

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

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

Opinion

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

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
June 17, 2013

The Corporation of the City of Pickering

Consolidated statement of financial position

as at December 31, 2012

	2012	2011
	\$	\$
Financial assets		
Cash and cash equivalents	45,111,221	47,408,456
Investments (Note 3)	36,956,156	33,659,974
Taxes receivable	17,047,859	17,228,049
Accounts receivable	3,266,085	3,561,381
Investment in Veridian Corporation (Note 4(b))	44,723,364	42,473,124
Promissory notes receivable (Note 5)	25,069,000	25,069,000
	172,173,685	169,399,984
Liabilities		
Accounts payable and accrued liabilities	12,451,636	12,104,482
Other current liabilities	92,048	85,259
Deferred revenue (Note 6)	49,179,733	44,327,687
Long-term liabilities (Note 9)	17,775,020	19,131,687
Post-employment benefit liability (Note 8(a))	3,652,600	3,218,600
WSIB benefit liabilities (Note 8(b))	907,759	826,859
	84,058,796	79,694,574
Net financial assets	88,114,889	89,705,410
Non-financial assets		
Tangible capital assets (Note 10)	192,638,717	187,940,852
Prepaid expenses	593,381	618,043
Inventory	239,019	229,258
	193,471,117	188,788,153
Accumulated surplus (Note 11)	281,586,006	278,493,563

Approved by Council

The accompanying notes are an integral part of these financial statements.

The Corporation of the City of Pickering

Consolidated statement of operations as at December 31, 2012

	Budget	2012	2011
	(Note 17)	Actual	Actual
	\$	\$	\$
Revenues			
Residential and farm taxation	35,160,035	35,562,752	34,169,217
Commercial and industrial taxation	9,858,242	9,888,025	9,466,405
Taxation from other governments	7,993,393	8,004,984	8,236,418
User charges	8,594,104	8,976,906	10,658,960
Government grants and fees	10,171,999	2,137,551	2,487,283
Other contributions and donations	2,556,500	894,383	834,092
Development charges and developer contributions earned	1,393,751	1,309,568	864,631
Contributed tangible capital assets	-	1,747,105	681,938
Investment income	250,000	316,542	452,893
Penalties and interests on taxes	2,500,000	2,740,853	2,678,684
Fines	882,000	945,702	919,576
Interest on promissory notes	1,426,850	1,426,852	1,426,852
Sale of Land	7,000,000	-	-
Equity share of Veridian Corporation earnings (Note 4 (c))	-	4,177,240	3,838,176
Other	161,000	297,209	509,215
Gain on disposal of tangible capital assets	-	-	373,707
	87,947,874	78,425,672	77,598,047
Expenses (Note 19)			
General government	14,933,977	12,895,782	13,580,197
Protection to persons and property	21,359,079	20,810,361	19,208,938
Transportation services	11,500,725	11,240,547	11,293,153
Environmental services	3,838,585	3,627,664	3,486,332
Social and family services	590,499	664,397	574,734
Recreational and cultural services	24,006,768	23,537,837	23,272,214
Planning and development	3,372,320	2,385,419	2,586,148
Loss on disposal of tangible capital assets	-	171,222	-
	79,601,953	75,333,229	74,001,716
Annual surplus	8,345,921	3,092,443	3,596,331
Accumulated surplus, beginning of year	278,493,563	278,493,563	274,897,232
Accumulated surplus, end of year	286,839,484	281,586,006	278,493,563

The accompanying notes are an integral part of these financial statements.

The Corporation of the City of Pickering

Consolidated statement of change in net financial assets as at December 31, 2012

		2012	2011
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Annual surplus	8,345,921	3,092,443	3,596,331
Acquisition of tangible capital assets	(30,094,625)	(15,405,915)	(13,098,736)
Amortization of tangible capital assets	9,734,503	9,503,116	9,570,560
Loss (Gain) on disposal of tangible capital assets	-	171,222	(373,707)
Proceeds on disposal of tangible capital assets	-	41,234	531,023
	(12,014,201)	(2,597,900)	225,471
Transfer of assets under construction to tangible capital assets	-	891,526	3,077,113
Assets under construction expensed	-	100,952	22,132
	-	992,478	3,099,245
Acquisition of inventory of supplies	-	(1,122,183)	(1,211,343)
Use of inventory of supplies	-	1,112,422	1,373,621
Acquisition of prepaid expenses	-	(993,225)	(614,183)
Use of prepaid expenses	-	1,017,887	382,414
	-	14,901	(69,491)
Change in net financial assets	(12,014,201)	(1,590,521)	3,255,225
Net financial assets, beginning of year	89,705,410	89,705,410	86,450,185
Net financial assets, end of year	77,691,209	88,114,889	89,705,410

The accompanying notes are an integral part of these financial statements.

The Corporation of the City of Pickering

Consolidated statement of cash flows as at December 31, 2012

	2012	2011
	\$	\$
Operating transactions		
Annual surplus	3,092,443	3,596,331
Non cash items		
Amortization of tangible capital assets	9,503,116	9,570,560
Loss (Gain) on disposal of tangible capital assets	171,222	(373,707)
Equity share of Veridian Corporation	(4,177,240)	(3,838,176)
Contributed tangible capital assets recorded in revenue	(1,747,105)	(681,938)
Change in non-cash operating items:		
Decrease (increase) in taxes receivable	180,190	(1,222,379)
Decrease in accounts receivable	295,296	310,610
Increase (decrease) in accounts payable and accrued liabilities	347,154	(1,068,897)
Increase (decrease) in other current liabilities	6,789	(9,222)
Increase in deferred revenue	4,852,046	3,897,692
Increase in post-employment benefit liability	434,000	335,700
Increase (decrease) in WSIB benefit liabilities	80,900	(846,039)
(Increase) decrease in inventory	(9,761)	162,278
Decrease (increase) in prepaid expenses	24,662	(231,769)
	13,053,712	9,601,044
Capital transactions		
Acquisition of tangible capital assets (net of transfers and contributions)	(12,666,332)	(9,317,553)
Proceeds on disposal of tangible capital assets	41,234	531,023
	(12,625,098)	(8,786,530)
Investing transactions		
(Increase) decrease in investments	(3,296,182)	287,195
Dividends received from Veridian Corporation	1,927,000	2,484,600
	(1,369,182)	2,771,795
Financing transactions		
Proceeds from debentures issued	2,332,000	4,707,000
Principal repayment of debentures	(3,688,667)	(2,158,055)
	(1,356,667)	2,548,945
(Decrease) increase in cash and cash equivalents	(2,297,235)	6,135,254
Cash and cash equivalents, beginning of year	47,408,456	41,273,202
Cash and cash equivalents, end of year	45,111,221	47,408,456
Cash and cash equivalents consists of		
Cash	5,260,557	23,906,305
Cash equivalents	39,850,664	23,502,151
	45,111,221	47,408,456

The accompanying notes are an integral part of these financial statements.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

1. Significant accounting policies

The consolidated financial statements ("the financial statements") of The Corporation of the City of Pickering (the "City") are the representations of management prepared in accordance with accounting standards established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the City are as follows:

(a) Reporting entity

(i) Consolidated statements

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of the activities of all committees of Council and the City of Pickering Public Library Board which is controlled by the City.

All material inter-fund transactions and balances are eliminated on consolidation.

(ii) Investment in Veridian Corporation

The City's investment in Veridian Corporation is accounted for on a modified equity basis, consistent with generally accepted accounting principles as recommended by PSAB for investments in government business enterprises. Under the modified equity basis, Veridian Corporation's accounting policies are not adjusted to conform to those of the City and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual earnings or loss of Veridian Corporation in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Dividends that the City may receive from Veridian Corporation and other capital transactions are reflected as adjustments in the investment asset account.

(iii) Operations of School Boards and the Region of Durham

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the Region of Durham (the "Region") are not reflected in these consolidated financial statements.

(iv) Trust funds

Trust funds and their related operations administered by the City are not consolidated, but are reported separately on the Trust Funds Statement of Financial Activities and Statement of Financial Position.

(b) Basis of accounting

(i) Accrual basis of accounting

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

(ii) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash. Cash equivalents have a short-term maturity of three months or less from the date of acquisition.

(iii) Investments

Long-term investments are recorded at cost and any loss in value which is considered other than temporary is recorded as appropriate. Any premium or discount at purchase of an investment is amortized over the life of the investment.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(iv) Tangible capital assets ("TCA")

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly related to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing once the asset is available for use as follows:

Buildings	15 to 45 years
Machinery and equipment	2 to 25 years
Vehicles	5 to 15 years
Infrastructure - Roads	10 to 50 years
Infrastructure - Storm sewers	25 to 100 years
Infrastructure - Sidewalks	20 to 40 years
Information technology hardware	4 to 8 years
Infrastructure - Parks	10 to 40 years
Library collection materials	4 to 7 years
Furniture and fixtures	10 to 50 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use. Land is not amortized.

Tangible capital assets received as contributions are recorded at their fair value at the date contributed, and that amount is also recorded as revenue.

(v) Accounting for Property Tax Capping Provisions resulting from the Ontario Fair Assessment System

The net impact in property taxes as a result of the application of the capping provisions does not affect the Consolidated Statement of Operations as the full amounts of the property taxes were levied. However, the capping adjustments are reported on the consolidated Statement of Financial Position as a receivable/payable from/to the Region.

(vi) Deferred revenue

Deferred revenues represent user charges and fees which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed. In addition, any contributions received with external restrictions are deferred until the related expenditures are made.

(vii) Post employment benefits

The present value of the cost of providing employees with future benefit programs is recognized as employees earn these entitlements through service. Actuarial gains and losses are amortized over the average remaining service period ("ARSP"). The actuary determined ARSP to be 14 years.

(viii) Inventory

Inventory is valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(ix) Government transfers

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, eligibility criteria and/or stipulations are met, and reasonable estimates of the amount can be made.

(x) Intangible assets

Intangible assets are not recognized as assets in the financial statements.

(xi) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Accounts involving significant estimates include allowance for doubtful accounts, certain accrued liabilities, employee future benefits liabilities and estimates relating to the useful lives of tangible capital assets. Actual results could differ from these estimates.

2. Operations of school boards and the Region of Durham

Further to Note 1 (a) (iii) requisitions are made by the Region of Durham and School Boards requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized as follows:

	Region	School board
	\$	\$
Taxation	89,946,477	41,533,945
Payments in lieu of taxes	6,057,029	446,744
	96,003,506	41,980,689

3. Investments

	2012		2011	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Long-term investments	36,956,156	37,660,143	33,659,974	34,334,282

Long-term investments are comprised of deposit notes and bonds.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

4. Investment in Veridian Corporation

- (a) Veridian Corporation is owned by the City of Pickering, Town of Ajax, Municipality of Clarington and the City of Belleville. The City has a 41 per cent interest in Veridian Corporation. Veridian Corporation, as a government business enterprise, is accounted for on the modified equity basis in these financial statements. Veridian Corporation serves as the electrical distribution utility for a number of communities including the four noted above and conducts non-regulated utility service ventures through its subsidiaries.

The following table provides condensed supplementary consolidated financial information for the corporation and its subsidiaries for the year ended December 31. The amounts are disclosed in thousands of dollars:

	2012 (000's)	2011 (000's)
	\$	\$
Financial position		
Assets		
Current	86,594	79,455
Capital and intangibles	191,528	183,895
Other	21,919	19,296
Total assets	300,041	282,646
Liabilities		
Current	49,230	69,996
Long-term debt	115,553	86,649
Other	26,202	22,433
Total liabilities	190,985	179,078
Shareholders' equity		
Share capital	67,260	67,260
Contributed capital	25	25
Retained earnings	41,771	36,283
Total equity	109,056	103,568
Total liabilities and equity	300,041	282,646
Financial activities:		
Revenue	295,957	286,271
Other income	117	4,313
Expenses	285,618	285,142
Earnings from discontinued operations	(268)	3,919
Net earnings for the year	10,188	9,361

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

4. Investment in Veridian Corporation (continued)

(b) *City of Pickering's investment represented by:*

	2012	2011
	\$	\$
Promissory notes receivable (Note 5)	25,069,000	25,069,000
Investments in Veridian Corporation		
Initial investment in shares of the Corporation	30,496,196	30,496,196
Accumulated earnings	31,487,349	27,310,109
Accumulated dividends received	(18,369,002)	(16,442,002)
Increase in value of investments	1,108,821	1,108,821
Total investment	44,723,364	42,473,124

(c) *Equity in Veridian Corporation*

	2012	2011
	\$	\$
Balance, beginning of year	70,585,144	69,231,568
Equity share of net earnings for the year	4,177,240	3,838,176
Dividend received from Veridian Corporation	(1,927,000)	(2,484,600)
Balance, end of year (Note 11)	72,835,384	70,585,144

(d) *Contingencies and guarantees of Veridian Corporation (the "Corporation") as disclosed in their financial statements are as follows:*

(i) Insurance claims

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE") which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE provides general liability insurance to member electric utilities.

Insurance premiums charged to each member utility consist of a levy per \$1,000 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. Insurance limits of up to \$30,000,000 per occurrence are covered by MEARIE.

(ii) Contractual obligation - Hydro One Networks Inc. ("HONI")

The Corporation's subsidiary, Veridian Connections Inc. ("VCI"), is party to a connection and cost recovery agreement with HONI related to the construction by HONI of a transformer station designated to meet VCI's anticipated electricity load growth. Construction of the project was completed during 2007 and VCI connected to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenues, VCI is obliged to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to VCI. The construction costs allocated to VCI for the project are \$9,975,000.

The Corporation has recorded a liability and a corresponding intangible asset for \$1,212,000 as at December 31, 2012 (2011 - \$1,212,000), based on management's best estimate of the future transformation connection revenue shortfall. HONI shall perform a true-up based on actual load at the end of the fifth, tenth and fifteenth anniversaries of the in-service date.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

4. Investment in Veridian Corporation (continued)

(d) (continued)

(iii) Environmental liability

In 2008, Environment Canada issued its final regulations governing the management of PCBs. Costs relating to future expenditures associated with the removal and destruction of PCB-contaminated transformers and remediation of chemically contaminated lands has been estimated in the amount of \$206,000, which has been recorded as a liability at December 31, 2012. Because such expenditures are expected to be recoverable in future rates, the Corporation has recorded an equivalent amount as a regulatory asset.

(e) Lease commitments

Future minimum lease payment obligations under operating leases are as follows:

	\$ (000's)
2013	32
2014	32
2015	32
2016	24
2017	2
Thereafter	70
	<hr/> 192

5. Promissory notes receivable

	2012	2011
	\$	\$
Promissory note receivable from Veridian Corporation maturing December 31, 2015 and bearing interest at the greater of 6% or the Ontario Energy Board deemed long term debt rate on an annual basis to maturity (6% effective November 1, 2012)	7,095,000	7,095,000
Promissory note receivable from Veridian Connections Inc. maturing November 1, 2039 and bearing interest at 7.62% until April 30, 2010, then 5.57% from May 1, 2010 to December 31, 2014 and then the Ontario Energy Board deemed long-term debt rate for each successive five year period thereafter	17,974,000	17,974,000
	25,069,000	25,069,000

Interest revenue earned from these notes receivable totaled \$1,426,852 (2011 - \$1,426,852). The promissory notes from Veridian Corporation are convertible into common shares at the rate of one common share for every \$1,000 of principal amount, at the option of the City.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

6. Deferred revenue

	2012	2011
	\$	\$
Obligatory Reserve Funds		
Development charges	37,486,012	34,107,294
Parkland	1,433,507	1,818,118
Federal gas tax	6,017,337	4,977,097
Third party/Developer's Contributions Reserve Fund	2,670,168	2,233,978
	47,607,024	43,136,487
Other unearned revenues	1,572,709	1,191,200
	49,179,733	44,327,687

Continuity of deferred revenue is as follows:

	2012	2011
	\$	\$
Balance, beginning of year	44,327,687	40,429,995
Restricted funds received	6,668,447	7,556,772
General funds received	767,617	74,724
Interest earned	928,717	795,497
	8,364,781	8,426,993
Earned revenue transferred to operations	3,512,735	4,529,301
Balance, end of year	49,179,733	44,327,687

7. Interfund loans

As a means of funding various capital acquisitions, funds are borrowed by the Capital Fund from Development Charges deferred revenue (obligatory reserve funds). These funds are secured by promissory notes with interest rates ranging from 1.97% to 4.7% and various payment terms ranging from 1 year to 10 years. The financing arrangements and ultimate repayment are approved by Council through the current budget process. Although these notes have payment terms as noted above, they are repayable on demand. The following is a summary of the related loans:

	2012	2011
	\$	\$
Roads and streetlights	572,089	92,868
Community facilities, libraries and parks	1,885,809	235,770
Protection services	639,809	445,579
Environmental services	-	11,962
Municipal building	15,838	20,669
	3,113,545	806,848

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

8. Post-employment benefit liability

(a) Post-employment benefit liability

The City makes available to qualifying employees who retire before the age of 65, the opportunity to continue their coverage for benefits such as post-retirement extended healthcare benefits. Coverage ceases at the age of 65. The City also provides full time and permanent part-time employees a sick time entitlement and any unused entitlement is accumulated year to year. This accumulated entitlement is not vested and is forfeited at the time of retirement or termination. The most recent actuarial valuation of the post-employment benefits was performed at January 1, 2011.

Information about the City's benefits liability is as follows:

	2012	2011
	\$	\$
Accrued benefits liability, beginning of year	3,218,600	2,882,900
Current service costs	341,000	257,100
Interest on accrued benefits	236,100	274,700
Amortization of actuarial losses	219,900	145,900
Benefits paid during the year	(363,000)	(342,000)
Accrued benefits liability, end of year	<u>3,652,600</u>	<u>3,218,600</u>
Accrued benefit obligation	6,350,100	6,136,000
Unamortized actuarial losses	(2,697,500)	(2,917,400)
Accrued benefits liability, end of year	<u>3,652,600</u>	<u>3,218,600</u>

The main actuarial assumptions employed in the actuarial valuations are as follows:

(i) Discount rate

The present value as at December 31, 2012 of the future benefits was determined using a discount rate of 3.75% (2011 – 3.75%).

(ii) Dental costs

The dental cost trend rate was 4.0% increase per annum.

(iii) Health costs

Health costs were assumed to increase at 7.8% in 2012 and decrease by 0.2% increments per year to an ultimate rate of 5.0% per year in 2026 and thereafter.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

8. Post-employment benefit liability (continued)

(b) Workplace Safety and Insurance Board (WSIB) benefit liabilities

Effective January 1, 2001, the City became a Schedule II employer under the Workplace Safety & Insurance Act and follows a policy of self insurance for the risk associated with paying benefits for workplace injuries for all its employees. The WSIB administers the claims related to workplace injuries and is reimbursed by the City. The most recent actuarial valuation of the WSIB benefits was performed at December 31, 2011.

Information about the City's WSIB liability is as follows:

	2012	2011
	\$	\$
Accrued WSIB liability, beginning of year	826,859	1,672,898
Current service cost	124,100	118,460
Interest on accrued benefits	34,200	105,300
Amortization of estimation adjustment gain	-	(996,074)
Benefits paid during the year	<u>(77,400)</u>	<u>(73,725)</u>
Accrued WSIB liability, end of year	<u>907,759</u>	<u>826,859</u>

The main actuarial assumptions employed in the actuarial valuations are as follows:

(i) Discount rate

The present value as at December 31, 2012 of the future benefits was determined using a discount rate of 3.75% (2011 – 3.75%).

(ii) Inflation rate

The rate of inflation was assumed to be 2.5% per annum.

(iii) WSIB Administration Rate

Liabilities for WSIB benefits have been increased 25% to reflect the administration rate charged by WSIB.

A WSIB Reserve Fund was established in 2001. The Reserve Fund balance at December 31, 2012 was \$2,532,549 (2011 - \$2,374,028). In addition, the City purchased two insurance policies that protect the City against significant claims to the City. The occupational accident insurance pays loss claims up to \$500,000 per work related accident. The excess workers compensation indemnity insurance has a \$500,000 deductible and will pay for claims up to and including \$15,000,000 per work related accident.

9. Long-term liabilities

(a) The balance of long-term liabilities is made up of the following:

	2012	2011
	\$	\$
The municipality is responsible for the payment of principal and interest charges on long-term liabilities issued by the Regional Municipality of Durham on the City's behalf. At the end of the year, the outstanding principal amount of this liability is	<u>17,775,020</u>	<u>19,131,687</u>

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

9. Long-term liabilities (continued)

- (b) The above long-term liabilities have maturity dates of July 12, 2016, 2021 and 2022, November 21, 2018, July 15, 2014, December 23, 2014, October 15, 2015 and 2020 and September 29, 2016 and 2021 with various interest rates ranging from 1.10% to 5.6%. Principal repayments are summarized as follows:

	\$
2013	2,598,256
2014	2,491,596
2015	2,085,073
2016	2,047,168
2017	2,078,852
Thereafter	6,474,075
	<hr/> 17,775,020 <hr/>

- (c) Long-term liabilities include principal sums of \$582,000 which may be refinanced by the issuance of debentures over a further period not to exceed 10 years, and \$1,972,000 which may be refinanced by the issuance of debentures over a further period not to exceed 5 years.
- (d) The above long-term liabilities have been approved by Council by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.
- (e) Interest expense recorded in the year relating to these long-term liabilities is \$744,814 (2011 - \$734,143).

10. Tangible capital assets

Information relating to tangible capital assets is as follows:

(i) *Contributed tangible capital assets*

The City records tangible capital assets contributed by an external party at fair value on the date contributed. Typical examples are roads, storm sewers and sidewalks installed by a developer as part of a subdivision or development agreement. Contributions of tangible capital assets in 2012 amounted to \$1,747,105 (2011 - \$681,938).

(ii) *Tangible capital assets recognized at nominal value*

Land under roads are assigned a nominal value of one Canadian dollar because this land only supports or is intended to support road infrastructure and the majority of land acquired supporting road allowances was acquired at no cost.

(iii) *Works of art and historical treasures*

The City has a museum which holds various historical treasures and historical buildings pertaining to the heritage and history of the City of Pickering. These items are not recognized as tangible capital assets in the financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Any acquisition or betterment of these assets is recognized as an expense in the financial statements.

(iv) *Other*

The net book value of tangible capital assets not being amortized because they are under construction is \$4,242,525 (2011 - \$2,327,618).

During the year, there were no write-downs of assets (2011 - \$Nil) and no interest was capitalized during the year (2011 - \$Nil).

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

10. Tangible capital assets (continued)

	Land	Buildings	Machinery & equipment	Vehicles	Infrastructure - Roads	Infrastructure - Storm sewers	Infrastructure - Sidewalks	Information technology hardware	Infrastructure - Parks	Library collection materials	Furniture & fixtures	Assets under construction	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning of year	49,689,889	66,658,731	8,003,942	11,135,739	113,237,536	81,471,317	13,778,883	1,518,552	19,542,477	1,771,949	480,299	2,327,618	369,616,932
Add:													
Additions during the year	5,144,395	1,378,043	706,905	632,969	1,951,955	1,070,884	372,774	147,052	581,310	442,027	70,216	2,907,385	15,405,915
Less:													
Disposals/Transfers during the year	153,054	122,183	361,031	416,792	111,298	-	3,290	272,254	98,172	173,271	-	992,478	2,703,823
Balance, end of year	54,681,230	67,914,591	8,349,816	11,351,916	115,078,193	82,542,201	14,148,367	1,393,350	20,025,615	2,040,705	550,515	4,242,525	382,319,024
Accumulated amortization													
Balance, beginning of year	-	34,689,485	5,223,325	6,324,497	69,279,769	45,817,730	7,459,989	981,955	11,101,622	658,329	139,379	-	181,676,080
Add:													
Amortization	-	1,688,236	608,436	812,414	2,803,888	2,009,458	343,657	198,760	661,205	352,573	24,489	-	9,503,116
Less:													
Accumulated amortization on disposals	-	116,926	333,556	416,792	108,938	-	3,290	261,724	84,392	173,271	-	-	1,498,889
Balance, end of year	-	36,260,795	5,498,205	6,720,119	71,974,719	47,827,188	7,800,356	918,991	11,678,435	837,631	163,868	-	189,680,307
Net book value of													
tangible capital assets	54,681,230	31,653,796	2,851,611	4,631,797	43,103,474	34,715,013	6,348,011	474,359	8,347,180	1,203,074	386,647	4,242,525	192,638,717

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

10. Tangible capital assets (continued)

	Land	Buildings	Machinery & equipment	Vehicles	Infrastructure - Roads	Infrastructure - Storm sewers	Infrastructure - Sidewalks	Information technology hardware	Infrastructure - Parks	Library collection materials	Furniture & fixtures	Assets under construction	2011
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning of year	48,280,095	62,878,612	7,316,716	10,164,788	112,299,868	81,251,493	13,546,503	1,263,979	18,509,348	5,810,056	493,323	3,962,111	365,776,892
Add:													
Additions during the year	1,426,413	4,267,152	770,386	1,872,903	1,052,445	219,824	239,457	254,573	1,080,678	450,152	-	1,464,753	13,098,736
Less:													
Disposals/Transfers during the year	16,619	487,033	83,160	901,952	114,777	-	7,077	-	47,549	4,488,259	13,024	3,099,246	9,258,696
Balance, end of year	49,689,889	66,658,731	8,003,942	11,135,739	113,237,536	81,471,317	13,778,883	1,518,552	19,542,477	1,771,949	480,299	2,327,618	369,616,932
Accumulated amortization													
Balance, beginning of year	-	33,573,022	4,676,042	6,431,247	66,560,958	43,825,222	7,126,617	758,968	10,495,021	4,537,879	122,679	-	178,107,655
Add:													
Amortization	-	1,588,260	580,547	770,762	2,792,400	1,992,508	339,034	222,987	653,183	608,709	22,170	-	9,570,560
Less:													
Accumulated amortization on disposals	-	471,797	33,264	877,512	73,589	-	5,662	-	46,582	4,488,259	5,470	-	6,002,135
Balance, end of year	-	34,689,485	5,223,325	6,324,497	69,279,769	45,817,730	7,459,989	981,955	11,101,622	658,329	139,379	-	181,676,080
Net book value of													
tangible capital assets	49,689,889	31,969,246	2,780,617	4,811,242	43,957,767	35,653,587	6,318,894	536,597	8,440,855	1,113,620	340,920	2,327,618	187,940,852

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

11. Accumulated surplus

The City's accumulated surplus is comprised of the following:

	2012	2011
	\$	\$
Capital fund	8,645,992	10,062,439
Operating fund	125,170	125,092
Equity in Veridian Corporation	72,835,384	70,585,144
Tangible capital assets	192,638,717	187,940,852
Post employment benefits liability	(3,473,600)	(3,039,600)
Internal loans	(3,113,545)	(806,848)
Net long-term liabilities	(17,775,020)	(19,131,687)
WSIB benefit liabilities	(907,759)	(826,859)
Reserves set aside for special purposes by Council		
Working capital	400,000	400,000
Self insurance	962,707	962,707
Replacement of capital equipment	1,426,012	852,792
Contingencies	1,514,339	1,447,278
Rate stabilization	15,793,551	16,310,644
City's share for development charge	3,165,288	4,370,874
Continuing studies	720,472	582,055
Vehicle replacement	197,215	93,722
Easement settlement	17,595	17,595
Eastern branch	180,000	155,000
Move Ontario	40,883	97,483
Capital asset management	-	240,000
Economic stabilization	830,000	830,000
Land Purchase	99,403	194,403
Seaton Development Review	1,905,948	2,133,752
Financial Systems	314,647	175,000
Senior Centre	75,000	-
Accessibility Initiatives	13,713	-
Reserve funds set aside for special purpose by Council		
Recreation programs and facilities	151,468	148,547
Acquisition of tangible capital assets	1,477,697	1,451,430
Squash courts	2,088	-
WSIB	2,532,549	2,374,028
Animal shelter	228,882	196,370
Men's slow pitch	141,652	138,985
Operations Centre	419,558	412,365
	281,586,006	278,493,563

12. Pension agreements

The City makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of the members 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.

Contributions on account of current service for 2012 were \$3,122,703 (2011 - \$2,561,177).

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

13. Trust Funds

Trust funds administered by the City amounting to \$325,969 (2011 - \$318,169) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations.

14. Related party transactions

Veridian Corporation

The City of Pickering receives electricity and services from Veridian Corporation (Note 4), a corporation in which the City is a principal shareholder.

	2012	2011
	\$	\$
Transactions		
Revenues		
Interest on promissory notes	1,426,852	1,426,852
Property taxes levied	48,329	46,785
Expenses		
Electrical energy and services	1,986,034	1,788,931
Balances		
Accounts payable and accrued liabilities	369,049	371,799
Promissory notes receivable	25,069,000	25,069,000

15. Guarantees

In the normal course of business, the City enters into agreements which contain guarantees. The City's primary guarantees are as follows:

- (i) The City has provided indemnities under lease agreements for the use of various facilities or land. Under the terms of these agreements the City agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (ii) The City indemnifies all employees and elected officials including Library employees and board members for various items including, but not limited to, all costs to settle suits or actions due to association with the City, subject to certain restrictions. The City has purchased liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as an employee or elected official of the City. The maximum amount of any potential future payment cannot be reasonably estimated.
- (iii) The City has entered into agreements that may include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the City to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the City from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the City has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

16. Contingent liabilities

Litigation

The City has been named as a defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable as at the date of reporting and accordingly, no provision has been made in these financial statements for any liabilities which may result.

17. Budget figures

The 2012 Budget adopted by Council on February 21, 2012 was not prepared on a basis consistent with that used to report actual results. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis of accounting. The budget figures treated all tangible capital asset acquisitions as expenditures and did not include amortization expense on tangible capital assets. As a result, the budget figures presented in the Statements of Operations and Change in Net Financial Assets represent the budget adopted by Council on February 21, 2012 with adjustments as follows:

	2012		2012	
	Council approved budget	Non TCA expenditures from capital	Amortization	Budget presented in statements
	\$	\$	\$	\$
Revenue				
Taxation	53,011,670	-	-	53,011,670
Capital	20,305,651	-	-	20,305,651
Other	14,630,553	-	-	14,630,553
	<u>87,947,874</u>	-	-	<u>87,947,874</u>
Expenditures				
General government	13,981,850	405,000	547,127	14,933,977
Protection to persons and property	20,602,949	-	756,130	21,359,079
Transportation services	7,676,807	-	3,823,918	11,500,725
Environmental services	1,695,656	-	2,142,929	3,838,585
Social and family services	590,499	-	-	590,499
Recreational and cultural services	20,632,369	910,000	2,464,399	24,006,768
Planning and development	3,372,320	-	-	3,372,320
	<u>68,552,450</u>	<u>1,315,000</u>	<u>9,734,503</u>	<u>79,601,953</u>
Annual surplus (deficit)	19,395,424	(1,315,000)	(9,734,503)	8,345,921
Capital expenditures	(31,409,625)	1,315,000	-	(30,094,625)
Transfers from reserve and reserve funds	5,706,931			
Dividend from Veridian Corporation	1,927,000			
Principal repayment of debt	(3,214,730)			
Debt proceeds	7,470,000			
Prior year operating fund surplus	(125,000)			

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

18. Segmented information

The City of Pickering is a diversified municipal government that provides a wide range of services to its residents. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

General Government

This item relates to revenues and expenses of the City itself and cannot be directly attributed to a specific segment.

Protection to Persons and Property

Protection includes fire services, animal control, bylaw services, building inspection and enforcement of the building code to ensure the safety and protection of all citizens and their property.

Public Works Services

Public works includes construction and maintenance of the City's roadways, including snow removal, sidewalk repairs, street lighting, maintenance of the storm water system and environmental services.

Social and Family Services

Social services for assistance or services for seniors.

Recreation and Culture Services

Recreation and cultural services include recreation programs, maintenance and rental of facilities and parks, operation of the City's museum and library services.

Planning and Development

Planning and development provides a number of services including municipal planning and review of all property development plans.

Segmented information has been provided in the following pages.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

19. Segmented information (continued)

							2012
	Protection to persons and property	Public works services	Recreation and culture	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	115,851	853,169	876,374	-	219,479	72,678	2,137,551
User charges	2,548,006	162,827	5,238,246	458,944	20,308	548,575	8,976,906
Tax related revenues	-	-	-	-	-	56,196,614	56,196,614
Developer revenue	-	721,034	556,007	-	-	32,527	1,309,568
Contributed tangible capital assets	-	1,747,105	-	-	-	-	1,747,105
Equity Share of Veridian Corp	-	-	-	-	-	4,177,240	4,177,240
Other revenues	1,242,738	459,233	262,770	13,710	-	1,902,237	3,880,688
Total revenue	3,906,595	3,943,368	6,933,397	472,654	239,787	62,929,871	78,425,672
Expenses							
Salaries and wages	17,219,811	4,337,367	14,245,608	2,123,289	268,166	8,011,904	46,206,145
Materials and supplies	2,100,919	3,991,549	5,602,625	74,493	114,398	3,078,339	14,962,323
Contracted services	579,736	619,927	512,634	181,674	55,113	1,026,485	2,975,569
Amortization	719,832	5,668,738	2,573,540	-	-	541,006	9,503,116
Other	190,063	250,630	603,430	5,963	226,720	238,048	1,514,854
Subtotal expenses	20,810,361	14,868,211	23,537,837	2,385,419	664,397	12,895,782	75,162,007
Loss on disposal	(1,187)	(5,104)	15,608	-	-	161,905	171,222
Total expenses	20,809,174	14,863,107	23,553,445	2,385,419	664,397	13,057,687	75,333,229
Annual (deficit) surplus	(16,902,579)	(10,919,739)	(16,620,048)	(1,912,765)	(424,610)	49,872,184	3,092,443

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2012

19. Segmented information (continued)

2011

	Protection to persons and property	Public works services	Recreation and culture	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	60,756	507,331	1,587,882	-	254,847	76,467	2,487,283
User charges	2,166,644	190,876	5,175,985	2,590,000	19,065	516,390	10,658,960
Tax related revenues	-	-	-	-	-	54,550,724	54,550,724
Developer revenue	-	373,189	456,693	34,749	-	-	864,631
Contributed tangible capital assets	-	681,938	-	-	-	-	681,938
Equity Share of Veridian Corp	-	-	-	-	-	3,838,176	3,838,176
Gain (loss) on disposal	(24,439)	(15,121)	(50,968)	-	-	464,235	373,707
Other revenues	1,387,821	173,730	263,062	211,269	-	2,106,746	4,142,628
Total revenue	3,590,782	1,911,943	7,432,654	2,836,018	273,912	61,552,738	77,598,047
Expenses							
Salaries and wages	15,629,041	4,411,322	13,283,811	2,163,510	208,014	6,495,014	42,190,712
Materials and supplies	2,168,610	3,825,167	6,144,493	105,103	31,652	5,290,740	17,565,765
Contracted services	532,514	816,343	486,357	311,572	82,004	994,025	3,222,815
Amortization	666,934	5,595,257	2,766,902	-	-	541,467	9,570,560
Other	211,839	131,396	590,651	5,963	253,064	258,951	1,451,864
Total expenses	19,208,938	14,779,485	23,272,214	2,586,148	574,734	13,580,197	74,001,716
Annual (deficit) surplus	(15,618,156)	(12,867,542)	(15,839,560)	249,870	(300,822)	47,972,541	3,596,331