

Consolidated financial statements of

The City of Oshawa

December 31, 2013

The City of Oshawa

December 31, 2013

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Independent Auditor's Report

To the Board Members, Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Oshawa

We have audited the accompanying consolidated financial statements of the Corporation of the City of Oshawa, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of operations, change in net debt 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 the 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 Oshawa as at December 31, 2013, and the results of its operations, change in its net debt, 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 23, 2014

THE CORPORATION OF THE CITY OF OSHAWA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2013

	2013	2012
	\$	\$
Financial Assets		
Cash and cash equivalents	47,136,125	16,916,260
Short-term investments	33,508,910	40,531,514
Taxes receivable	7,516,727	7,551,754
Accounts receivable	5,356,798	6,074,904
Other assets	101,500	101,500
Investment in Oshawa Power and Utilities Corporation (Note 3)	47,969,400	45,381,400
Total	141,589,460	116,557,332
Liabilities		
Accounts payable and accrued liabilities	23,164,364	19,059,516
Deferred revenue (Note 4)	46,462,491	53,713,633
Employee future benefits and other liabilities (Note 5)	46,883,501	45,341,890
Long-term liabilities (Note 6)	86,723,102	79,374,865
Total	203,233,458	197,489,904
Net Debt	(61,643,998)	(80,932,572)
Non-Financial Assets		
Tangible capital assets (Note 8)	566,474,307	554,424,706
Inventory and prepaid expenses	2,913,703	2,503,959
Accumulated Surplus (Note 9)	507,744,012	475,996,093

Commitments (Note 14)

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

THE CORPORATION OF THE CITY OF OSHAWA
CONSOLIDATED STATEMENT OF OPERATIONS
year ended December 31, 2013

	Budget (Note 16) \$	2013 \$	2012 \$
Revenues			
Property taxation	112,471,900	112,056,276	107,466,326
Taxation from other governments	2,582,500	2,725,714	3,416,323
User charges	16,826,790	17,140,149	17,451,753
Government grants	2,912,112	2,883,654	1,503,963
Contributions from developers - earned	16,183,498	16,898,499	2,633,176
Revenue recognized on assumed assets	14,979,869	14,979,869	8,551,033
Federal gas tax revenue	4,343,273	3,525,332	5,405,044
Investment income	970,400	1,715,500	1,294,755
Penalties and interest on taxes	1,404,000	1,314,593	1,369,431
Licenses and permits	3,216,300	3,972,935	3,431,865
Fines	1,246,500	1,243,018	1,251,015
Oshawa Power and Utilities Corporation net income (Note 3)	1,700,000	4,288,000	4,504,000
Other	1,110,000	3,743,460	5,094,952
	179,947,142	186,486,999	163,373,636
Expenses (Note 12)			
General government	33,946,334	30,368,887	30,149,125
Protection to persons and property	30,912,874	31,980,741	31,219,005
Transportation services	32,656,196	30,732,455	32,766,690
Environmental services	7,324,952	6,564,469	6,328,198
Health services	475,070	465,958	443,380
Social and family services	1,668,800	1,691,694	1,502,297
Social housing	410,759	384,335	427,403
Recreation and cultural services	54,387,000	48,840,400	50,866,142
Planning and development services	3,453,209	3,710,141	4,466,136
	165,235,194	154,739,080	158,168,376
Annual Surplus	14,711,948	31,747,919	5,205,260
Accumulated surplus, beginning of year	475,996,093	475,996,093	470,790,833
Accumulated surplus, end of year	490,708,041	507,744,012	475,996,093

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

THE CORPORATION OF THE CITY OF OSHAWA
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
year ended December 31, 2013

	2013	2012
	\$	\$
Annual Surplus	31,747,919	5,205,260
Amortization of tangible capital assets	24,724,087	24,755,177
Acquisition of tangible capital assets	(41,129,837)	(13,797,380)
Loss on disposal of tangible capital assets	4,356,149	403,692
Change in inventory and prepaid expenses	(409,744)	(1,242,229)
Decrease in net debt	19,288,574	15,324,520
Net debt, beginning of year	(80,932,572)	(96,257,092)
Net debt, end of year	(61,643,998)	(80,932,572)

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

THE CORPORATION OF THE CITY OF OSHAWA
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2013

	2013	2012
	\$	\$
Operating Activities		
Annual surplus	31,747,919	5,205,260
Items not involving cash:		
Amortization	24,724,087	24,755,177
Loss on disposal of assets	4,356,149	403,692
Assumed assets recognized as revenue	(14,979,869)	(8,551,033)
Net changing in non-cash working capital:		
Decrease in taxes receivable	35,027	505,274
Decrease in accounts receivable	718,106	1,102,372
Increase in accounts payable and accrued liabilities	4,104,848	32,336
(Decrease)/increase in deferred revenue	(7,251,142)	1,188,770
Increase in employee future benefits and other liabilities	1,541,611	1,238,630
Increase in inventory and prepaid expenses	(409,744)	(1,242,229)
Oshawa Power and Utilities Corporation net income, which does not involve cash	(4,288,000)	(4,504,000)
Cash provided by Operating Activities	40,298,992	20,134,249
Capital Activities		
Acquisition of tangible capital assets	(26,149,968)	(5,246,347)
Financing		
Debt retired	(4,651,763)	(4,628,368)
New debt issued	12,000,000	-
Cash consumed by Financing Activities	7,348,237	(4,628,368)
Investing		
Net change in short-term investments	7,022,604	(6,542,256)
Dividend received from OPUC	1,700,000	1,700,000
Cash provided by Investing Activities	8,722,604	(4,842,256)
Increase in cash and cash equivalents	30,219,865	5,417,278
Cash and cash equivalents, beginning of year	16,916,260	11,498,982
Cash and cash equivalents, end of year	47,136,125	16,916,260

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

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

The Corporation of the City of Oshawa is a lower tier municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The Corporation of the City of Oshawa (the "City") are the representations of management prepared in accordance with generally accepted accounting principles as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants ("CPA"). Significant aspects of the accounting policies adopted by the City are as follows:

Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenues, expenses and accumulated surplus of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards controlled by the City, including the following:

Oshawa Public Library Board
Oshawa Central Business District Improvement Area

Inter-departmental and inter-organizational transactions and balances between these organizations have been eliminated.

The City's investment in the Oshawa Power and Utilities Corporation ("OPUC") is accounted for on the modified equity basis, consistent with generally accepted accounting principles as recommended by PSAB for investments in government business enterprises. Under the modified equity basis, the business enterprise's accounting policies are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of OPUC in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Any dividends that the City may receive from OPUC will be reflected as reductions in the investment asset account.

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The consolidated financial statements are prepared under the accrual basis of accounting.

The accrual basis of accounting recognizes revenue in the fiscal year in which transactions or events occurred that gave rise to the revenue and it is measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

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.

Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all 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 is amortized on a straight line basis over their estimated useful lives as follows:

	Useful life - years
Land improvements	20 - 40
Buildings	10 - 50
Machinery and equipment	3 - 25
Vehicles	4 - 25
Furniture	7
Linear assets	15 - 50
Other assets	5 - 50

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets classified as work-in-progress are not amortized until the asset is available for productive use.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contribution of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at their fair value on the earlier of the date received or of the transfer of risk and responsibility. Contributed assets are recorded as revenue.

Intangible Assets

Intangible assets and natural resources that have been purchased are not recognized as assets in the financial statements.

Interest Capitalization

The City's tangible capital asset policy does not allow for the capitalization of interest costs associated with the acquisition or construction of tangible capital assets.

Reserves and Reserve Funds

Certain amounts, as approved by City Council, are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to and/or from these reserves and reserve funds are reported as an adjustment to the respective fund when approved. Reserves and reserve funds form part of the accumulated surplus balance.

Government Transfers

Government transfers are recognized as revenues by the City in the period during which the transfer is authorized and any eligibility are met. Government transfers are deferred if they are restricted through stipulations that require specific actions to be carried out in order to keep the transfer. For such transfers, revenue is recognized when the stipulation has been met.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred Revenue

The City receives development charge contributions, payments in lieu of parkland and gas tax funding under the authority of federal/provincial legislation and City by-laws. These funds by their nature are restricted in their use and until applied to applicable capital works, are recorded as deferred revenue. Amounts applied to qualifying capital projects are recorded as revenue in the fiscal year they are expended. The City also receives revenue for user charges and fees which have been collected but for which the related services have yet to be performed. These amounts are also recorded as deferred revenue and will be recognized as revenues in the fiscal year the services are performed.

Taxation and Related Revenue

Tax revenue is recognized on all taxable properties within the City included in the tax roll provided by the Municipal Property Assessment Corporation, using property values included in the tax roll or property values that can be reasonably estimated by the City as it relates to supplementary or omitted assessments using tax rates authorized by Council for the City's own purposes in the period for which the tax is levied.

Investment Income

Investment income is reported as revenue in the fiscal year earned. Investment income earned on development charges, parkland obligatory reserve funds and federal gas tax reserve funds is added to the reserve fund balance and forms part of the respective deferred revenue balance.

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. The cost of the benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees and expected health care costs. Actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of all employees covered.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for School Boards and Region of Durham Transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the School Boards and Region of Durham are not reflected in these financial statements.

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 Fund Balance" and the "Trust Funds Statement of Financial Position".

Adoption of New Accounting Standards

As at January 1, 2013, the City adopted Public Sector Accounting Handbook Section PS 3410, "Government Transfers" and Section 3510 "Tax Revenue" on a prospective basis. There was no impact on the financial statements as a result of the adoption of these new standards.

Use of Estimates

The preparation of consolidated financial statements, in conformity with Canadian public sector accounting standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates. Accounts requiring significant estimates include accounts receivable, accrued liabilities, employee future benefits and other liabilities, and tangible capital assets.

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

2. OPERATIONS OF SCHOOL BOARDS AND THE REGION OF DURHAM

During 2013, requisitions were made by the School Boards and the Region of Durham requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized in the following table:

	2013		2012	
	School Boards	Region	Total	Total
Property taxes	\$54,681,492	\$119,233,209	\$173,914,701	\$171,373,012
Taxation from other governments	-	1,754,483	1,754,483	1,719,040
Total amounts transferred	\$54,681,492	\$120,987,692	\$175,669,184	\$173,092,052

3. INVESTMENT AND EQUITY IN OSHAWA POWER AND UTILITIES CORPORATION

In accordance with the requirements of Bill 35 (the Energy Competition Act, 1998), the City passed a transfer by-law, effective November 1, 2000, that transferred substantially all of the assets and liabilities of Oshawa Public Utilities Commission ("the Commission") to Oshawa Power and Utilities Corporation ("OPUC"). OPUC has carried on the former business of the Commission with all the rights, duties, obligations, and responsibilities. The City is the sole shareholder of the OPUC.

The City's investment in OPUC is as follows:

	2013	2012
Total Investment/Equity, beginning of year	\$45,381,400	\$42,577,400
Changes during year:		
Net income of OPUC	4,288,000	4,504,000
Dividends received from OPUC	(1,700,000)	(1,700,000)
Total Investment/Equity, end of year	\$47,969,400	\$45,381,400

The City holds 1,000 common shares of the OPUC representing 100% of the outstanding shares. With Council approval, the proceeds from the current year

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

3. INVESTMENT AND EQUITY IN OSHAWA POWER AND UTILITIES CORPORATION (continued)

dividend were transferred to operations with a corresponding reduction in equity in OPUC.

The following table provides condensed financial information in respect of the financial position of OPUC as at December 31, 2013 and its operations.

	2013	2012
Financial position		
Current assets	\$32,019,400	\$ 35,414,400
Capital assets	86,266,000	78,391,000
Deferred charges and other assets	8,185,000	9,610,000
Total assets	126,470,400	123,415,400
Current liabilities	24,787,000	20,398,000
Long-term liabilities	53,714,000	57,636,000
Total liabilities	78,501,000	78,034,000
Net assets	\$47,969,400	\$45,381,400
	Year Ended December 31, 2013	Year Ended December 31, 2012
Results of operations		
Revenue	\$124,428,000	\$118,192,000
Operating expenses	120,140,000	113,688,000
Income for the period	\$4,288,000	\$4,504,000
Dividends paid	\$1,700,000	\$1,700,000

Included in revenue above is \$5,198,801 (2012 - \$5,020,974) earned from the City for services provided. Operating expenses above include \$292,263 (2012 - \$283,404) paid to the City for net rent at 100 Simcoe Street, Oshawa, ON.

THE CORPORATION OF THE CITY OF OSHAWA
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 year ended December 31, 2013

4. DEFERRED REVENUE

Deferred revenue consists of the following:

	2013	2012
Obligatory reserve funds		
Development charges	\$22,386,133	\$33,301,899
Parkland	843,461	979,585
Federal gas tax	6,490,464	5,606,683
Non-discretionary reserve funds	10,675,624	9,799,118
Other	6,066,809	4,026,348
Total	\$46,462,491	\$53,713,633

Continuity of deferred revenue is as follows:

	2013	2012
Balance, beginning of year	\$53,713,633	\$52,524,863
Developer contributions collected	6,141,272	4,289,237
Federal gas tax	4,343,273	4,343,273
Other collections	6,240,571	4,209,151
Interest earned	473,924	500,013
	17,199,040	13,341,674
Less:		
Developer contributions used	16,898,499	2,521,360
Federal gas tax used	3,525,332	5,405,044
General deferred revenue used	4,026,351	4,226,500
	24,450,182	12,152,904
Balance, end of year	\$46,462,491	\$53,713,633

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

5. EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES

Employee benefits, post employment and other liabilities are comprised of the following:

	2013	2012
Future payments required to WSIB	\$8,815,027	\$8,339,660
Accumulated sick leave benefit plan entitlements	8,450,246	7,967,815
Post-employment benefits	28,561,508	27,672,211
Other liabilities	1,056,720	1,362,204
Total	\$46,883,501	\$45,341,890

(a) Future payments required to WSIB

With respect to responsibilities under provisions of the Workplace Safety and Insurance Board ("WSIB") Act, the City has elected to be treated as a Schedule 2 employer and therefore remits payments to the WSIB as required to fund disability payments. The estimated liability reported in these financial statements is based on an actuarial valuation update completed March 12, 2014.

(b) Accumulated sick leave benefit plan entitlements

Under the sick leave benefit plan, unused sick leave can accumulate and some employees may become entitled to a cash payment when they leave the City's employ. The estimated liability reported in these financial statements is based on an actuarial valuation update completed March 12, 2014.

(c) Post-employment benefits

The City makes available to qualifying employees certain non-pension retirement benefits for extended health care and life insurance.

The accrued benefit liability and expense figures for the year ended December 31, 2013 are based on the results and assumptions determined by actuarial valuation completed March 12, 2014.

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

5. EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES (continued)

The significant actuarial assumptions adopted in estimating the City's accrued post-employment benefits liability are as follows:

Discount rate – benefit plans	4.75%
Discount rate – sick leave	4.0%
Future inflation rates	2.0% per annum
Medical benefit cost escalation	8.0% per year reducing to 5.0% after 6 years

Information about the City's employee benefits, post-employment benefits and other liabilities is as follows:

Liability for post-employment benefits as at Jan. 1, 2013	\$45,341,890
Current period service cost	2,003,491
Amortization of actuarial losses	93,506
Interest	1,366,242
Benefits paid	(1,921,628)
<u>Liability for post-employment benefits as at Dec. 31, 2013</u>	<u>\$46,883,501</u>

The unamortized actuarial loss included in the year end liability is as follows:

Accrued benefit obligation	\$42,381,823
Unamortized actuarial losses	4,501,678
<u>Liability for post-employment benefits and other liabilities</u>	<u>\$46,883,501</u>

THE CORPORATION OF THE CITY OF OSHAWA
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 year ended December 31, 2013

6. LONG-TERM LIABILITIES

(a) Long-term liabilities are comprised of debentures issued by the Region of Durham and two mortgages issued by the CMHC for which the City has assumed responsibility for the payment of principal and interest charges. Interest rates vary from 1.40% to 6.375%.

(b) Future principal payments required for payment of net long-term liabilities are summarized as follows:

2014	2015	2016	2017	2018	Total
\$5,424,484	\$5,450,024	\$5,653,465	\$5,866,787	\$6,090,828	\$28,485,588
					Payable in 2019 to 2023
					\$31,919,700
					Payable in 2024 and thereafter
					<u>\$26,317,814</u>
					<u>\$86,723,102</u>

(c) In 2013, the City obtained additional debt financing from the Region of Durham in the amount of \$12,000,000 for the financing of renovations to Harman Park Arena and the Consolidated Operations Depot.

(d) Approval of the Ontario Municipal Board has been obtained for the long-term liabilities issued by the Region of Durham for the City on or before December 31, 1992. Those issued after December 31, 1992 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limits prescribed by the Ministry of Municipal Affairs and Housing.

(e) Principal repaid on long-term liabilities in 2013 amounted to \$4,651,763 (2012 - \$4,628,368).

(f) Interest expense on long-term liabilities in 2013 amounted to \$3,304,551 (2012 - \$4,350,387).

**THE CORPORATION OF THE CITY OF OSHAWA
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 year ended December 31, 2013**

7. INTERNAL DEBT

The City issues internal debt through the use of Interfund Notes (IFN). Interfund Notes represent an investment of surplus cash used to finance capital projects. The City has two forms of IFNs: notes to generate incremental revenue and notes to finance City owned capital projects.

IFNs issued to generate incremental revenue are an investment by the City in projects that are not owned by the City. The new revenue streams from these investments will retire the IFN used to fund the project, and ultimately realize revenue in the future to reduce tax levy pressures.

The interest rate charged on IFNs to finance City owned capital projects is prime rate, at the issuance of the note, less half a percent.

The City's Interfund Note balance at December 31, 2013 is \$25,815,467 (2012 - \$29,522,653), comprised of the following:

	2013	2012
IFNs to Generate Incremental Revenue:		
44 Bond Street Redevelopment	\$634,801	\$742,552
Durham Consolidated Courthouse	10,841,356	12,847,366
UOIT Downtown Campus	1,712,199	1,757,153
	<u>\$13,188,356</u>	<u>\$15,347,071</u>
IFNs to Finance Capital Projects:		
Civic Centennial Pool	\$196,887	\$292,447
Parking Revenue Control Systems	259,377	317,023
Airport Fuel Facility	-	117,309
City Hall Revitalization	6,487,779	6,948,803
MLELS Office Space (44 Simcoe St.)	273,222	300,000
Amazing Spaces Projects	5,409,846	6,200,000
	<u>\$12,627,111</u>	<u>\$14,175,582</u>
Total	<u><u>\$25,815,467</u></u>	<u><u>\$29,522,653</u></u>

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

8. TANGIBLE CAPITAL ASSETS

Tangible capital assets consist of the following:

	2013	2012
Land	\$133,084,355	\$130,824,248
Land improvements	23,299,484	24,599,891
Buildings	133,667,181	139,362,564
Machinery & equipment	9,249,697	10,182,975
Vehicles	9,030,709	9,225,661
Furniture	944,573	1,027,382
Linear assets	235,464,351	227,092,153
Other assets	7,607,692	7,813,084
	\$552,348,042	\$550,127,958
Work-in-progress	14,126,265	4,296,748
Total	\$566,474,307	\$554,424,706

i) Contributed tangible capital assets

The City records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or of the transfer of risk and responsibility. Typical examples are land, roadways, and storm sewer lines installed by a developer as part of a subdivision agreement. Transfers of tangible capital assets in 2013 amounted to \$14,979,869 (2012 - \$8,551,033).

ii) Tangible capital assets recognized at nominal value

Certain assets have been assigned a nominal value of one dollar because of the difficulty of determining a tenable valuation and/or the assets were older than their estimated expected useful lives, and therefore were fully amortized.

iii) Works of art and historical treasures

The City protects and preserves a number of owned historical buildings, collections of equipment, artifacts, documents and exhibits and works of art. These assets are not held for financial gain or to provide service but rather for public exhibition, education or research in furtherance of public service. These historical treasures and works of art are not recognized as tangible capital assets in the financial statements. The acquisition or betterment of such assets is recognized in the financial statements as an operating expense.

**THE CORPORATION OF THE CITY OF OSHAWA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2013**

9. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2013	2012
Operating fund	\$226,385	\$389,575
Capital fund	(16,719,772)	(43,103,393)
Reserves and reserve funds	43,400,295	43,620,560
Unfunded liabilities	(133,606,603)	(124,716,755)
Net equity in OPUC	47,969,400	45,381,400
Invested in tangible capital assets	566,474,307	554,424,706
Total	\$507,744,012	\$475,996,093

10. PENSION AGREEMENTS

The City makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of all regular, full-time and eligible other-than-continuous full-time employees. The plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions made by the City in 2013 amounted to \$6,088,462 (2012 - \$5,740,204).

11. TRUST FUNDS

Trust funds administered by the City amounting to \$1,035,903 (2012 - \$1,075,585) are presented separately in the Trust Fund Statement of Financial Activities and Fund Balance and Statement of Financial Position.

**THE CORPORATION OF THE CITY OF OSHAWA
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 year ended December 31, 2013**

12. EXPENSES BY OBJECT

The following is a summary of the expenses reported on the Consolidated Statement of Operations by object of expenses:

	2013	2012
Salaries, wages and benefits	\$82,783,709	\$82,162,340
Interest on long-term debt	3,304,551	4,350,387
Materials and supplies	40,134,160	39,803,167
Rents and financial expenses	160,247	165,664
Transfer payments	3,632,326	6,931,641
Amortization	24,724,087	24,755,177
Total	\$154,739,080	\$158,168,376

13. CONTINGENCIES

The City of Oshawa has been named as defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable as at December 31, 2013 and accordingly no provision has been made in these financial statements for any liability that may result.

The City transferred its responsibility for public transit to the Region of Durham on January 1, 2006 and all related assets and liabilities. Despite this, the Region of Durham has stated the City should fund the employee related liabilities accrued prior to January 1, 2006. In March 2011, the Region issued a statement of claim against the City to determine responsibility for the obligation through a legal process. The amount of the settlement, if any, is not determinable at this time.

14. COMMITMENTS

Minimum payments under operating leases for computer equipment, Wilson Depot lease and occupancy at 44 Simcoe Street are as follows:

2014	\$ 646,177
2015	\$ 406,803
2016	\$ 204,437
2017	\$ 61,200
2018	\$ 61,200
Thereafter	<u>\$ 136,000</u>
	\$1,515,817.

15. GUARANTEES

The City's primary guarantees 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 financial statements with respect to these agreements.

16. BUDGET FIGURES

The budgets originally approved by City Council for 2013, adjusted as noted below, are reflected on the Consolidated Statement of Operations.

- An amount for amortization expense has been added and is based on management's best estimate of amortization expense determined at the beginning of the year. Amortization expense was not included in the original Council approved budget.
- Amounts included in the original Council approved capital budget which are not recognized as tangible capital assets are included in Consolidated Statement of Operations under the appropriate functional expense category.

16. BUDGET FIGURES (continued)

Budget figures have been reclassified for purposes of these consolidated financial statements to comply with PSAB reporting requirements. For Tangible Capital Assets, budgets are set for individual projects. As many capital projects are carried out over one or more years it is not practical to present annualized budget information on the Consolidated Statement of Change in Net Debt.

17. SEGMENTED REPORTING

The City of Oshawa is a diversified lower tier municipal government that provides a wide range of services to the residents including Fire, Library, Recreation, Waste Collection, Airport, Cemetery, and others. For segmented reporting purposes, financial information is presented by functional classification as categorized by the Financial Information Return required by the Province.

General Government

Corporate Services and the City Manager's Office are primarily responsible for the provision of internal services that support the work of City Council, management and staff across all municipal departments as well as for the provision of external services to the public. These services are provided through the governance and corporate management divisions including City Clerk, Information Technology, Finance, and Human Resources.

Protection to Persons and Property

Protection is comprised of Fire Services and Municipal Law Enforcement and Licensing Services ("MLELS"). Fire Services is responsible to provide fire suppression, fire prevention, education, planning and emergency incident services to the City of Oshawa. MLELS is responsible for the investigation and enforcement of various municipal by-laws related to property standards, lot maintenance, zoning, signs, noise, parking and animal services.

17. SEGMENTED REPORTING (continued)

Transportation Services

The majority of transportation services are provided by Works and Transportation and Engineering Services. The primary responsibilities include inspection and maintenance of the City roads, sidewalks and storm drainage networks, traffic engineering, transportation planning, streetlights, road and sidewalk snow clearing and winter control.

Environmental Services

Environmental Services are provided by Parks and Environmental Services and Engineering Services. Responsibilities include sustaining the quality of life for the residents of the City of Oshawa through the collection of organics and residual waste, and monitoring and administering environmental programs.

Health and Social Services

Cemetery Services is the only City branch in this category. Union Cemetery provides maintenance and administration of cemetery operations. Additionally, it ensures the benefit and protection of each citizen who has purchased or has an interest in interment rights within the cemetery.

Recreation and Cultural Services

Recreation Services provide public services that contribute to neighbourhood development and sustainability, the provision of recreation and leisure services such as fitness, skating and aquatic programs, and the support of arts and culture. Parks and Environmental Services provide the maintenance, improvement and beautification of parks and trails. This segment includes the Oshawa Public Library which provides facilities and materials to meet the informational, educational, recreational and cultural needs of the City's residents.

17. SEGMENTED REPORTING (continued)

Planning and Development Services

Development Services manages urban and rural development, local neighbourhood planning, community development and heritage matters. It ensures an acceptable quality of building construction and maintenance of properties. Development Services also develops and maintains the City's Official Plan and Zoning By-laws and amendments, provides economic and business development, real estate services and administers the Oshawa Municipal Airport.

For each reported segment, revenues and expenses represent amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements.

THE CORPORATION OF THE CITY OF OSHAWA
SCHEDULE 1 - CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS
year ended December 31, 2013

	Land \$	Land Improvements \$	Buildings \$	Machinery and Equipment \$	Vehicles \$	Furniture \$	Linear Assets \$	Other Assets \$	Work-in Progress \$	2013 Total \$
Cost										
Balance, beginning of year	130,824,248	41,097,517	211,306,799	19,070,841	21,174,145	2,335,898	430,667,448	16,170,970	4,296,748	876,944,614
Additions	2,638,736	245,058	922,174	966,342	1,442,000	153,779	20,029,342	969,467	13,742,939	41,129,837
Disposals/Write Downs	(378,629)	(441,195)	-	(287,861)	(2,010,757)	-	(46,912)	(1,501,166)	(3,913,421)	(8,579,941)
Balance, end of year	133,084,355	40,901,380	212,228,973	19,749,322	20,605,386	2,489,677	450,649,878	15,659,271	14,126,266	909,494,510
Accumulated Amortization										
Balance, beginning of year	-	16,497,626	71,944,235	8,887,866	11,948,484	1,277,016	203,575,296	8,369,385	-	322,519,908
Amortization Expense	-	1,545,465	6,617,557	1,896,396	1,576,078	268,087	11,657,145	1,163,359	-	24,724,087
Amortization Disposal	-	(441,195)	-	(264,638)	(1,949,883)	-	(46,912)	(1,501,164)	-	(4,223,792)
Balance, end of year	-	17,601,896	78,561,792	10,499,624	11,574,679	1,545,103	215,185,529	8,051,580	-	343,020,203
Net Book Value, end of year	133,084,355	23,299,484	133,667,181	9,249,698	9,030,709	944,574	235,464,349	7,607,691	14,126,266	566,474,307

THE CORPORATION OF THE CITY OSHAWA
SCHEDULE 2 - CONSOLIDATED SCHEDULE OF SEGMENTED DISCLOSURE
year ended December 31, 2013

								2013
	Protection to Persons and Property	Transportation Services	Recreation and Culture	Planning and Development	Environmental Services	Health and Social Services	General Government	Total Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Expenses								
Salaries and wages	28,517,925	8,421,549	22,706,645	3,123,670	2,398,404	264,203	17,351,313	82,783,709
Debt servicing (interest)	-	27,197	2,902,127	-	-	11,295	363,932	3,304,551
Amortization	991,935	11,975,827	7,495,898	795	2,605,047	70,192	1,584,393	24,724,087
Other expenses	2,470,881	10,307,882	15,735,730	585,676	1,561,018	2,196,297	11,069,249	43,926,733
	31,980,741	30,732,455	48,840,400	3,710,141	6,564,469	2,541,987	30,368,887	154,739,080
External tax revenues	23,722,599	22,796,648	36,228,717	2,752,100	4,869,376	1,885,589	22,526,961	114,781,990
External non-tax revenues	1,418,013	27,350,861	18,316,789	2,523,200	8,836,580	289,058	8,682,508	67,417,009
Net income OPUC	-	-	-	-	-	-	4,288,000	4,288,000
	25,140,612	50,147,509	54,545,506	5,275,300	13,705,956	2,174,647	35,497,469	186,486,999
Net surplus (deficit) before transfers	(6,840,129)	19,415,054	5,705,106	1,565,159	7,141,487	(367,340)	5,128,582	31,747,919

THE CORPORATION OF THE CITY OSHAWA
SCHEDULE 2 - CONSOLIDATED SCHEDULE OF SEGMENTED DISCLOSURE
year ended December 31, 2012

								2012
	Protection to Persons and Property	Transportation Services	Recreation and Culture	Planning and Development	Environmental Services	Health and Social Services	General Government	Total Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Expenses								
Salaries and wages	28,568,540	7,915,745	23,298,951	2,874,012	2,193,176	220,774	17,091,140	82,162,340
Debt servicing (interest)	-	245,340	3,712,310	-	-	14,109	378,627	4,350,387
Amortization	924,629	12,097,411	7,574,008	376,803	2,157,935	61,097	1,563,294	24,755,177
Loss on Disposal of TCA	-	-	-	-	-	-	-	-
Other expenses	1,725,836	12,508,194	16,280,873	1,215,321	1,977,087	2,077,096	11,116,064	46,900,472
	31,219,005	32,766,690	50,866,142	4,466,136	6,328,198	2,373,076	30,149,125	158,168,376
External tax revenues	21,885,828	22,970,820	35,659,294	3,130,948	4,436,332	1,663,628	21,135,797	110,882,650
External non-tax revenues	1,300,045	20,430,531	12,807,398	2,159,678	3,670,281	367,169	7,251,884	47,986,986
Net income OPUC	-	-	-	-	-	-	4,504,000	4,504,000
	23,185,873	43,401,351	48,466,692	5,290,626	8,106,613	2,030,797	32,891,681	163,373,636
Net surplus (deficit) before transfers	(8,033,132)	10,634,661	(2,399,450)	824,490	1,778,415	(342,279)	2,742,556	5,205,260